

LOAN AGREEMENT  
(Ordinary Operations)

(Balochistan Devolved Social Services Program)

between

THE ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 24 AUGUST 2006

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 24 August 2006 between the Islamic Republic of Pakistan (hereinafter called the "Borrower") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 24 October 2005 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions to develop the social sector in the Borrower's province of Balochistan (hereinafter called "Balochistan") to achieve progress towards the Millennium Development Goals related to health, education and water supply and sanitation (hereinafter called the "Program"), as described in Schedule 1 to this Loan Agreement;

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

(C) by a Financing Agreement of even date herewith between the Borrower and ADB (hereinafter called the "Special Operations Financing Agreement"), ADB has agreed to provide to the Borrower from ADB's Special Fund resources, a loan in various currencies equivalent to forty five million fifty six thousand Special Drawing Rights (SDR 45,060,000) and a grant in the amount of five million Dollars (\$5,000,000), for the purposes of the Program;

(D) to implement the Program under the Special Operations Financing Agreement, ADB and Balochistan have entered into a Program Agreement (hereinafter called the "Program Agreement") of even date herewith;

(E) by a Loan Agreement of even date herewith between the Borrower and ADB (hereinafter called "Technical Assistance Loan Agreement"), ADB has agreed to make available to the Borrower a technical assistance loan in various currencies equivalent to three million four hundred sixty six thousand Special Drawing Rights (SDR 3,466,000) to support the Program by strengthening the devolved social services sector in Balochistan through sector policy reform, sector planning, management and monitoring, local government and community-based governance and implementation support (hereinafter called the "TA Project"), as more fully described in Schedule 1 to the Technical Assistance Loan Agreement;

(F) to implement the TA Project, ADB and Balochistan have entered into a Project Agreement (hereinafter called "Project Agreement") of even date herewith; and

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

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I****Loan Regulations; Definitions**

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 2.01(49) is deleted and the following is substituted therefor:

49. 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(51) is deleted and the following is substituted therefor:

51. 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 6.01(a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Loan Agreement, the Borrower shall be entitled to withdraw from the Loan Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Loan Agreement.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "BLGO 2001" means the Balochistan Local Government Ordinance 2001, as amended from time to time;

(b) "BPGR 2005" means the Balochistan Performance Grant Rules 2005, as may be amended from time to time;

- (c) "BPRSP" means the Balochistan Poverty Reduction Strategy Paper;
- (d) "BRMP" means the Balochistan Resource Management Program, as more particularly described in the Loan Agreement between ADB and the Borrower dated 14 December 2004, as may be amended from time to time;
- (e) "Bureau of Statistics" means the Bureau of Statistics of Balochistan or any legal successors thereto;
- (f) "Counterpart Funds" means the Rupees proceeds accruing to the Borrower and generated from the Loan proceeds under this Loan as referred to in paragraph 15 of Schedule 5 to this Loan Agreement;
- (g) "DG" means the District Governments in Balochistan;
- (h) "DPC" means the District Program Committee, as further described in paragraph 5 of Schedule 5 to this Loan Agreement;
- (i) "DSP" means the Decentralization Support Program, as more particularly described in the Loan Agreement between the Borrower and ADB, dated 23 January 2003, as may be amended from time to time;
- (j) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;
- (k) "EDO" means the executive district officers in the district administration of each district;
- (l) "Education Department" means the Balochistan Education Department or any legal successors thereto;
- (m) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;
- (n) "Finance Department" means the Balochistan Finance Department or any legal successors thereto;
- (o) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of one hundred ten million Dollars (\$110,000,000) to be withdrawn pursuant and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;
- (p) "Health Department" means the Balochistan Health Department or any legal successors thereto;
- (q) "LGD" means the Balochistan Local Government Department or any legal successors thereto;
- (r) "MIS" means the management information system;

- (s) "NGO" means non-government organization;
- (t) "nazim" means the head of a local government tier;
- (u) "P&DD" means the Balochistan Planning & Development Department or any legal successors thereto;
- (v) "Performance Grants" means the performance grants to be disbursed by the Borrower to the district governments and selected TMAs from the Counterpart Funds to be generated out of the proceeds of the loan and grant under the Special Operations Financing Agreement;
- (w) "PFC" means Provincial Finance Commission as provided in the BLGO 2001;
- (x) "PHED" means Balochistan Public Health Engineering Department or any legal successors thereto;
- (y) "Policy Matrix" means the Policy Matrix as set out in Appendix 8 of the RRP;
- (z) "PPO" means the Provincial Program Office, as further described in paragraphs 3 and 4 of Schedule 5 to this Loan Agreement;
- (aa) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, P&DD, which is responsible for the carrying out of the Program;
- (bb) "Program facilities" means facilities provided or to be provided under the Program;
- (cc) "province or provincial" refers to Balochistan;
- (dd) "PSC" means the Program Steering Committee, as further described in paragraph 2 of Schedule 5 to this Loan Agreement;
- (ee) "PTSMC" means the Parent Teacher School Management Committee;
- (ff) "PU" means the Program Units, as further described in paragraphs 7 to 11 of Schedule 5 to this Loan Agreement;
- (gg) "RRP" means the Report and Recommendation of the President of ADB to the Board of Directors of ADB for the Loan;
- (hh) "Rupees" means the legal currency of the Borrower;
- (ii) "SGAD" means the Balochistan Services and General Administration Department or any legal successors thereto;

(jj) "Second Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant and subject to the provisions of paragraph 6 of Schedule 3 to this Loan Agreement;

(kk) "social sectors" means the education, health and WSS sectors;

(ll) "TMA" means the Tehsil/Town Municipal Administration in Balochistan;  
and

(mm) "WSS" means water supply and sanitation.

## **ARTICLE II**

### **The Loan**

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of one hundred thirty million Dollars (\$130,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a term of fifteen (15) years, including a grace period of three (3) years, as provided in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as determined by Section 3.02 of the Loan Regulations.

Section 2.03. The Borrower shall pay to ADB a commitment charge at the rate of three-fourths of one percent (0.75%) per annum on the unwithdrawn amount of the Loan. Such charge shall accrue from a date sixty (60) days after the date of this Loan Agreement to the respective dates on which amounts shall be withdrawn from the Loan Account or shall be cancelled.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;

- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

### **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 produced in, and procured from, ADB's member countries in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB shall not finance a contract for goods which have not been procured in accordance with procedures agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred and eighty (180) days prior to the Effective Date.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 31 December 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. (a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and devolved social service delivery practices.

(b) In the carrying out of the Program and operation of the Program facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall make available or cause to be made available, promptly as needed, the funds, facilities, services, and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program and for the operation and maintenance of the Program facilities.

Section 4.03. The Borrower shall ensure that the activities of its agencies with respect to the carrying out of the Program and operation of the Program facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. (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 indicate 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 4.05. (a) As part of the reports and information referred to in Section 7.04 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 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly and annual 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****Suspension; Cancellation; Acceleration of Maturity**

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations:

(a) the Borrower has, in the opinion of ADB, failed to perform any of its obligations under the Special Operations Financing Agreement; and

(b) the Borrower has, in the opinion of ADB, failed to perform any of its obligations under the Technical Assistance Loan Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: either of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

**ARTICLE VI****Effectiveness**

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations:

(a) the Special Operations Financing 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 Loan Agreement shall have been fulfilled);

(b) the Technical Assistance 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 Loan Agreement shall have been fulfilled); and

(c) the PSC shall have been established in accordance with the provision of Schedule 5 to this Loan Agreement.

Section 6.02 A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

**ARTICLE VII**  
**Delegation of Authority**

Section 7.01. 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 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by Balochistan pursuant to the authority conferred under Section 7.01 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 7.03. The authority conferred on Balochistan under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

**ARTICLE VIII**  
**Miscellaneous**

Section 8.01. 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 12.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

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

Facsimile Number:

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

For ADB

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

Cable Address:

ASIANBANK  
MANILA

Telex Numbers:

29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

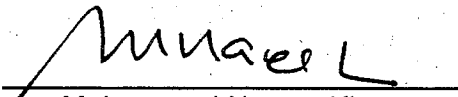
Facsimile Numbers:

(632) 636-2444  
(632) 636-2293

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



Muhammad Naeem Khan  
Ambassador of Pakistan to the  
Republic of the Philippines

ASIAN DEVELOPMENT BANK

By



Haruhiko Kuroda  
President

**SCHEDULE 1****Description of the Program**

1. The goal of the Program is to assist Balochistan achieve the Millennium Development Goals and goals set in BPRSP in the education, health, and WSS sectors, especially among the poorest and females. The Program objectives are to: (i) improve access to affordable, efficient, effective and quality education, health and WSS in the public and private sectors, (ii) decrease inequities based on income, gender, ethnic and geography in the education, health and WSS sectors, and (iii) strengthen local governments, private sector and communities to improve social service delivery. The Program is described in more detail in the Policy Letter. The Program shall be implemented during the period of 1 July 2006 – 30 June 2009.

2. 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 paragraph 15 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be utilized by 30 June 2009.

**SCHEDULE 2****Amortization Schedule****(Balochistan Devolved Social Services Program)**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Period</b>	<b><u>Payment Due</u></b>			<b><u>Installment Share</u></b> (expressed as a%)
1	15	June	2009	2.25%
2	15	December	2009	2.36%
3	15	June	2010	2.48%
4	15	December	2010	2.60%
5	15	June	2011	2.73%
6	15	December	2011	2.87%
7	15	June	2012	3.01%
8	15	December	2012	3.16%
9	15	June	2013	3.32%
10	15	December	2013	3.49%
11	15	June	2014	3.66%
12	15	December	2014	3.84%
13	15	June	2015	4.04%
14	15	December	2015	4.24%
15	15	June	2016	4.45%
16	15	December	2016	4.67%
17	15	June	2017	4.91%
18	15	December	2017	5.15%
19	15	June	2018	5.41%
20	15	December	2018	5.68%
21	15	June	2019	5.96%
22	15	December	2019	6.26%
23	15	June	2020	6.57%
24	15	December	2020	6.89%
	<b>Total</b>			<b>100.00%</b>

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

**SCHEDULE 3****Allocation and 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 foreign exchange cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of (i) any local expenditures; or (ii) any foreign exchange 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 applications shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Loan expected to be disbursed during such year.

(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 Attachment 1 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 open 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 withdrawals shall be made from the First Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the First Tranche specified in Attachment 2 to this Schedule.

6. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 3 to this Schedule.

**List of Ineligible Items**

1. No withdrawals shall be made from the loan account in respect of the following:

- (i) expenditures for goods included in the following groups or subgroups of the United Nations Standard International Trade Classification, Revision 3.

<b>Group</b>	<b>Subgroup</b>	<b>Description of Items</b>
112	–	alcoholic beverages;
121	–	tobacco, unmanufactured; 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), nonirradiated for nuclear reactors;
897	897.3	jewelry of gold, silver, or platinum group metals (except watches and watch cases), goldsmiths' wares or goldsmiths' wares (including set gems); or
971	–	gold, nonmonetary (excluding gold ores and concentrates).

- (ii) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption.
- (iii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in Class 1a and 1b of the World Health Organization's Classification of Pesticide by Hazard and Guidelines to Classification 4.
- (iv) expenditure for goods supplied under a contract that any national or international financing institution or agency will have financed or agreed to finance including any contract under any loans from ADB.
- (v) expenditure incurred more than 180 days prior to the date of effectiveness of the loans.

**Conditions for Release of the First Tranche**1. Provincial Efficiency Incentives

- (a) Balochistan shall have disbursed the performance grants for the health, education and WSS sectors in the majority of the DGs.
- (b) Balochistan shall have developed proposals for the rationalization of roles and staffing of the provincial education, health and PHE departments (hereinafter called "line departments") in line with BLGO 2001.
- (c) Each of the line departments shall have developed, in consultation with DGs, a sector strategy in each of their respective sectors, which shall address increase access of basic social services for poor and female.
- (d) Balochistan shall have prepared expenditure allocation norms in line with minimum standards for social sectors that shall have direct benefit for poor and female.
- (e) Balochistan shall have notified the clinical laboratory rules and developed safe blood transfusion rules.

2. Managerial Power

- (a) Balochistan shall have reviewed the existing powers of DGs to take actions under Balochistan Removal from Services Ordinance (2001) for regular and contract employees in the line departments.
- (b) Balochistan shall have developed, in consultation with the local governments, an incentive system for sector managers and service delivery staff, including residential benefits for female staff.
- (c) Balochistan shall have established, in consultation with the DGs, facility-specific, non-regularizable contractual appointment guidelines.
- (d) Balochistan shall have developed, in consultation with the DGs, strategy for MIS in WSS sector and shall have initiated the strengthening of MIS in the health and education sectors.
- (e) Balochistan shall have developed, in consultation with the DGs, human resource development action plans for (i) social sector district and facility managers, and (ii) social service providers, both in-service and pre-service.

3. Voice and Empowerment of Citizens

- (a) In at least 50% of the DGs in Balochistan, complaint redressal mechanisms shall have been established at social service facility level.
- (b) Balochistan shall have taken steps to strengthen the local government monitoring committees by (i) notifying monitoring rules which shall include provisions relating to the inclusion of women members and making effective their role, and (ii) developing and disseminating draft bye-laws for local government monitoring committees.
- (c) Balochistan shall have developed, in consultation with the DGs, a communication strategy for strengthening of community involvement in the management of social sectors facilities.
- (d) In at least 30% of the districts in Balochistan, the majority of the PTSMCs shall have been formed and trained.
- (e) Balochistan shall have developed, in consultation with the DGs, guidelines for hospital management boards for district and 50 bed hospitals.
- (f) Balochistan shall have developed public expenditure tracking surveys as provided in BPGR 2005.
- (g) Balochistan shall have developed a quantitative service delivery survey as provided in BPGR 2005.
- (h) Balochistan and the city district government Quetta shall have developed a citizen report card in the city district Quetta.

4. Enabling Private Sector

- (a) Balochistan, in consultation with DGs, shall have developed a strategy to promote public private partnership in social service delivery.
- (b) Balochistan, in consultation with DGs, shall have developed a strategy for the self regulation of private sector in education and health.

5. The Borrower shall have published and/or announced in its website or in two national dailies, the achievements of each of the conditions for the release of the first tranche above.

**Conditions for Release of the Second Tranche**1. Provincial Efficiency Incentives

- (a) Balochistan shall have disbursed the performance grants for the social sectors in all DGs and enhanced the scope of the performance grants.
- (b) Balochistan shall have (i) notified the amended the Balochistan rules of business, and (ii) rationalized roles and staffing of line departments within Balochistan, in line with BLGO 2001.
- (c) Balochistan shall have approved the strategies in each of the education, health and WSS sectors.
- (d) Balochistan shall have approved expenditure allocation norms in line with minimum standards for social sectors that shall have direct benefit for poor and female.
- (e) Balochistan shall have notified safe blood transfusion rules.

2. Managerial Power

- (a) Based on the earlier review, Balochistan shall have notified powers for DGs to take actions under Balochistan Removal from Services Ordinance (2001) for regular and contract employees in the line departments.
- (b) Balochistan shall have notified powers to DG for postings and transfers of staff with basic scale (BS) 1–16 in the line departments.
- (c) Balochistan shall have approved, and Balochistan and local governments shall have implemented incentive system for social sector managers and service delivery staff.
- (d) Balochistan and DGs shall have filled at least 25% of the vacant positions identified as of July 2006 in the education and health sectors through facility-specific, non-regularizable contractual appointment.
- (e) Balochistan shall have approved and implemented the MIS strategy for WSS and strengthens the MIS in the health and education sectors within Balochistan and the DGs.
- (f) Balochistan shall have approved, and Balochistan and the majority of the DGs shall have initiated the implementation of the human resource development action plans for (i) social sector district and facility managers, and (ii) social service providers.

3. Voice and Empowerment of Citizens

- (a) All of the DGs in Balochistan shall have established complaint redressal mechanisms at the social service facility level.
- (b) (i) The majority of the local governments in Balochistan shall have observed the monitoring rules, and (ii) the majority of the local government councils shall have approved the bye-laws and local government monitoring committees shall have observed the bye-laws.
- (c) Balochistan shall have approved, and Balochistan and DGs shall have implemented the communication strategy for strengthening of community involvement in the management of social sectors facilities.
- (d) In the majority of the districts, the majority of the PTSMCs shall have been formed and trained.
- (e) Balochistan shall have notified guidelines and the majority of the DGs shall have established hospital management boards in their respective district and 50 bed hospitals.
- (f) Balochistan shall have implemented the first public expenditure tracking surveys as provided in BPGR 2005 and shall have prepared the survey result.
- (g) Balochistan shall have implemented a quantitative service delivery survey as provided in BPGR 2005 and shall have prepared the survey result.
- (h) The city district government of Quetta shall have implemented the citizen report card in the city district Quetta and shall have made the implementation report.

4. Enabling Private Sector

- (a) Balochistan shall have approved, and Balochistan and DGs shall have initiated implementation of the strategy for promoting public private partnership in social service delivery.
- (b) Balochistan shall have approved, and Balochistan and DGs shall have initiated implementation of the strategy for the self regulation of private sector in education and health.

5. The Borrower shall have published and/or announced in its website or in two national dailies, the achievements of each of the conditions for the release of the second tranche above.

**SCHEDULE 4**  
**Procurement**

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs 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 paragraph 2(b) below, 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

#### Executing Agency

1. The Planning and Development Department, Balochistan (P&DD) shall be the Program Executing Agency.

#### The Program Steering Committee

2. The Program Steering Committee (PSC) shall be established to (i) provide policy guidance for the Program; (ii) provide oversight function for the Program activities; (iii) monitor the performance of the Provincial Program Office (PPO) and the Program Units (PUs); and (iv) ensure the Program coordination with DSP, BRMP and other programs and projects. The PSC shall be chaired by the additional chief secretary with the secretary of finance as the alternate chair. The other members of the PSC are the chief economist, secretary of the Education Department, secretary of the Health Department, secretary of PHED, secretary of SGAD, secretary of LGD, and the Program coordinator who shall also be the member-secretary of PSC. The program managers of DSP and BRMP shall act as observers.

#### The Provincial Program Office

3. Within two weeks of the Effective Date, Balochistan shall have established the Provincial Program Office (PPO), which shall (i) plan, coordinate, facilitate and monitor the implementation of the Program; (ii) coordinate activities, particularly capacity building, with DSP, BRMP and other programs; (iii) interact, communicate and coordinate on (a) policy reforms with provincial departments, and (b) the implementation of the Performance Grants through the Finance Department, and as required, the PFC; (iv) institute appropriate monitoring mechanisms through the Bureau of Statistics, Finance Department and third party validation through contracted NGOs; and (v) prepare reports documenting, analyzing and reviewing the progress and results of the Program and make such reports publicly available.
4. The PPO shall be headed by a Program coordinator who shall be an officer with basic grade of 19 or 20. The Program coordinator shall be assisted by one Program officer with basic grade of 17 or 18, two Program assistants, each with basic grade of 15 and support staff, as required. The Program coordinator, the Program officer, the two Program assistants and the support staff shall be working full-time at the PPO.

Program Committees

5. Within two weeks of the Effective Date, Balochistan shall ensure that a District Program Committee (DPC) shall have been established in each district government to oversee all matters in connection with the implementation of (i) the policy reforms under the Program as they relate to the district administration; and (ii) the Performance Grants. The committee shall meet at least once a month. The DPC shall also ensure that (i) the performance grant procedures specified in the BPGR 2005; (ii) the instructions to be issued from time to time by the Finance Department to further implement BPGR 2005; (iii) the specific conditions for the performance grant; and (iv) the terms of partnership agreement with the provincial government, are fully adhered to in all respects. The DPC shall be headed by the district nazim, with the district coordination officer as the alternate chair, and comprise of executive district officers (EDOs) of the group of offices in the social sectors (education, health, public health engineering) as members, and the EDO (finance and planning) as the member secretary.

6. Within two weeks of the date a TMA has been declared eligible for the Performance Grant, Balochistan shall ensure that a TMA Program Committee shall have been established. The committee shall be headed by the tehsil nazim with the tehsil municipal officer as the alternate chair and the tehsil officer (infrastructure and services) as member-secretary. The committee shall meet at least once a month. It shall oversee all matters in connection with the implementation of (i) the policy reforms under the Program in as far as they relate to the TMA, and (ii) the Performance Grants.

Program Units

7. Within two months of the Effective Date, Balochistan shall ensure that a Program Unit (PU) shall have been established in (i) the Finance Department; (ii) the Bureau of Statistics; and (iii) each of the 28 district governments.

8. In the Finance Department, the PU shall be headed by an additional secretary who shall be assisted by a Program officer and a database operator. It shall have the functions to (i) implement the Performance Grants using the framework of the BPGR 2005 and in accordance with the Program design and agreed upon fund allocation, distribution and management procedure; (ii) prepare, according to the Program design and targets, an annual plan for the Performance Grants for the following fiscal year to be approved by the PSC by the end February of each year; (iii) periodically review the Performance Grants and make such improvements as are necessary; (iv) pilot and institutionalize, with the assistance of the contracted NGO, public expenditure tracking surveys with third party validation and make such survey publicly available; (v) liaise with the PFC with regards to the administration of the Performance Grants; (vi) ensure timely release of funds under the Performance Grants to local governments; (vii) prepare and submit to PSC an annual report on the Performance Grants and make such report publicly available; and (viii) establish linkage of the Program with BRMP and DSP.

9. In the Bureau of Statistics, the PU shall be headed by the director of the Bureau of Statistics who shall be assisted by a Program officer and one account assistant. Its functions shall be to (i) strengthen survey, data collection and analysis, monitoring and evaluation processes at the provincial level and in the district governments and establish channels for reporting and feedback from grass root levels; and (ii) pilot and institutionalize, with the assistance of the contracted NGO, quantitative service delivery surveys with third-party validation and make such survey publicly available.

10. In each district, the PU shall be headed by the EDO finance and planning who shall be assisted by a Program officer and a database operator. Its functions shall be to (i) utilize the Performance Grants in accordance with the specific criteria and conditions of the Program and follow the process and procedures laid down for monitoring accounting and reporting in the BPGR 2005 and the specific conditions of the terms of partnership; (ii) ensure transparency, equity and accountability in the participatory planning, allocation and use of the Performance Grants; and (iii) encourage and facilitate citizen participation and involvement and public-private partnership in planning, monitoring and implementation of service delivery.

11. Within two months of the date a TMA has been declared eligible for the Performance Grant, Balochistan shall ensure that a PU shall have been established. It shall be headed by tehsil municipal officer and assisted by a Program officer. The PU shall coordinate the implementation of the activities as they relate to the TMA under the Performance Grants.

#### Policy Dialogue

12. The Borrower shall continue timely policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on desirable changes to overcome or mitigate such problems and constraints, and on further reforms to strengthen the social services sector.

13. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for the implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

#### Continuity of Reforms

14. The Borrower shall ensure (a) that the objectives achieved, policies adopted, and actions taken prior to the date of the Agreements, as set forth in the development policy letter and accompanying Policy Matrix shall continue to be in full force and effect for the duration of the Program period and subsequently; (b) proper and timely achievement, adoption, compliance and implementation of the objectives, policies, and actions to be achieved, adopted, complied with, and implemented as set forth in the development policy letter and accompanying Policy Matrix; and (c) that once achieved, adopted, complied with, and implemented, such objectives, policies, and actions shall continue to be in full force and effect during and subsequent to the Program period.

Counterpart Funds

15. The Borrower and Balochistan shall ensure that the Counterpart Funds to be generated out of the proceeds of the Loan shall be used to restructure the Balochistan provincial debt through retirement of high-interest cash development loans. The Borrower and Balochistan further ensure that the fiscal space created by such restructuring shall be utilized to provide current expenditure budgetary support to the local governments for the social sectors under the PFC award.

Reform Undertakings

16. Balochistan shall provide devolved social services appropriate administrative, financial, and operational autonomy and agrees that for areas where powers have not yet been devolved, within eighteen months of the Effective Date, a transition arrangement shall be formulated indicating when and how such powers shall be devolved.

17. Within eighteen months of the Effective Date, Balochistan shall undertake appropriate actions to achieve clarity on the roles, responsibilities, and accountabilities of the provincial social sector departments in the context of the BLGO 2001 to ensure clear distinctions with the mandates of social sector departments in the district governments.

Reform Commitments

18. Balochistan shall undertake long-term commitment towards the improvement of the delivery of the social services in the Program area.

19. Balochistan shall ensure that none of the functions and responsibilities devolved to the local government shall be recentralized.

20. Balochistan shall ensure that the performance grant mechanisms and procedures including on the eligibility of local governments, award of grant, and timely transfer of grant, monitoring, reporting, audit and other aspects shall be consistent with the BPGR 2005.

21. Balochistan shall ensure continuous support and assistance to the local governments to improve their (a) capacity in budgeting and financial management; (b) planning, programming and design of development schemes and projects; (c) supervision and implementation of development works; (d) operation and maintenance; and (e) monitoring and evaluation.

Program Implementation

22. Balochistan shall take all steps and actions, including provision of staff resources to ensure satisfactory completion in a timely manner of all Program outputs. Balochistan shall also implement the Program and monitor and evaluate its performance in line with the Program administration memorandum as agreed with ADB.

Technical Assistance Loan Agreement

23. Balochistan shall ensure that in carrying out the policy measures and activities included under the Program, due consideration is given to the findings and recommendations of the activities under the Technical Assistance Loan Agreement. The Borrower and Balochistan shall allow ADB to provide comments on the findings and recommendations of the activities under the Technical Assistance Loan Agreement, for consideration in policy measures for this and upcoming programs in Balochistan or program of similar nature in Pakistan.

Auditing, Reporting, Monitoring and Evaluation

24. Without limiting the generality of Section 4.05 of this Agreement, Balochistan shall ensure that PPO submit to ADB quarterly and annual reports on the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter. Such reports shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed activities and expected progress during the following review period. The quarterly report shall be submitted within six (6) weeks after the end of each quarter. The annual report shall be submitted within three (3) months after the end of each Project year.

25. Without limiting the generality of Section 4.05 of this Agreement, within two (2) months of the Effective Date, Balochistan shall ensure that the PPO prepare and submit to ADB, the Program inception report which shall summarize actions so far taken and the further actions required for the implementation of the policy reforms under the Program. Within three (3) months of the completion of the Program, Balochistan shall ensure that the PPO prepare and submit the Program completion report to ADB.

26. Within two months of the Effective Date, Balochistan shall set up a Program performance management system to assess and evaluate the scope, implementation arrangements, benefits monitoring, progress and achievements of the Program as agreed with ADB and cause it to be operated within the Program period.

27. The local governments that received the Performance Grants shall maintain accounting, reporting and auditing procedures as prescribed in the BPGR 2005.

Program Review

28. ADB and Balochistan shall undertake regular review missions, at least on semi-annual basis, to (i) evaluate compliance with the policy reforms under the Program; (ii) advise on actions required to keep Program implementation on course; and (iii) review the coordination and collaborations of the Program implementation with other ongoing reforms including DSP and BRMP.

29. ADB and Balochistan shall also conduct a comprehensive mid-term review in the second year of Program implementation to evaluate progress on policy reforms and the investments under the Performance Grants.

Good Governance

30. The Borrower and Balochistan acknowledge that ADB, consistent with its commitment to good governance, accountability and transparency, reserves the right to undertake, directly or through its agents, investigation of any public impropriety in the implementation of the Program. Each of the Borrower and Balochistan shall cooperate fully and ensure that each of their agencies cooperates with any such investigation and extends all necessary assistance, including access to relevant books, files and records.

Resettlement

31. Balochistan shall ensure that the implementation of works under Performance Grants shall not entail any land acquisition and/or resettlement. In the event of unforeseen land acquisition and/or resettlement, Balochistan shall ensure that (a) all land required for the purposes of the Program shall be state land and free from any encumbrances, structures, human settlements, or cultivation; (b) no person shall be adversely affected in terms of ADB's *Policy on Involuntary Resettlement*; and (c) in consultation with ADB, the necessary requisite resettlement plan(s) in accordance with ADB's *Policy on Involuntary Resettlement* shall be prepared. In such event, any award of civil works contracts shall be conditional upon ADB's approval of such resettlement plan(s).

Environment

32. Balochistan shall ensure that the Program shall be carried out in accordance with the environmental rules and regulations applicable under the Borrower's laws and regulations and ADB's *Environmental Policy* (2002). Balochistan shall ensure that adequate environmental protection and safety measures shall be included in the design of the Program facilities and that the Program facilities shall be constructed, operated, and maintained in accordance with ADB's *Environmental Policy*. Balochistan shall ensure that (i) the implementation of environmental monitoring and mitigation measures and the environmental plan; and (ii) the environmental criteria for the Performance Grants activities shall adhere to overall selection requirements and sector specific requirements, shall be as agreed with ADB.