

LOAN AGREEMENT
(Special Operations)
(Earthquake-Displaced People Livelihood Restoration Program)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 04 JULY 2007

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 04 July 2007 between the ISLAMIC REPUBLIC OF PAKISTAN ("the Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Earthquake-Displaced People Livelihood Restoration Program (the "Program") as described in Schedule 1 to the Loan Agreement;

(B) the Borrower has also applied to ADB for technical assistance ("Technical Assistance") on a grant basis to the Government of the Islamic Republic of Pakistan (the "Government") for capacity building of institutions related to earthquake reconstruction and rehabilitation; and by a Technical Assistance Letter dated 28 June 2007, ADB has agreed to provide a technical assistance grant from the Pakistan Earthquake Fund to the Government for this purpose, in an aggregate amount equivalent to two million dollars (\$2,000,000); and

(C) 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, subject, however, to the following modifications:

(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) "AJK" means the Borrower's State of Azad Jammu and Kashmir;

(b) "Earthquake" means the earthquake of 8 October 2005 in affected areas of AJK and NWFP (defined below);

(c) "EEAP" refers to the Emergency Earthquake Assistance Project financed by ADB through Loan No. 2213(SF) and Grant No. 0029(SF);

(d) "Eligible Expenditures" means the expenditures incurred or to be incurred by the Borrower for Eligible Items, except for Eligible Items (i) provided under contracts financed by international or bilateral financing institutions or aid agencies, foreign governments, or any other loans or grants from ADB, or (ii) procured from countries that are not members of ADB;

(e) "Eligible Items" means goods, works, services and other items required or utilized by the housing sector under the R&R Program;

(f) "Eligible Households" means the households eligible for up to four installments of subsidy payments under the R&R Program;

(g) "ERRA" means the Borrower's Earthquake Reconstruction and Rehabilitation Authority first established through Notification of the Government No. F.1 (4)/2005-Admin dated 24 October 2005 or any successor thereto acceptable to ADB;

(h) "First Tranche" means a portion of the proceeds of the Loan in an amount not exceeding the equivalent of SDR131,937,500 to be initially withdrawn;

(i) "Financial Monitoring Report" or "FMR" means a report prepared in accordance with paragraph 3 of Schedule 3 to this Loan Agreement;

(j) "FY" or "Fiscal Year" means the fiscal year of the Borrower which runs from 1 July to 30 June;

(k) "GVAP" means the Gender and Vulnerability Action Plan prepared for the Program and agreed between the Borrower and ADB;

(l) "IEE" means the initial environmental examination prepared for the Program and agreed by ADB;

(m) "NWFP" means the Borrower's North West Frontier Province;

(n) "MOF" means the Borrower's Ministry of Finance or any successor thereto acceptable to ADB;

(o) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, MOF, which is responsible for the carrying out of the Program;

(p) "Program Period" means the period commencing on the Effective Date and ending on 30 June 2008, or such other date as may from time to time be agreed between the Borrower and ADB;

(q) "RRP" means the ADB's Report and Recommendation of the President for this Program;

(r) "R&R Program" means the ERRA-administered part of the Borrower's earthquake reconstruction and rehabilitation program established in response to the Earthquake;

(s) "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 to and subject to the provisions of Schedule 3 to this Loan Agreement; and

(t) "Technical Assistance" has the meaning specified in Recital (B) hereto.

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 two hundred sixty three million eight hundred seventy five thousand Special Drawing Rights (SDR 263,875,000).

Section 2.02. The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 December and 15 June 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 Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan be applied to the financing of Eligible Expenditures 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 Eligible Expenditures 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. 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 3.04. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of Eligible Expenditures incurred on or before 8 October 2005.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2008 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.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify Eligible Expenditures 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 the implementation of the Program, including the accomplishment of the performance targets and utilization of the proceeds of the Loan.

(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 on a quarterly basis (i) the Financial Monitoring Reports, and (ii) the progress reports on the Program.

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 competent authorities of the Borrower shall have granted approvals for the Program and Technical Assistance; and

(b) the authorized representatives of the Government shall have duly signed the Technical Assistance Letter referred to in Recital (B) hereto.

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

Miscellaneous

Section 6.01. The Secretary, 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

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:

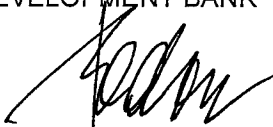
(632) 636-2444
(632) 636-2424.

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.

ISLAMIC REPUBLIC OF PAKISTAN

By  _____
Authorized Representative

ASIAN DEVELOPMENT BANK

By  _____
PETER L. FEDON
Country Director
Pakistan Resident Mission

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to support the housing sector of the R&R Program.
2. The scope of this Program includes the reconstruction and/or rehabilitation in the housing sector in AJK and NWFP, where approximately 585,000 rural houses were destroyed or damaged by the earthquake. The reconstruction and/or rehabilitation of rural houses will be conducted by individual households based on the standards and designs specified by ERRA. The Eligible Households will receive subsidies according to the subsidy schemes developed by ERRA. The subsidy schemes are based on the market replacement value of a typical house size of 39 square meters, irrespective of the actual size of the original houses. The Program shall finance the subsidy scheme payments.
3. The proceeds of the Loan are expected to be utilized by 30 June 2008.

SCHEDULE 2

Amortization Schedule

(Earthquake-Displaced People Livelihood Restoration Program)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-Dec-2017	2,638,800.00
15-Jun-2018	2,638,800.00
15-Dec-2018	2,638,800.00
15-Jun-2019	2,638,800.00
15-Dec-2019	2,638,800.00
15-Jun-2020	2,638,800.00
15-Dec-2020	2,638,800.00
15-Jun-2021	2,638,800.00
15-Dec-2021	2,638,800.00
15-Jun-2022	2,638,800.00
15-Dec-2022	2,638,800.00
15-Jun-2023	2,638,800.00
15-Dec-2023	2,638,800.00
15-Jun-2024	2,638,800.00
15-Dec-2024	2,638,800.00
15-Jun-2025	2,638,800.00
15-Dec-2025	2,638,800.00
15-Jun-2026	2,638,800.00
15-Dec-2026	2,638,800.00
15-Jun-2027	2,638,800.00
15-Dec-2027	5,277,500.00
15-Jun-2028	5,277,500.00
15-Dec-2028	5,277,500.00
15-Jun-2029	5,277,500.00
15-Dec-2029	5,277,500.00
15-Jun-2030	5,277,500.00
15-Dec-2030	5,277,500.00
15-Jun-2031	5,277,500.00
15-Dec-2031	5,277,500.00
15-Jun-2032	5,277,500.00
15-Dec-2032	5,277,500.00
15-Jun-2033	5,277,500.00
15-Dec-2033	5,277,500.00
15-Jun-2034	5,277,500.00
15-Dec-2034	5,277,500.00
15-Jun-2035	5,277,500.00
15-Dec-2035	5,277,500.00
15-Jun-2036	5,277,500.00
15-Dec-2036	5,277,500.00
15-Jun-2037	5,277,500.00
15-Dec-2037	5,277,500.00

15-Jun-2038	5,277,500.00
15-Dec-2038	5,277,500.00
15-Jun-2039	5,277,500.00
15-Dec-2039	5,277,500.00
15-Jun-2040	5,277,500.00
15-Dec-2040	5,277,500.00
15-Jun-2041	5,277,500.00
15-Dec-2041	5,277,500.00
15-Jun-2042	5,277,500.00
15-Dec-2042	5,277,500.00
15-Jun-2043	5,277,500.00
15-Dec-2043	5,277,500.00
15-Jun-2044	5,277,500.00
15-Dec-2044	5,277,500.00
15-Jun-2045	5,277,500.00
15-Dec-2045	5,277,500.00
15-Jun-2046	5,277,500.00
15-Dec-2046	5,277,500.00
15-Jun-2047	<u>5,276,500.00</u>
Total	263,875,000.00

* 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 relevant provisions of the Special Operations 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.

Withdrawal Applications

2. (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) With regard to the First Tranche, such withdrawal application shall be accompanied by (i) an FMR for the quarter ended 31 March 2007 indicating that the amount of Eligible Expenditures paid for by the Borrower during the period from 8 October 2005 to 31 March 2007 is greater than the amount of the requested withdrawal, and (ii) a certificate of the Borrower confirming that the FMR is correct.

(c) With regard to the Second Tranche, such withdrawal application shall be accompanied by (i) the most recent FMR indicating the amount of Eligible Expenditures paid for by the Borrower during the period from 1 April 2007 to the end of the quarter to which the FMR relates, (ii) a certificate of the Borrower confirming that the amount referred to in item (i) of this subparagraph plus the projected Eligible Expenditures for the remaining Program Period exceed the amount of the requested withdrawal; and (iii) documents evidencing that the conditions for the Second Tranche release set out in paragraph 5 below have been met.

Financial Monitoring Reports

3. The Borrower, through ERRA, shall prepare and furnish to ADB, FMRs in a form and substance satisfactory to ADB. Each FMR shall be prepared on a quarterly basis and furnished to ADB not later than (60) days after the end of each quarter to which it relates during the Program Period. Each FMR shall indicate (a) funding sources and amounts provided to support the R&R Program, both cumulatively and for the period covered by such FMR, (b) categories of expenditures, (c) actual use (i.e., expenditures incurred and paid for) and planned use, and (d) variances between actual and planned uses of funds (i.e. amounts of unutilized funds) as of the end of the period covered by such FMR.

4. Throughout the Program Period, the Borrower shall submit any other information as ADB may require from time to time to assess the Borrower's compliance with the requirements set out in this Schedule.

Second Tranche Release Conditions

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 Loan Account for the Second Tranche unless ADB is satisfied, after consultation with the Borrower, that the following conditions have been met:

- (a) ERRA shall have paid the third installment of the housing subsidies to 85% of the Eligible Households, and furnished documents evidencing the payment of the third installment;

- (b) unqualified audit opinion of ERRA's financial statements for FY2007 shall have been submitted to ADB;
- (c) training facilities shall have been provided by the Borrower to enable the commencement of the training program for households on seismic building standards and designs under the Technical Assistance; and
- (d) consulting services contract awards for the EEAP's Legal Assistance, Governance, and Institutional Building component shall have been completed.

Flow of Funds

6. (a) Government Account No. 1 established at the State Bank of Pakistan shall serve as the account into which all withdrawals from the Loan Account shall be deposited ("Account No. 1").

(b) Within sixty (60) days of the release of the Second Tranche from the Loan Account, the Borrower shall have transferred an amount equal to the Eligible Expenditures projected for the remaining Program Period pursuant to paragraph 2(c)(ii) of this Schedule to ERRA's Account established at the National Bank of Pakistan ("ERRA Account").

(c) Account No. 1 and the ERRA Account shall be managed in accordance with terms and conditions satisfactory to ADB. Separate accounts and records in respect of Account No. 1 and the ERRA Account shall be maintained in accordance with sound accounting principles. Upon ADB's request, the Borrower shall have Account No. 1 and the ERRA 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.

Refund

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

(b) If ADB determines at any time that (i) any portion of the Second Tranche remains unutilized by the end of the Program Period, or (ii) any payment out of the proceeds of the Loan was not made for Eligible Expenditures or was not justified by the evidence furnished to ADB, the Borrower shall, promptly upon notice from ADB, provide such additional evidence as ADB may request, or refund to ADB the unutilized amount of the Loan proceeds and the amounts of such ineligible payments.

(c) Refunds to ADB made pursuant to sub-paragraph (b) of this paragraph shall be credited to the Loan Account for cancellation in accordance with the provisions of the Loan Regulations.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the following procedures shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.
2. Each contract for Eligible Items shall be awarded on the basis of (a) 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; and (b) procedures appropriate to the trade and acceptable to ADB, in case of procurement of commonly traded commodities.

SCHEDULE 5

Program Implementation and Other Matters

Program Management

1. MOF shall be the Program Executing Agency.
2. ERRA shall implement the Program in close coordination with MOF, reconstruction agencies, provincial and district line departments in AJK and NWFP. ERRA shall be responsible for providing to ADB the required reports and information on Program implementation.

Counterpart Obligations

3. Without limiting the generality of Section 6.06 of the Loan Regulations, the Borrower shall ensure that all necessary funds, facilities, services, and other resources in addition to the proceeds of the Loan are allocated and released in a timely manner to ERRA, and the line departments in AJK and NWFP throughout the Program Period.

Housing Reconstruction

4. The Borrower shall ensure that the environmental monitoring and management plan set out in the IEE is fully implemented to meet the seismic designs and safety standards in rural housing reconstruction. The Borrower shall also ensure that the guidelines for land acquisition by private households prepared for the Program and agreed between the Borrower and ADB (as more specifically described in Appendix 8 of RRP), are fully implemented throughout the Program Period.

Gender and Vulnerable People

5. The Borrower shall ensure that GVAP (as more specifically described in Appendix 6 of RRP) is adopted and implemented by ERRA in a timely manner over the entire Program Period, and adequate resources are allocated for this purpose. In particular, the Borrower shall ensure that implementation of the GVAP is closely monitored, and the progress is reported through quarterly reports to ADB.

Good Governance and Transparency

6. The Borrower shall ensure that ADB's *Anticorruption Policy* (1998, as amended to date) is followed throughout Program implementation, it being understood that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Program. The Borrower shall allow ADB representatives to carry out spot or random checks on the flow of funds. The Borrower shall allow independent auditors, acceptable to ADB, to undertake performance audits on a random basis to review the Program implementation.
7. The Borrower through ERRA shall publicly disclose on the website the Program related information, including among other things, information on the release of funds to the intended beneficiaries, applicable procedures, financial statements, and loan utilization. Likewise, national and provincial/state newspapers in the English, Pushtoo, and Urdu languages shall carry such details on a regular basis, at least once a month. Similarly, television and radio broadcasts

shall be made in these languages broadcasts at national and provincial/state levels giving these same details.

Accounting, Audit and Financial Management

8. The Borrower shall ensure that existing accounting and audit procedures, and the financial management system are maintained to ensure efficient and economic use of the ADB financing proceeds. Accounts and financial statements in relation to the Program will be prepared and certified by independent auditors acceptable to ADB.

Program Performance Monitoring

9. The Borrower shall monitor the Program performance through ERRA's Earthquake Monitoring and Evaluation Framework (EMEF). The Borrower shall ensure that ERRA (a) regularly examines and updates EMEF in accordance with ADB's *Project Performance Monitoring System Handbook*, and (b) within 6 months of Effective Date, recruits through the competitive bidding process (i) an independent firm to carry out monitoring and data collection, and (ii) an independent firm to conduct annual evaluation of the Program.

Program Progress Reports

10. The Borrower shall ensure that ERRA provides progress reports to ADB on a quarterly basis, i.e., on or before 30 September, 31 December, 31 March, and 30 June throughout the Program Period. The progress report shall include, among other things, information on the number of Eligible Households who have received the third and fourth installments, the number of newly built houses complaint with the ERRA's designs, standards, and guidelines, the number of landless Eligible Households who have received payments for land acquisitions, the implementation of GVAP, and problems encountered during Program implementation and actions taken to address the problems.