
LOAN NUMBER 9277-PK

Loan Agreement

(Program for Affordable and Clean Energy Development Policy Loan)

between

THE ISLAMIC REPUBLIC OF PAKISTAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between THE ISLAMIC REPUBLIC OF PAKISTAN (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*: of (i) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Borrower’s maintenance of an adequate macroeconomic policy framework.

WHEREAS the Borrower has requested the International Development Association (“Association”) to extend a credit in an amount of one hundred and thirty-nine million three hundred thousand Special Drawing Rights (SDR 139,300,000) (“Financing”) and pursuant to a legal agreement (“Financing Agreement”) of the same date as this Agreement, the Association has agreed to extend the Financing to support the Program (as such term is defined in the Appendix to this Agreement).

NOW THEREFORE, the Borrower and the Bank 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 — LOAN

- 2.01. The Bank agrees to lend to the Borrower the amount of two hundred million Dollars (\$200,000,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”).
- 2.02. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

- 2.04. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.05. The Payment Dates are May 1 and November 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.
- 2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
 - (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon paragraph (a) and (b) of this Section, the Borrower shall promptly inform the Bank 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 BANK

- 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.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following:
- (a) the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework;
 - (b) the Council of Common Interests has approved the updated National Electricity Policy;
 - (c) NEPRA has approved the IGCEP; and
 - (d) the Cabinet has ratified the decision of the Cabinet Committee on Privatization referred to in Section I.6(ii) of Schedule 1 to this Agreement.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of its Ministry of Economic Affairs.
- 6.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower's address is:

Ministry of Economic Affairs
Government of Pakistan
Pakistan Secretariat
Islamabad
Pakistan; and

- (b) the Borrower's Electronic Address is:

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

- 6.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank's address is:

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

- (b) the Bank's Electronic Address is:

Telex:	Facsimile:	E-mail:
248423(MCI) or 64145(MCI)	1-202-477-6391	PakistanCMU@worldbank.org

AGREED as of the Signature Date.

THE ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

Noor Ahmed

Name: _____

Secretary

Title: _____

29-Jun-2021

Date: _____

INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT

By



Authorized Representative

Shabih Ali

Name: _____

Acting Country Director

Title: _____

28-Jun-2021

Date: _____

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

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

Pillar I: Reducing power generation costs and decarbonizing the energy mix

1. (i) The Government has notified reduced capacity charges for government-owned generation plants; and (ii) the Cabinet has decided to end supply of subsidized natural gas to industries producing their own power, except those plants using gas for other industrial purposes.
2. The Cabinet has approved the updated National Electricity Policy that includes key principles on competition, efficiency, financial viability, transparency, and environmental responsibility in the sector, and submitted it to the Council of Common Interests for approval.
3. NTDC has developed and submitted to NEPRA a least cost generation plan based on criteria approved by the Cabinet, which includes 63 percent of renewable energy (solar, wind, hydropower, and bagasse) by 2030.

Pillar II: Retargeting electricity subsidies

4. The Cabinet has approved: (i) a phased retargeting of electricity subsidies that protects poor households and reduces subsidies for remaining consumers; and (ii) a revised electricity tariff structure under which users below 200 kWh/month for six consecutive months are fully or partially protected from tariff increase.
5. (i) The MOE has notified re-based consumer tariffs; and (ii) the Cabinet has approved the updated CDMP, including a strategy for sector subsidies and increase of consumer tariffs for FY21-23.

Pillar III: Improving efficiency in distribution

6. (i) The MOE has increased autonomy of the DISCOs by transferring human resources powers to the respective DISCOs and designating independent Directors of the Board; and (ii) the Cabinet Committee on Privatization has approved steps for increasing private participation in the management of the government-owned DISCOs.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan is allocated in: (a) a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds; and (b) the amounts requested by the Borrower to pay: (A) the Front-end Fee; and (B) each Interest Rate Cap or Interest Rate Collar premium. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in USD)
(1) Single Withdrawal Tranche	199,500,000
(2) Front-end Fee	500,000
(3) Amount due pursuant to Section 4.05 (c) of the General Conditions	0
TOTAL AMOUNT	200,000,000

- C. Withdrawal Tranche Release Conditions.**
- No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.
- D. Deposit of Loan Amounts.**
- The Borrower, within thirty (30) days after each withdrawal under the Single Withdrawal Tranche from the Loan Account, shall report to the Bank: (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 Pakistani Rupee equivalent of the Loan proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Borrower'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 June 30, 2022.

SCHEDULE 2

Customized Amortization Repayment Schedule

The Borrower shall repay the principal amount of the Loan as follows:

Principal Payment Date	Installment Share
November 1, 2026	3.50%
May 1, 2027	3.50%
November 1, 2027	3.50%
May 1, 2028	4.00%
November 1, 2028	4.00%
May 1, 2029	4.00%
November 1, 2029	4.00%
May 1, 2030	6.00%
November 1, 2030	6.00%
May 1, 2031	6.50%
November 1, 2031	6.50%
May 1, 2032	5.50%
November 1, 2032	5.00%
May 1, 2033	2.00%
November 1, 2033	2.00%
May 1, 2034	1.50%
November 1, 2034	2.00%
May 1, 2035	2.50%
November 1, 2035	2.00%
May 1, 2036	1.50%
November 1, 2036	1.50%
May 1, 2037	1.50%
November 1, 2037	1.50%
May 1, 2038	1.50%
November 1, 2038	1.50%
May 1, 2039	1.50%
November 1, 2039	1.50%
May 1, 2040	2.00%
November 1, 2040	2.00%
May 1, 2041	2.00%
November 1, 2041	2.00%
May 1, 2042	2.00%
November 1, 2042	2.00%
May 1, 2043	2.00%

APPENDIX

Definitions

1. “Cabinet” means the formal body created under Article 91 of the Constitution of the Islamic Republic of Pakistan, consisting of the Prime Minister and the federal ministers.
2. “CDMP” means the plan initially dated November 2019 approved by the Cabinet to manage circular debt.
3. “Council of Common Interests” means the Council of Common Interests, established by the constitution of the Islamic Republic of Pakistan under its Ministry of Inter Provincial Coordination, with members appointed by the President, for the purpose of providing advice to the Prime Minister on power sharing matters between the federation and the provinces.
4. “DISCOs” means, collectively, the companies under PEPCO, holding a license issued by NEPRA and responsible for electricity distribution in a dedicated area.
5. “Financing Agreement” means the agreement between the Borrower and the Association in support of the Program, of the same date as this Agreement, as such agreement may be amended from time to time. “Financing Agreement” includes all appendices and schedules to the Financing Agreement.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, December 21, 2020, and April 1, 2021).
7. “Government” means the federal government of Pakistan established under Chapter 3 (the Federal Government) of the Constitution of the Islamic Republic of Pakistan.
8. “IGCEP” means the Indicative Generation Capacity Expansion Plan (IGCEP) 2021, referred to in Section I(3) of the Schedule to this Agreement.
9. “kWh” means kilowatt per hour.
10. “Ministry of Energy” or “MoE” means the Borrower’s ministry responsible for energy.
11. “National Electricity Policy” means the Borrower’s policy which addresses energy production, distribution, and consumption of energy.
12. “NEPRA” means the Borrower’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.

13. “NTDC” means the National Transmission and Dispatch Company, established in 1998, under the Ministry of Energy.
14. “Pakistani Rupee” means the currency having legal tender on the Borrower’s territory.
15. “PEPCO” means Pakistan Electric Power Company, the company established in 1998 under the Ministry of Energy.
16. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated June 1, 2021 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank 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.
17. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.
18. “Single Withdrawal Tranche” means the amount of the Loan 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.