
LOAN NUMBER 2229-PAK(SF)

LOAN AGREEMENT
(Special Operations)

(Technical Assistance Loan for Mega City Development Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED _____

LAS:PAK 38405

LOAN AGREEMENT (Special Operations)

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

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

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

(C) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon, *inter alia*, the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB on the one part and Sindh and the City District Government of Karachi (CDGK) on the other part;

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 May 2004 (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.

Section 1.02. The definitions set forth in the Loan Regulations are applicable to this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "CDGK" means the City District Government of Karachi or any entity that is a successor thereto that is acceptable to ADB;

(b) "Component A" means the Capacity Building Facility Component as described in paragraph 2(a) of Schedule 1 to this Loan Agreement;

(c) "Component B" means the Project Preparation Facility component as described in paragraph 2(b) of Schedule 1 to this Loan Agreement;

(d) "Component C" means the Specialized Financing Vehicle Component as described in paragraph 2(c) of Schedule 1 to this Loan Agreement;

(e) "Component D" means Support for TA Loan Management as described in paragraph 2(d) of Schedule 1 to this Loan Agreement;

(f) "Components" means Component A, Component B, Component C and Component D, and "Component" means any one of them;

(g) "Follow-on Project" means any project developed on the basis of project preparatory work conducted in a Subproject;

(h) "Karachi" means the city and metropolitan area of Karachi;

(i) "LSU" means the local support unit established to coordinate the activities under Component A and Component B and described in paragraph 8 of Schedule 6 to this Loan Agreement;

(j) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations, means Department of Finance, Sindh which is responsible for the carrying out of the Project and "Project Implementation Agencies" shall mean Sindh and CDGK;

(k) "Project facilities" means funds, physical facilities, services, equipment and other resources, which are required, in addition to the proceeds of the Loan, for the carrying out of the Project;

(l) "PSC" means the project steering committee formed to oversee the Project and described in paragraph 5 of Schedule 6 to this Loan Agreement;

(m) "PSU" means the project support unit established to be responsible for the day to day management of the Project and described in paragraph 6 of Schedule 6 to this Loan Agreement;

(n) "PWG" means the project working group formed to provide oversight for operational matters of Component A and Component B and described in paragraph 7 of Schedule 6 to this Loan Agreement;

(o) "RRP" means the Report and Recommendation of the President to the Board of Directors for the Project;

(p) "SFV" means the specialized financing vehicle as described in paragraph 2(c) of Schedule 1 to this Loan Agreement;

(q) "Sindh" means the Department of Finance of the Province of Sindh;
and

(r) "Subproject" means a subproject, arising through the activities of the Project for preparing infrastructure projects or capacity building of institutions and enabling environment for urban infrastructure investments in Karachi.

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 seven million ten thousand Special Drawing Rights (SDR 7,010,000.00).

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

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

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 January and 1 July 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.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan to Sindh upon the financial terms and conditions as are applicable to the Borrower hereunder, which shall include interest at a rate of one percent (1%) per annum during the grace period and one and one-half percent (1.5%) per annum thereafter, with a repayment period of thirty-two (32) years including a grace period of eight (8) years. The foreign exchange risk shall be borne by Sindh.

(b) The Borrower shall cause Sindh to apply such proceeds 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 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 in respect of goods and services shall be made only on account of expenditures relating to

- (a) goods which are produced in and supplied from and services which 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) goods and services which 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, 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 this Loan Agreement. ADB may refuse to finance a contract whose goods and services or other items of expenditure have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of such contract are not satisfactory to ADB.

Section 3.05. Except as ADB may otherwise agree, the Borrower shall cause all goods and services and other items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 July 2010 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 Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.

Section 4.03. The Borrower shall cause Sindh and CDGK to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial and engineering practice.

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 PSC shall have been established, as provided in paragraph 6 of Schedule 6 to this Loan Agreement;

(b) the PWG shall have been established, as provided in paragraph 8 of Schedule 6 to this Loan Agreement;

(c) the PSU shall have been established and its director and key staff shall have been appointed, as provided in paragraph 7 of Schedule 6 to this Loan Agreement; and

(d) the LSU shall have been established and its director and key staff shall have been appointed, as provided in paragraph 9 of Schedule 6 to this Loan Agreement.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB that: the Project Agreement has been duly authorized or ratified by and executed and delivered on behalf of, Sindh and CDGK and is legally binding upon each of them in accordance with its terms; and

Section 5.03. A date ninety (90) days after the date of execution of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Delegation of Authority

Section 6.01. The Borrower hereby designates Sindh its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.04 and 3.05 of this Loan Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

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

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

ARTICLE VII

Miscellaneous

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

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

For the Borrower

Economic Affairs Division
Block C
Pakistan Secretariat, Islamabad

Telex Number:

EC DIV 05636

Facsimile Number:

(92-51) 920-5971
(92-51) 921-0736

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 _____
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____

SCHEDULE 1

Description of the Project

1. The objective of the Project is to improve in a sustainable manner, CDGK's institutional and structural capacity. In particular, (i) improving Karachi's city planning, management and financing; (ii) improving and expanding urban infrastructure and services; and (iii) establishing sustainable and efficient financing of city urban infrastructure and services.

2. The Project consists of the following Components:

(a) Component A: Capacity Building Facility

Providing resources to undertake a comprehensive capacity building program for CGDK, Town Municipal Administrations (TMAs) and other city agencies through advisory services, training and establishing necessary information and communication technology systems. Priority Subprojects may include but not limited to:

- (i) Organizational development of CDGK and completion of its transition under the Sindh Local Government Ordinance 2001;
- (ii) Improving financial and revenue management; enhancement of accounting functions and establishing efficient and relevant management information systems;
- (iii) Implementing customer oriented reforms in CDGK and TMAs and reforms to improve the commercialization of Karachi Water and Sewerage Board (KWSB) as set out in appendix 4 of the RRP;
- (iv) Revitalization of Citizen Community Boards within the CDGK geographical area; and
- (v) Improving CDGK city planning services and functions, including support for preparing a master plan for the city of Karachi.

(b) Component B: Project Preparation Facility

- (i) Developing feasibility studies for Follow-on Projects in city infrastructure services including, the water, sewerage, drainage, solid waste, road and transport and Katchi Abadis sectors;
- (ii) Providing advisory services in developing public-private modalities for financing, construction, operating and maintenance of infrastructure facilities and the preparation and reviewing of contracts and other documentation relating to projects involving public-private participation;
- (iii) Providing resources to prepare detailed design work to accelerate project implementation.

(c) Component C: SFV

Establishing and making fully operational the SFV through start up funding for the first three years of its operation on a declining basis over such period.

(d) Component D: Support for TA Loan Management

(i) Providing support and assistance to the PSU in managing and implementing the Project and coordinating Component C.

(ii) Providing support and assistance to the LSU and PWG to:

(a) ensure effective coordination between the various activities and studies arising from Component A and Component B;

(b) determine the prioritization of the project feasibility and other studies;

(c) finalize detailed terms of reference (TORs) for the studies and Subprojects, preparation of requests for proposals and evaluation of technical proposals for consultants' engagement;

(d) evaluate the outputs of consultants under Subprojects;

(e) assist in preparing monthly, and quarter yearly progress reports; and

(f) facilitate, coordinate and monitor the development and implementation of reform actions and institutional support plans with respect to the capacity building programs.

3. The Project includes the provision of consulting services.

4. The Project is expected to be completed by 31 January 2010.

SCHEDULE 2**Amortization Schedule****(Technical Assistance Loan for Mega City Development Project)**

<u>Date Payment Due</u>			<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
01	July	2014	146,042.00
01	January	2015	146,042.00
01	July	2015	146,042.00
01	January	2016	146,042.00
01	July	2016	146,042.00
01	January	2017	146,042.00
01	July	2017	146,042.00
01	January	2018	146,042.00
01	July	2018	146,042.00
01	January	2019	146,042.00
01	July	2019	146,042.00
01	January	2020	146,042.00
01	July	2020	146,042.00
01	January	2021	146,042.00
01	July	2021	146,042.00
01	January	2022	146,042.00
01	July	2022	146,042.00
01	January	2023	146,042.00
01	July	2023	146,042.00
01	January	2024	146,042.00
01	July	2024	146,042.00
01	January	2025	146,042.00
01	July	2025	146,042.00
01	January	2026	146,042.00
01	July	2026	146,042.00
01	January	2027	146,042.00
01	July	2027	146,042.00
01	January	2028	146,042.00
01	July	2028	146,042.00

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

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
01 January 2029	146,042.00
01 July 2029	146,042.00
01 January 2030	146,042.00
01 July 2030	146,042.00
01 January 2031	146,042.00
01 July 2031	146,042.00
01 January 2032	146,042.00
01 July 2032	146,042.00
01 January 2033	146,042.00
01 July 2033	146,042.00
01 January 2034	146,042.00
01 July 2034	146,042.00
01 January 2035	146,042.00
01 July 2035	146,042.00
01 January 2036	146,042.00
01 July 2036	146,042.00
01 January 2037	146,042.00
01 July 2037	146,042.00
01 January 2038	146,026.00
	<u>7,010,000.00</u>

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

SCHEDULE 3

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.)

Percentages of ADB Financing

2. 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.

Interest Charge

3. The amount allocated to Category 5 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(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 agreement with 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 agreement with the Borrower, reallocate such excess amount to any other Category.

Imprest (Special Assignment) Account: Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Borrower shall cause Sindh to establish immediately after the Effective Date, an imprest account at the National Bank of Pakistan. The imprest account shall be established, 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 imprest account shall not exceed the equivalent of six (6) months of estimated expenditures.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for and to liquidate advances provided into the imprest account, 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 (\$) only (\$50,000).

Direct Payment

6. For consulting services, a direct payment procedure shall be utilized in accordance with ADB's "Loan Disbursement Handbook," dated January 2001, as amended from time to time.

Condition of Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account in respect of Component C until the Borrower and ADB reach agreement on the form and operation of the SFV following completion of and subject to the recommendation of the design study on the SFV to be carried out under ADB TA No. [].

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Technical Assistance Loan for Mega City Development Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated SDR		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Capacity Building Facility	3,235,000		
1A	Consultants		1,945,000	100 percent of total expenditure*
1B	Training		210,000	100 percent of total expenditure*
1C	Management Information Systems Phase I		1,080,000	100 percent of total expenditure
2	Project Preparation Facility	2,165,000		
2A	Consultants		1,990,000	100 percent of total expenditure*
2B	Katchi Abadis Pilots Phase 1		175,000	100 percent of total expenditure
3	Specialized Financing Vehicle	317,000		
3A	Administrative Costs		177,000	40 percent of total expenditure
3B	Training		140,000	100 percent of total expenditure*
4	TA Loan Management Support	396,000		
4A	Consultants		361,000	100 percent of total expenditure*
4B	Vehicle and Equipment		35,000	100 percent of total expenditure*
5	Interest Charge	110,000		100 percent of amounts due*
6	Unallocated	787,000		
	Total	7,010,000		

* Exclusive of taxes and duties

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 goods and services to be financed out of the proceeds of the Loan. In this Schedule and the Attachment hereto, the term "goods" includes equipment and materials; the term "services" does not include consulting services.

2. Procurement of goods and services shall be subject to the provisions of the "Guidelines for Procurement under Asian Development Bank Loans" dated November 2004 (hereinafter called the Guidelines for Procurement), as amended from time to time, which have been furnished to the Borrower.

3. Procurement of goods and services shall be made without any restriction against, or preference for, any particular supplier or contractor or any particular class of suppliers or contractors, except as otherwise provided in paragraph 6.

4. (a) Each supply contract for equipment or materials estimated to cost the equivalent of more than \$500,000 shall be awarded on the basis of international competitive bidding as described in Chapter II of the Guidelines for Procurement.

(b) For contracts to be awarded on the basis of international competitive bidding, there shall be submitted to ADB, as soon as possible, and in any event not later than 90 days before the issuance of the first invitation to bid for the Project, a General Procurement Notice (which ADB will arrange to publish separately) in such form and detail and containing such information as ADB shall reasonably request.

(c) For contracts to be awarded on the basis of international competitive bidding, procurement actions shall be subject to review by ADB in accordance with the procedures set forth in Chapter IV of the Guidelines for Procurement. Each draft invitation to bid, to be submitted to ADB for approval under such procedures, shall reach ADB at least 21 days before it is issued and shall contain such information as ADB shall reasonably request to enable ADB to arrange for the separate publication of such invitation.

5. (a) Each supply contract for equipment or materials estimated to cost the equivalent of \$500,000 or less (other than minor items) shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement.

(b) Under otherwise agreed by ADB, each draft invitation to bid and related bid document shall be submitted to ADB for approval before they are issued.

(c) Notwithstanding paragraph 3.03(b) of the Guidelines for Procurement, any award of contract shall be subject to prior ADB approval.

6. In comparing bids under international competitive bidding, a margin of preference may be provided, at the option of the Borrower and in accordance with the provisions of the Attachment to this Schedule, for goods manufactured in the territory of the Borrower, provided that the bidder offering such goods shall have established to the

satisfaction of the Borrower and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods.

7. Certain items of office and other equipment which are critical for the commencement of activities under a Subproject, available from qualified suppliers and estimated to cost, in the aggregate, the equivalent of not more than \$100,000, may be procured on the basis of quotations obtained from such suppliers. Prior to such procurement, a list of individual items to be procured, an estimate of their costs, an indication of potential sources of supply and any related documents shall be submitted to ADB for approval. After award, three copies of each contract for such items shall be furnished to ADB.

8. Prior to the date of this Agreement, ADB approved certain advance action in respect of engaging consultants to be financed under this Loan Agreement. Notwithstanding the approval of such advance action, the Borrower shall ensure that all such advance action is carried out in accordance with the provision of this Loan Agreement.

9. (a) The Borrower shall ensure that all ADB-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all ADB-financed contracts for the procurement of goods and services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

Preference for Domestically Manufactured Goods

1. In the procurement of goods through international competitive bidding, goods manufactured in the territory of the Borrower may be granted a margin of preference in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of the Borrower and ADB that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

- (a) For application of domestic preference, all responsive bids shall first be classified into the following three categories:

Category I -- bids offering goods manufactured in the territory of the Borrower which meet the minimum domestic value added requirement;

Category II -- bids offering other goods manufactured in the territory of the Borrower; and

Category III -- bids offering imported goods.

- (b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods.
- (c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I or Category II is found to be the lowest, it shall be selected for the award of contract.
- (d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category III, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category III by adding either
- (i) the amount of customs duties and other import taxes which a nonexempt importer would have to pay for the importation of the goods offered in such Category III bid; or
- (ii) 15 percent of the CIF bid price of such goods if the customs duties and import taxes referred to above exceed 15 percent of the CIF bid price.

If, after such further comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category III shall be selected for the award.

2. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference, including the minimum domestic value added.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

SCHEDULE 5

Consultants

1. (a) The services of consultants shall be utilized in the carrying out of the Project, particularly with regard to:

- (i) advisory services and technical assistance to CDGK on specific sector issues;
- (ii) capacity building programs;
- (iii) city planning studies;
- (iv) preparation of subproject feasibility studies;
- (v) preparation of subproject detailed designs and bidding documents and evaluation for certain priority subprojects;
- (vi) development of public-private modality for the financing, construction, operating and maintaining of infrastructure facilities;
- (vii) preparation and vetting of documents relating to such projects involving private-public participation;
- (viii) preparation of environmental, poverty, and social assessments, resettlement plan, and indigenous people's development plan (as required); and
- (ix) such other consulting services in relation to the Project as shall be agreed between ADB and the Borrower.

(b) The TORs of the consultants shall be prepared by Sindh and CDGK, as appropriate, and shall be forwarded to ADB, through the PSU, for ADB's approval.

2. The selection, engagement and services of the consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers" dated January 2005 (hereinafter called the Guidelines on the Use of Consultants), as amended from time to time, which have been furnished to the Borrower, Sindh and the CDGK.

3. Selection and engagement of the consultants shall be made without any restriction against, or preference for, any particular consultants or any particular class of consultants.

4. Consultants to be engaged as a firm by Sindh or CDGK may be selected and engaged using the quality-and-cost-based selection (QBCS), quality-based selection (QBS) or, when it can be properly justified, direct selection methods, in each case as may be agreed with ADB.

5. Consultants to be selected and engaged as a firm by Sindh or CDGK using QCBS method shall be so selected and engaged in accordance with the following procedures.

(a) Invitation for technical and financial proposals. The invitation to submit technical and financial proposals (hereinafter called the Request for Proposals or

RFP) and all related documents shall be approved by ADB before they are issued. For this purpose, three copies of the draft RFP, the names of consultants to be short-listed, the proposed criteria for evaluation of both proposals, a draft consultancy contract, and other related documents shall be submitted to ADB. A period of at least 45 days shall be allowed for submission of both proposals. A copy of the final RFP as issued, together with all related documents, shall be furnished to ADB for information promptly after issuance. The validity period for the technical and financial proposals as provided in the RFP shall usually not exceed three months from the date specified for submission of the technical and financial proposals. The approval of ADB shall be obtained for any request to extend such validity period. Except as ADB may otherwise agree, the validity period, including any extensions, shall not exceed a maximum total period of six months. If the contract is not signed within the validity period in accordance with the Guidelines on the Use of Consultants, the selection shall be invalid and the selection and engagement process as provided in this paragraph shall be followed again.

(b) Evaluation and scoring of technical proposals. Immediately after the technical proposals have been evaluated and scored, approval of ADB shall be obtained to the evaluation and scoring of the technical proposals. For this purpose, ADB shall be furnished with three copies of the technical proposals.

(c) Public opening of financial proposals. The financial proposals of the firms whose technical proposals meet the minimum qualifying technical score shall be opened publicly after adequate notice is given to such firms or their representatives to attend the opening of the financial proposals.

(d) Evaluation and scoring of financial proposals and ranking of technical and financial proposals. After the financial proposals have been evaluated and scored, the ranking of the technical and financial proposals shall be made. Before negotiations are started with the first-ranked consultants, approval of ADB shall be obtained to the evaluation and scoring of the financial proposals and the ranking of the technical and financial proposals. For this purpose, ADB shall be provided with three copies of (i) the evaluation and scoring of the financial proposals and (ii) the ranking of the technical and financial proposals.

(e) Execution of contract. After the conclusion of negotiations but before the signing of the contract, ADB shall be furnished with the contract as negotiated for approval. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

6. Consultants to be selected and engaged as a firm by Sindh or CDGK using the QBS method shall be so selected and engaged in accordance with the following procedures.

(a) Invitation for proposals. The invitation to submit proposals and all related documents shall be approved by ADB before they are issued. For this purpose, three copies of the draft invitation to submit proposals, a list of consultants to be invited, the proposed criteria for evaluation of proposals, a draft consultancy contract, and other related documents shall be submitted to ADB. A period of at least 45 days shall be allowed for submission of proposals. A copy of the final invitation as issued, together with all related documents, shall be furnished to ADB for information promptly after issuance.

(b) Execution of contract. After the conclusion of negotiations but before the signing of the contract, ADB shall be furnished with the contract as negotiated for approval [and the evaluation of the proposals]. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

7. Individual consultants shall be selected and engaged by Sindh or CDGK shall be so selected and engaged in accordance with the following procedures.

(a) A list of the candidates together with their qualifications and their ranking and a draft contract shall be furnished to ADB for approval before the selection of consultants.

(b) Promptly after the contract is signed, ADB shall be furnished with the evaluation of the candidates and a brief justification for the selection, together with three copies of the signed contract.

(c) If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

8. The Borrower shall and shall ensure that Sindh and CDGK shall, ensure that all Bank-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

SCHEDULE 6

Execution of Project; Financial Matters

Project Execution and Implementation Arrangements

1. The Project Executing Agency shall be Department of Finance, Sindh and it shall coordinate the implementation of the Project.
2. The Project Implementation Agencies for the Components shall be, Sindh in respect of Component C, and CDGK in respect of Component A and B. Sindh shall engage the consultants for Component D, in consultation with CDGK.
3. The Borrower shall ensure that adequate resources and facilities are made available in a timely manner in the amounts required to enable Sindh and CDGK to properly discharge their responsibilities under the Project.
4. Sindh shall make allocate and make available, in a timely manner, sufficient counterpart funding and other necessary resources and facilities to enable itself and CDGK to properly and diligently discharge their responsibilities under the Project.
5. (a) The Borrower shall ensure and cause Sindh and CDGK to ensure that timely actions will be taken to finance and implement the agreed reform action plans that are developed arising from the capacity development assistance under the Project.

(b) The Borrower may form a committee which may oversee the implementation of Component C. The Committee shall be chaired by Advisor to Prime Minister, Finance / Minister of Finance.
6. Sindh shall form the PSC which will provide policy support, oversee Project implementation and progress, facilitate cooperation and coordination among all relevant agencies, and ensure timely achievement of reform actions with respect to SFV and capacity building of CDGK. The composition of the PSC shall be:

Minister of Finance, Government of Sindh (GOS)	-	Chair
Minister, Planning and Development, GOS	-	Member
Minister of Local Government, GOS	-	Member
Nazim, CDGK	-	Member
Additional Chief Secretary (Development), Planning and Development, GOS	-	Member
Secretary, Finance, GOS	-	Member
Secretary, Local Government, GOS	-	Member
District Coordination Officer, CDGK	-	Member
Representative from civil society / academia having reputable standing in the related fields	-	two members
Project Director, PSU	-	Member/Secretary.

The PSC will meet at least every quarter year and, in addition, at the request of any member. Project Director shall provide secretariat services to the PSC.

7. Sindh shall establish the PSU within its Finance Department, which will be responsible for the day to day operational management of Project implementation and provide support to the PSC. The PSU will also be responsible for the implementation of Component C. Sindh shall ensure that the PSU is adequately staffed with suitably qualified people. The Director of the PSU (Project Director) will be a senior ranking officer grade BS.19/20, from Finance Department, Sindh.

8. CDGK shall form the PWG, which will be responsible for overseeing the implementation and management of Component A and Component B. In particular, the PWG shall approve the prioritization of Subprojects and finalization of the TORs for consultants and selection of consultants, with respect to Component A and Component B activities. The PWG shall be chaired by District Coordination Officer and consist of executive district officers and managing directors of CDGK's departments and utilities. The PWG shall meet at least twice a month.

9. Coordination with TMAs will be maintained through a district-town coordination committee to be chaired by District Coordination Officer of CDGK and consisting of chief officers of the TMAs. Such committee will meet at least quarterly to ensure that the feedback of TMAs into the Subproject selection and preparation is obtained.

10. CDGK shall establish the LSU, within its Department of Finance and Planning, which will plan, coordinate and monitor the activities and individual programs of Component A and Component B. The consultants for Component D will be based in the LSU but will closely coordinate with the PSU and individual Subproject units. The LSU, in consultation with relevant sector departments and utilities, will undertake the preparation of proposals for prioritization of Subprojects, finalization of TORs and engagement of consultants, for submission to the PWG. The LSU will also be responsible for the conduct and effectiveness of organization-wide capacity building programs under the Project. CDGK shall ensure that the LSU shall be adequately staffed with suitably qualified people and shall be led by a director who will be a senior officer of Sindh not less than grade BS.19 with suitable qualification and experience as determined by Sindh.

11. Upon the prioritization of a Subproject for feasibility, a Subproject unit (SU) will be established in the respective departments or utility units. Each SU will appoint a competent coordinator, acceptable to ADB, for the duration of the Subproject who will be experienced and capable to competently oversee the social resettlement, environmental and sector aspects of the relevant Subproject.

12. The Borrower shall cause Sindh and CDGK to ensure that all TORs for consultants are first approved by ADB prior to their inclusion in a consultants' engagement.

13. The Borrower shall cause Sindh and CDGK to ensure that time bound reform plans with respect to the Project are prepared and finalized by CDGK and the PSU, and as agreed with ADB, by no later than January 2007 or such other date as ADB may agree.

Subproject Selection Criteria

14. The Borrower and each of Sindh and CDGK shall ensure that all Subprojects meet, to the satisfaction of ADB, the following general criteria:

- (i) Each Subproject must be identified and prepared to at least Project concept stage, by a CDGK department or an affiliated utility entity;
- (ii) Each Subproject must be consistent and prepared in accordance with the CDGK's relevant sector strategy, master plans or medium term development plan;
- (iii) Each Subproject must be consistent with ADB's Country Strategy Program or Country Strategy and Program Update;
- (iv) Each Subproject must be organizationally and technically feasible;
- (v) Each Subproject must be *prima facie* economically and financially viable, and sustainable;
- (vi) Each Subproject must be prepared to be, in accordance with the Borrower's environmental requirements and ADB's *Environmental Policy* (2202);
- (vii) Each Subproject must be in accordance with, ADB's social operational policies and procedures, including ADB's *Policy on Involuntary Resettlement* (1995); and ADB's *Policy on Indigenous Peoples* (1998). In the event land acquisition and involuntary resettlement is unavoidable for any subproject a resettlement plan shall be prepared in accordance with the applicable laws and regulations of the Borrower and ADB's *Policy on Involuntary Resettlement* (1995). If any Subproject involves indigenous peoples, then a specific action, or indigenous peoples development plan in accordance with the applicable laws and regulations of the Borrower and ADB's policies and procedures on indigenous peoples, including ADB's *Policy on Indigenous Peoples* (1998) shall be prepared;
- (viii) Each Subproject must be prepared, in accordance with ADB's *Public Communications Policy* (2005); and
- (ix) Each Subproject can be completed within the Project implementation period.

Follow-on Projects

15. All Follow-on Projects that may be selected for consideration by ADB for further funding shall have had their respective feasibility studies reviewed by the LSU, PWG, PSU and ADB.

SFV

16. The Borrower shall cause that Sindh shall ensure that:

- (i) Immediately following incorporation of the SFV, the SFV board of directors (or equivalent body) approves a business plan, standard

operating procedures, conflict of interest rules and code of conduct for staff and directors, acceptable to ADB;

- (ii) SFV shall operate as an independent, highly competent and professionally run financial institution that will operate on commercial principles consistent with national and international best practice taking in account the lessons learnt and guidelines provided by, the financial sector reforms of the last ten years in Pakistan;
- (iii) SFV shall employ experienced, competent and professional management; and
- (iv) Independent performance and financial audits of SFV are conducted on an annual basis by an independent auditing firm associated with international audit firms.

Project Performance Monitoring and Evaluation Systems

17. Sindh and CDGK shall develop project performance evaluation monitoring system for the Project and each Subproject, including (i) setting performance targets; (ii) monitoring performance against the performance targets; (iii) benefits monitoring; (iv) performance evaluation; and (v) reporting schedule, acceptable to ADB.

Reports and Reviews

18. Without prejudice to any other provision of the Loan Agreement, the Borrower shall cause Sindh to ensure that:

- (i) the LSU shall, through the PWG, submit to the PSU, monthly progress reports on all Project related activities. The monthly reports shall provide sufficient information to include, (a) progress made against established targets, (b) problems and issues encountered and remedial actions taken or proposed to resolve outstanding issues, and (c) proposed Project activities to be undertaken, together with the expected actions and targets during the subsequent implementation process, including details regarding contract awards and disbursement projections.
- (ii) The PSU shall consolidate the monthly reports from the LSU and provide ADB with a quarterly progress report. Such quarterly progress report shall contain an executive summary of the monthly reports received from the LSU during the relevant period, with the format and content satisfactory to ADB. The purpose of the quarterly progress reports shall be to ensure that ADB staff can readily capture key information to monitor Project implementation performance.
- (iii) It and CDGK shall submit a copy of the draft final report of each Subproject to ADB for its review and comments, if any. Comments will be sent by ADB within a month time from the submission of the reports

to ADB. ADB may also require other reports e.g., inception and interim reports, to be forwarded, if it deems it necessary.

- (iv) It and CGGK review on a timely basis (preferably within two weeks of submission) all the reports (inception, interim and draft final reports) of each Subproject
- (v) The LSU together with each Subproject unit will prepare a subproject completion report (SPCR) for each Subproject within three months of the submission of the draft final report with respect to such Subproject and shall forward such SPCR to ADB (through the PWG and PSU) for its review. The SPCR will contain detailed information relating to the implementation and outcome of the relevant Subproject and evaluate how effectively the Subproject addressed the requirements of the respective TORs.

19. (a) ADB may review implementation of the Project, performance of Sindh and CDGK and the activities under each Subproject bi-annually or as needed. In addition, a midterm review of the Project shall be carried out on or about two years after the Effective Date to review the overall progress of the implementation and achievements of the Project to date. The LSU will provide ADB the Project completion report within three months of the final disbursement of the Loan

(b) Subject to ADB's internal rules and processes and without prejudice to any other term of this Loan Agreement, ADB and the Borrower shall review the implementation aspects of the Project on a bi-annual basis in order to ensure a timely implementation of the Components

Accounts and Audit

20. (a) The Borrower shall cause Sindh to ensure that it (i) maintains, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than six (6) months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request. The imprest account and SOE will be audited as part of the regular annual audit. The auditor's opinion of the examination of the imprest account and SOE will be separate in the auditor's report. Sindh and CDGK have been made aware of ADB's policy on delayed submission and also of the importance of satisfactory and acceptable quality of audited reports.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the Borrower's auditors, and shall authorize and require any

representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Gender Policy

21. The Borrower shall cause Sindh and CDGK to ensure that gender strategy will be part of Subproject feasibility studies. The strategy developed will include measures to promote full participation of women in Subproject planning and implementation and promote equality of treatment between men and women.

Environment

22. The Borrower shall cause Sindh and CDGK to ensure that adequate environmental measures, in accordance with (i) the Borrowers applicable environmental laws and regulations, and (ii) ADB's *Environment Policy* (2002) and environmental operational procedures, are incorporated into all subproject designs, and that these measures are incorporated during subproject implementation.

Resettlement

23. The Borrower shall cause Sindh and CDGK to ensure that for subprojects and Follow-on Projects entailing land acquisition and resettlement, resettlement plans in accordance with (i) the Borrower's applicable laws and policies, and (ii) ADB's *Involuntary Resettlement Policy* (1995) and involuntary resettlement operational procedures, are prepared. Adequate measures to avoid or minimize land acquisition and resettlement shall be incorporated into Follow-On Project and subproject designs.

Indigenous Peoples

24. The Borrower shall cause Sindh and CDGK to ensure that measures in accordance with (i) the Borrower's applicable laws on indigenous peoples and (ii) ADB's *Policy on Indigenous Peoples* (1998) and operational procedures, are incorporated into Follow-on Project and subproject designs.