



CREDIT NUMBER 5862-PK (Portion A of the Credit)
CREDIT NUMBER 5861-PK (Portion B of the Credit)

Financing Agreement

(Competitiveness and Growth Development Policy Financing)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

June 23, 2016

FINANCING AGREEMENT

AGREEMENT dated June 23, 2016, 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 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 two portions as follows:
 - (a) an amount equivalent to two hundred seventy-five million four hundred thousand Special Drawing Rights (SDR 275,400,000) (Portion A of the Credit); and
 - (b) an amount equivalent to seventy-seven million four hundred thousand Special Drawing Rights (SDR 77,400,000) (Portion B of the Credit);

(Portion A of the Credit and Portion B of the Credit being variously collectively referred to as "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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent ($3/4$ of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to:
- (a) one and a quarter percent (1.25%) per annum on Portion A of the Credit; and
 - (b) one and eighth hundredth of one percent (1.08%) per annum on Portion B of the Credit.
- 2.06. The Payment Dates are August 1 and February 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 2 to this Agreement.
- 2.08. The Payment Currency is Dollar.
- 2.09. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), 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 4.08 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 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.

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.
- 5.03. For purposes of Section 8.05 (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 years 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

Telex: 248423(MCI) 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

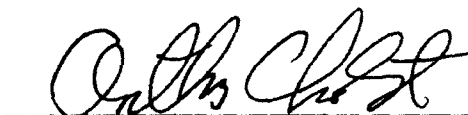


Authorized Representative

Name: Tariq Bajwa
Title: Secretary, Economic
Affairs Division

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Anthony Cholst
Title: Acting Country Director

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:

Improving the Business Environment

1. In order to improve the private sector's access to credit,
 - (a) the National Assembly has passed the Financial Institutions (Secured Transaction) Bill; and
 - (b) the National Assembly has passed the Amendment to the Credit Bureau Act.
2. The Recipient has posted improved processes to simplify and streamline the payment of taxes on the website of the Federal Board of Revenue.
3. In order to improve governance and transparency of capital markets:
 - (a) the National Assembly has passed an amendment to the SECP Act, to ensure compliance of the provisions applying to securities regulators with international norms and standards and to strengthen the enforcement powers of SECP; and
 - (b) the SECP has issued an order in the matter of the integration of the three stock exchanges.
4. The National Assembly has passed the Financial Institutions (Recovery of Finances Amendment) Bill.
5. The Recipient's Ministry of Finance has implemented a new directive requiring the annual collection and publication of key financial information of all State Owned Entities by publishing the first report on the Ministry of Finance's website.
6. To attract private sector investment and remove entry barriers in the insurance sector, the National Assembly has passed the State Life Insurance Corporation (Re-organization and Conversion) Bill.

Improving Fiscal Management

7. The Federal Government has submitted to the National Assembly the Finance Bill FY16/17 which includes the third and final phasing out of discriminatory concessions granted through SROs.
8. The Recipient's Federal Board of Revenue has started to implement a new audit policy that includes risk profiling of taxpayers for improved tax compliance by initiating forty comprehensive audits of large taxpayers.
9. The Recipient's Ministry of Finance has improved debt management coordination through:
 - (a) ministerial notification expanding the existing functions of the Recipient's Debt Policy Co-ordination Office, and
 - (b) publication of the approved medium term debt management strategy FY 2015/16 – 2018/19.
10. In order to strengthen targeting of safety net programs, the Recipient's Federal Government, through its Ministry of Finance, has authorized BISP to update the National Socio-Economic Registry with dynamic updating of the registry going forward, in accordance with a plan submitted by BISP.
11. The Recipient's Federal Government has published a new poverty rates series going back to 2005-06, using the cost of basic needs method and the most recent survey data (2013/14).

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:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Withdrawal Tranche	352,800,000
TOTAL AMOUNT	352,800,000

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, 2017.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each August 1 and February 1:	
commencing on August 1, 2021 to and including February 1, 2031	1.65%
commencing August 1, 2031 to and including February 1, 2041	3.35%

* 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

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

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious stones, semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or

		silversmiths' wares (including set gems)
971		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.
3. "Federal Board of Revenue" means Federal Board of Revenue, the Recipient's semi-autonomous supreme federal agency responsible for auditing, enforcing and collecting revenue.
 4. "Federal Government" means the government of the Recipient established in accordance with Chapter 3 of the Constitution of the Recipient.
 5. "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.
 6. "Ministry of Finance" means the Recipient's Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization.
 7. "Ministry of Communications" means the Recipient's Ministry of Communications.
 8. "National Assembly" means the Recipient's House of Parliament established pursuant to Section 51 of the Recipient's Constitution.

9. "National Socio-Economic Registry" means the data basis established by the BISP to target its support to households.
10. "Parliament" means the Recipient's bi-cameral parliament including the National Assembly and the Senate; and "Parliamentarian" has a corresponding meaning.
11. "President" means the President of the Recipient.
12. "Presidential Ordinance" means an ordinance signed in accordance with the provisions of Article 89 of the Recipient's Constitution.
13. "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 13, 2016 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.
14. "SECP" means the Securities and Exchange Commission of Pakistan.
15. "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.
16. "SRO" means statutory regulation order.
17. "State Life Insurance Corporation" means corporation established and governed by the Recipient's State Life Insurance Corporation Act.
18. "State Owned Entities" means, collectively, the 191 entities listed in the Recipient's document entitled "Federal Footprint: State owned entities (SOEs) – Performance Review: FY 2013-14".

Section II. Modifications to the General Conditions

The General Conditions are hereby modified 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 is modified to read as follows:

“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).