
LOAN NUMBER 2340-PAK

LOAN AGREEMENT
(Ordinary Operations)

(Second Generation of Capital Market Reform Program)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 15 MAY 2008

PLL:PAK 41108

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 15 May 2008 between 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 26 June 2007 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to promote the second generation of capital market reform in the Borrower's financial sector (hereinafter called the Program);

(B) the Borrower has applied to ADB for a loan from its ordinary capital resources for the purposes of the Program;

(C) the Borrower has applied to ADB for advisory technical assistance on a grant basis to the Government of the Islamic Republic of Pakistan (hereinafter called the Government) for supporting the effective implementation of the Program, and ADB has agreed to provide a technical assistance grant to the Borrower for this purpose in an aggregate amount equivalent to one million dollars (\$1,000,000); and

(D) 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 3.06 is deleted and the following is substituted therefor:

Section 3.06. **Rebate.**

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(f) Section 3.07 is deleted and the following is substituted therefor:

Section 3.07. **Surcharge.**

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by

(ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(g) 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) "Counterpart Funds" means the Rupee proceeds accruing to the Borrower and generated from the Loan proceeds under the Program and referred to in paragraph 7 of Schedule 5 to this Loan Agreement;

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

(c) "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;

(d) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding two hundred million dollars (US\$200,000,000) to be initially withdrawn and utilized;

(e) "MOF" means the Ministry of Finance of the Borrower, and any successor thereto;

(f) "PCU" means the program coordination unit described in paragraph 2 of Schedule 5 to this Loan Agreement;

(g) "Policy Letter" has the meaning specified in Recital A hereto;

(h) "Policy Matrix" means the policy matrix as agreed between the Borrower and ADB and attached to the Policy Letter;

(i) "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;

(j) "Program Period" means the period commencing on the Effective Date and ending on 30 June 2009 or such other date as may from time to time be agreed between the Borrower and ADB;

(k) "Rupees" or the sign "Rs." means Pakistan rupees, the currency of the Borrower;

(l) "SBP" means the State Bank of Pakistan, established pursuant to the State Bank of Pakistan Act 1956;

(m) "Second Tranche" means the balance of the proceeds of the Loan remaining after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;

(n) "SECP" means the Securities and Exchange Commission of Pakistan established under the SECP Act, and any successor thereto;

(o) "SECP Act" means the Securities and Exchange Commission of Pakistan Act, 1997;

(p) "Technical Assistance" has the meaning specified in Recital (C) hereto; and

(q) "Tranche" means the First Tranche, or the Second Tranche as the context requires.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of four hundred million dollars (\$400,000,000), 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 15 years, including a grace period of 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 January and 15 July 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 withdrawn and outstanding 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. 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.

Section 3.04. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 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. (a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial and capital market practices.

(b) 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. The Borrower shall make 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.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program 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 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 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. 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 10.04 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 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

The Secretary
Economic Affairs Division
Government of the Islamic Republic of Pakistan
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.

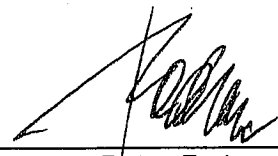
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By 

Junaid Iqbal Ch.
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

Peter Fedon
Country Director
Pakistan Resident Mission

SCHEDULE 1**Description of the Program**

1. The principal objectives of the Program are to (i) strengthen the enabling environment for private pension funds and other institutional investors; (ii) address policy and regulatory constraints to the development of corporate bond markets; (iii) increase equity market breadth and reduce its volatility; (iv) strengthen the institutional framework for sector supervision by transforming SECP into a financial services commission for the regulation and supervision of NBFIs; and (v) strengthen the governance of securities markets, market professionals and public issuers. The Program is described in more detail in the Policy Letter. The Program will be implemented during the period up to 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 7 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 (Second Generation of Capital Market Reform 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.

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 January 2011	2.25
15 July 2011	2.36
15 January 2012	2.48
15 July 2012	2.60
15 January 2013	2.73
15 July 2013	2.87
15 January 2014	3.01
15 July 2014	3.16
15 January 2015	3.32
15 July 2015	3.49
15 January 2016	3.66
15 July 2016	3.84
15 January 2017	4.04
15 July 2017	4.24
15 January 2018	4.45
15 July 2018	4.67
15 January 2019	4.91
15 July 2019	5.15
15 January 2020	5.41
15 July 2020	5.68
15 January 2021	5.96
15 July 2021	6.26
15 January 2022	6.57
15 July 2022	6.89
Total	<u>100.00</u>

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:

Schedule 2

(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

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 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 SBP 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 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 2 to this Schedule.

Negative List

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Second Generation of Capital Market Reform Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods (included in the following Standard International Trading Commodity chapters or headings):

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
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)
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) payments made for expenditures incurred more than 180 days before the effectiveness date of the loan;
- (iv) 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 loans from the Asian Development Bank;
- (v) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (vi) expenditures for narcotics; and
- (vii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in classes I-a and I-b, Classification of Pesticides by Hazard and Guidelines to Classification.

Conditions for Release of the Second Tranche

1. SECP to have conducted a sample survey on employer-sponsored occupational pension schemes in Pakistan and issued a report for stakeholder comments on the enabling environment for such schemes.
2. The Government to issue tradable Government bonds through national saving centers, and ensure a lower return for National Savings Scheme instruments as compared with that of tradable Government bonds.
3. The Privatisation Commission to have (i) obtained approval of the Cabinet Committee on Privatisation for a policy of supporting capital market development through the sequenced divestment of shares in state-owned companies through stock exchanges in both domestic and international markets, taking into account stock market conditions and investor demand; and (ii) publicly disclosed this policy.
4. MOF to have considered and submitted to the Cabinet the draft Financial Services Commission of Pakistan Law that strengthens overall regulatory governance, after stakeholder consultation and clearance by the Ministry of Law.
5. SECP to have provided a legal and regulatory framework on the reporting requirements of holding companies, including: (i) ownership structure and the relationship of companies within the holding company group; (ii) disclosure of intercompany and related party transactions; and (iii) public disclosure of audited financial reports in accordance with international accounting standards.
6. MOF to have considered and submitted to the Cabinet the draft Securities Law as defined, after stakeholder consultation and clearance by the Ministry of Law.
7. SECP to have issued guidelines on obtaining information about unlisted publicly tradable companies (with stock exchanges continuing to provide disclosed information on listed companies).
8. SECP to have (i) developed a system of certification by examination for securities market professionals, and (ii) required all securities brokers and mutual fund sales agents dealing with public customers to be certified by a designated agency.
9. SECP to have directed all stock exchanges to prepare and submit to SECP a plan for consideration and approval on self-regulation, including (i) identification of functions to be performed and capacity needed to perform these functions; (ii) plans for each area (e.g., listed companies, market surveillance, and on- and off-site supervision of professional market participants) in accordance with sound business practices and applicable laws and regulations, including the financial responsibility for, and the quality of execution of, trades on behalf of customers; and (iii) budget estimates of the cost of regulatory compliance.

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

Coordination and Administration

1. MOF shall be the Program Executing Agency. SECP and the Ministry of Privatization shall be the implementing agencies for their respective components under the Program.
2. The PCU established under MOF shall coordinate the Program implementation.

Implementation of the Policy Letter

3. The Borrower shall (i) ensure that the policies adopted and actions taken as described in the Policy Letter, including the Policy Matrix, prior to the date of this Loan Agreement continue in effect for the duration of the Program period and subsequently; and (ii) promptly adopt the other policies and take the other actions indicated in the Program as specified in the Policy Letter, including the Policy Matrix, and ensure that such policies and actions continue in effect for the duration of the Program period and subsequently.

Policy Dialogue

4. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, sector issues, policy reforms and additional reforms during the Program Period that may be considered necessary or desirable, including the progress made in carrying out the Program.
5. The Borrower shall engage in policy dialogue with ADB, in a timely manner, on problems and constraints encountered during Program implementation and on desirable changes to overcome or mitigate such problems and constraints.
6. The Borrower shall keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for 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.

Counterpart Funds

7. The Borrower shall ensure that the Counterpart Funds shall be used, first, to support the adjustment cost for reforms to be initiated and implemented under the Program, and, second, to finance expenditures for the general development purposes of the Borrower.

Monitoring of the Program

8. The Borrower shall cause MOF to (i) establish, within three months after the Effective Date, and maintain a program performance evaluation system, which will include a data base on the status of policy measures and program indicators based on the Policy

Schedule 5

Matrix and the design and monitoring framework for the Program, (ii) monitor the implementation of the Program and its impacts, and (iii) submit to ADB quarterly reports on the implementation of the Program, including accomplishment of the measures set forth in the Policy Letter and the Policy Matrix. ADB will also monitor the implementation of the Program through regular reviews and progress reports throughout the implementation period. Based on these reviews, modifications and improvements will be considered. To facilitate such review, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request.

9. Approximately six (6) weeks before the anticipated withdrawal of the Second Tranche, or such other time as the Borrower and ADB may agree, a review shall be carried out concerning the Borrower's progress in implementing the policy reforms under the Program set out in the Policy Letter and the Policy Matrix, including the fulfillment of the conditions listed in Attachment 2 to Schedule 3 to this Loan Agreement.