Financing Agreement

(Pakistan Raises Revenue)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to two hundred eighty-eight million two hundred thousand Special Drawing Rights (SDR 288,200,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

2.04. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.

2.05. The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.

2.06. The Payment Dates are February 15 and August 15 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

4.02. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division of the Ministry of Finance, Revenue and Economic Affairs.
5.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient’s address is:

Economic Affairs Division
Ministry of Finance, Revenue and Economic Affairs
Islamabad
Pakistan; and

(b) the Recipient’s Electronic Address is:

Facsimile: E-mail: 
+92-51-910-4016 Secretary@ead.gov.pk

5.03. For purposes of Section 11.01 of the General Conditions: (a) The Association’s address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Association’s Electronic Address is:

Telex: Facsimile: E-mail: 
248423 (MCI) 1-202-477-6391 CMUPakistan@worldbank.org
AGREED as of the Signature Date.

**ISLAMIC REPUBLIC OF PAKISTAN**

By

[Signature]

Authorized Representative

Name: Noor Ahmed

Title: Secretary

Date: 17-Jun-2019

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

By

[Signature]

Authorized Representative

Name: Patchamuthu Illangovan

Title: Country Director

Date: 16-Jun-2019
SCHEDULE 1

Project Description

The objective of the Project is to contribute to a sustainable increase in domestic revenue by broadening the tax base and facilitating compliance.

The Project consists of the following parts:

Part 1:

1. Improving the simplicity, transparency and coherence of the tax system through, *inter alia*:

   (a) Simplifying tax administration regulations, harmonizing provisions on tax administration, appeals, enforcement, and penalties across tax instruments and reducing transactions that are subject to withholding income tax;

   (b) Publishing a breakdown of detailed tax expenditures with cost and beneficiaries of each exemption and concession in the Annual Budget Statement; and

   (c) In coordination with the Provinces, (i) resolve legal obstacles to the automated sharing of taxpayer information; (ii) harmonize definitions of taxable items subject to GSTS; (iii) agree on collection principles and method for calculating GST input adjustments; and (iv) update valuations of immovable property.

2. Improving effective compliance control and enforcement of taxpayer obligations through, *inter alia*:

   (a) Implementing a risk-based audit selection framework managed centrally by FBR headquarters;

   (b) Implementing electronic production monitoring systems for Key Sectors with a high risk of under-declaration of GST and corporate income tax and electronic tracking systems for production, distribution, and sale of final products;
(c) Implementing risk-based inspections and Post-Clearance Audits in customs to improve the identification of material violations through inspections and audits; and

(d) Systematically monitoring and analyzing payment arrears to increase collection rates.

3. Facilitating compliance with taxpayer obligations through, *inter alia*:

   (a) Expanding e-services for taxpayers and traders with additional e-filing and e-payment options, including through mobile phones and online consolidated data profiles accessible to each taxpayer;

   (b) Accelerating the resolution of refunds and administrative taxpayer appeals; and

   (c) Implementing an Authorized Economic Operator Program to facilitate customs clearance for compliant firms.

4. Strengthening institutional development to increase efficiency and accountability through, *inter alia*:

   (a) Simplifying and automating FBR Core Business Processes;

   (b) Managing careers based on technical streams and reducing rotation across functions;

   (c) Introducing horizontal functions staffed by externally hired specialists;

   (d) Introducing performance management for staff based on a robust appraisal system;

   (e) Executing daily transfers of revenue receipts to the Treasury Single Account; and

   (f) Implementing measures to promote workforce diversity, including improving the attraction and retention of women staff in the FBR.

*Part 2:* Investing in FBR’s ICT infrastructure, supplying and installing equipment for automated customs control points, and carrying out consulting services for
software development and technical assistance for complex initiatives (e.g. business process improvement and change management), including, _inter alia:_

1. Replacing end-of-life equipment, establishing an Active-Active Private Cloud and purchasing up-to-date versions of branded software currently used by the FBR.

2. Establishing Data Warehouse and Business Intelligence tools through, _inter alia:_
   
   (a) Purchasing a state-of-the art Data Warehouse solution with the capacity to handle big data to accommodate an exponential increase in data volume through a growing number of data sources; and

   (b) Acquiring and customizing state-of-the-art Business Intelligence tools needed to analyze information and detect inconsistencies and irregular patterns indicative of tax evasion or other suspicious activities.

3. Establishing an Automated Entry-Exit System for customs through the supply and installation of ICT and scanning equipment for non-intrusive inspection of cargo for imports and exports at four locations (Karachi East, Karachi West, Port Qasim, and Gwadar).

4. Upgrading the network connectivity of all FBR offices and custom control posts through the supply and installation of ICT equipment in order to support real-time data sharing and communications.

5. Providing technical assistance to support (a) mapping and revising FBR Core Business Processes; (b) developing software to automate FBR Core Business Processes; and (c) implementing change management through, _inter alia_, new Standard Operating Procedures, staff manuals and staff training.

6. Providing technical assistance for the design of frameworks for Customs Central Risk Management and PCA and supporting their application for the selection of goods declarations to be subjected to documentary review (yellow channel) or physical inspection (red channel) at the border, and to inform the selection of consignments for PCA.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

The Recipient, through FBR, shall have overall responsibility for the implementation of the Project. To this end, the Recipient shall:

1. Establish by not later than two (2) months after the Effective Date, and thereafter maintain throughout the period of implementation of the Project, a Coordination Committee with composition and terms of reference satisfactory to the Association led by the Chairman FBR and/or the Secretary Revenue Division and comprised of focal persons for each of the DLIs to coordinate the implementation of the Project in their respective departments, including liaising with the Program Office, change management and internal communications.

2. Establish by not later than one (1) month after the Effective Date, and thereafter maintain throughout the period of implementation of the Project, a Program Office reporting to the Chairman FBR with composition and terms of reference satisfactory to the Association, including a full-time Program Office Director, to undertake horizontal Project implementation functions, including procurement, contract management, budget planning, financial reporting, preparation of results reports based on data provided by the implementing departments, day-to-day coordination of Project activities with implementing departments and the Association, oversight and reporting on the implementation of the ESCP, Project communications and coordination of the verification of results by an independent entity or entities.

3. Notwithstanding paragraph 2 of this Section above, externally recruit and hire to work within the Program Office by no later than one (1) month after the Effective Date: (a) a procurement specialist; (b) a financial management specialist; (c) a contract management specialist; and (d) an environmental and social specialist to ensure compliance with the Environmental and Social Standards; all with terms of reference satisfactory to the Association.

4. Establish by not later than six (6) months after the Effective Date, and thereafter maintain throughout the period of implementation of the Project, a Steering Committee with composition and terms of reference satisfactory to the Association chaired by the Minister of Finance (or an authorized representative as the Minister
may designate) to take stock of implementation progress and provide guidance to the Coordination Committee and the Program Office.

B. Environmental and Social Standards

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.

2. Without limitation upon paragraph 1 above, the Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Association. To this end, the Recipient shall ensure that:

   (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, and as further specified in the ESCP;

   (b) sufficient funds are available to cover the costs of implementing the ESCP;

   (c) policies, procedures and qualified staff are maintained to enable it to implement the ESCP, as further specified in the ESCP; and

   (d) the ESCP or any provision thereof, is not amended, revised or waived, except as the Association shall otherwise agree in writing and the Recipient has, thereafter, disclosed the revised ESCP.

In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.

2. The Recipient shall:

   (a) take all measures necessary on its part to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the management tools and instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
promptly notify the Association of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers in accordance with the ESCP, the instruments referenced therein and the Environmental and Social Standards.

3. The Recipient shall maintain and publicize the availability of a grievance mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Project and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

C. Verification

1. The Recipient shall:

   (a) undertake, at least once per the Recipient’s fiscal year, a verification process, in accordance with the Verification Protocols and terms of reference agreed with the Association, to ascertain whether the respective DLRs have been achieved for the period under review;

   (b) if and where required, as defined in the Verification Protocols and terms and reference referred to in sub-paragraph (a) above, engage, through the Program Office, an independent entity or entities for the purpose of verifying the DLRs, with qualifications, experience, and terms of reference satisfactory to the Association, to undertake the verification process referred to in sub-paragraph (a) above; and

   (c) furnish to the Association, at least once per fiscal year, corresponding verification reports, in form and substance acceptable to the Association.

D. Annual Work Plans and Budget

For purposes of the implementation of the Project, the Recipient shall:

   (a) prepare a draft Annual Work Plan and Budget (“AWPB”) for each year of Project implementation, setting forth, inter alia: (i) a detailed description of the planned activities under the Project for the following year of Project implementation; (ii) the sources and proposed use of funds therefor; (iii) procurement arrangements therefor; and (iv) responsibility
for the execution of said Project activities, budgets, start and completion dates, outputs and monitoring indicators to track progress of each activity;

(b) not later than April 30th of each year of Project implementation, furnish the draft AWPB to the Association for its review, and promptly thereafter finalize the AWPB, taking into account the Association’s comments thereon; and

(c) by June 15 of each year of Project implementation, adopt and implement the final AWPB after obtaining the Association’s approval thereon.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient shall furnish to the Association each Project Report not later than forty-five (45) days after the end of each calendar quarter, covering the calendar quarter.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Eligible Expenditure Program under Part 1 of the Project</td>
<td>46,100,000</td>
<td>27%</td>
</tr>
<tr>
<td>(2) Eligible Expenditure Program under Part 1 of the Project</td>
<td>184,460,000</td>
<td>27%</td>
</tr>
<tr>
<td>(3) Goods, works, non-consulting services, and consulting services for the Project; Training and Incremental Operating Costs</td>
<td>57,640,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>288,200,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
B. **Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:

   (a) for payments made prior to the Signature Date.

   (b) for Eligible Expenditures under Category (2), until and unless: (i) the Recipient has complied with the instructions under the Disbursement and Financial Information Letter and any additional instructions specified in accordance with Section 2.01(b) of the General Conditions, including the submission to the Association of the applicable interim unaudited financial reports and budget execution reports for the EEP evidencing the incurrence of Eligible Expenditures for which payment is requested; and (ii) has furnished evidence satisfactory to the Association that the DLR with respect to which the withdrawal has been requested has been fully achieved.

2. Notwithstanding the provisions of Part B.1(b) of this Section, if any of the DLRs under Category (2) has not been achieved, the Association may, by notice to the Recipient:

   (a) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Financing then allocated to said Category which, in the opinion of the Association, corresponds to the extent of achievement of said DLR, said lesser amount to be calculated in accordance with the formula set out in the Annex to Schedule 2 of this Agreement;

   (b) upon consultation with the Recipient, reallocate all or a portion of the proceeds of the Financing then allocated to said DLR to any other DLR; and/or

   (c) cancel all or a portion of the proceeds of the Financing then allocated to said DLR.

3. Notwithstanding the provisions of Part B.1(b) of this Section:

   (a) the amounts to be disbursed upon submission of any withdrawal application under Category (2) for the achievement of DLR(s) shall be determined by adding all Allocated Amounts, corresponding to all DLR(s) met and verified at the date of submission of the withdrawal application, and subtracting the aggregate amounts disbursed under Categories (1) and (2) therefrom, as of the date of such submission;
(b) if, at any time, the Association determines that any amounts of the Financing were withdrawn without evidence of actual spending by the Recipient under the EEP or without evidence of satisfaction of other criteria set forth in this Agreement, the Recipient shall refund any such amounts to the Association, as the Association shall specify by notice to the Recipient.

4. The Closing Date is June 30, 2024.

Section IV. Other Undertakings

A. The Recipient, through FBR, shall:

1. Earmark the operation and maintenance budget for the ICT infrastructure purchased under Part 2 of the Project in each FBR Annual Budget by not later than eighteen (18) months after the Effective Date and thereafter throughout the period of implementation of the Project;

2. By no later than six (6) months after receipt of the ICT infrastructure purchased under Part 2 of the Project from the supplier(s), develop and implement a maintenance plan for the lifetime of such ICT infrastructure, as well as a replacement plan thereto;

3. Throughout the implementation of the Project, analyze and monitor maintenance and replacement activities in relation to ICT infrastructure purchased under Part 2 of the Project in accordance with the maintenance and replacement plans referred to in paragraph 2 of this Section IV.A; and

4. By no later than June 30 and December 30 of each fiscal year during Project implementation, submit semi-annual reports on such maintenance and replacement activities to the Association.
<table>
<thead>
<tr>
<th><strong>DISBURSEMENT LINKED INDICATORS</strong></th>
<th><strong>TOTAL DLI ALLOCATION</strong></th>
<th><strong>BASELINE</strong></th>
<th><strong>RESULTS TO BE ACHIEVED IN YEAR 1</strong> (JULY 1, 2019 – JUNE 30, 2020)</th>
<th><strong>RESULTS TO BE ACHIEVED IN YEAR 2</strong> (JULY 1, 2020 – JUNE 30, 2021)</th>
<th><strong>RESULTS TO BE ACHIEVED IN YEAR 3</strong> (JULY 1, 2021 – JUNE 30, 2022)</th>
<th><strong>RESULTS TO BE ACHIEVED IN YEAR 4</strong> (JULY 1, 2022 – JUNE 30, 2023)</th>
<th><strong>RESULTS TO BE ACHIEVED IN YEAR 5</strong> (JULY 1, 2023 – JUNE 30, 2024)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Scope of withholding regime reduced</td>
<td>$32,000,000</td>
<td>58 withholding lines</td>
<td><strong>DLR 1.1:</strong> Withholding lines in the Annual Appropriations Act have been reduced to 50</td>
<td><strong>DLR 1.2:</strong> Withholding lines in the Annual Appropriations Act have been reduced to 40</td>
<td><strong>DLR 1.3:</strong> Withholding lines in the Annual Appropriations Act have been reduced to 35</td>
<td><strong>DLR 1.4:</strong> Withholding lines in the Annual Appropriations Act have been reduced to 25</td>
<td><strong>DLR 1.5:</strong> Withholding lines in the Annual Appropriations Act have been reduced to 20</td>
</tr>
<tr>
<td>Allocated Amounts</td>
<td></td>
<td></td>
<td><strong>Scalability:</strong> Yes</td>
<td><strong>Scalability:</strong> Yes</td>
<td><strong>Scalability:</strong> Yes</td>
<td><strong>Scalability:</strong> Yes</td>
<td><strong>Scalability:</strong> Yes</td>
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<td></td>
<td></td>
<td></td>
<td>$6,740,000</td>
<td>$8,420,000</td>
<td>$4,210,000</td>
<td>$8,420,000</td>
<td>$4,210,000</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>$842,000 per reduced withholding line</td>
<td>$842,000 per reduced withholding line</td>
<td>$842,000 per reduced withholding line</td>
<td>$842,000 per reduced withholding line</td>
<td>$842,000 per reduced withholding line</td>
</tr>
<tr>
<td>2. Transparent tax system</td>
<td></td>
<td></td>
<td><strong>DLR 2.1:</strong> MoF (with input from FBR) has published in the Annual Budget Statement a</td>
<td><strong>DLR 2.2:</strong> MoF (with input from FBR) has published in the Annual Budget Statement a</td>
<td><strong>DLR 2.3:</strong> MoF (with input from FBR) has published in the Annual Budget Statement a</td>
<td><strong>DLR 2.4:</strong> MoF (with input from FBR) has published in the Annual Budget Statement a</td>
<td><strong>DLR 2.5:</strong> MoF (with input from FBR) has published in the Annual Budget Statement a</td>
</tr>
<tr>
<td><strong>Disbursement Linked Indicators</strong></td>
<td><strong>Total DLI Allocation</strong></td>
<td><strong>Results to be Achieved in Year 1</strong> <em>(July 1, 2019 – June 30, 2020)</em></td>
<td><strong>Baseline</strong></td>
<td><strong>Results to be Achieved in Year 2</strong> <em>(July 1, 2020 – June 30, 2021)</em></td>
<td><strong>Results to be Achieved in Year 3</strong> <em>(July 1, 2021 – June 30, 2022)</em></td>
<td><strong>Results to be Achieved in Year 4</strong> <em>(July 1, 2022 – June 30, 2023)</em></td>
<td><strong>Results to be Achieved in Year 5</strong> <em>(July 1, 2023 – June 30, 2024)</em></td>
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<tr>
<td><strong>Allocated Amounts</strong></td>
<td>$32,000,000</td>
<td>$12,000,000</td>
<td>breakdown of detailed tax expenditures with cost and beneficiaries of each exemption and concession</td>
<td>breakdown of detailed tax expenditures and evidence-based revenue forecasts</td>
<td>breakdown of detailed tax expenditures, evidence-based revenue forecasts, and tax gap estimates disaggregated by tax instrument</td>
<td>breakdown of detailed tax expenditures, evidence-based revenue forecasts, and tax gap estimates disaggregated by tax instrument</td>
<td>breakdown of detailed tax expenditures, evidence-based revenue forecasts, and tax gap estimates disaggregated by tax instrument</td>
</tr>
<tr>
<td><strong>Scalability</strong></td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
</tr>
<tr>
<td><strong>3. Coordination with Provinces</strong></td>
<td><strong>DLR 3.1:</strong> FBR has signed Data-sharing MoUs with all four (4) Provinces</td>
<td><strong>DLR 3.2:</strong> FBR has concluded a signed written agreement with all four (4) Provinces on immovable</td>
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<tr>
<td>DISBURSEMENT LINKED INDICATORS</td>
<td>TOTAL DLI ALLOCATION</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 1 (JULY 1, 2019 – JUNE 30, 2020)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 2 (JULY 1, 2020 – JUNE 30, 2021)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 3 (JULY 1, 2021 – JUNE 30, 2022)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 4 (JULY 1, 2022 – JUNE 30, 2023)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 5 (JULY 1, 2023 – JUNE 30, 2024)</td>
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<tr>
<td><strong>Allocated Amounts</strong></td>
<td>$34,000,000</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
<td>$8,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
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<td></td>
<td></td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td></td>
</tr>
<tr>
<td>4. Track &amp; Trace and electronic monitoring of production in Key Sectors (# of sectors)</td>
<td>0</td>
<td>DLR 4.1: 3</td>
<td>DLR 4.2: 2 (in addition to DLR 4.1)</td>
<td>DLR 4.3: 2 (in addition to DLR 4.1 and 4.2)</td>
<td>DLR 4.4: 2 (in addition to DLR 4.1-4.3)</td>
<td>DLR 4.5: 1 (in addition to DLR 4.1-4.4)</td>
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<tr>
<td></td>
<td></td>
<td>$32,000,000 per Key Sector</td>
<td>$6,400,000 per Key Sector</td>
<td>$6,400,000 per Key Sector</td>
<td>$6,400,000 per Key Sector</td>
<td>$3,200,000 per Key Sector</td>
<td></td>
</tr>
<tr>
<td>5. Number of new taxpayers identified through automated data</td>
<td>DLR 5.1: 50,000</td>
<td>DLR 5.2: 100,000 (in addition to DLR 5.1)</td>
<td>DLR 5.3: 300,000 (in addition to DLR 5.1 and 5.2)</td>
<td>DLR 5.4: 600,000 (in addition to DLR 5.1-5.3)</td>
<td>DLR 5.5: 500,000 (in addition to DLR 5.1-5.4)</td>
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<tr>
<td></td>
<td></td>
<td>$3,200,000 per Key Sector</td>
<td>$3,200,000 per Key Sector</td>
<td>$3,200,000 per Key Sector</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

- Property valuation tables
- Input adjustments
- Cross-checks of taxpayer information.
<table>
<thead>
<tr>
<th>Disbursement Linked Indicators</th>
<th>Total DLI Allocation</th>
<th>Results to be Achieved in Year 1 (July 1, 2019 – June 30, 2020)</th>
<th>Results to be Achieved in Year 2 (July 1, 2020 – June 30, 2021)</th>
<th>Results to be Achieved in Year 3 (July 1, 2021 – June 30, 2022)</th>
<th>Results to be Achieved in Year 4 (July 1, 2022 – June 30, 2023)</th>
<th>Results to be Achieved in Year 5 (July 1, 2023 – June 30, 2024)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sharing and ICT-based Business Intelligence Allocated Amounts</td>
<td>$32,500,000</td>
<td>$1,500,000</td>
<td>$3,000,000</td>
<td>$6,000,000</td>
<td>$12,000,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1,500,000 per 50,000 new taxpayers with taxable incomes</td>
<td>$1,500,000 per 50,000 new taxpayers with taxable incomes</td>
<td>$1,000,000 per 50,000 new taxpayers with taxable incomes</td>
<td>$1,000,000 per 50,000 new taxpayers with taxable incomes</td>
<td>$1,000,000 per 50,000 new taxpayers with taxable incomes</td>
</tr>
<tr>
<td>6. Risk-based audit</td>
<td>DLR 6.1: FBR has adopted a regulation on risk-based selection of audit cases, limiting audit cases selected without the risk-based system to 10% of total audits subject to</td>
<td>DLR 6.2: FBR has restructured its Audit Wing to include a Compliance Unit (selection of cases) and Audit Unit (conduct of tax audits)</td>
<td>DLR 6.3: FBR has completed at least 15 comprehensive field audits of Large Taxpayers for cases selected by the risk-based selection tool and monitored by the</td>
<td>DLR 6.4: FBR has completed at least 25 additional comprehensive field audits of Large Taxpayers for cases selected by the risk-based selection tool and monitored</td>
<td>DLR 6.5: FBR has completed at least 45 additional comprehensive field audits of Large Taxpayers FBR and at least 15 issue-oriented audits for cases selected by the risk-based selection tool and monitored</td>
<td></td>
</tr>
<tr>
<td>Disbursement Linked Indicators</td>
<td>Total DLI Allocation</td>
<td>Baseline</td>
<td>Results to be Achieved in Year 1 (July 1, 2019 – June 30, 2020)</td>
<td>Results to be Achieved in Year 2 (July 1, 2020 – June 30, 2021)</td>
<td>Results to be Achieved in Year 3 (July 1, 2021 – June 30, 2022)</td>
<td>Results to be Achieved in Year 4 (July 1, 2022 – June 30, 2023)</td>
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<tr>
<td>-------------------------------</td>
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<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Allocated Amounts</td>
<td>$40,000,000</td>
<td>$6,000,000</td>
<td>clearance by the Member Audit</td>
<td>Compliance Unit through AMIS with associated reports submitted to FBR management</td>
<td>by Compliance Unit through AMIS with associated reports submitted to FBR management</td>
<td>monitored by Compliance Unit through AMIS with associated reports submitted to FBR management</td>
</tr>
<tr>
<td>7. GST filing simplification</td>
<td></td>
<td>$7,000,000</td>
<td>$8,000,000</td>
<td>$9,000,000</td>
<td>$10,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td></td>
</tr>
<tr>
<td>DLR 7.1: Standardized GST/GSTS tax return form agreed through a memorandum of understanding between FBR and the Provincial Tax Authorities responsible for collecting GSTS</td>
<td>DLR 7.2: Standardized form for GST/GSTS filing for FBR and the Provinces has been made available to the taxpayers on the websites of FBR and the Provincial Tax Authorities</td>
<td>DLR 7.3: Single Portal for filing and paying GST and GSTS for FBR and the Provinces is functional</td>
<td>DLR 7.4: Single Portal automatically calculates input adjustments for FBR and Provincial Tax Authorities</td>
<td>DLR 7.5: Single Portal automatically calculates and pays GST refunds to taxpayers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DISBURSEMENT LINKED INDICATORS</td>
<td>TOTAL DLI ALLOCATION</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 1 (JULY 1, 2019 – JUNE 30, 2020)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 2 (JULY 1, 2020 – JUNE 30, 2021)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 3 (JULY 1, 2021 – JUNE 30, 2022)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 4 (JULY 1, 2022 – JUNE 30, 2023)</td>
<td>RESULTS TO BE ACHIEVED IN YEAR 5 (JULY 1, 2023 – JUNE 30, 2024)</td>
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<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Allocated Amounts</strong></td>
<td>$32,000,000</td>
<td>$6,000,000</td>
<td>$6,000,000</td>
<td>$9,000,000</td>
<td>$6,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td><strong>8. Goods declarations going through the red and yellow channels at the border</strong></td>
<td>65%</td>
<td>DLR 8.1: 55%</td>
<td>DLR 8.2: 45%</td>
<td>DLR 8.3: 40%</td>
<td>DLR 8.4: 35%</td>
<td>DLR 8.5: 25%</td>
</tr>
<tr>
<td><strong>Allocated Amounts</strong></td>
<td>$40,000,000</td>
<td>$10,000,000</td>
<td>$10,000,000</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td><strong>9. FBR Core Business Processes simplified and automated</strong></td>
<td></td>
<td>$1,000,000 per one (1) percentage point reduction</td>
<td>$1,000,000 per one (1) percentage point reduction</td>
<td>$1,000,000 per one (1) percentage point reduction</td>
<td>$1,000,000 per one (1) percentage point reduction</td>
<td>$1,000,000 per one (1) percentage point reduction</td>
</tr>
<tr>
<td>DLR 9.1: FBR has (i) appointed a chief information officer; (ii) assigned full-time staff from</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>DLR 9.2: FBR has completed 14 additional steps under the Business</td>
<td></td>
<td></td>
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<tr>
<td>DLR 9.3: FBR has completed 16 additional steps under the Business</td>
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</tr>
<tr>
<td>DLR 9.4: FBR has eliminated and replaced previously paper-based processes with the newly automated</td>
<td></td>
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<tr>
<td>Disbursement Linked Indicators</td>
<td>Total DLI Allocation</td>
<td>Results to be Achieved in Year 1 (July 1, 2019 – June 30, 2020)</td>
<td>Results to be Achieved in Year 2 (July 1, 2020 – June 30, 2021)</td>
<td>Results to be Achieved in Year 3 (July 1, 2021 – June 30, 2022)</td>
<td>Results to be Achieved in Year 4 (July 1, 2022 – June 30, 2023)</td>
<td>Results to be Achieved in Year 5 (July 1, 2023 – June 30, 2024)</td>
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<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Allocated Amounts</td>
<td>$35,500,000</td>
<td>$8,000,000</td>
<td>$7,500,000</td>
<td>$8,000,000</td>
<td>$8,000,000</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>DLR 10.1: Organizational Effectiveness and Transparency</td>
<td>.</td>
<td>DLR 10.2: FBR has published an annual report on the KPIs within three (3) months of the end of the fiscal year</td>
<td>DLR 10.3: FBR has published six-monthly report within two (2) months of the end of the second quarter and an annual report on the KPIs within three (3) months</td>
<td>DLR 10.4: FBR has published six-monthly report within two (2) months of the end of the second quarter and an annual report on the KPIs within three (3) months</td>
<td>DLR 10.5: FBR has published six-monthly report within two (2) months of the end of the second quarter and an annual report on the KPIs within three (3) months</td>
<td></td>
</tr>
<tr>
<td>Disbursement Linked Indicators</td>
<td>Total DLI Allocation Baseline</td>
<td>Results to be Achieved in Year 1 (July 1, 2019 – June 30, 2020)</td>
<td>Results to be Achieved in Year 2 (July 1, 2020 – June 30, 2021)</td>
<td>Results to be Achieved in Year 3 (July 1, 2021 – June 30, 2022)</td>
<td>Results to be Achieved in Year 4 (July 1, 2022 – June 30, 2023)</td>
<td>Results to be Achieved in Year 5 (July 1, 2023 – June 30, 2024)</td>
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<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Allocated Amounts</td>
<td>$10,000,000,000</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
<td>Scalability: No</td>
</tr>
</tbody>
</table>

* Unless expressly specified otherwise in this Annex, these DLRs are not time-bound, the Years in which they are expected to be achieved as per this Annex are for indicative purposes and these DLRs can accordingly be met until the Closing Date of the Project.
## SCHEDULE 3

### Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage) *</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing August 15, 2024 to and including February 15, 2044</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing August 15, 2044 to and including February 15, 2049</td>
<td>3.40%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05 (b) of the General Conditions.
APPENDIX

Section I. Definitions

1. “Active-Active Private Cloud” means a cloud-based backup datacenter which is updated in real time, always turned on and automatically takes over in case of failure of the main datacenter.

2. “Allocated Amount” means the amount allocated to each individual DLR, or determined for each DLR pursuant to the respective formula set forth in the respective row for each DLI in the table provided in the Annex to Schedule 2 to this Agreement.

3. “Annual Appropriation Act” means the legislation approved by the National Assembly to authorize the Recipient’s federal government revenues and expenditures for a given fiscal year.

4. “Annual Work Plan and Budget” means the annual work plan and budget for the Project to be prepared, approved and implemented in accordance with Section I.D. of Schedule 2 to this Agreement.

5. “Audit Unit” means a subdivision of the FBR’s Audit Wing to be established to oversee the execution of the audit process through, *inter alia*: (i) developing general and special audit programs for the regional offices; (ii) monitoring the implementation of audit programs; (iii) evaluating the results of audit operations against plans and expectations and providing guidance for improvement; (iv) developing programs for quality review, evaluate results, and make recommendations for improving audit quality; (v) carrying out various types of field and desk audits based on the established strategies, policies, and procedures; (vi) monitoring the performance of regional offices through reports, field visits, etc.; and (vii) preparing operational and strategic audit reports.

6. “Audit Wing” means an internal division of FBR that is responsible for, *inter alia*: (i) planning and designing audit procedures and methodology; (ii) designing criteria for the selection of cases for audit; (iii) adopting the annual national audit plan; (iv) monitoring and evaluating tax audits; and (v) initiating legal actions resulting from tax audits.

7. “Annual Budget Statement” means a document that the federal government submits to the National Assembly together with the draft Annual Appropriations Act to provide information on the policy rationale for the provisions of the draft Appropriations Act.
8. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

9. “Audit Management Information System” or “AMIS” means an automated system that captures all the steps involved in the audit process, from the selection of cases to the status of ongoing audits, findings of completed audits, and any follow-up enforcement actions.

10. “Authorized Economic Operator Program” means a certification program allowing businesses involved in the international movement of goods to a streamlined customs clearance process on the basis of risk profiles.

11. “Automated Entry-Exit System” means a set of contactless scanning and weighing equipment that captures information from trucks carrying cargo at the border, automatically transmits this information to FBR’s WeBOC System for cross-checking with the corresponding goods declaration, and directs trucks to the green, yellow, or red channels according to the risk rating provided by the WeBOC System.

12. “Business Domain Team” means a body composed of representatives from various functions of FBR who have expertise in their domain and are able to formulate the functional requirements for ICT systems needed to support the work of their respective domain.

13. “Business Intelligence” means a technology-driven process for analyzing data and presenting actionable information to make informed business decisions.

14. “Business Process Improvement” means an exercise for the FBR Core Business Processes, which involves three steps per business process, namely mapping, redesign and automation.

15. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

16. “Compliance Unit” means a subdivision of the FBR’s Audit Wing to be established to, inter alia: (i) conduct research analysis; (ii) analyze compliance with tax laws; (iii) develop appropriate risk strategies; (iv) manage data collection from both internal and external sources; (v) develop, monitor, and adjust audit selection criteria; and (vi) make recommendations and prepare an annual compliance program.
17. “Coordination Committee” means a body composed of the Chairman FBR and FBR officials responsible for each of the DLIs who meet on a monthly basis to track implementation progress and resolve any issues affecting the implementation of the Project and/or the achievement of targeted results.

18. “Customs Act” means the Customs Act of 1969 approved by the National Assembly, as amended up to March 11, 2019.

19. “Customs Central Risk Management” means central risk criteria used for the selection of goods declarations for physical or/and documentary inspection at import/export stage.

20. “Data Warehouse” means an electronic storage system designed to run queries and analyses on historical data derived from transactional sources.

21. “Data-sharing MoU” means a memorandum of understanding on the modalities of sharing taxpayer data, including provisions limiting the use and further dissemination of taxpayer data.

22. “Disbursement Linked Indicator” or “DLI” means each disbursement-linked indicator set forth in the first column of the matrix contained in the Annex to Schedule 2 to this Agreement; and “DLIs” means, collectively, more than one such indicator.

23. “Disbursement Linked Result” or “DLR” means each disbursement-linked result set forth in the matrix contained in the Annex to Schedule 2 to this Agreement; and “DLRs” means, collectively, more than one such result.

24. “Environmental and Social Commitment Plan” or the acronym “ESCP” means the Recipient’s environmental and social commitment plan, acceptable to the Association, dated April 30, 2019, which sets out a summary of the material measures and actions to address the potential environmental and social risks and impacts of the Project, including the timing of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any instruments to be prepared thereunder; as the ESCP may be revised from time to time, with prior written agreement of the Association, and such term includes any annexes or schedules to such plan.
25. “Eligible Expenditure Program” means expenditures under Part 1 of the Project, which are defined expenditures incurred by FBR under the Recipient’s budget codes “A01”, “A03” and “A13” for employee related expenses, operating expenses and repairs and maintenance, as such codes related to the same expenditure may be modified by the Recipient from time to time.


27. “FBR” means the Recipient’s Federal Board of Revenue, or any successor thereto.

28. “FBR Annual Budget” means the funds allocated to the FBR by the Annual Appropriations Act approved by the National Assembly.

29. “FBR Core Business Processes” means the core business processes that support key functions and the organizational structure of the FBR, including taxpayer/trader registration; tracking delays in filing; issuing notices to taxpayers; tracking and collection of tax arrears; cross-checking of tax declarations/goods declarations with FBR records and third-party information; risk-based selection and management of tax audit cases; processing of tax refunds; case management of appeals and litigation; taxpayer/trader information and assistance; pre-arrival; abandoned cargo; notification of overstayed goods; import; export; transit trade; transshipment; and risk-based PCA.


32. “GSTS” means the Recipient’s General Sales Tax on Services.

33. “ICT” means information and communications technology.

34. “Incremental Operating Costs” means the reasonable costs of incremental expenditures required for the Project, including consumable material and supplies; office rental costs; utilities fees; insurance; communications, advertising and newspaper subscriptions; printing and stationary costs; vehicle and/or office equipment operation and maintenance; charges for opening and operating bank accounts required for the Project, travel, lodging and per diems allowances for Project staff, excluding salaries of the Recipient’s civil servants.

35. “Key Sectors” means economic sectors that account for large shares of economic output and present high risks of under-declaration of output and/or sales for taxation purposes.

36. “KPI” means FBR’s key performance indicators, including revenue receipts by tax instrument, taxpayer segment, geographical areas, share of receipts from direct taxes collected through withholding agents, number of tax audits completed, number of active taxpayers by tax instrument, timeliness in resolving claims for tax refunds, number of consignments processed by customs through the red, yellow, and green channels, dwell time of cargo at the border until customs clearance.

37. “Large Taxpayers” means large taxpayers as determined by FBR in accordance with the criteria for large taxpayers set by FBR and registered with the FBR’s large taxpayer units in Islamabad, Karachi, and Lahore.

38. “Member Audit” means a member of the FBR board responsible for tax audits or an FBR official with equivalent rank and functions.

39. “MoF” means the Ministry of Finance of the Recipient, or any successor thereto.

40. “Post-Clearance Audit” or “PCA” means measures by which customs satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business systems and commercial data held by persons concerned.
41. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 and August 2018.

42. “Program Office” means a unit of FBR that reports to the Chairman FBR and is responsible for monitoring and coordinating the implementation of the Project.

43. “Province” means an administrative unit of the Recipient.

44. “Provincial Tax Authorities” means entities of the provincial governments authorized to collect the taxes that the Recipient’s Constitution assigns to the provinces.

45. “Standard Operating Procedures” means the standard procedures issued by FBR setting forth standard procedures to be applied to complete a task or subtask of FBR Core Business Processes, including administrative and financial processes.

46. “Steering Committee” means a high-level body chaired by the Minister of Finance or his representative that will meet on a six-monthly basis to review the Project’s implementation progress and provide guidance for the Project Coordination Committee and Program Office.

47. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.

48. “Single Portal” means a website shared by the FBR and all Provincial Tax Authorities that will enable taxpayers of GST and GSTS to file returns, make payments, and claim GST refunds without having to submit separate documentation to FBR and each Provincial Tax Authority.

49. “Training” means the reasonable costs of training incurred under the Project, based on Annual Work Plan and Budget approved by the Association pursuant to Section I.D of Schedule 2 to this Agreement, and attributable to national and international seminars, workshops, and study tours, along with national and international travel and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.
50. “WeBOC System” means a web-based one customs system, which is a custom-built software developed for the Recipient’s customs operations.