

PD 178B-839

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A.I.D. Program No. 391-0514
Dollar Appropriation No. 72-110/11037
Budget Plan Code: QES0-90-27391-KG-13
Program Agreement No. 90-22

Loan and Grant Agreements

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ANE/PD Officer & File
✓ PPC/CDIE/DI

PROGRAM GRANT AGREEMENT

BETWEEN

THE PRESIDENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

AND THE

UNITED STATES OF AMERICA

FOR

PRIVATE INVESTMENT EXPANSION PROGRAM

DATED: September 24, 1990

(CONFORMED COPY)

TABLE OF CONTENTS

	<u>Page</u>
Article 1: The Agreement	1
Article 2: The Program	2
SECTION 2.1 Definition of Program	2
SECTION 2.2 Incremental Nature of Program Funding	3
Article 3: Financing	3
SECTION 3.1 The Grant	3
SECTION 3.2 Grantee Resources for the Program	4
SECTION 3.3 Program Assistance Completion Date	4
Article 4: Conditions Precedent to Disbursement	5
SECTION 4.1 Conditions Precedent to First Disbursement	5
SECTION 4.2 Notification	6
SECTION 4.3 Terminal Dates for Conditions Precedent	6
Article 5: Covenants	6
SECTION 5.1 Program Evaluation	6
Article 6: Procurement Source	7
SECTION 6.1 Foreign Exchange Costs	7

	<u>Page</u>
Article 7: Disbursement	8
SECTION 7.1 Disbursement for Foreign Exchange Costs	8
SECTION 7.2 Disbursement for Local Currency Costs	9
SECTION 7.3 Other Forms of Disbursement	10
SECTION 7.4 Rate of Exchange	10
Article 8: Miscellaneous	10
SECTION 8.1 Communications	10
SECTION 8.2 Representatives	11
SECTION 8.3 Standard Provisions Annex	12

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PROGRAM GRANT AGREEMENT FOR PRIVATE INVESTMENT EXPANSION PROGRAM

Dated: September 24, 1990

Between

The President of the Islamic Republic of Pakistan (hereinafter referred to as the "Grantee").

and

The United States of America, acting through the Agency for International Development (hereinafter referred to as "A.I.D").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Private Investment Expansion Program described below, and with respect to the financing of the Program by the Parties.

Article 2: The Program

SECTION 2.1. Definition of Program.

The Private Investment Expansion (PIE) Program contemplated to be carried out over a period of seven years will provide balance of payments support, encourage policy reforms and by developing services and institutions that promote private investment, increase the volume and efficiency of private investment in Pakistan through three major components: (1) Special Projects, Technical Cooperation and Training (STT), (2) Private Investment Promotion (PIP), and (3) Sector Grant Assistance (SGA). Components (2) and (3), will be approved and carried out subject to the availability of funds and to specific future A.I.D. authorization in accordance with the A.I.D. Operational Year Budget (OYB) allotment process.

The STT component, authorized hereunder as the first phase of the Program, will finance long and short term technical assistance, training, commodities, special project support, including grants to private institutions, and services to complete the design of the PIP and SGA components.

Commodities and services financed hereunder, shall be of A.I.D. Code 000 source, origin and nationality, unless otherwise specifically authorized by A.I.D. or as specified herein.

Annex 1, attached, (Amplified Description of the STT component of the PIE Program), defines the broader goal and purpose of the PIE Program and

further describes the STT component. The other two components, namely, SGA and PIP, will be further described through subsequent amendment(s) to this Agreement. Within the limits of the above definition of the PIE, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2 without formal amendment of this Agreement.

SECTION 2.2 Incremental Nature of Program Funding.

(a) A.I.D.'s contribution to the Program will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of each subsequent increment, to proceed.

(b) Within the overall Program Assistance Completion Date ("PACD") stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Program Implementation Letters (PILs) appropriate time periods for the utilization of funds granted by A.I.D. under each individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant.

To assist the Grantee to meet the costs of carrying out the Program's STT component, A.I.D., pursuant to the Foreign Assistance Act

of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed Five Million United States ("U.S.") Dollars \$5,000,000 ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1 of this Agreement of goods and services required for the Program.

SECTION 3.2. Grantee Resources for the Program.

The Grantee agrees to provide or cause to be provided for the Program all funds, in addition to the Grant, and all other resources required to carry out the Program effectively and in a timely manner.

SECTION 3.3 Program Assistance Completion Date (PACD).

(a) The PACD, which is August 30, 1997, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed, and all goods financed under the Grant will have been furnished for the Program as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Program, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Program Implementation Letters are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D, giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in PILs, were not received before expiration of the said period.

Article 4: Conditions Precedent to Disbursement

SECTION 4.1. Conditions Precedent to First Disbursement.

Except as A.I.D. may otherwise agree in writing, prior to any disbursement of funds under this Program, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) a written opinion of Counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(b) a written statement setting forth the names and titles of persons holding or acting in the Office of the Grantee and representing that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each such person certified as to its authenticity.

SECTION 4.2. Notification.

When A.I.D. has determined that the conditions precedent specified in Section 4.1 have each been met, A.I.D. will promptly so notify the Grantee.

SECTION 4.3. Terminal Dates for Conditions Precedent.

If both the conditions specified in Section 4.1 have not been met within sixty (60) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

Article 5: Covenants

SECTION 5.1. Program Evaluation.

The Parties agree to establish an evaluation program as part of this program. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Program and at one or more points thereafter:

(a) evaluation of progress towards attainment of Program objectives;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development of the Program.

Article 6: Procurement Source

SECTION 6.1 Foreign Exchange Costs.

Except as A.I.D. may otherwise agree in writing, disbursements pursuant to Section 7.1 will be used exclusively as follows:

(a) to finance costs of goods and services required for the Program having, with respect to goods, their source and origin, and with respect to services, their nationality, in the United States (Code 000 of the A.I.D Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services), except as provided in the Program Grant Standard Provisions Annex, Section C.1(d) with respect to marine insurance. ("Foreign Exchange Costs");

(b) to finance ocean transportation costs under the Grant only on vessels under flag registry of the United States.

Article 7: Disbursement

SECTION 7.1. Disbursement for Foreign Exchange Costs.

(a) In accord with the requirements of conditions precedent, the Grantee may obtain disbursements of the funds under the Grant for Foreign Exchange Costs of goods or services required for the Program component in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for A.I.D. to procure commodities or services in Grantee's behalf for the Program; or,

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to, one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by the Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless the Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

SECTION 7.2 Disbursement for Local Currency Costs.

(a) In accord with requirements of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Program in accordance with terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs; and

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars, by purchase, or from local currency already owned by the U.S. Government; or,

(2) by A.I.D., (A) requesting the Grantee to make available the local currency for such costs, and (B) thereafter making available to the Grantee, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Grantee or its designee, an amount of U.S. dollars equivalent to the amount of local currency made available by the Grantee, which dollars will be utilized for procurement from the United States under appropriate procedures described in Implementation Letters.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder, as of the date of the opening or amendment of the applicable Special Letter of Credit.

SECTION 7.3. Other Forms of Disbursement.

Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange.

Except as may be more specifically provided under Section 7.2 if funds provided under the Grant are introduced into Pakistan by A.I.D. or any public or private agency for purposes of carrying out obligation of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary, so that such funds may be converted into currency of Pakistan at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Pakistan.

Article 8: Miscellaneous

SECTION 8.1. Communications.

Any notice, request, or other communication submitted by either

Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Mail Address: Economic Affairs Division
Ministry of Finance and Economic Affairs
Government of Pakistan
Islamabad (Pakistan)

Alternate address for cables: ECONOMIC ISLAMABAD

Fax : 821682

To A.I.D.:

Mail Address: USAID Mission to Pakistan
P.O. Box 1028
Ramna 5
Islamabad (Pakistan)

Alternate Address for cables: USAID/Islamabad
for Fax : 824086 USAID PK

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Grantee, in addition, will provide the USAID Mission/Pakistan with a copy of each communication sent to A.I.D.

SECTION 8.2. Representatives.

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the Office of the Secretary, the Additional Secretary, the Joint Secretary and the Deputy Secretary for Economic Affairs Division, and A.I.D. will be represented by the individual holding or acting in the Office of the Director, USAID Mission to Pakistan, each of whom, by written notice, may designate

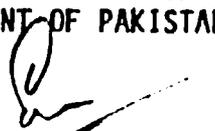
additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex

A "Program Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

FOR AND ON BEHALF OF THE
GOVERNMENT OF PAKISTAN

BY:  _____

NAME: Saad Ashraf

TITLE: Joint Secretary

 Economic Affairs Division

FOR AND ON BEHALF OF THE
UNITED STATES OF AMERICA

BY:  _____

NAME: James A. Norris

TITLE: Mission Director

 USAID/Pakistan

AMPLIFIED DESCRIPTION OF THE SPECIAL PROJECTS,
TECHNICAL COOPERATION AND TRAINING (STT) COMPONENT
OF THE PRIVATE INVESTMENT EXPANSION (PIE) PROGRAM

A. Program Description

1. Background

The Private Investment Expansion (PIE) Program emanates from discussions of the Economic/Commercial Subcommittee of the Pakistan-US Joint Commission in January and March 1990. A Project Identification Paper was developed in April 1990 and, based on a review of this Paper, the Government Pakistan (GOP) formally requested the Government of the United States (USG) in June 1990 to provide assistance to finance, on a priority basis, the PIE Program.

2. Goal and Purpose

The broad sector goal of the PIE Program is to sustain economic growth in Pakistan through increased private contribution to the social and economic development. The purpose of the Program is to increase the volume and efficiency of private investment through policy reforms, development of services and institutions that encourage private investment, and through direct promotion of specific private investment activities.

3. Components

The PIE Program is comprised of three components: (1) Sector Grant Assistance (SGA) which will provide for cash disbursements based upon policy reform performance; (2) Private Investment Promotion (PIP) which will include a private sector Commodity Import Program and an Investment Fund to support selected private sector activities, private investment banking and privatization; and (3) Special Projects, Technical Cooperation and Training (STT) which will provide intellectual leadership and practical commercial feedback required for SGA and PIP Components as well as direct support and training for local businesses and institutions.

B. Special Projects, Technical Cooperation and Training (STT)

1. Activities

STT will consist of the following five distinct elements:

a. Improvement of Policy Climate for Private Investment

The objective of this element is to improve the policy environment to encourage domestic and foreign private investment. The STT Component will provide the needed analytical support in such.

areas as the investment approval system, foreign investment, privatization, investment promotion, financial instruments and markets, and international trade to develop options for policy action.

b. Capital Market Development

The principal objective of this element is to improve the operation and depth of the capital market through the development of an efficient regulatory framework. The STT Component will support the development and implementation of regulatory reforms for stock market, investment finance banks, development finance institutions, foreign and local commercial banks, and such other relevant areas as may be identified.

c. Private Investment Promotion

The Private Investment Promotion element will provide direct assistance to the private sector in Pakistan preferably through private organizations. Initial activities will include foreign investment promotion, particularly through joint ventures between foreign and Pakistani firms; support to specific businesses through technical assistance on cost sharing basis; provision of loan guarantees to financial institutions on behalf of small businesses; and, provision of funds on a cost sharing basis to investors for development of pre-feasibility and feasibility studies for investment in Pakistan.

d. Privatization

The primary objective of this element is to broaden asset ownership and increase the private management of public sector enterprises. The STT Component will provide technical assistance for the preparation of a comprehensive privatization policy, for the development of information required prior to privatization, and for implementing and monitoring privatization.

e. Enhancing Private Sector Voice

The major objective of this element is to upgrade the capabilities of selected business groups to effectively advocate business interests. Specific activities under STT Component will include: institution building of selected business for a through technical assistance, training and grants; provision of grants to selected GOP entities to arrange, through local consulting firms, private investment related policy studies; development of a program to enhance voice of business women; and, initiation of a program for increased awareness and improved industrial environment, health and safety (EHS) practices in Pakistan.

2. Inputs

A. A.I.D.

Activities under the STT Component will be supported through an appropriate mix of technical assistance, training, commodities and grants as summarized below:

1. Technical Assistance

The long-term technical assistance team will be composed of a Chief of Party, a Financial Economist (for financial sector reforms), a Financial Operations Specialist for capital market development, a Promotion Specialist dedicated to direct foreign investment promotion, and a Privatization Specialist for assistance in developing and implementing privatization policies and programs. This team will be supported by expatriate and local short-term technical assistance.

2. Training

The STT Component will provide short-term overseas and in-country training both for the private and public sectors. The training will cover a wide range of specialties including deregulation, trade development, business regulation, organization management, business regulation and investment promotion. The training program will also include study tours, workshops, conferences and internships in overseas companies.

3. Grants and Buy-ins

The instruments of grants and "buying into" on-going Projects will be employed to support investment promotion; development of trade and investment services; undertaking investment policy related studies; enhancing private sector voice, especially of women and small businesses; establishing loan guarantee program for small enterprises; development of an Environment and Health Safety (EHS) program; and, generally, for effectively implementing activities under the STT Component.

4. Commodities

Office equipment and commodities, including vehicles, will be provided to support technical assistance team and selected local public and private institutions.

B. GOP and Private Sector

It is anticipated that the GOP will make substantive in-kind contributions to the Program and that, as a result of Program activities, changes in GOP and private sector policy and operations will result. The private sector will contribute on a cost sharing basis as it benefits from Program activities. Cost sharing and contributions may be quantified, as mutually agreed upon, in subsequent Program Amendments and PILS.

C. Implementation Responsibilities

a. Agency for International Development (A.I.D.)

A.I.D. will be responsible for: contracting or assisting the GOP in contracting technical assistance; arranging or assisting the GOP in arranging overseas and in-country training; managing or assisting the GOP in monitoring grants and buy-ins; procuring or assisting the GOP in procuring vehicles, data processing equipment and such other commodities and equipment as may be agreed to by the Parties.

b. Government of Pakistan (GOP)

The GOP may designate Secretary, Ministry of Finance, to serve as Overall Coordinator of this STT Component and such other principal and alternative Additional Counterparts, preferably of the respective levels of Additional and Joint Secretaries in the Ministries of Finance, Industries and Commerce and in the State Bank of Pakistan as the Parties may agree to in writing. The GOP designated Counterpart(s) will be responsible for all aspects of the implementation of the assigned segment of the STT Component; for keeping day-to-day liaison with A.I.D. representatives and STT Component consultants; and for contracting technical assistance, arranging training, managing grants and buy-ins, and procuring commodities and equipment as may be mutually agreed upon between the Parties. The Overall STT Component Coordinator may also convene annual (or more frequent) meetings of concerned public and private sector representatives to review STT Component progress, identify current and potential constraints and arrange appropriate remedial actions.

D. Approved Procurement of Non-U.S. Source/Origin/Nationality

The STT Component allows up to eight million two hundred eighty thousand U.S. dollars (\$8,280,000) of procurement in Pakistan of goods and services for PIE Program implementation. The transactions to which this pertains will be specified by U.S. A.I.D. in future Program Implementation Letters (PILS).

ILLUSTRATIVE

SUMMARY OF PROGRAM COSTS BY EXPENSE CATEGORY AND SOURCE OF FUNDING a/
 (In 000s)

Expense Category	Cumulative FY 1990 To-date		Life of Program Funding b/	
	A.I.D. Grant (In \$)	GOP (In Rs.)	A.I.D. Grant (In \$)	GOP (In Rs.)
I. STI Component (STI)				
Technical Cooperation	1,000	-	12,900	-
Training c/	900	-	5,000	-
Special Projects and Grants	2,000	-	13,000	-
Commodities	1,000	-	1,000	-
Evaluation/Audit	100	-	400	-
Sub-Total:	5,000	-	32,300	-
Contingency/Inflation	-	-	2,700	-
TOTAL STI	5,000	-	35,000	-
II. Sector Grant Assistance (SGA)	-	-	50,000	-
III. Private Invest. Promotion (PIP)	-	-	95,000	-
Total Program	-	-	180,000	-

a/ Either party may unilaterally, with written notice to the other, adjust line items in this budget to a maximum of 20% per line item, provided, however, that the total obligated amount as shown in the budget is not exceeded.

b/ Subject to the availability of funds to A.I.D. for this purpose and to the mutual agreement of both parties to proceed at the time of each subsequent increment.

Note: Three components of this PIE grant have a planned life of program funding of \$180,000,000 subject to the availability of funds and advance, specific authorization by A.I.D. of the SGA and SPI Components. As of this Agreement only \$35,000,000 have been authorized by the competent A.I.D. authorities. It is expected that the remaining \$145,000,000 (\$50,000,000 SGA Component and \$95,000,000 PIP Component) will be considered for authorization during FY 1991.

18