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# OFFICIAL DOCUMENTS

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CREDIT NUMBER 5977-PK (Scale-Up Facility)

## Scale-Up Facility Financing Agreement

(Finance for Growth Development Policy Financing)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated

March 30, 2017

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## SCALE-UP FACILITY FINANCING AGREEMENT

Agreement dated *March 30*, 2017, 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 and the financing from the Financing Agreement of the same date hereof (as defined in the Appendix to this Agreement) 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. 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 — CREDIT

- 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 thirty-six million eight hundred thousand Special Drawing Rights (SDR 36,800,000) ("Credit").
- 2.02. The Recipient may withdraw the proceeds of the Credit in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Recipient shall be equal to one quarter of one percent ( $\frac{1}{4}$  of 1%) of the Credit amount.
- 2.04. The Commitment Charge payable by the Recipient shall be one-quarter of one percent ( $\frac{1}{4}$  of 1%) per annum on the Unwithdrawn Credit Balance.
- 2.05. The Interest Charge payable by the Recipient for each Interest Period shall be at a rate equal to three point twenty percent (3.20 %) per annum.
- 2.06. The Payment Dates are April 15 and October 15 in each year.

- 2.07. The principal amount of the Credit shall be repaid in accordance with the amortization 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 7 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 1 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 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; and
  - (b) The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 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 (20) 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 MAHMOOD PASHA

Title: Secretary EAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

  
\_\_\_\_\_  
Authorized Representative

Name: ANTHONY CHOLST

Title: Acting Country Director, Pakistan

## SCHEDULE 1

### Program Actions; Availability of Credit Proceeds

#### Section I. Actions Taken Under the Program.

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

1. The NFIS Council has approved the Digital Transaction Accounts (DTA) Scheme.
2. The SBP has granted clearinghouse membership of the National Institutional Facilitation Technologies (NIFT) to the Central Directorate of National Savings (CDNS) to allow for distribution of NSS profits through bank accounts.
3. The National Assembly has approved the new Companies Bill to modernize the regulatory framework for companies.
4. The Deposit Protection Corporation Act 2016 has been approved by Parliament.
5. The ECC has approved the National Policy on Infrastructure Finance.
6. The SBP has issued Prudential Regulations for long-term finance (in line with Basel III requirements).
7. The Benami Transactions Prohibition Bill has been approved by Parliament.
8. The Ministry of Finance has completed the National Risk Assessment (NRA) for Anti-Money Laundering and Combatting Financing of Terrorism (AML/CFT).
9. The Cabinet has approved the Rules for a new registered prize bonds scheme with denomination of PKR 40,000 and above.
10. The Ministry of Commerce has endorsed the Corporate Governance Assessment for SLIC to monitor compliance with the Public Sector Companies (Corporate Governance) Rules 2013.

**Section II. Availability of Credit Proceeds**

- A. **General.** The Recipient may withdraw the proceeds of the Credit 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 Credit Amounts.** The Credit (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Credit. The allocation of the amounts of the Credit to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>
(1) Single Withdrawal Tranche	36,708,000
(2) Front-end Fee to be paid pursuant to Section 2.03 of this Agreement in accordance with Section 2.05 (b) of the General Conditions (renumbered as such pursuant to paragraph 2 of Section II of the Appendix to this Agreement and relating to <i>Capitalizing Front-end Fee</i> )	92,000
<b>TOTAL AMOUNT</b>	<b>36,800,000</b>

**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 Credit Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Credit 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 Credit 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 Credit shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Credit 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, 2018.



**SCHEDULE 2**

**Amortization Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each April 15 and October 15 commencing on April 15, 2022 to and including October 15, 2030	2.5%
and on April 15, 2031, to and ending on October 15, 2040	2.75%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid.

## APPENDIX

### Section I. Definitions

1. "Digital Transaction Accounts (DTA) Scheme" means the scheme approved by the NFIS Council for promotion of digital transaction accounts to help build an ecosystem of digital financial services in the territory of the Recipient.
2. "Cabinet" means the Recipient's Cabinet of Ministers, headed by the Prime Minister and established pursuant to Section 81C of the Recipient's Constitution.
3. "Central Directorate of National Savings" or "CDNS" means the Recipient's department attached to the Ministry of Finance and responsible for all policy matters and execution of various NSS instruments.
4. "ECC" means Economic Coordination Committee of the Cabinet, 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.
5. "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 and 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 Credit 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.
6. "Financing Agreement" means the agreement between the Recipient 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, schedules and agreements supplemental to the Financing Agreement.

7. “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.
8. “Interest Period” means the initial period from and including the date of this Agreement to but excluding the first Payment Date occurring thereafter, and after the initial period, each period from and including a Payment Date to but excluding the next following Payment Date.
9. “Ministry of Finance” means the Recipient’s Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization.
10. “Ministry of Commerce” means the Recipient’s Ministry of Commerce.
11. “National Assembly” means the Recipient’s House of Parliament established pursuant to Section 51 of the Recipient’s Constitution.
12. “National Institutional Facilitation Technologies” or “NIFT” means National Institutional Facilitation Technologies (Pvt.) Ltd., a corporation established under the laws of the Recipient as joint venture and responsible for the establishment and management of automated clearinghouse facilities in the territory of the Recipient.
13. “National Policy on Infrastructure Finance” means the Recipient’s policy setting forth its vision for financing its infrastructure needs.
14. “National Risk Assessment” or “NRA” means the risk-based assessment of the Recipient’s money laundering and terrorist financing risks, including recommendations for the mitigation of these risks.
15. “NFIS Council” means the council under the Recipient’s National Financial Inclusion Strategy responsible to provide overall guidance and lead the implementation of the Recipient’s vision of financial inclusion.
16. “NSS” means National Savings Schemes, the Recipient’s savings schemes administered by CDNS.
17. “Parliament” means the Recipient’s bi-cameral parliament including the National Assembly and the Senate; and “Parliamentarian” has a corresponding meaning.
18. “PKR” means Pakistan Rupee, the lawful currency of the Recipient.
19. “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 February 6, 2017 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.

20. "Prudential Regulations" means the regulations issued by the SBP as part of a prudent regulatory framework for ensuring safety and soundness of the financial system as well as protecting the interests of users of financial services.
21. "SBP" means State Bank of Pakistan, the Recipient's central bank.
22. "Single Withdrawal Tranche" means the amount of the Credit allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule I to this Agreement.
23. "SLIC" means State Life Insurance Corporation of Pakistan, the corporation established and governed by the Recipient's Life Insurance (Nationalization) Order 1972.

## **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 2.07 (*Refinancing Preparation Advance*) is retitled as "*Refinancing Preparation Advance; Capitalizing Front-end Fee*", amended by adding a new paragraph (b), and modified to read as follows:

"Section 2.07. *Refinancing Preparation Advance; Capitalizing Front-end Fee*

(a) If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Bank or the Association ("Preparation Advance"), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.

(b) Except as otherwise provided in the Financing Agreement, the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date and pay to itself the amount of the Front-end Fee payable pursuant to Section 3.01 (a).”

4. Section 3.01 (*Commitment Charge*) is retitled as “*Front-end Fee; Commitment Charge*”, amended by adding a new paragraph (a), and modified to read as follows:

“Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Recipient shall pay the Association a front-end fee on the Credit amount at the rate specified in the Financing Agreement (the “Front-end Fee”).

(b) The Recipient shall pay the Association a commitment charge on the Unwithdrawn Credit Balance at the rate specified in the Financing Agreement (the “Commitment Charge”). The Commitment Charge shall accrue from a date sixty days after the date of the Financing Agreement to the respective dates on which amounts are withdrawn by the Recipient from the Credit Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date.”

5. Section 3.02 (*Service Charge*) is retitled as “*Interest Charge*” and modified to read as follows:

“Section 3.02. *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 Charges shall be computed on the basis of a 360-day year of twelve 30-day months.”

6. Section 3.03 (*Repayment of the Credit*) is modified by deleting paragraph (b) in its entirety and amending the remaining paragraph (a) to read as follows:

“Section 3.03. *Repayment of the Credit*

The Recipient shall repay the Withdrawn Credit Balance to the Association in installments as provided in the Financing Agreement.”

7. 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.

8. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 7 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
9. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 7 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.”

10. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 7 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.”

11. In the Appendix, **Definitions**, all relevant references to Sections, numbers and paragraphs are modified, as necessary, to reflect the modifications set forth in paragraphs 1 through 10 above.
12. Paragraph 21 of the Appendix (“Eligible Expenditures”) 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.”

13. Paragraph 24 of the Appendix (“Financial Statements”) is deleted in its entirety, and the subsequent paragraphs are renumbered accordingly.
14. Renumbered paragraph 27 (originally paragraph 28) of the Appendix (“Financing Payment”) is modified to read as follows:

“27. “Financing Payment” means any amount payable by the Recipient to the Association pursuant to the Financing Agreement or these General Conditions,

including (but not limited to) any amount of the Withdrawn Credit Balance, interest, the Front-end Fee and the Commitment Charge.”

15. A new paragraph 29 is inserted in the Appendix with the following definition of “Front-end Fee”, and the subsequent paragraphs are renumbered accordingly:

“29. “Front-end Fee” means the fee specified in the Financing Agreement for the purpose of Section 3.01 (a).”

16. A new paragraph 32 is inserted in the renumbered Appendix with the following definition of “Interest Charge”, and the subsequent paragraphs are renumbered accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02.”

17. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Payment Date”) is modified by deleting the words “Service Charges” and inserting the words “Interest Charges”.

18. The term “Project” in the renumbered paragraph 40 (originally paragraph 39) of the Appendix (“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”.

19. Renumbered paragraph 50 (originally paragraph 49) of the Appendix (“Service Charge”) is deleted in its entirety, and the subsequent paragraphs are renumbered accordingly.