
LOAN NUMBER 2483-PAK(SF)

LOAN AGREEMENT
(Special Operations)

(Second Balochistan Resource Management Program – Subprogram 1)

between

THE ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 17 DECEMBER 2008

LPS:PAK 37213

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 17 December 2008 between THE ISLAMIC REPUBLIC OF PAKISTAN (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower and the Province of Balochistan ("Balochistan") a development policy letter (the "Policy Letter"), dated 5 November 2008, setting forth certain objectives, policies and actions, as described in Schedule 1 to this Loan Agreement, designed to develop Balochistan's resource management sector (the "Program Cluster") of which the Program (the "Program") comprises the first subprogram of the Program Cluster and also described in Schedule 1 to this Loan Agreement;

(B) the Borrower has applied to ADB for (i) a loan from its Special Funds resources, and (ii) a loan from its ordinary capital resources, for the purposes of the Program;

(C) by an Ordinary Operations Loan Agreement of even date herewith between the Borrower and ADB (the "Ordinary Operations Loan Agreement"), ADB has agreed to provide to the Borrower, a loan in the amount of forty five million Dollars (\$45,000,000) for the purposes of the Program;

(D) to implement the Program under this Loan Agreement and the Ordinary Operations Loan Agreement, ADB and Balochistan have entered into a Program Agreement (the "Program Agreement") of even date herewith;

(E) the Borrower has also applied for a technical assistance grant up to the equivalent of eight hundred thousand Dollars (\$800,000) to support the Program and ADB has agreed to provide a technical assistance grant to the Borrower for such purpose; and

(F) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Board of Revenue" means the Balochistan Board of Revenue or any legal successors thereto;

(b) "Counterpart Funds" means the Rupee proceeds accruing to the Borrower and generated from the Loan proceeds as referred to in paragraph 4 of Schedule 5 to this Agreement;

(c) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(d) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to the Attachment 1 to Schedule 3 to this Loan Agreement);

(e) "Excise and Taxation Department" means the Balochistan Excise and Taxation Department or any legal successors thereto;

(f) “Extractive Industries Transparency Initiative” means a coalition of governments, companies, civil societies, investors and international organizations, which aims to strengthen governance by improving transparency and accountability in the extractive industries;

(g) “Finance Department” means the Balochistan Finance Department or any legal successors thereto;

(h) “fiscal year” or “FY” means the fiscal year of Balochistan, commencing on the first day of July each year and ending on the last day of June of each succeeding year;

(i) “GPF” means Balochistan’s General Provident Fund;

(j) “Irrigation and Power Department” means the Balochistan Irrigation and Power Department or any legal successors thereto;

(k) “Mines and Minerals Department” means the Balochistan Mines and Minerals Department or any legal successors thereto;

(l) “PCU” means the Program Coordination Unit, as further described in paragraph 2 of the Schedule to the Program Agreement;

(m) “PIFRA” means the Borrower’s Project for Improvement in Financial Reporting and Auditing;

(n) “Planning & Development Department” means the Balochistan Planning & Development Department or any legal successors thereto;

(o) “Program Executing Agency” means, for the purposes and within the meaning of the Loan Regulations, the Finance Department, which is responsible for the carrying out of the Program;

(p) “Provincial Assembly” means the legislative body within Balochistan;

(q) “Provincial Finance Commission” means the Provincial Finance Commission of Balochistan or any legal successor thereto;

(r) “PRs” and “Rupees” means the currency of the Borrower;

(s) “PSC” means the Program Steering Committee, as further described in paragraph 1 of the Schedule to the Program Agreement;

(t) “PSDP” means the Public Sector Development Program, which enumerates the development schemes, including their estimated costs, to be undertaken by Balochistan;

(u) “Rules of Business” means the Rules of Business of Balochistan, 1976, as amended from time to time; and

(v) "Stamp Act" means Balochistan's Stamp Act, 1899, as amended from time to time.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty six million nine hundred fifty five thousand Special Drawing Rights (SDR36,955,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. Except as ADB may otherwise agree, the Borrower shall relend the proceeds of the Loan to Balochistan, on the same terms and conditions, as are applicable to the Borrower. The foreign exchange risk shall be borne by the Borrower. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan

Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2009 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement and the Schedule to the Program Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) the Ordinary Operations Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Agreement) shall have been fulfilled;

(b) the Borrower shall ensure that Balochistan, through the Planning & Development Department, shall have rationalized the PSDP by (i) providing for all incomplete schemes a full review of cost estimates and phasing of schemes, and (ii) ensuring that the PSDP throw-forward, excluding mega projects, is reduced to three (3) years;

(c) the Borrower shall ensure that Balochistan, through the Finance Department, shall have completed the study on the estimation of contingent liabilities of the pension scheme and GPF;

(d) the Borrower shall ensure that Balochistan shall have submitted the draft procurement law to the Provincial Assembly; and

(e) the Borrower shall ensure that Balochistan, through the Board of Revenue, shall have (i) constructed the valuation tables for determining stamp duty on transactions relating to property transfers; and (ii) published the said tables on its website.

Section 5.02. A date thirty (30) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Delegation of Authority

Section 6.01. The Borrower hereby designates Balochistan its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.06 of this Loan Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

Section 6.02. Any action taken or any agreement entered into by Balochistan pursuant to the authority conferred under Section 6.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 6.03. The authority conferred on Balochistan under Section 6.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VII

Miscellaneous

Section 7.01. The Secretary of the Economic Affairs Division, Ministry of Economic Affairs and Statistics of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

The Secretary
Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamabad, Pakistan

Facsimile Numbers:

(92-51) 920-5971
(92-51) 921-0734

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2424

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

THE ISLAMIC REPUBLIC OF PAKISTAN

By 

FARRAKH QAYYUM
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

RUNE STROEM
Country Director
Pakistan Resident Mission

SCHEDULE 1

Description of the Program

1. The Program Cluster impact is to achieve higher and sustained economic growth in Balochistan. The Program Cluster outcome is to support Balochistan to create greater efficiency and effectiveness in public resource management, characterized by better fiscal resource generation and increased efficiency in resource allocation and utilization.
2. The Program outcome is improved efficiency in public resource management by Balochistan. The scope of the Program is (a) improved public financial management; (b) affordable and sustainable pension and employee benefit system; and (c) enhance the role of the government as facilitator of minerals sector growth. The implementation period of the Program is expected to be from November 2007 to December 2008.
3. The Program Cluster and the Program are described in more detail in the Policy Letter.
4. In support of the Program:
 - (a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and
 - (b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraphs 4 and 5 of Schedule 5 to this Loan Agreement.
5. The proceeds of the Loan are expected to be utilized by 30 June 2009.

SCHEDULE 2**Amortization Schedule****(Second Balochistan Resource Management Program – Subprogram 1)**

DATE			PAYMENT OF PRINCIPAL (expressed in SDR*)
15	April	2017	1,154,844.00
15	October	2017	1,154,844.00
15	April	2018	1,154,844.00
15	October	2018	1,154,844.00
15	April	2019	1,154,844.00
15	October	2019	1,154,844.00
15	April	2020	1,154,844.00
15	October	2020	1,154,844.00
15	April	2021	1,154,844.00
15	October	2021	1,154,844.00
15	April	2022	1,154,844.00
15	October	2022	1,154,844.00
15	April	2023	1,154,844.00
15	October	2023	1,154,844.00
15	April	2024	1,154,844.00
15	October	2024	1,154,844.00
15	April	2025	1,154,844.00
15	October	2025	1,154,844.00
15	April	2026	1,154,844.00
15	October	2026	1,154,844.00
15	April	2027	1,154,844.00
15	October	2027	1,154,844.00
15	April	2028	1,154,844.00
15	October	2028	1,154,844.00
15	April	2029	1,154,844.00
15	October	2029	1,154,844.00
15	April	2030	1,154,844.00
15	October	2030	1,154,844.00
15	April	2031	1,154,844.00
15	October	2031	1,154,844.00
15	April	2032	1,154,844.00
15	October	2032	1,154,836.00
TOTAL			36,955,000.00

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal; or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in the Attachment to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4 (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at the State Bank of Pakistan into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no disbursement shall be made under this Loan Agreement unless ADB shall be satisfied, after consultation with the Borrower, that the Borrower has fulfilled the policy actions specified in Attachment 2 to this Schedule.

List of Negative Items

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Second Balochistan Resource Management Program Cluster – Subprogram 1.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table A12: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
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), nonirradiated 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, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and ADB; and

- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Policy Actions for the Program

In order to release the Loan proceeds, the following policy actions shall have been complied with to the satisfaction of ADB:

Core Policy Area 1: Improve Public Financial Management

1. The Borrower shall ensure that Balochistan shall have submitted to the Provincial Assembly a draft amendment to the Stamp Act to allow the use of stamp duty valuation tables.
2. The Borrower shall ensure that Balochistan shall have submitted to the Provincial Assembly a draft amendment to the prevailing law on property tax to allow the use of annual rental value tables.
3. The Borrower shall ensure that Balochistan, through the Excise and Tax Department, shall have computerized the motor vehicle tax database of the registered vehicles in the 11 motor vehicle registration authorities/excise and taxation offices.
4. The Borrower shall ensure that Balochistan, through the Excise and Tax Department, shall have finalized a time-bound action plan to automate the collection process for motor vehicle tax.
5. The Borrower shall ensure that Balochistan, through the Board of Revenue, shall have adopted the procedures for linking collection of capital gains tax with stamp duty collection on property transfers.
6. The Borrower shall ensure that Balochistan shall have established a unit within the Finance Department to formulate revenue policy and planning, set revenue targets, undertake revenue projections, and monitor and reconcile revenue receipts.
7. The Borrower shall ensure that Balochistan, through the Finance Department, shall have issued the reconciliation report on revenue receipts between revenue collecting agencies and the Finance Department for fiscal year 2008.
8. The Borrower shall ensure that Balochistan, through the Finance Department, shall have improved its expenditure allocation through the preparation of the budget at the level of the drawing and disbursing officers.
9. The Borrower shall ensure that Balochistan shall have improved the coordination in budgeting and planning through joint budget protocols between the Finance Department and Planning & Development Department to be formulated consistent with the Rules of Business.
10. The Borrower shall ensure that Balochistan, through the Finance Department, shall have improved the Provincial Finance Commission allocation to the district governments through the issuance of (a) the detailed schedule of establishment, which is the staff strength (complement) sanctioned for each district government; and (b) the procedures for amending such schedule.

11. The Borrower shall ensure that Balochistan shall have continued (a) the PRs2 billion cap on tube-well subsidies; and (b) the freeze in the number of subsidized electric tube wells, which is at fifteen thousand six hundred sixty (15,660).
12. The Borrower shall ensure that Balochistan shall have trained the district account officers (treasury officers) posted in the districts with upgraded information technology infrastructure financed under PIFRA on the new accounting model and chart of accounts to ensure better reconciliation of expenditures.
13. The Borrower shall ensure that Balochistan, through the Finance Department, shall have issued the reconciliation report on expenditures by the provincial government for fiscal year 2008.
14. The Borrower shall ensure that Balochistan, through the Finance Department, shall have converted the off-system personal ledger accounts to special drawing accounts to improve transparency and enhanced efficiency in the use of public funds.
15. The Borrower shall ensure that Balochistan, through the Finance Department, shall have adopted internal control procedures on off-system assignment accounts to improve transparency and enhanced efficiency in the use of public funds.

Core Policy Area 2: Develop an Affordable and Sustainable Pension and Employee Benefit System

16. The Borrower shall ensure that Balochistan shall have promulgated the ordinances on (a) Pension Fund Management Authority, and (b) General Provident Investment Fund.
17. The Borrower shall ensure that Balochistan, through the Finance Department, shall have adopted a time bound action plan for the establishment of the investment structure, governance and investment policy for Balochistan's pension fund and general provident investment fund.
18. The Borrower shall ensure that Balochistan, through the Finance Department, shall have created the task force on the pension scheme and GPF-related data conversion.
19. The Borrower shall ensure that Balochistan, through the Finance Department, shall have completed the automated data entry for (a) twenty five percent (25%) of civil servants; (b) forty percent (40%) of pensioners; and (c) one percent (1%) of the GPF-related records.

Core Policy Area 3: Enhance Government Role as Facilitator of Minerals Sector Growth

20. The Borrower shall ensure that Balochistan, through the Mines and Minerals Department, shall have issued an administrative order to create a cell to be concurrently headed by the director, oil and gas of the Mines and Minerals Department, to assist the evaluation, negotiation and management of contracts in the minerals sector.
21. The Borrower shall ensure that Balochistan, in line with the principles of the Extractive Industries Transparency Initiative, shall have approved a policy statement supporting greater disclosure of its revenues from the minerals sector.

22. The Borrower shall ensure that Balochistan, through the Mines and Minerals Department, shall have published on its website the list of royalty payments received from holders of mineral titles and concessions for fiscal year 2008 and first quarter of fiscal year 2009.
23. The Borrower shall ensure that Balochistan, through the Mines and Minerals Department, shall have published on its website the list of all existing mining licenses, concessions, and leases.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Program Management

1. The Borrower shall cause Balochistan to appoint (a) the Finance Department as the Program Executing Agency; and (b) the Finance Department, the Planning & Development Department, the Board of Revenue, the Excise and Taxation Department, and the Mines and Minerals Department as the Program implementing agencies.

Continuity of reform

2. The Borrower shall, and shall cause Balochistan, to carry out the policies and actions in accordance with the schedule of policy reforms contained in the agreed policy matrix and ensure sustainability of the reforms beyond the Program implementation period.

Coordination of reforms

3. The Borrower shall ensure that adequate information is made available to Balochistan to facilitate consistency of revenue projections made by the Borrower and Balochistan. The Borrower shall provide advice to Balochistan on the design of the latter's fiscal responsibility framework and ensure consistency between the framework of the Borrower and Balochistan. The Borrower and Balochistan shall coordinate reforms affecting the pension system to ensure consistency in the federal and provincial schemes.

Counterpart Funds

4. The Borrower shall ensure that the Counterpart Funds generated from the Loan proceeds under this Loan Agreement shall be used to finance (a) performance grants; (b) capitalization of the pension fund and general provident investment fund; and (c) adjustment cost directly related to the Program implementation.

5. The Borrower shall ensure that the Counterpart Funds generated from the loan proceeds under the Ordinary Operations Loan Agreement shall be used to finance capitalization of pension fund and general provident investment fund.

Program Monitoring and Review

6. The Borrower, Balochistan and ADB shall periodically review the progress of the implementation and assess the impact of the Program Cluster and the Program. The Borrower shall, and shall cause Balochistan, to keep ADB informed of the outcome of policy discussions with other multilateral and bilateral agencies that have implications for the implementation of the Program Cluster and the Program, and shall provide ADB with the opportunity to comment on any resulting policy proposals.

7. Within three (3) months of the Program completion and prior to the commencement of the second subprogram under the Program Cluster, the Borrower shall, and shall cause Balochistan to undertake a review to examine and finalize the design of the second subprogram under the Program Cluster. The review shall also reflect the changes that might occur in the external policy environment during the implementation period of the Program, and identify initial lesson learned.

8. The Borrower acknowledges, and shall cause Balochistan to acknowledge, that the review process described in paragraph 7 of this Schedule does not obligate ADB to provide loans for any further subprogram under the Program Cluster and that any such further subprogram shall be subject to ADB's board approval.