
CREDIT NUMBER 6779-PK

Financing Agreement

(Khyber Pakhtunkhwa Hydropower and Renewable Energy Development)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 6779-PK

FINANCING AGREEMENT

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

WHEREAS the Recipient has requested the International Bank for Reconstruction and Development (“Bank”) to extend a loan in an amount of two hundred million Dollars (\$ 200,000,000) (“Loan”) and pursuant to a legal agreement (“Loan Agreement”) of the same date as this Agreement, the Bank has agreed to extend the Loan to support the project described in Schedule 1 to this Agreement (“Project”).

NOW THEREFORE, 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), with the modifications set forth 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, and the terms used in *italics* in this Agreement are referring to locations on the territory of KP.

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 one hundred and seventy-seven million Special Drawing Rights (SDR 177,000,000) (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 The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.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 The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.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 April 1 and October 1 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 objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions, Schedule 2 to this Agreement and the Project Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, that the Subsidiary Agreement has been entered into between the Project Implementing Entity and the Project Executing Entity, in accordance with Section I.B of the Schedule to this Agreement and is effective.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.03. 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 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 Ministry of Economic Affairs.

5.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient's address is:

Ministry of 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	PakistanCMU@worldbank.org

AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

Name: Mr. Noor Ahmed

Title: Secretary

Date: 15-Oct-2020

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Najy Benhassine

Title: Country Director, Pakistan

Date: 08-Oct-2020

SCHEDULE 1

Project Description

The objectives of the Project are to increase renewable energy generation and strengthen the capacity of associated institutions in Khyber Pakhtunkhwa.

The Project consists of the following parts:

Part A. Development of Hydropower and Renewable Energy Investments

A.1 Gabral-Kalam Hydropower Plant

A.1.1. Construction of river diversion, weir, tunnel, powerhouse building/cavern, access roads, project colony offices and houses and other ancillary infrastructure; and

A.1.2 Installation of turbines, generators and electro-mechanical equipment for power plant, substation/and switchyard, transmission lines and auxiliary electro-mechanical equipment.

A.2 Cascade Development of River Basins

Construction of *Madyan* and/or other hydropower facilities on the *Swat* and other river basins.

A.3 Solar photo-voltaic on hydropower assets

Installation of floating or land based solar photovoltaic systems on hydropower assets.

Part B. Institutional Strengthening and Energy Sector Development

B.1 Planning and Institutional Strengthening

B.1.1 (a) Preparation of integrated plans, feasibility and design studies. Development of a framework to: (i) select and prioritize hydropower investments; (ii) ensure their readiness through pre-feasibility, feasibility, design and safeguards studies, geological investigations and surveys

required for each stage of development, including essential start-up and preparatory works; (iii) devise the structuring of the operation and financing strategies; (iv) develop power evacuation plan and ensure grid connectivity; (v) secure commercial financing and private investments; and (b) carrying out of related activities, such as the organization of workshops, road shows and consultations to market and finance hydropower investments .

- B.1.2 Institutional strengthening. Provision of technical assistance to support PEDO for the management of a growing portfolio of investments, including project and contract management, monitoring and evaluation, planning, financial management, procurement, operation and maintenance, human resources, project implementation and management, development or update of operation manuals, occupational health safety, environmental and social planning and implementation, and dispute resolution.

Part C. Environment and Social Management

Preparation, implementation, evaluation and monitoring of resettlement action plans, social management plans (including gender action plans) and environmental management plans (but excluding land acquisition and payment of compensation and other assistance to affected people), and provision of support for local area development through tourism, social services and improved electricity supply in the areas where activities are implemented under Part A of the Project.

Part D. Project Implementation Support and Technical Assistance

- D.1 Project implementation support. Provision of technical assistance, equipment and software for the implementation of the investments and the provision of the services under the Project, including procurement, contract administration, quality control, financial management, audits, preparation of designs, feasibility studies and bidding documents, construction supervision, implementation of the occupational health safety plans, environmental management plans and resettlement action plans, establishment and operation of an independent panel of experts.
- D.2 Technical assistance, strategic studies and training. Provision of support (including services, goods including intellectual property rights) for the assessment and implementation of enterprise resource planning in phases, provision of training to the PMO, PEDO and EPD, deployment of information systems, carrying out of

strategic studies and pilot projects, start-up and preparatory activities, as well as implementation of risk mitigation measures.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. On-lending

1. To facilitate the implementation of the Project the Project Implementing Entity, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under the same terms and conditions under which they are made available by the Association to the Recipient and in accordance with the Recipient's on-lending and budgetary policies and procedures.
2. Notwithstanding the provisions of the preceding paragraph, in the event of a conflict between the on-lending and budgetary policies and procedures of the Recipient and the provisions of this Agreement, including such additional instructions as the Association shall have specified in the Disbursement and Financial Information Letter, the provisions of this Agreement, including said additional instructions, shall govern.
3. The Recipient shall exercise its rights under the on-lending arrangements referred to in paragraph 1 of this Part A in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive its rights or obligations under said arrangements.

B. Subsidiary Agreement.

1. To facilitate the carrying out of the Project, the Recipient shall cause KP to make the proceeds of the Financing available to PEDO under a subsidiary agreement between KP and PEDO, under terms and conditions approved by the Association, which, except for the currency of disbursement to PEDO, shall be strictly identical to those of the Financing extended by the Association to the Recipient and passed on by the Recipient to KP for the financing of the Project ("Subsidiary Agreement").
2. The Recipient shall cause KP to exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient, KP and the Association and to accomplish the purposes of the Financing. Except as the Association shall

otherwise agree, the Recipient shall cause KP not to assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Safeguards.

The Recipient shall ensure, and cause the Project Implementing Entity to ensure, that the Project is carried out with due regard to appropriate health, safety, social, and environmental standards and practices, and in accordance with the Safeguards Instruments and the provisions of Section I.C of the Schedule to the Project Agreement.

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: (a) finance Eligible Expenditures; and (b) repay the Preparation Advance; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Financing Allocated (expressed in SDR)	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, and consulting services, including Training and Workshops and	174,170,000	185,000,000	100% ¹

¹ total financing percentage of the share corresponding to each source as stated in the Annual Work Plans and Budgets approved by the Association/Bank, and as reported in the IFRs.

Incremental Operating Costs for the Project (but excluding the cost of land and compensation for land)			
(2) Interest, Commitment Charge or other charges on the Loan During Construction	N/A	14,500,000	Amount payable pursuant to Sections 2.04 and 2.05 of the Loan Agreement, respectively, in accordance with Section 2.07 (c) of the General Conditions
(3) Refund of Preparation Advance	2,830,000	N/A	Amount payable pursuant to Section 2.07 (a) of the General Conditions
(4) Front-end Fee	N/A	500,000	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
(5) Interest Rate Cap or Interest Rate Collar premium	N/A	0	Amount due pursuant to Section 4.05 (c) of the General Conditions
TOTAL AMOUNT	177,000,000	200,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals from the Financing Account (but not the Loan Account), up to an aggregate amount not to exceed SDR35,400,000 may be made for payments made prior to this date but on or after January 1, 2020, for Eligible Expenditures.
2. The Closing Date is November 30, 2027.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage) *
On each April 1 and October 1:	
commencing on October 1, 2025 to and including April 1, 2045	1.65%
commencing October 1, 2045 to and including April 1, 2050	3.40%

* 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. “Affected Person” means a person or entity who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and, “Affected Persons” means more than one such Affected Person.
2. “Annual Work Plans and Budgets” means each of the rolling plans and budgets for the Project to be prepared or updated by the Project Executing Entity, and agreed with the Association, on an annual basis as provided for in Section II.B of the Schedule to the Project Agreement.
3. “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.
4. “Association’s Policies” means, collectively, the mandatory rules (including Policies, Directives and Procedures) and Guidance applicable to the Association- and the Bank- financed activities, which can be found in the Policy and Procedure Framework repository at www.worldbank.org.
5. “Board of Revenue” means KP Revenue Authority, the controlling authority in matters connected with, among other things, administration of the land, collection of land revenue, or preparation of land records.
6. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
7. “Dam Safety Plan” means the plan to be prepared by the Project Executing Entity in accordance with Section I.C.12 of the Schedule to the Project Agreement.
8. “Environmental and Social Impact Assessment for Gabral-Kalam Hydropower Plant” or “ESIA GKH” means the Project Executing Entity’s document entitled “Government of Khyber Pakhtunkhwa, Pakistan - Khyber Pakhtunkhwa

Hydropower and Renewable Energy Development Program - Gabral-Kalam Hydropower Project - Environmental and Social Impact Assessment” dated December 2019, which includes, among other things, an analysis of the applicable legal and policy framework, potential environmental and social risks and mitigation measures, as well as an Environmental and Social Management Plan; as said environmental and social impact assessment may be revised from time to time with the prior written agreement of the Association.

9. “Environmental and Social Management Framework” means the Project Executing Entity’s document entitled: “Government of Khyber Pakhtunkhwa, Pakistan - Khyber Pakhtunkhwa Hydropower and Renewable Energy Development Program - Environmental and Social Management Framework” dated December 2019, which includes an analysis of the applicable legal and policy framework and baseline, and guidance for the screening of proposed sub-projects, disclosure and consultation of stakeholders, planning, design, financing, implementation (including for grievance redress) and monitoring of environmental and social management plans; as well as an environmental code of practices, a gender development framework, a land acquisition framework and a stakeholders consultation framework; as said environmental and social management framework may be revised from time to time with the prior written agreement of the Association.
10. “EPD” means KP’s Energy and Power Department.
11. “Financing” means the financing which the Association agreed to extend to the Recipient for the Project pursuant to the Financing Agreement.
12. “Financing Agreement” means this Agreement, as such may be amended from time to time. “Financing Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.
13. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018, except that, when referring specifically to the Loan (rather than the Financing), “General Conditions” has the meaning ascribed to it in the Loan Agreement.
14. “Incremental Operating Costs” means the reasonable incremental expenses incurred by the Project Implementing Entity and the Project Executing Entity on account of the management, implementation, monitoring and/or evaluation of the Project, including, but no limited to: incremental staff salaries, per diem and allowances, office rent, office supplies, utilities, conveyance, travel and

boarding/lodging allowances, operating and maintenance expenditures of office equipment and vehicles, bank charges, insurance, advertising, media projections, newspaper subscriptions, periodicals, and printing and stationary costs incurred for the purposes of Project activities; but excluding salaries, fees, honoraria, bonuses, and any other salary supplements of members of the Recipient's or the Project Implementing Entity's civil service or PEDO's regular staff.

15. "Interest, Commitment Charge or other charges on the Loan During Construction" means, collectively, the Interest, Commitment Charge (as such terms are defined in the General Conditions) and other charges accruing on each portion of the Loan which is allocated from time to time to the financing of a Sub-project and related activities implemented under Part C of the Project, until such date when such Sub-project has reached its commercial operation date, as defined in the legal documentation for the implementation of such Sub-project.
16. "IPOE" means the independent panel of experts to be established by PEDO in accordance with the provisions of Section I.C.11 of the Schedule to the Project Agreement.
17. "KP" means the Recipient's province of Khyber Pakhtunkhwa, and a Project Implementing Entity.
18. "Loan" means the loan which the Bank agreed to extend to the Recipient for the Project pursuant to the Loan Agreement.
19. "Loan Agreement" means the loan agreement for the Project between the Recipient (referred to as the "Borrower" in the Loan Agreement) and the Bank, dated the same date as this Agreement, as such loan agreement may be amended from time to time. "Loan Agreement" includes all appendices, schedules and agreements supplemental to the Loan Agreement.
20. "Midterm Review" means the joint review to be carried out in accordance with the provisions of Section II.C of the Schedule to the Project Agreement.
21. "PEDO" means Pakhtunkhwa Energy Development Organization, a state-owned entity under the strategic oversight of EPD, governed by the Pakhtunkhwa Development Organization Act, 1993, as amended from time to time.
22. "PEDO Accounting Manual" means the Project Executing Entity's Accounting Manual prepared in 1994 and updated in 2003.

23. “PMO” means the Project Management Organization established for the Project under the authority of its Chief Executive Officer.
24. “Preparation Advance” means the advance referred to in Section 2.07 (a) of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on April 2, 2018 and on behalf of the Recipient on May 15, 2019 (PPA no. V1780-PK).
25. “Procurement Regulations” means, for purposes of paragraphs 87 (when referring to the Financing) and 85 (when referring to the Loan) of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 and August 2018.
26. “Project Execution Entity” means PEDO.
27. “Project Implementation Consultant” means one of the consultants recruited in accordance with Section I.A.3 of the Schedule to the Project Agreement, for the purpose of, among other things, providing support to PEDO for the implementation of the Project.
28. “Project Implementing Entity” means KP.
29. “Resettlement Action Plan for Gabral-Kalam Hydropower Plant” means the Project Executing Entity’s document entitled “Khyber Pakhtunkhwa Hydropower and Renewable Energy Program - Gabral-Kalam Hydropower Project - Resettlement Action Plan (RAP)” dated December 2019, which includes an analysis of the social impacts of Part A.1 of the Project, including with respect to land acquisition and resettlement, of the base line and legal framework, as well as guidance for institutional organization and the implementation of compensation and resettlement plans as well as livelihood restoration and improvement plan, in a manner which ensures consultation of stakeholders and disclosure, grievance redress mechanism, budget and monitoring; as said resettlement action plan may be revised from time to time with the prior written agreement of the Association.
30. “Resettlement Policy Framework” means the Project Executing Entity’s document entitled “Khyber Pakhtunkhwa Hydropower and Renewable Energy Program - Gabral-Kalam Hydropower Project - Resettlement Policy Framework” dated December 2019, which includes an analysis of the applicable legal and policy framework, guidance for the disclosure and consultation of stakeholders, planning, design, financing, implementation (including for grievance redress) and monitoring of compensation and resettlement plans and livelihood restoration and

improvement plans; as said resettlement policy framework may be revised from time to time with the prior written agreement of the Association.

31. “Safeguard Instruments” means, collectively, the Environmental and Social Impact Assessment for Gabral-Kalam Hydropower, the Resettlement Action Plan for Gabral-Kalam Hydropower Plant, the Environmental and Social Management Framework, the Resettlement Policy Framework, Subproject ESIA, Subproject ESMPs and Subproject RAPs, if any, and the Dam Safety Plan.
32. “Safeguard Policies” means, the Operational Policies (OPs) and Bank Procedures (BPs) of the Association and the Bank, namely OP/BP 4.01 (Environmental Assessment), OP/BP 4.04 (Natural Habitats), OP/BP 4.09 (Pest Management), OP/BP 4.10 (Indigenous Peoples), OP/BP 4.11 (Physical Cultural Resources), OP/BP 4.12 (Involuntary Resettlement), OP/BP 4.36 (Forests), OP/BP 4.37 (Safety of Dams) and OP/BP 7.50 (International Waterways); they can be found at <https://policies.worldbank.org>.
33. “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.
34. “Steering Committee” means the committee to be established in accordance with the provisions of Section I.A.1 of the Schedule to the Project Agreement.
35. “Subproject” means the construction or rehabilitation of a hydropower facility or investment under Part A of the Project, which is identified and appraised during the implementation of the Project, selected in accordance with the provisions of the Project Agreement and proposed to be financed with the proceeds of the Financing or the Loan.
36. “Subproject Environmental and Social Impact Assessment” or “Subproject ESIA” means: (i) any environmental and social impact assessment to be prepared for civil works to be carried out under a Subproject; and (ii) any site-specific environmental and social impact assessment to be prepared pursuant to the ESMF for a Subproject in each case describing a set of mitigation, enhancement, monitoring, and institutional measures to be taken during implementation of the Subproject to avoid, minimize and mitigate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts; as said environmental impact and social assessments: (a) are satisfactory to the Association; (b) have been published by the Project Implementing Entity and the Project Executing Entity; (c) have been published on the Association’s website; and (d) may be amended and/or supplemented from time to time with the prior

written agreement of the Association. “Subproject ESIAAs” means, collectively, all such ESIAAs.

37. “Subproject Environmental and Social Management Plan” or “Subproject ESMP” means the instrument to be prepared for a Subproject in accordance with the procedures and requirements under the ESMF, satisfactory to the Association, which details: (a) the measures to be taken during the implementation and operation of the Subproject to avoid, minimize, mitigate or offset adverse environmental and social impacts (including health and safety issues), or to reduce them to acceptable levels; and (b) the actions needed to implement these measures; as said instrument may be amended from time to time with the Association’s prior written agreement. “Subproject ESMPs” means, collectively, all such ESMPs.
38. “Subproject Resettlement Action Plan” or “Subproject RAP” means the instrument to be prepared for a Subproject in accordance with the procedures and requirements of the Resettlement Policy Framework, which includes the principles, procedures, organizational arrangements and budget to implement the resettlement related activities under the Subproject, as said resettlement action plan may be revised from time to time with the prior written agreement of the Association. “Subproject RAPs” means, collectively, all such RAPs.
39. “Subsidiary Agreement” means the agreement to be entered into between the Project Implementing Entity and the Project Executing Entity in accordance with the provisions of Section I.B of Schedule 2 to the Financing Agreement and Section I.C of the Schedule to the Project Agreement.
40. “Training and Workshops” means the reasonable costs of training, workshops and conferences required for the Project and conducted in the territory of the Recipient and, subject to the Association’s prior approval, overseas, including training institutional and course fees, logistics expenses, rental of training facilities, purchase and publication of training materials, and travel and subsistence allowance for trainers and/or trainees.

Section II. Modification to the General Conditions

In the Appendix to the General Conditions, the definition of Project Agreement in paragraph 89 is amended to read as follows:

- “89. “Project Agreement” means the Agreement, of the same date as this Agreement. between the Association, the Bank and the Project Implementing Entity relating to the implementation of all or part of the Project, as such agreement may be amended from time to time. “Project Agreement” includes the General Conditions as applied

to the Project Agreement, and all appendices, schedules and agreements supplemental to the Project Agreement.”