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CREDIT NUMBER 7045-PK

# **Financing Agreement**

**(Additional Financing for the Housing Finance Project)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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**CREDIT NUMBER 7045-PK**

**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 the amount of seventy-five million one hundred thousand Euros (€75,100,000) (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 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plus the Basis Adjustment to the Service Charge; and (b) three-fourths of one percent (3/4 of 1%) per annum; on the Withdrawn Credit Balance.
- 2.05. The Interest Charge 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percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum; on the Withdrawn Credit Balance.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 Euro.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out Part 2(c) of the Project and cause the operation of the Sub-Trust 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 — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Events of Suspension consist of the following:
- (a) PMRC's Legislation has been amended, suspended, abrogated, repealed, or waived so as to affect materially and adversely the ability of PMRC to perform any of its obligations under the Project Agreement.
  - (b) The registration of the Trust Deed in the applicable jurisdiction in the Recipient has lapsed.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in paragraphs (a) and (b) of Section 4.01 of this Agreement occurs.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Trust Deed has been registered in accordance with the legal requirements of the Recipient.
  - (b)
    - (i) The Sub-Trust Deed has been executed between the Recipient and the Project Implementing Entity.
    - (ii) The Project Operations Manual for the Sub-Trust which has been approved by the Recipient and acceptable to the Association, has been adopted by the Project Implementing Entity.
- 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  
Pakistan Secretariat  
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:

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

Mian Asad Hayaud Din

Name: \_\_\_\_\_

Title: Secretary Ministry of Economic Affairs

Date: 21-Jun-2022

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Gailius J. Draugelis

Name: \_\_\_\_\_

Title: Acting Country Director

Date: 15-Jun-2022

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## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to increase access to housing finance for households and support the Recipient's capital market development.

The Project consists of the Original Project and the following Part 2 (c):

#### Part 2: Supporting the Expansion of Mortgage Loans

(c) Provision of financing by the Recipient for the purpose of an initial capitalization of the Sub-Trust of a risk sharing facility for the Eligible PFIs, to cover partial loss in case of end-borrowers' defaults on their Eligible Mortgage Loans.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Project Implementation and Project Operations Manual for the Sub-Trust**

1. The Recipient, through its Ministry of Finance, shall cause PMRC to adopt the Project Operations Manual for the Sub-Trust, acceptable to the Association.
2. The Recipient shall: (a) carry out the Project, or cause it to be carried out in accordance with the Project Operations Manual for the Sub-Trust; and (b) except as the Association shall otherwise agree in writing, not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the Project Operations Manual for the Sub-Trust or any provision thereof in a way that, in the opinion of the Association, might materially and adversely affect the implementation of the Project. In the event of a conflict between the provisions of the Project Operations Manual for the Sub-Trust and those of this Agreement, the latter shall govern.
3. The Recipient shall ensure that a team within its Ministry of Finance is maintained throughout the period of implementation of the Project and shall cause the PMRC to ensure that it maintains a team throughout the period of implementation of the Project, both such teams with Project implementation functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience, and terms of reference satisfactory to the Association.
4.
  - (a) The Recipient shall establish, within two (2) months from the Effective Date, and thereafter maintain, throughout the period of implementation of the Project, the RSF Oversight Committee, with its function and mandate satisfactory to the Association.
  - (b) The Recipient shall cause PMRC to report to, consult with, and follow the recommendation of, the RSF Oversight Committee, regarding the operation, investment and management of the risk sharing facility in accordance with the terms of the Sub-Trust Deed and Project Operations Manual for the Sub-Trust.
5. On or after eighteen (18) months from the Effective Date, the Recipient shall cause the Project Implementing Entity to hire a firm for an independent actuarial review of the performance of the Trust, under terms of reference agreed by the RSF Oversight Committee and the Association.

**B. Environmental and Social Risk Management for Part 2 (c) of the Project**

1. For purposes of managing the environmental and social risks and impact associated with the implementation of Part 2 (c) of the Project, the Recipient, through its Ministry of Finance, shall ensure, and cause PMRC to ensure that:
  - (a) credit risk cover is provided only for those Eligible PFIs for carrying out activities under Part 2 (c) of the Project that meet the criteria detailed in the Project Operations Manual for the Sub-Trust and that are not utilized to support any Eligible Mortgage Loans that support Excluded Activities as set out in Schedule 4 to this Agreement;
  - (b) all Eligible Mortgage Loans supported under Part 2 (c) of the Project by Eligible PFIs meet the Applicable Environmental and Social Requirements through adequate implementation of the ESMS;
  - (c) all Eligible PFIs fulfill their respective obligations with regard to environmental and social due diligence and monitoring of Eligible Mortgage Loans in accordance with the ESMS; and
  - (d) all Eligible PFIs manage the working conditions of their workplace in accordance with relevant aspects of the World Bank Performance Standard 2 on Labor and Working Conditions.
2. For purpose of Part 2 (c) of the Project, the Recipient shall, through its Ministry of Finance, cause PMRC to ensure that the Eligible PFIs:
  - (a) (i) disclose annual summary(ies) of the key elements of their ESMS; and (ii) issue written authorizations to PMRC, and through PMRC to the Association, to disclose such summaries; and
  - (b) promptly notify PMRC (which in turn shall promptly notify the Association) of any social, labor, health and safety, security or environmental incident, accident or circumstance which may have any material impact on compliance with the Applicable Environmental and Social Requirements.
3. The Recipient shall, through its Ministry of Finance, cause PMRC to regularly collect and compile, and submit to the Association, as part of the Project Reports, information on the status of compliance with environmental and social risk management requirements set forth in this Agreement, providing details on measures taken, conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Applicable Environmental and Social Requirements and the ESMS, and remedial measures taken or required to be taken to address such condition. The Recipient shall cause PMRC to furnish to the Association a



consolidated annual environmental and social performance report within forty-five (45) days after the end of each calendar year.

4. The Recipient shall cause PMRC to maintain through the period of implementation of the Project, an easily accessible grievance redress mechanism acceptable to the Association, to address feedback and grievances relating to the Project.

**C. Credit Guarantee Agreement**

1. In order to operate the Sub-Trust under Part 2(c) of the Project, the Recipient, through its Ministry of Finance, shall cause PMRC to:
  - (a) enter into Credit Guarantee Agreements with the Eligible PFIs, on terms and conditions acceptable to the Association, which shall include, *inter alia*, issuance of guarantees, claim conditions and procedures, obligation of creditors and termination of guarantee and terms and conditions set forth in the Project Operations Manual for the Sub-Trust; and
  - (b) except as the Association shall otherwise agree, not assign, amend, abrogate, or waive any such Credit Guarantee Agreements in a way that, in the opinion of the Association, might materially and adversely affect the operation of the Sub-Trust.
2. The Recipient shall cause PMRC to exercise its rights and carry out its obligations under the Credit Guarantee Agreements in such manner as to protect the Recipient's and PMRC's interests and the interests of the Association in order to accomplish the purposes of the Credit.

**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 semester, covering the calendar semester.

**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:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in EUR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Capitalization of the Sub-Trust of a risk sharing facility under Part 2 (c) of the Project	€57,429,000	100%
(2) Capitalization of the Sub-Trust of a risk sharing facility under Part 2 (c) of the Project	€17,671,000	100%
<b>TOTAL AMOUNT</b>	<b>€75,100,000</b>	

**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; or
  - (b) under Category (2) for Capitalization of the Sub-Trust of a risk sharing facility under Part 2 (c) of the Project, unless and until: (i) an independent actuarial review of the performance of the Sub-Trust has been undertaken pursuant to Section I.A.5 of Schedule 2 to this Agreement and Section I.A.6 of Schedule to the Project Agreement; and (ii) the Project Operations Manual for the Sub-Trust has been revised and approved by the RSF Oversight Committee and the Association, reflecting recommendations from the review referred to in (i) above.
2. The Closing Date is June 30, 2026.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (Expressed as a percentage) *</b>
On each February 15 and August 15:	
commencing August 15, 2027 to and including February 15, 2047	<b>1.65%</b>
commencing August 15, 2047 to and including February 15, 2052	<b>3.40%</b>

\* 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.

## **SCHEDULE 4**

### **Excluded Activities**

#### **(A) List of Excluded Activities:**

1. Real estate construction deemed illegal or non-compliant according to applicable national and local laws and regulations.<sup>1</sup>
2. Properties or land associated with illegal forced evictions of previous owners or occupants.<sup>2</sup>
3. Properties built on land from which government agencies, builders or owners have removed/involuntarily resettled local communities, including squatters or encroachers, without proper compensation.<sup>3</sup>
4. Properties involving outstanding land disputes.
5. Properties built in locations and/or in a manner that involves significant degradation or conversion of critical habitats<sup>4</sup> and/or legally protected areas.<sup>5</sup>
6. Properties built in locations and/or in a manner that involves significant adverse impacts on critical cultural heritage.<sup>6,7</sup>

#### **(B) Footnotes on Excluded Activities**

1. Examples include unauthorized construction; housing construction in zones not designated as residential; encroachment on public/government land or private land.
2. Permanent or temporary removal against their will of individuals, families and/or communities from the homes and/or land which they occupy, without the provision of, and access to, appropriate forms of legal or other protection. Prohibition on forced evictions does not, however, apply to evictions carried out by force in accordance with national law and is conducted in a manner consistent with basic principles of due process, including provision of adequate advance notice, meaningful opportunities to lodge grievances and appeals, and avoidance of the use of unnecessary, disproportionate, or excessive force. These criteria will apply where land associated with such evictions subsequently used for construction of housing developments in which the Eligible PFIs are seeking to originate mortgages.
3. Resettlement activities should follow the process through which adverse social and economic impacts are minimized through (i) providing prior compensation for loss of assets at replacement cost defined as the market value of the assets plus transaction costs and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected. These criteria will only apply to such resettlement/displacement which was subsequently used for construction of housing developments in which the Eligible PFIs are seeking to originate mortgages.
4. Critical habitat is a subset of both natural and modified habitat that deserves a particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World

Conservation Union (IUCN) classification, including habitats of significant importance for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and/or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of high conservation value (HCV) shall be considered critical habitats. HCV areas do not directly correspond with definitions for modified, natural and critical habitat. The HCV Resource Network, an internationally recognized group, provides information and support on the evolving usage of HCV to ensure a consistent approach. <https://www.hcvnetwork.org/>

5. These criteria will apply where land associated with such degradation or conversion was subsequently used for construction of housing developments in which the Eligible PFIs are seeking to originate mortgages and/or these impacts are likely to occur or continue to occur post-construction.

6. Critical cultural heritage consists of one or both of the following types of cultural heritage: (i) the internationally recognized heritage of communities who use or have used within living memory the cultural heritage for long-standing cultural purposes; or (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation.

7. These criteria will only apply where land associated with such impacts was subsequently used for construction of housing developments in which the Eligible PFIs are seeking to originate mortgages and/or these impacts are likely to occur or continue post-construction.

## **APPENDIX**

### **Definitions**

1. “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.
2. “Applicable Environmental and Social Requirements” means the technical requirements applicable to the Eligible Mortgage Loans using the proceeds of the Credit supporting Part 2 (c) of the Project, and which are comprised of: (a) applicable environmental and social national and local laws and regulations of the Recipient, which may include national and local laws, municipal by-laws and other provisions regulating housing development and certification by relevant authorities (such as building safety), waste management, life and fire safety access to basic services such as water and sanitation; and (b) a prohibition confirming Excluded Activities set forth in Schedule 4 to this Agreement.
3. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
4. “Credit Guarantee Agreement” means an agreement between the Sub-Trust and Eligible PFIs which stipulates the rights and obligations of both parties with respect to the guarantees issued to the PFIs by the risk sharing facility.
5. “Eligible Mortgage Loan” means a mortgage loan which meets the PMRC’s eligibility criteria for the purpose of the Sub-Trust, as set forth in the Project Operations Manual for the Sub-Trust.
6. “Eligible Participating Financial Institutions” or “Eligible PFI” means the selected banks and non-bank financial institutions to operate under the Sub-Trust, as set forth in the Project Operations Manual for the Sub-Trust and in accordance with the Credit Guarantee Agreements. “Environmental and Social Management System” or “ESMS” means a systematic process for identifying, assessing and managing environmental and social risks and impacts associated with activities supported under Part 2 (c) of the Project and managing exposure to such risks and impacts by PMRC and Eligible PFIs in a manner that enables the Eligible Mortgage Loans to meet Applicable Environmental and Social Requirements, which systematic process contains the following core elements: (a) adequate environmental and social policies and procedures prepared by PMRC, as amended from time to time; (b) a customized ESMS prepared and implemented at the level of Eligible PFIs in accordance with the relevant regulations of the Recipient and the Applicable Environmental and Social Requirements; and (c) adequate capacity within PMRC and Eligible PFIs to develop and maintain adequate policies,

procedures, organizational structure, budget, and capacity for identifying, managing, monitoring and reporting on risks and impacts of activities supported under Part 2 (c) of the Project.

7. “Excluded Activities” means the activities listed in Schedule 4 to this Agreement and referred to in Section I.B.1(a) of Schedule 2 to this Agreement.
8. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
9. “Investment Policy” means the policy, which lays out the terms and conditions under which the funds of the Sub-Trust can be invested, to be adopted as part of the Sub-Trust Deed.
10. “Original Financing Agreement” means the Financing Agreement between the Recipient and the Association, dated June 14, 2018, for the purpose of providing original credit for the Original Project, as may be amended from time to time (Credit No. 6207-PK).
11. “Original Project” means the Project described in Schedule 1 to the Original Financing Agreement.
12. “PMRC’s Legislation” means the Memorandum of Association and the Articles of Association of PMRC, as registered at the Securities and Exchange Commission of the Recipient on May 14, 2015 (Registration No. A010121).
13. “PMRC’s Respective Part of the Project” means the operation of the Sub-Trust.
14. “Primary Forests” means forests of native tree species, where there are no clearly visible indications of human activities, and their ecological processes are not significantly disturbed
15. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Recipients”, dated November 2020.
16. “Project Implementing Entity” or “PMRC” means the Pakistan Mortgage Refinance Company.
17. “Project Operations Manual for the Sub-Trust” means the manual to be adopted pursuant to Section 5.01(b) of this Agreement by PMRC, acceptable to the Association, setting forth implementation, organizational, administrative, monitoring and evaluation, financial management, disbursement, and procurement arrangements for purposes of implementation of the Project, including the criteria and requirements for selecting and appraising Eligible PFIs, and the terms and

conditions for the Mortgage Refinancing, as said manual may be revised from time to time with the prior written agreement of the Association.

18. “RSF Oversight Committee” means the committee to be established pursuant to Section I.A.4 of Schedule 2 to this Agreement, overseeing the operations of the Sub-Trust, particularly for monitoring contingent liability risks.
19. “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.
20. “Sub-Trust” means a new risk sharing facility scheme which is constituted under the Trust, on the same terms and conditions laid out in the Trust Deed, with specific guidelines for the operation of the new risk sharing facility scheme in the Sub-Trust Deed.
21. “Sub-Trust Deed” means the sub trust deed by and between the Recipient and PMRC to be executed pursuant to Section 5.01(a) of this Agreement, setting forth the terms and conditions under which PMRC will administer the Sub-Trust as its Trustee.
22. “Trust” means the declaration (made on May 29, 2020) by the Recipient (settlor) that a trust, under the name of the ‘Credit Guarantee Trust for Housing Finance’ has been constituted under the Recipient’s Trust Act, 1882 (dated March 1, 1882).
23. “Trust Deed” means the Deed made and entered into on May 29, 2020, by and between the Recipient and PMRC, whereby the Recipient declared a trust was constituted and appointed PMRC as trustee of the Trust, including any sub-trusts, setting forth the terms and conditions of the Trust.
24. “World Bank Performance Standards” means the Association’s operational policies and procedures set forth in the World Bank’s Operational Manual under OP/BP 4.03 – Performance Standards for Private Sector Activities, as said manual is published under [www.WorldBank.org/sites/ppf3](http://www.WorldBank.org/sites/ppf3).
25. “World Conservation Union” or “IUCN” means the International Union for Conservation of Nature, a membership union composed of both government and civil society organizations, established in October 1948.
26. “IUCN Red List of Threatened Species” means the list of threatened species produced by the IUCN since 1964, as the world's comprehensive inventory of the global conservation status of biological species.