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USAID Grant Number 391-005-ES-05

PROGRAM ASSISTANCE GRANT AGREEMENT

BETWEEN THE

UNITED STATES OF AMERICA

AND THE

THE ISLAMIC REPUBLIC OF PAKISTAN

FUNDS AVAILABLE
OFM / Accounting Section
Amount: $ 100,000,000.00
06-10-2005
< > Context Clearance only
Posted By: Rm On: 6/15/05
Cleared By: Rm On: 6/10/05
MACS/PMX TRNTYP: RE/OB

Dated: June 10, 2005

Islamic Republic of Pakistan)
City of Islamabad) SS:
Embassy of the)
United States of America)

I, Vice Consul of the United States of America at Islamabad, Pakistan duly commissioned and qualified, do hereby certify that the foregoing is a true and faithful copy of the original, the same having been carefully examined by me and compared with the said original and found to agree therewith word for word and figure for figure.

IN WITNESS WHEREOF I have here unto set my hand and affixed the seal of the Embassy of the United States of America at Islamabad, Pakistan, this 21st day of June 2005

VICE CONSUL OF THE UNITED STATES OF AMERICA

FUNDS CITE :-

Appropriation : 72S/61037

BPC : HES5-05-23391-KG31

RCN : I050272

EOCC : 41000

ODN : SO 391-005-ES-05

USAID Grant No. 391-005-ES-05

Program Assistance Grant Agreement (the "Agreement")

Dated: June 10, 2005

Between

The United States of America, acting through the U.S. Agency for International Development ('USAID")

And

The Islamic Repúblic of Pakistan ("Grantee")

ARTICLE I. The Grant

(a) The purpose of this Agreement is to provide economic support assistance to the Grantee to facilitate the implementation of the shared objectives related to the Grantee's second generation poverty reduction and social development program described in the October 1, 2004 letter from the Grantee's Minister of Economic Affairs and Statistics (Economic Affairs Division) to the U.S. State Department's Under Secretary of State for Economic Affairs (attached as Appendix 1 to this Agreement). In order to support the shared objectives set forth in the attachment to such letter (the "Shared Objectives"), and pursuant to the Foreign Assistance Act of 1961, as amended, USAID hereby grants to the Grantee under the terms of this Agreement not to exceed Two Hundred Million United States Dollars ($200,000,000) (the "Grant").

(b) The Grantee will deposit the Dollars into a Separate Dollar Account pursuant to Section 5.1.

ARTICLE II. Use of Grant Proceeds

Except as the Parties may otherwise agree in writing, Grant proceeds will be used only to support the Shared Objectives and any other purposes or uses as agreed to in writing between USAID and the Grantee.

ARTICLE III. Disbursement

Upon satisfaction of the conditions precedent set forth in Section 4.1, USAID will deposit the Grant in the bank account designated by the Grantee pursuant to Section 5.1 of this Agreement.

ARTICLE IV. Conditions Precedent to Disbursement

SECTION 4.1. Conditions Precedent to Disbursement

Prior to the disbursement of Grant proceeds, or to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to USAID, in form and substance satisfactory to USAID, the following:

(a) A statement of the names of the persons holding the offices specified in Section 6.6, and of any additional representatives, together with a specimen signature of each person so designated;

(b) Evidence that the Grantee has established a Separate Dollar Account described in Article V of this Agreement, including (i) the name and address of the bank, (ii) the name and number of the account including bank routing number, (iii) the names and titles of officials authorized to make withdrawals, (iv) a statement of the means by which funds will be withdrawn from the account, (v) a statement that the Grantee will maintain the bank account in the manner required by Section 5.1 of this Agreement, and a (vi) statement from the bank confirming that the account has been established and that the account is a non-interest bearing U.S. Dollar account;

(c) Confirmation that satisfactory progress has been made toward achieving the Shared Objectives; and

(d) A program implementation letter, signed by the Grantee and USAID, setting forth the specific line items in support of Appendix 1 in the Grantee's budget for the fiscal year ending June 30, 2006 to which Grant proceeds will be applied and the amounts allocated to such line items both prior and subsequent to inclusion of the Grant proceeds.

SECTION 4.2. Terminal Date for Disbursement

USAID will promptly notify the Grantee when the Conditions Precedent specified in Section 4.1 have been met. If the Conditions Precedent specified for the initial disbursement of Grant proceeds have not been met within ninety (90) days from the date of this Agreement, or such other date as the Parties may agree to in writing, USAID may terminate this Agreement by written notice to the Grantee.

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ARTICLE V. General Terms and Conditions Governing the Use of the Cash Transfer

SECTION 5.1. Establishing the Separate Dollar Account.

(a) The Grantee agrees to establish a separate, non-interest bearing Dollar account in the Federal Reserve Bank of New York (the "Separate Dollar Account") for deposit of the Grant, and shall not commingle the Grant with funds from any other source. Except as USAID otherwise agrees in writing, the Grantee agrees to use the dollar Grant exclusively for the purposes set forth in Article II.

(b) If, contrary to Article 5.1(a), the Separate Dollar Account should generate interest, the Grantee shall instruct the Federal Reserve Bank of New York to remit such interest immediately upon generation to the Treasury of the United States of America ("U.S. Treasury") and shall notify USAID of each amount of interest generated and provide documentation of its remittance to the U.S. Treasury no later than the end of each month in which such interest is generated. Grantee shall not use the interest for any purpose, including the Shared Objectives.

(c) The Grant proceeds shall be converted from U.S. Dollars to Pakistani Rupees at the weighted average bid rate of the State Bank of Pakistan at the end of the preceding business day. In addition, the Parties do not intend that the use of this Grant will result in the income generation of Pakistani Rupees. Should the Grant proceeds be used in a way which will result in the income generation of additional Pakistani Rupees to the Grantee, amounts generated will be deposited into a separate account (the "Local Currency Account") to be established by the Grantee in the State Bank of Pakistan and will only be used for mutually agreed upon poverty reduction and social development programs in furtherance of the Shared Objectives. Funds deposited in the Local Currency Account shall not be commingled with any other funds from any other source.

SECTION 5.2 Accounting Books and Records

The Grantee shall maintain, or cause to be maintained, in accordance with its laws and regulations and generally accepted accounting principles and practices, documents in support of deposits to and disbursements from the Separate Dollar Account and the Local Currency Account, if any. Such documents shall be available for review and audit by USAID, or its designees, at the end of each fiscal year of the Grantee or at such other times as USAID may request and for up to three years following the last disbursement from the Separate Dollar Account made in accordance with the provisions of this Agreement.

SECTION 5.3 **Reporting**

Except as the Parties may otherwise agree in writing, the Grantee shall provide USAID with quarterly reports on the uses of Separate Dollar Account funds and the status of the Separate Dollar Account until the funds are fully disbursed for the purposes specified in Article II, including all dollar deposits into and disbursements from the account. Such report will also provide the amount of expenditures that Grantee made in the previous quarter with respect to the budget line items set forth in the program implementation letter described in Section 4.1(d). Additional reporting requirements and formats may be established in Program Implementation Letters.

ARTICLE VI. Miscellaneous

SECTION 6.1 **Taxation**

This Agreement and the Grant shall be free from any taxation or fees imposed under laws in effect in the territory of the Grantee. No Grant proceeds shall be used to pay taxes, customs duties or other fees applied by Grantee's authorities to commodities procured with Grant proceeds.

SECTION 6.2 **Refund of Dollar Grant**

In the case of any utilization of the Dollar Grant which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, USAID may require the Grantee to refund the amount of such disbursement in U.S. Dollars to USAID within sixty (60) days after receipt of a request therefore. Similarly, if a Local Currency Account exists and any utilization of the funds in such account is not in accordance with this Agreement or is not supported by valid documentation, USAID may require the Grantee to refund the amount of such disbursement in Pakistani Rupees within sixty (60) days after receipt of a request therefore.

SECTION 6.3 **Program Implementation Letters**

USAID may from time to time issue Program Implementation Letters elaborating on terms of this Agreement, further describing applicable procedures, or recording agreement of the parties on details of implementation. Program Implementation Letters will not be used to amend the text of the Agreement, but can be used to amend Annex 1 and record revisions and exceptions which are permitted by the Agreement.

SECTION 6.4 **Non Waiver of Remedies**

No delay in exercising any right or remedy accruing to a Party in connections with this Agreement will be construed as a waiver of such right or remedy.

SECTION 6.5 **Consultation**

The Parties will cooperate to ensure that the purposes of this Agreement are accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Agreement, and other matters related to the Agreement.

SECTION 6.6 **Representatives**

For all purposes relevant to the implementation of this Agreement, the Grantee will be represented by the individual holding or acting in the office of Secretary, Ministry of Economic Affairs and Statistics (Economic Affairs Division), and USAID 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 signing formal amendments to the Agreement. Either party may accept as authorized any instrument signed by such representatives of the other party in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 6.7 **Prohibited Uses; Replenishment of Proceeds**

Both the Grantee and USAID are firmly committed to the international fight against terrorism, and in particular, against the financing of terrorism. It is the policy of USAID and the Grantee to seek to ensure that none of its funds are used, directly or indirectly, to provide support to individuals or entities associated with terrorism. In accordance with this policy, the Grantee undertakes to use reasonable efforts to ensure that none of the Grant proceeds are used to provide support to individuals or entities associated with terrorism.

In addition, Grant proceeds may not be used to finance the purchase of services, commodities or equipment for the use or benefit of any military, paramilitary, police, prison or law enforcement purpose. In addition, Grant proceeds may not be used to finance the purchase of surveillance equipment, abortion equipment, luxury goods and gambling equipment, or weather modification equipment; nor may Grant proceeds be used for (a) any activity that involves investment promotion, unless specifically authorized by USAID, or which would contribute to a violation of internationally recognized rights of workers, or (b) for purposes other than those authorized pursuant to Article II. The Grantee agrees to redeposit to the bank account described in Section 5.1(a) of this

Agreement U.S. Dollars equal to the amount of any Grant proceeds used for purposes prohibited under this Section and to treat such redeposited amounts as though they were Grant proceeds received under the terms of this Agreement.

SECTION 6.8 **Communications**

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be communicated by certified mail or by fax followed by certified mail in case of urgency, and will be deemed duly given or sent when delivered to such party at the following addresses, as applicable:

To the Grantee:

Khalid Saeed
Secretary,
Ministry of Economic Affairs and Statistics
(Economic Affairs Division)
Government of Pakistan
Islamabad, Pakistan
Telephone No. 921-0629
Fax No. 920-5971

To USAID:

Lisa Chiles
Director,
USAID Mission to Pakistan
American Embassy
Islamabad, Pakistan
Telephone No. 208-2012
Fax No. 287-0310

With a copy to:

Embassy of the United States of America
Attn: Economic Counselor
Islamabad, Pakistan

All such communications will be in English, unless the parties otherwise agree in writing. Other addressees may be substituted for the above upon giving of written notice.

SECTION 6.9 **Amendment**

This agreement may be amended by the execution of written amendments by the authorized representatives of both the Parties designated in Section 6.6 above.

SECTION 6.10 **Effective Date**

This Agreement shall enter into force on June 10, 2005, following signature by both parties hereto.

IN WITNESS WHEREOF, the Islamic Republic of Pakistan and the Government of 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.

The United States of America:

By:

Name: Lisa Chiles
Title: Director, USAID Mission to Pakistan

By:

Name: Ryan C. Crocker
Title: U.S. Ambassador to Pakistan

The Islamic Republic of Pakistan:

By:

Name: Khalid Saeed
Title: Secretary, Economic Affairs Division

By:

Name: Hina Rabbani Khar
Title: Minister of State for Economic Affairs

Appendix – I

No. [illegible] US, Apr 2004
Government of Pakistan
Ministry of Economic Affairs & Statistics
(Economic Affairs Division)

Hina Rabbani Khar
Minister of State

Phone : 092-0[illegible]9203439
Fax : 092-0[illegible]9214716

Islamabad, the October 1, 2004

Dear Mr. Larson,

This has reference to your meeting with the Finance Minister in Washington and the subsequent discussions held with the U.S. Mission in Pakistan.

I would like to indicate that Government of Pakistan has fairly rich and broad based programme of second generation reforms that it would undertake over the medium term. The broad features of this programme are as shown in the annexed exhibit. It is further informed that this programme is embedded in considerable detail in the Poverty Reduction Support Credit (PRSC) which we are currently negotiating with the World Bank. The PRSC will envisage periodic review of performance under a number of target reforms specified therein.

It is understood that the budgetary support component of the US assistance of a billion dollar over the next five years will go in supporting and facilitating the implementation process of these reforms. We are in agreement that each year we will review with US authorities the performance of reforms along the lines indicated in the exhibit as well as achieved under the PRSC and that implementation of reforms would facilitate release of the next tranche of budgetary assistance.

I hope this relatively simple and flexile arrangement would ensure effective utilization of US budget support assistance.

Regards.

Yours sincerely

(Hina Rabbani Khar)

Mr. Alan Larson,
Under Secretary of State for Economic Affairs,
The State Department,
United States of America,
Washington D.C.

Exhibit-I

Fiscal Year 2005 Objectives

Pillar I: Growth and Macroeconomic Stability

- Maintain a satisfactory macroeconomic framework consistent with Poverty Reduction Strategy Plan (PRSP) targets, specifically public debt and fiscal deficit targets.
- Satisfactory progress in implementing the Fiscal Responsibility Law.
- Make further incremental progress in implementing telecommunications privatization policy.
- Demonstrate incremental progress in implementing the Transparent Pricing Framework and bi-yearly adjustment of the retail tariffs for natural gas, as supported under the Structural Adjustment Credits (SACs) as per the PRSP.
- Demonstrate incremental progress implementing power sector reforms, as outlined in the PRSP, beginning with the Government of Pakistan's expeditious completion of a comprehensive action plan.

Pillar II: Investing in Human Capital and Private Sector Development

- Continued implementation of fiscal decentralization reforms as per PRSP.
- Satisfactorily implement human development programmes reforms articulated in the PRSP, particularly those related to improving the quality of and expanding access to education and healthcare, and meet PRSP expenditure targets for health and educating, as a percentage of GDP.
- Initiate by August 2004 a public–private sector dialogue focused on identifying and implementing key economic reforms to boost private investment in Pakistan and to eliminate barriers to establishing small businesses.
- The United States will consider as possible additional shared objectives the policy recommendations resulting from this dialogue and other reforms, as agreed by the two governments.
- The United States will continue to support Pakistan's efforts to improve its investment climate and boost investment through expanded U.S programmes including those implemented by the Export-Import Bank of the United States, the Overseas Private Investment Corporation, and the U.S Trade Development Agency. The United States also support expanded private sector efforts in this area.