Financing Agreement

(Second Power Sector Reform Development Policy Credit)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated : November 20, 2015
CREDIT NUMBER 5740-PK

FINANCING AGREEMENT

AGREEMENT dated November 20, 2015, entered into 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: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule I to this Agreement, and (b) 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) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to three hundred and fifty-six million two hundred thousand Special Drawing Rights (SDR 356,200,000) (variously, "Credit" and "Financing").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule I to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

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 — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(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 I to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, 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 date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division of the Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization, each such person acting individually.
6.02. The Recipient's Address is:

The Secretary  
Economic Affairs Division  
Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization  
Islamabad  
Pakistan  
Facsimile: 92-51-921-8976

6.03. The Association's Address is:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  
Facsimile: 1-202-477-6391
AGREED at Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

Authorized Representative

Name: Tariq Bajwa

Title: Secretary, Economic Affairs Division

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Patchamuthu Illangovan

Title: Country Director, Pakistan
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. **Actions Taken under the Program**

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

1. Following the mechanism in the 2014 Tariff and Subsidy Policy Guidelines, MWP has informed NEPRA of the FY14/15 subsidies by consumer category to incorporate in the tariff determination of each DISCO to apply in FY14/15, expected to result in electricity subsidies to be reduced to 0.8% of GDP.

2. MWP has published in its website a cap for total overdue payables to Power Generators not to exceed PKR 314 billion and a plan to reduce the flow of new overdue payables to PKR 39 billion by FY17/18, with interim targets for the flows of PKR 92 billion in FY15/16 and PKR 57 billion in FY16/17.

3. The Recipient has implemented a mechanism based on tariff surcharges and a Tariff Rationalization Fund to maintain national uniform tariffs in DISCOs while ensuring cost recovery.

4. MPNR has signed supplemental agreements agreeing on revised prices for 92 exploration concessions and production leases at the levels set out in the 2012 Petroleum Policy, including 26 with the private sector.

5. The Economic Coordination Committee of the Cabinet has approved a policy directive that LNG will be provided to consumers who pay its full cost through the tariff.

6. (i) CPPA (G) has demonstrated operational capability to handle all steps in the billing and settlement cycle of electricity sales by Power Generators, and purchases by DISCOs; and (ii) NEPRA has granted an amendment to NTDC license to eliminate CPPA Functions.

7. CPPA (G) publicly disclosed on its website the monthly amounts due, and payments made, by each DISCO to CPPA (G) and by CPPA (G) to Power Generators, including arrears.

8. (i) NEPRA has disclosed the annual DISCOs’ performance and evaluation report, and has initiated outreach action to consumers on the content thereof; and (ii) the DISCOs have disclosed on their respective websites their annual performance reports, including their plans to improve service delivery.

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. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (Expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>356,200,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>356,200,000</td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Conditions**

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. **Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

E. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. **Closing Date.** The Closing Date is December 31, 2016.
SCHEDULE 2

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit Repayable (Expressed as a Percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 1 and October 1:</td>
<td></td>
</tr>
<tr>
<td>Commencing on April 1, 2021 to and including</td>
<td>1.65%</td>
</tr>
<tr>
<td>October 1, 2030</td>
<td></td>
</tr>
<tr>
<td>Commencing on April 1, 2031 to and including</td>
<td>3.35%</td>
</tr>
<tr>
<td>October 1, 2040</td>
<td></td>
</tr>
</tbody>
</table>

* 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 3.03 (b) of the General Conditions.
Section I. Definitions


3. “CPPA Functions” means the central power purchase functions inherent to CPPA (G).

4. “CPPA (G)” means the Recipient’s Central Power Purchasing Agency (Guarantee) Limited, an independent agency established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan, and registered with the Joint Registrar of Companies under certificate of incorporation No. 0068608, dated January 28, 2009.

5. “DISCO” means each of the electricity distribution utilities established as a result of the unbundling of WAPDA, and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan, and duly licensed by NEPRA to engage in electricity distribution and make sales of electricity to consumers in their respective pre-identified concession and service territories.

6. “Economic Coordinating Committee” or “ECC” mean the Recipient’s coordination committee operating under the aegis of the office of the Recipient’s Prime Minister, and serving as the Prime Minister’s principal decision-making and consultative forum for coordinating economic security and geo-economic policies among various government institutions and ministries.

7. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:
<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>121</td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td></td>
<td>122</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td></td>
<td>525</td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td></td>
<td>667</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td></td>
<td>718 718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td></td>
<td>728 728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td></td>
<td>897 897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td></td>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

8. "FY" means the Recipient’s fiscal year commencing on July 1 of a given year and finishing on June 30 of the following year.

9. "GDP" means the Recipient’s gross domestic product.
10. “GENCOs” means, collectively, all the power generation companies established as a result of the unbundling of WAPDA, and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan, and duly licensed by NEPRA to engage in generation business in the Recipient’s electricity market.

11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

12. “IPPs” means the independent power producers established by private investors and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan, and duly licensed by NEPRA to engage in generation business in the Recipient’s electricity sector.


14. “MPNR” means the Recipient’s Ministry of Petroleum and Natural Resources.


16. “NEPRA” means the Recipient’s National Electric Power Regulatory Authority, an independent regulatory agency established and existing under the NEPRA Act for purposes of regulating the Recipient’s electric power sector.

17. “NEPRA Act” means the Recipient’s Act XL of 1997, for the Regulation of Generation, Transmission and Distribution of Electric Power Act, as amended to the date of this Agreement.

18. “NTDC” means the National Transmission and Despatch Company Ltd., an electricity transmission, system operation and dispatch utility established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan and NEPRA’s license No. TL/01/2002, and registered with the Joint Registrar of Companies under certificate of incorporation No. L-09689, dated November 6, 1998.

19. “PKR” means the Pakistan Rupees, the lawful currency of the Recipient.

20. “Power Generators” means, collectively, the GENCOs, WAPDA Hydel and IPPs.

21. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 8, 2015 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.

22. “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.

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23. "Tariff Rationalization Fund" means an escrow account maintained at CPPA (G) and utilized exclusively for discharging determined cost of power producers, as referred to in the Recipient’s notification S.R.O 566 (I) 2015 issued by MWP on June 10, 2015.

24. "WAPDA" means the Recipient’s Water and Power Development Authority, established and existing under the Water and Power Development Authority Act (1958), as amended from time to time.

25. “WAPDA Hydel” means the unit established within WAPDA dealing with generation of electricity using hydropower.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.

3. “Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

4. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 4 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

"Section 4.06. Plans; Documents; Records

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7. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

"Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term "Eligible Expenditure" is modified to read as follows:

"'Eligible Expenditure' means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement."

(b) The term "Financial Statements" and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term "Financing Payment" is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

(d) A new term called "Interest Charge" is added to read as follows:

"'Interest Charge' means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

(e) The term "Payment Date" is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

(f) The term "Project" is modified to read "Program" and its definition is modified to read as follows:

"'Program' means the program referred to in the Financing Agreement in support of which the Financing is made." All references to "Project" throughout these General Conditions are deemed to be references to "Program".
(g) The term "Service Charge" is modified by replacing the reference to Section 3.02 with Section 3.02 (a).