Financing Agreement

(Second Fiscally Sustainable and Inclusive Growth Development Policy Financing)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated JUNE 18, 2015
FINANCING AGREEMENT

AGREEMENT dated June 18, 2015, entered into 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: (a) 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 (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-five million and six hundred thousand Special Drawing Rights (SDR355,600,000) (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 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.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 January 1st and July 1st in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 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 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 date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Secretary, Additional Secretary, Senior Joint 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 Privatizations
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

Cable address: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
Washington, D.C.
AGREED at Washington D.C., United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

Authorized Representative

Name: JALIL ANSARI
Title: AMBASSADOR C.I.
Pakistan

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Miette DIXON
Title: VICE PRESIDENT, SOUTH ASIA
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:

1. As part of the implementation of its Privatization Program, the Recipient has completed one SOE strategic sale and three capital market SOE equity transactions.

2. The Recipient’s National Assembly has approved the Credit Bureau Act; and the Recipient has joined the Better than Cash Alliance Initiative.

3. The Parliament has approved a budget law 2014/15 providing for the application of six (6) statutory tariff slabs; and the MoF has approved a plan to achieve four (4) slabs in three years, within a range of 1 to 25% for all tariff lines, allowing limited exceptions and tariff peaks to address sensitive goods or special sectors only.

4. As part of the implementation of its plan for improving the business environment, SECP, FBR and EOBI have established a virtual one-stop-shop for business registration, and a physical one-stop-shop in Lahore.

5. The Parliament has approved a budget law 2014/15 increasing the BISP allocation to PKRs. 97.15 billion in order to raise the basic benefit amount to PKRs. 1,500/month per beneficiary, well above inflation, and start activities to expand conditional cash transfers for primary education in no less than 27 Districts with a benefit of PKRs.250 per month per child attending school; and the BISP has reached an implementation agreement with each Provincial/Regional government on a cost-sharing arrangement for conditional cash transfers.

6. In compliance with the BISP Act 2010, the BISP Board has issued internal rules and regulations delineating the powers and functions of the BISP Management and the BISP Board.

7. The Parliament has approved a budget 2014/15 which includes: (i) a tax expenditure annex, (ii) the elimination of a set of tax exemptions and SROs, and (iii) provision of additional tax measures for a total revenue impact equivalent to at least 0.7% of GDP.

8. The Recipient (a) has issued a Presidential Ordinance containing all amendments of the corresponding tax laws to permanently eliminate the discretion of FBR to issue special tax exemptions, making any proposed tax exemption subject to
Parliamentary approval as part of the annual budget law and/or the corresponding tax legislation; and (b) has submitted to the Parliament such amendments as part of the Finance Bill for the budget 2015/16.

9. The FBR has (a) issued 171,000 notices to identified potential tax evaders to register and file tax payment, and taken administrative and/or legal actions on at least 25% of the potential taxpayers who received notices by 31 December 2014, but failed to respond to them; and (b) selected at least 7.5% of non-salary-including large taxpayers (filed for tax year 2013) through ballot- or risk-based audits, and completed audits for at least 10% of those selected cases.

10. (a) Two Provinces have expanded the scope of their GST on services to increase their revenues; and (b) the Provinces have increased their 2014/15 budget allocations to non-salary education and health spending by no less than 26%.

11. (a) The MoF has issued a notification requiring each drawing and disbursing officer to provide commitments details to the Accountant General within 10 days of the month closure. The quarterly budget releases to all department and ministries will be contingent on full compliance with this provision; (b) the Recipient's Controller General of Accounts has issued a notification to disclose on its website the annual audited financial statements for the last 5 years, and committing to disclose future financial statements within 15 days of the date they are laid before the Parliament; and (c) the MoF has issued a notification to disclose on its website monthly in-year revenue and expenditure reports of the federal government within 30 days after the month-end.

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>355,600,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>355,600,000</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 June 30, 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 January 1st and July 1st:</td>
<td></td>
</tr>
<tr>
<td>Commencing on July 1, 2020 to and including January 1, 2030</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing July 1, 2030 to and including January 1, 2040</td>
<td>3.35%</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.
APPENDIX

Section I. Definitions


2. "BISP" means the Recipient's Benazir Income Support Program.

3. "Deposit Account" means the account referred to in Section II.D.1 of Schedule 1 to this Agreement.

4. "Districts" means, collectively, the Recipient’s districts, which constitute the third order administrative divisions of the Recipient’s territory.

5. "EOBI" means the Recipient’s Employee Old-Age Benefit Institution.

6. "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></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
</tbody>
</table>
Pearls, precious and semiprecious stones, unworked or worked

Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

Tobacco processing machinery

Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)

Gold, non-monetary (excluding gold ores and concentrates)

(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.

7. “FBR” means the Recipient’s Federal Board of Revenue, or any successor thereto.

9. “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. “National Assembly” means the Recipient’s House of Parliament established pursuant to Section 51 of the Recipient’s Constitution.

13. “Parliament” means the Recipient’s bi-cameral parliament including the National Assembly and the Senate; and “Parliamentarian” has a corresponding meaning.

14. “PKRs” means Pakistani Rupees, the lawful currency of the Recipient.


17. “Privatization Program” means the Recipient’s Broad-Based Privatization Program covering 31, state-owned enterprises approved by the Recipient’s Cabinet Committee on Privatization in October 2013.

18. “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 May 1st, 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.

19. “Provinces” means, collectively, the Recipient’s provinces, which constitute one type of the first order administrative divisions of the Recipient’s territory (the other type being the Regions); and “Provincial” has a corresponding meaning.

20. “Regions” means, collectively, the Recipient’s regions, which constitute one type of the first order administrative divisions of the Recipient’s territory (the other type being the Provinces); and “Regional” has a corresponding meaning.

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.

23. "SOE" means state-owned enterprise.

24. "SRO" means statutory regulation order.

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

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

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).