
CREDIT NUMBER 6945-PK

Financing Agreement

(Program for Affordable and Clean Energy Development Policy Financing)

between

THE ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between THE 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.

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 Program (as such term is defined in the Appendix to this Agreement).

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) 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 one hundred and thirty-nine million Special Drawing Rights (SDR139,300,000) (variously, “Credit” and “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 The Service Charge is three-fourths of one percent ($3/4$ of 1%) per annum on the Withdrawn Credit Balance.
- 2.04. The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.
- 2.05. The Payment Dates are April 1 and October 1 in each year.
- 2.06. The principal amount of the Credit 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.

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.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) 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;
 - (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.
- 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 its 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.

THE ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

Name: Noor Ahmed

Title: Secretary

Date: 29-Jun-2021

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Shabih Ali

Title: Acting Country Director

Date: 28-Jun-2021

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 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 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 Financing Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	139,300,000
TOTAL AMOUNT	139,300,000

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 Pakistani Rupee 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 June 30, 2022.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage) *
On each April 1 and October 1:	
commencing October 1, 2026 to and including April 1, 2046	1.65%
commencing October 1, 2046 to and including April 1, 2051	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

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. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020 and April 1, 2021).
6. “Government” means the federal government of Pakistan established under Chapter 3 (the Federal Government) of the Constitution of the Islamic Republic of Pakistan.
7. “IGCEP” means the Indicative Generation Capacity Expansion Plan (IGCEP) 2021, referred to in Section I (3) of the Schedule to this Agreement.
8. “kWh” means kilowatt per hour.
9. “Loan Agreement” means the loan agreement for the Project between the Recipient 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, and schedules to the Loan Agreement.
10. “Ministry of Energy” or “MoE” means the Recipient’s ministry responsible for energy.

11. “National Electricity Policy” means the Recipient’s policy which addresses energy production, distribution, and consumption of energy.
12. “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.
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 Recipient’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 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.
17. “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.
18. “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.