
CREDIT NUMBER 7403-PK (Credit A)
CREDIT NUMBER 7404-PK (Credit B)

Financing Agreement

**(Second Resilient Institutions for Sustainable Economy
Development Policy Financing)**

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7403-PK (Credit A)
CREDIT NUMBER 7404-PK (Credit B)

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Recipient has already taken under the Program, and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore 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 credits, which are deemed as Concessional Financing for purposes of the General Conditions, in the following amounts to assist in financing in support of the Program:
 - (a) a credit in the amount of two hundred million Dollars (\$200,000,000) (“Credit (A)”); and
 - (b) a credit in the amount of one hundred fifty million Dollars (\$150,000,000) (“Credit (B)”).

(The Credit (A) and the Credit (B) jointly referred to, variously, as “Credit” or “Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.

- 2.03. The Service Charge is applicable only to Credit (A) and is the greater of: (a) the sum of three-fourths of one percent ($3/4$ of 1%) per annum plus the Basis Adjustment to the Service Charge; and (b) three-fourths of one percent ($3/4$ of 1%) per annum, on the amounts of Credit (A) withdrawn from the Credit Account for Credit (A).
- 2.04. The Interest Charge is applicable only to Credit (A) and is the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum, on the amount of Credit (A) withdrawn from the Credit Account for Credit (A).
- 2.05. The Payment Dates for the Credit are February 15 and August 15 in each year.
- 2.06. The principal amount of the Financing shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollar.
- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
 - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 5.03. 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 (20) years after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Recipient's Ministry of Economic Affairs.
- 6.02. For purposes of Section 11.01 of the General Conditions:
 - (a) the Recipient's address is:

Ministry of Economic Affairs
Government of Pakistan
Islamabad, Pakistan; and
 - (b) the Recipient's Electronic Address is:

Facsimile: E-mail:

92-51-910-4016 secretary@ead.gov.pk

6.03. 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:

Facsimile:

E-mail:

1-202-477-6391

CMUPakistan@worldbank.org

AGREED as of the Signature Date.

ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

Name: Kazim Niaz

Title: Secretary Ministry of Economic Affairs

Date: 19-Dec-2023

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Najy Benhassine

Title: Country Director

Date: 19-Dec-2023

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

Pillar A. Enhancing the policy and institutional framework to improve fiscal management.

1. To establish effective institutions and strengthen intergovernmental fiscal arrangements, the Finance Division has provided legal mandate to the Macro-Fiscal Policy Unit to undertake the annual publication of the national medium-term fiscal framework, debt sustainability analysis and fiscal risk statement; and two Provincial Finance Departments have enabled the implementation of the Fiscal Responsibility Laws that are consistent with the Federal FRDLA amendments.
2. To enhance debt transparency and management, the Finance Division has issued a notification to establish the Debt Management Office, following amendments to the FRDLA.
3. To keep property assessment ratios at no less than 85 percent of market value, the Provincial Boards of Revenue have adopted the Federal Board of Revenue valuation tables as their district collectorate valuation tables in at least 21 districts.
4. To help reduce the stock of power sector circular debt in FY23, (a) the Finance Division has: (i) transferred PKR 335 billion to contain the circular debt flow increase; and (ii) absorbed PKR 35 billion of Power Holding Private Limited debt into the public debt stock in FY23; and (b) the Federal Board of Revenue has agreed to refund the Central Power Purchasing Agency Guarantee approximately PKR 6 billion for overcharged goods and services tax.
5. To better target and reduce the fiscal cost of power subsidies, (a) the Cabinet has approved a second phase of subsidy reforms for domestic consumers that: (i) reduces subsidies for users above 200kWh/month for six consecutive months; and (ii) eliminates the incremental block tariff benefit; and (b) the Ministry of Energy has notified DISCOs to increase electricity tariffs for users above 200kWh/month for six consecutive months in FY23.

Pillar B. Improving the regulatory framework to foster growth and competitiveness.

6. To harmonize the goods and services tax across the country, the Federal Board of Revenue and relevant provincial authorities have enabled the implementation of the common goods and services tax laws.

7. To improve the transparency and deepening of the financial sector, the Finance Division has: (a) converted all bearer prize bonds of PKR 15,000 denomination and above into registered instruments; and (b) issued a notification to convert denominations below PKR 15,000.
8. (a) To support the wider usage of digital payments, the State Bank of Pakistan has: (i) launched the Pakistan instant payment system; (ii) increased the acceptance infrastructure for digital payments; and (iii) issued a revised Foreign Exchange Manual to facilitate investments; and (b) to allow the use of digital payments to vendors, the Finance Division has amended the Treasury Rules.
9. To reduce the anti-export bias of the National Tariff Policy, the Tariff Policy Board has: (a) approved a reduction of the additional customs duties from 7 to 6 percent on all tariff lines with customs duties equal or greater to 20 percent; and (b) reduced the unweighted average of total import duties by at least 5 percent, with respect to the baseline in FY19.

Section II. Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Credit (A) Allocated (Expressed in USD)	Amount of the Credit (B) Allocated (Expressed in USD)
(1) Single Withdrawal Tranche	200,000,000	150,000,000
TOTAL AMOUNT	200,000,000	150,000,000

- C. **Withdrawal Tranche Release Conditions.**
 1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposit of Financing Amounts.

1. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the PKR equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. Closing Date. The Closing Date is December 31, 2024.

SCHEDULE 2

I. Repayment Schedule for Credit (A)

Date Payment Due	Principal Amount of the Credit (A) Repayable (Expressed as a Percentage) *
On each February 15 and August 15:	
commencing February 15, 2029, to and including August 15, 2048	1.65%
commencing February 15, 2049, to and including August 15, 2053	3.40%

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

II. Repayment Schedule for Credit (B)

Date Payment Due	Principal Amount of the Credit (B) Repayable (Expressed as a Percentage) *
On each February 15 and August 15:	
commencing February 15, 2030, to and including February 15, 2035	8.33334%
on August 15, 2035	8.33326%

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

APPENDIX

Definitions

1. “Basis Adjustment to the Interest Charge” means the Association’s standard basis adjustment to the Interest Charge for credits in the currency of denomination of Credit (A), in effect at 12:01 a.m. Washington, D.C. time, on the date on which Credit (A) is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
2. “Basis Adjustment to the Service Charge” means the Association’s standard basis adjustment to the Service Charge for credits in the currency of denomination of Credit (A), in effect at 12:01 a.m. Washington, D.C. time, on the date on which Credit (A) is approved by the Executive Directors of the Association, and expressed as a percentage per annum.
3. “Cabinet” means the Recipient’s cabinet, consisting of the Recipient’s Prime Minister and the federal ministers, and established pursuant to Section 91 of the Recipient’s Constitution, or any successor thereto.
4. “Central Power Purchasing Agency Guarantee” means the Recipient’s company registered under the Recipient’s 1984 Companies Ordinance, responsible for facilitating the power market transition to a competitive market, or any successor thereto.
5. “Credit (A)” means the credit in the amount referenced in Section 2.01(a) of this Agreement and the Credit for purposes of paragraph 24 of Appendix to the General Conditions.
6. “Credit (B)” means the credit in the amount referenced in Section 2.01(b) of this Agreement and the Credit for purposes of paragraph 24 of Appendix to the General Conditions.
7. “Debt Management Office” means the Recipient’s office under the Ministry of Finance, responsible for debt management, operational pursuant to, *inter alia*, the Recipient’s 2023 Fiscal Responsibility and Debt Management Rules, or any successor thereto.
8. “DISCOs” means, collectively, the companies under PEPCO, holding a license issued by NEPRA and responsible for electricity distribution in a dedicated area.

9. “Federal Board of Revenue” means the Recipient’s federal board responsible for revenue, established and operational pursuant to the 2007 Federal Board of Revenues Act, or any successor thereto.
10. “Federal FRDLA” means the Recipient’s 2005 Fiscal Responsibility and Debt Limitation Act, as amended.
11. “Finance Division” means the Recipient’s division responsible for finance, or any successor thereto.
12. “Fiscal Responsibility Laws” means the laws regulating fiscal responsibilities at the Recipient’s provinces.
13. “Foreign Exchange Manual” means the Recipient’s manual on foreign exchange, as last updated through FE Circulars No. 01 of 2021.
14. “FY” means the fiscal year of the Recipient, commencing on July 1 of each calendar year, and ending on June 30 of the following calendar year.
15. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (Last revised on July 15, 2023).
16. “Macro-Fiscal Policy Unit” means the Recipient’s unit under the Ministry of Finance, responsible for, *inter alia*, developing macro-fiscal policy, or any successor thereto.
17. “Ministry of Commerce” means the Recipient’s ministry responsible for commerce, or any successor thereto.
18. “Ministry of Energy” means the Recipient’s ministry responsible for energy, or any successor thereto.
19. “National Tariff Policy” means the Recipient’s policy that aims to transfer the responsibility for trade tariff setting to the Ministry of Commerce and simplify and rationalize the tariff structure.
20. “NEPRA” means the Recipient’s National Electric Power Regulatory Authority, established under Section 3 of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 to exclusively regulate the provision of electric power services in Pakistan, with powers and functions further delineated by the Regulation of Generation, Transmission and Distribution of Electric Power (Amendment) Act, 2018, Act No. XII of 2018.

21. “PEPCO” means Pakistan Electric Power Company, the company established in 1998 under the Ministry of Energy.
22. “PKR” means Pakistani Rupee, the currency of the Recipient.
23. “Power Holding Private Limited” means the Recipient’s power company registered under the Recipient’s 1984 Companies Ordinance, under the administrative control of the Recipient’s Ministry of Energy and wholly owned by the Recipient, or any successor thereto.
24. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated August 3, 2023 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
25. “Provincial Boards of Revenue” means the Recipient’s boards, responsible for revenue at the provincial level, or any successor thereto.
26. “Provincial Finance Departments” means the Recipient’s departments, responsible for finance at the provincial levels, or any successor thereto.
27. “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.
28. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
29. “State Bank of Pakistan” means the Recipient’s central bank, established and operational under the Recipient’s 1956 State Bank of Pakistan Act, or any successor thereto.
30. “Tariff Policy Board” means the Recipient’s board, under the Ministry of Commerce, responsible for developing tariff policy, or any successor thereto.
31. “Treasury Rules” means the Recipient’s treasury rules, which compilation was published in 2019 and amended through August 27, 2021.