

CONFORMED COPY

LOAN NUMBER 2061-PAK

LOAN AGREEMENT
(Ordinary Operations)

(Southern Punjab Basic Urban Services Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 23 JANUARY 2004

LAL:PAK 23213

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 23 January 2004 between ISLAMIC REPUBLIC OF PAKISTAN (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Borrower has applied to ADB for: (i) a loan from its Ordinary Capital resources; and (ii) a loan from its Special Fund resources, both for the purposes of the Southern Punjab Basic Urban Services Project (hereinafter called the Project) described in Schedule 1 to the Special Operations Loan Agreement (such expression, as defined in Recital (B) herein below);

(B) by an agreement of even date herewith between the Borrower and ADB (hereinafter called the Special Operations Loan Agreement), ADB has agreed to lend to the Borrower, from its Special Fund resources, an amount in various currencies equivalent to Thirty-one Million Four Hundred Twenty-nine Thousand Special Drawing Rights (SDR31,429,000), for the purposes of the Project;

(C) the Project will be carried out by the Province of Punjab (hereinafter called Punjab), and for this purpose the Borrower will make available to Punjab the proceeds of the loan provided for herein (hereinafter called the Loan) upon terms and conditions satisfactory to ADB; and

(D) ADB has on the basis inter alia of the foregoing, agreed to make the Loan to the Borrower from ADB's Ordinary Capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and Punjab;

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, (said Ordinary Operations Loan Regulations being hereinafter called the Loan Regulations).

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

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 Billion Eight Hundred Ninety-six Million Two Hundred Twenty-five Thousand Yen (¥4,896,225,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Loan Agreement.

(b) The Loan has a term of twenty-five (25) years, including a grace period of five (5) 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%]¹ as provided by Section 3.02 of the Loan Regulations.

Section 2.03. (a) The Borrower shall pay a commitment charge at the rate of three-fourths of one percent (0.75%) per annum. Such charge shall accrue on amounts of the Loan (less amounts withdrawn from time to time), during successive periods commencing sixty (60) days after the date of this Loan Agreement, as follows:

during the first twelve-month period, on ¥734,433,750;
 during the second twelve-month period, on ¥2,203,301,250;
 during the third twelve-month period, on ¥4,161,791,250; and
 thereafter, on the full amount of the Loan.

(b) If any amount of the Loan is cancelled, the amount of each portion of the Loan stated in paragraph (a) of this Section shall be reduced in the same proportion as the cancellation bears to the full amount of the Loan before such cancellation.

Section 2.04. The Borrower shall pay to ADB a front-end fee in an amount equal to one-half of one percent (0.5%) of the amount of the Loan.

Section 2.05. Interest and other charges on the Loan shall be payable semiannually on 15 March and 15 September in each year.

¹ Please note that the currently applicable spread of 0.60% is subject to change and will be determined only on the date of signature of this Loan Agreement.

Section 2.06. 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 2.07. (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 II

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan to Punjab upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the Borrower shall relend the proceeds of the Loan to Punjab, on the same terms and conditions, as are applicable to the Borrower. The foreign exchange risk shall be borne by Punjab.

(b) The Borrower shall cause Punjab to apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The goods and services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such goods and services and other items of expenditure shall be in accordance with the provisions of Schedule 2 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 goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to the Special Operations Loan Agreement.

ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those 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, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

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 July 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 Punjab to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and urban services practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to the Special Operations Loan Agreement.

Section 4.02. The Borrower shall make available to Punjab, promptly as needed, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

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

Section 4.04. The Borrower shall take all action which shall be necessary on its part to enable Punjab to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

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 shall have, in the opinion of ADB, failed to perform any of its obligations under the Special Operations Loan Agreement; and

(b) The structure, organization, functions, or capabilities of the TMAs as currently provided under PLGO shall have been changed in a manner which in the reasonable opinion of ADB may adversely affect the carrying out of the Project.

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: any 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 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;

(b) the PC-1 of the Project shall have been approved by the Executive Committee of the National Economic Council of Pakistan; and

(c) PCO and PUs shall have been established and fully staffed in accordance with the provisions of Schedule 6 of the Special Operations Loan Agreement.

Section 6.02. The following are specified as additional matters, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB that the Special Operations Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. 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 10.03 of the Loan Regulations.

ARTICLE VII

Delegation of Authority

Section 7.01. The Borrower hereby designates Punjab, its agent for the purposes of taking any action or entering into any agreement required or permitted under

Sections 3.02, 3.03 and 3.05 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 Punjab 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 Punjab 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, 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

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

Cable Address:

ECONOMIC
ISLAMABAD

Telex Number:

5634 ECDIV PK

Facsimile Numbers:

(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.

ISLAMIC REPUBLIC OF PAKISTAN

By _____
IFTIKHAR HUSSAIN KAZMI
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____
TADAO CHINO
President

SCHEDULE 1

Amortization Schedule

(Southern Punjab Basic Urban Services Project)

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 March	2009	0.83
15 September	2009	0.87
15 March	2010	0.91
15 September	2010	0.96
15 March	2011	1.01
15 September	2011	1.06
15 March	2012	1.11
15 September	2012	1.16
15 March	2013	1.22
15 September	2013	1.28
15 March	2014	1.35
15 September	2014	1.42
15 March	2015	1.49
15 September	2015	1.56
15 March	2016	1.64
15 September	2016	1.72
15 March	2017	1.81
15 September	2017	1.90
15 March	2018	1.99
15 September	2018	2.09
15 March	2019	2.20
15 September	2019	2.31
15 March	2020	2.42
15 September	2020	2.54
15 March	2021	2.67
15 September	2021	2.80
15 March	2022	2.94
15 September	2022	3.09
15 March	2023	3.25
15 September	2023	3.41

<u>Payment Due</u>		<u>Installment Share</u> (Expressed as a %)
15 March	2024	3.58
15 September	2024	3.76
15 March	2025	3.94
15 September	2025	4.14
15 March	2026	4.35
15 September	2026	4.57
15 March	2027	4.79
15 September	2027	5.03
15 March	2028	5.29
15 September	2028	5.54
		<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:

(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.

Schedule 1

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 2

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of goods, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Taxes

2. No withdrawals from the Loan Account shall be made in respect of any local taxes.

Percentages of ADB Financing

3. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

4. Notwithstanding paragraph 5 of this Schedule, any contract awarded to a local supplier after effective international competitive bidding or international shopping pursuant to the relevant provisions of Schedule 4 to this Loan Agreement shall be financed out of the proceeds of the Loan on the following basis:

- (a) where the goods procured from a local supplier are manufactured locally, 100 percent of the ex-factory price of the goods supplied (exclusive of any taxes); and
- (b) where the goods procured from a local supplier have been entirely imported, 100 percent of the foreign-currency component of the contract price.

Local Expenditure

5. (a) Loan proceeds up to the amount equivalent to ¥3,905,447,000 may be withdrawn from the Loan Account in foreign currency for the purposes of financing local expenditure.

(b) Except as provided in this paragraph or as ADB may otherwise agree, no withdrawals from the Loan Account shall be made in respect of any local expenditure on the Project.

Schedule 2Front-end Fee

6. The amount allocated to Category 6 is for financing the front-end fee referred to in Section 2.04 of this Loan Agreement. On or promptly after the Effective Date, ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amount of this fee.

Interest and Commitment Charge

7. The amount allocated to Category 7 is for financing interest and commitment charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charge.

Reallocation

8. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table and subject to paragraph 5 of this Schedule,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Imprest Account; Statement of Expenditures

9. (a) Except as ADB may otherwise agree, the Borrower shall ensure that LGRD shall establish immediately after the Effective Date, a first generation imprest account at the National Bank of Pakistan, Lahore. Second generation imprest accounts shall be established by PUs immediately after the Effective Date at the local branches of the National Bank of Pakistan to meet eligible expenditures incurred by PUs under the Project. The establishment of the first and second generation imprest accounts shall be subject to the appointment of qualified account staff and the establishment of internal controls by PCO and PUs, acceptable to ADB. PCO shall disburse funds from the first generation imprest account for: (i) PCO activities including capital and operating costs of PCO; (ii) payments to consultants; (iii) technical support team offices; (iv) capacity building and training activities; and (v) related expenditures on monitoring, review and evaluations. Funds for Part A of the Project shall be transferred to the second generation imprest accounts managed by PUs on

Schedule 2

the basis of work plans for eligible items in accordance with the Eligibility Criteria. The first and second generation imprest accounts shall be managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. The initial amount to be deposited into the: (i) first generation imprest account shall not exceed \$1,200,000; (ii) second generation imprest accounts for each PU shall not exceed \$100,000, except for Ahmadpur East, the second generation imprest account for which shall not exceed \$10,000.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest accounts, in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of Fifty Thousand Dollars (\$50,000).

Withdrawal of Loans

10. Except for withdrawals in respect of (i) front-end fee and interest and commitment charge under this Loan Agreement; and (ii) interest charge under the Special Operations Loan Agreement, and except as the Borrower and ADB may otherwise agree, all withdrawals to be made under this Loan and Special Funds resources loan shall be made on a pro rata basis.

Condition of Withdrawals from Loan Account

11. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account until: (i) qualified account staff at PCO and PUs, acceptable to the Bank, has been appointed by LGRD and TMAs, respectively; and (ii) internal controls by PCO and PUs, acceptable to the Bank, have been established.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Southern Punjab Basic Urban Services Project)					
CATEGORY				PERCENTAGE OF BANK FINANCING	
Number	Item	Amount Allocated (₹) (R/Off '000)			
		Category	Subcategory	Percentage	Basis for Withdrawal from the Loan Account
1	Civil Works	3,024.453		71	percent of total expenditure
					(3% for foreign and 68% for local)
2	Equipment and Material	1,273.127		100	percent of foreign expenditure
				100*	percent of local expenditure
3	Social/Community Mobilization	31.662		100*	percent of local expenditure
4	Consultants	261.241		100	percent of foreign expenditure
				100*	percent of local expenditure
5	Incremental Administration Cost ¹	160.161		100*	percent of local expenditure
6	Front-end Fee	24.481		100	percent of amount due
7	Interest and Commitment Charge	121.100		100	percent of amounts due
	Total	4,896.225			

*Exclusive of local taxes

¹ Incremental operating costs will be withdrawn on the basis of the following percentages of each payment made for such costs during the Project implementation period: 100% in the first and second years of the Project implementation commencing from the Effective Date; 75% in the third year; and 50% in the fourth and fifth years.