
LOAN NUMBER 2385-PAK

LOAN AGREEMENT
(Ordinary Operations)

(Punjab Government Efficiency Improvement Program – Subprogram 1)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 14 DECEMBER 2007

PLL:PAK 41666

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 14 December 2007 between ISLAMIC REPUBLIC OF PAKISTAN (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) ADB has received from the Borrower and the Province of the Punjab (hereinafter called Punjab) a development policy letter dated 2 October 2007 (hereinafter called the Policy Letter), setting forth the objectives, policies and actions designed to improve the Borrower's government efficiency in Punjab, in each case, as more fully described in Schedule 1 to this Loan Agreement (hereinafter called the Program);

(B) the Program comprises the first subprogram of a program cluster, as described in Schedule 1 to this Loan Agreement (hereinafter called the Program Cluster), and the Borrower has applied to ADB for a loan from its ordinary capital resources for the purposes of the Program;

(C) the Program will be carried out by Punjab, and for this purpose the Borrower will make available to Punjab the Rupee proceeds generated from the loan provided for herein upon terms and conditions mutually agreed between the Borrower and Punjab and satisfactory to ADB;

(D) the Borrower has also applied to ADB for a technical assistance loan in connection with the Punjab Government Efficiency Improvement Program Implementation Support (hereinafter called the TA Project) to support the Program, and by a loan agreement of even date herewith between the Borrower and ADB (hereinafter called the TA Loan Agreement), ADB has agreed to make to the Borrower a technical assistance loan in various currencies equivalent to five million six hundred seventy-two thousand Special Drawing Rights (SDR5,672,000) (hereinafter called the TA Loan) on condition that the proceeds of the TA Loan be made available to Punjab;

(E) the Borrower has also applied to ADB for technical assistance on a grant basis for advisory technical assistance for the Program (hereinafter called the Advisory TA), and by a letter of even date herewith, ADB has agreed to provide a technical assistance grant from ADB's technical assistance funding program to the Borrower for this purpose in an aggregate amount equivalent to nine hundred and fifty thousand dollars (\$950,000) (hereinafter called the Advisory TA Grant);

(F) the Borrower has also applied to ADB for technical assistance on a grant basis for preparatory technical assistance for two additional program clusters to be processed in conjunction with the Program Cluster (hereinafter called the PPTA), and by a letter of even date herewith, ADB has agreed to provide a technical assistance grant from ADB's technical assistance funding program to the Borrower for this purpose in an aggregate amount equivalent to nine hundred thousand dollars (\$900,000) (hereinafter called the PPTA Grant); and

(G) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions hereinafter set forth and in the Program Agreement of even date herewith between ADB and Punjab (hereinafter called the Program Agreement);

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 3.03 is deleted and the following is substituted therefor:

Section 3.03. Commitment Charge; Credit.

(a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

- (b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.
- (f) 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 Fund 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 Fund Cost Margin was calculated.
- (g) 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 or 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 Fund Cost Margin was calculated.
- (h) 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) "Chairman P&D" means the Chairman of the Board of the Planning and Development Department of the Government of the Punjab;
- (b) "Chief Secretary" means the Chief Secretary of the Government of the Punjab;
- (c) "Core Policy Action" means each Core Policy Action as described in paragraph 1 of Schedule 1 of this Loan Agreement;
- (d) "Counterpart Funds" means the Rupee proceeds accruing to the Borrower and generated from the Loan proceeds under the Program;
- (e) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;
- (f) "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;
- (g) "Executive Committee" means the Executive Committee established under the Punjab Resource Management Program financed by ADB Loan Number 2216;

(h) “Financial Year” means the period from 1 July of the current year to 30 June of the following year;

(i) “Funding Strategy” means the funding strategy, including the time-bound funding plan, for the PPF and the GPIF;

(j) “GPIF” means the General Provident Investment Fund to be established pursuant to the proposed enactment of the General Provident Investment Fund law by the Provincial Assembly of the Punjab under the Program Cluster;

(k) “P&DD” means the Planning and Development Department of the Government of the Punjab and any successor thereto;

(l) “Policy Matrix” means the policy matrix as referred to in the Policy Letter and agreed between the Borrower and ADB, and which sets out inter alia the prior actions for the Program as set forth in Schedule 6 of this Loan Agreement;

(m) “PPF” means the Punjab Pension Fund established under the Punjab Pension Fund Act 2007;

(n) “PMU” means the Program Management Unit established under the Punjab Resource Management Program financed by ADB Loan Number 2216;

(o) “Program Executing Agency” means, for the purposes and within the meaning of the Loan Regulations, the Planning and Development Department of the Government of the Punjab and any successor thereto;

(p) “Project Agreement” means the agreement in connection with the TA Loan Agreement of even date herewith between ADB and the Province of Punjab;

(q) “Rupees” or the sign “Rs” means Pakistan rupees, the currency of the Borrower; and

(r) “Steering Committee” means the Steering Committee established under the Punjab Resource Management Program financed by ADB Loan Number 2216.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of two hundred fifty million dollars (\$250,000,000), 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, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay to ADB a commitment charge of 0.15% 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 April and 15 October 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. (a) The Borrower shall make the Counterpart Funds available to Punjab upon terms and conditions mutually agreed between the Borrower and Punjab and satisfactory to ADB.

(b) The Borrower shall cause Punjab to apply the Counterpart Funds 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. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred and eighty (180) days prior to the Effective Date.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2008 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall, and shall cause Punjab to, carry out the Program with due diligence and efficiency and in conformity with sound administrative, financial and public management practices.

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

Section 4.02. The Borrower shall, and shall cause Punjab to, 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, and shall cause Punjab to, 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 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. As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning: (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

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 failed to perform any of its obligations or make satisfactory progress in the implementation of the activities specified under the TA Loan Agreement; or

(b) Punjab shall have failed to perform any of its material obligations under the Program Agreement or the Project Agreement.

Section 5.02 The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: 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 prior actions for the Program as specified in the Policy Matrix have been carried out to the satisfaction of ADB; and
- (b) the TA Loan Agreement shall have been duly executed and delivered and all conditions precedent to its effectiveness (other than a condition requiring effectiveness of this Loan Agreement) shall have been fulfilled.

Section 6.02 A date thirty (30) days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Secretary, Economic Affairs Division, Ministry of Economics and Statistics of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. 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

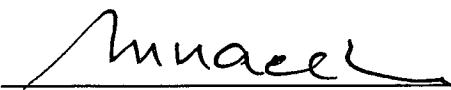
Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

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 
MUHAMMAD NAEEM KHAN
Authorized Representative

ASIAN DEVELOPMENT BANK

By 
HARUHIKO KURODA
President

SCHEDULE 1

Description of the Program

1. The objective of the Program Cluster is to enhance the efficiency of Punjab through: (a) improving fiscal and financial management (Core Policy Area 1); (b) establishing a sustainable civil service pension system (Core Policy Area 2); (c) supporting civil service reforms (Core Policy Area 3); and (d) facilitating private sector participation (Core Policy Area 4). The Program Cluster comprises three subprograms and the Program is the first subprogram.

2. The prior actions for the Program, as set out in the Policy Matrix, will be satisfied during the period up to 31 October 2007. Key elements of these prior actions include:

- (a) for Core Policy Action 1, the adoption of a rolling medium-term budget framework for achieving greater predictability, transparency and alignment between spending needs and resources allocation, and the consolidation of recurrent and development expenditures on a sector-basis for enhancing transparency of the annual budget statement;
- (b) for Core Policy Action 2, the adoption of a funding strategy, which includes a time-bound funding plan, for the PPF and the GPIF, the preparation of a policy note on key priorities for pension administration, the adoption of the PPF rules, the establishment of a pension administration taskforce and the submission of a draft law for the GPIF to the Punjab Provincial Assembly;
- (c) for Core Policy Action 3, the adoption of key principles for civil service reform, the establishment of a civil service reform task force, the adoption of the key principles for reform by the task force, the establishment of a human resource working group for reviewing human resource policies of the Punjab government and the identification of key departments for review of human resource management and business processes; and
- (d) for Core Policy Action 4, the establishment of a private sector development committee for leading private sector-related initiatives and the establishment of a public-private partnership cell in the P&DD for developing the policy and regulatory framework for public-private partnership in Punjab.

3. 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

Schedule 1

activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 14 of Schedule 5 to this Loan Agreement.

4. The proceeds of the Loan are expected to be utilized by 30 June 2008.

SCHEDULE 2

Amortization Schedule (Punjab Government Efficiency Improvement 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 Apr-2011	2.25
15-Oct-2011	2.36
15-Apr-2012	2.48
15-Oct-2012	2.60
15-Apr-2013	2.73
15-Oct-2013	2.87
15-Apr-2014	3.01
15-Oct-2014	3.16
15-Apr-2015	3.32
15-Oct-2015	3.49
15-Apr-2016	3.66
15-Oct-2016	3.84
15-Apr-2017	4.04
15-Oct-2017	4.24
15-Apr-2018	4.45
15-Oct-2018	4.67
15-Apr-2019	4.91
15-Oct-2019	5.15
15-Apr-2020	5.41
15-Oct-2020	5.68
15-Apr-2021	5.96
15-Oct-2021	6.26
15-Apr-2022	6.57
15-Oct-2022	6.89
Total	100

Schedule 2

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

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

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

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

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

SCHEDULE 3

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) The withdrawal from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) The withdrawal from the Loan Account shall not be made in respect of any expenditure 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 application shall be accompanied by a certificate of the Borrower confirming that: (i) in the case the proceeds of the Loan will finance imports already made, the value of the Eligible Imports in the period concerned exceeded the amount of the requested withdrawal; or (ii) in the case the proceeds of the Loan will finance items to be imported, the value of the Eligible Imports in the immediately preceding one year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding 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 application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at the State Bank of Pakistan into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent

Schedule 3

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. The Loan proceeds shall be disbursed in a single tranche upon effectiveness of this Loan Agreement.

Negative List

1. No withdrawals shall be made in respect of:

- (a) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3), or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB to the Borrower:

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
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
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)

Source: United Nations.

- (b) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (c) 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 loan from ADB.
- (d) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (e) expenditures for narcotics;
- (f) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (g) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

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.

3 (a) The Borrower shall ensure that all ADB-financed goods and services procured (including but 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.

SCHEDULE 5

Program Implementation and Other Matters

Program Execution and Implementation Arrangements

1. The Borrower shall, and shall cause Punjab to, ensure that the Program execution and implementation arrangements set forth in this Loan Agreement shall be carried out in accordance with the terms of this Agreement. Specifically,

- (a) the P&DD shall be the Program Executing Agency for the Program;
- (b) the principal implementing agencies for the Program shall be:
 - (i) for Core Policy Action 1, the Finance Department, the P&DD, Department of Health, and Department of Irrigation and Power;
 - (ii) for Core Policy Action 2, the Finance Department;
 - (iii) for Core Policy Action 3, the Services and General Administration Department (including the Public Policy and Change Management Wing) and the Management and Professional Development Department; and
 - (iv) for Core Policy Action 4, the Commerce and Investment Department, the Industries Department, the Labour Department and the Pⅅ
- (c) the Steering Committee shall provide guidance for the implementation of the Program. The Steering Committee shall be chaired by the Chief Secretary and shall meet at least twice a year during the implementation of the Program;
- (d) the Executive Committee shall oversee overall implementation of the Program and approve TA proposals under the TA Project. The Executive Committee shall be chaired by the P&D Chairman and shall meet at least once every three months during the implementation of the Program; and
- (e) the PMU shall coordinate the efforts of the implementing agencies. The PMU shall also be the secretariat to the Steering Committee and the Executive Committee.

2. The Borrower shall, and shall cause Punjab to, ensure that: (a) the Chief Secretary, through the Steering Committee, shall oversee the overall implementation of the Program and resolve any difficulties arising from the different implementing agencies; (b) the Chairman P&D shall, through the Executive Committee, be responsible for coordination and management of the Program and shall report to the Chief Secretary on implementation progress; and (c) critical Program staff shall remain in their positions on a full-time basis for a reasonable duration to ensure continuity in the implementation of the Program.

Continuity and Coordination of Reforms

3. The Borrower shall, and shall cause Punjab to: (a) carry out the policies and actions in accordance with the schedule of reforms in the Policy Matrix and ensure that the reforms are sustained for and beyond the duration of the Program period; and (b) carry out its obligations as stipulated in this Schedule, this Loan Agreement and the Program Agreement, in a timely manner.
4. The Borrower shall ensure that adequate information be made available to Punjab to facilitate implementation of policies and actions in the Program that are connected with, or can be affected by, federal initiatives.

Policy Dialogue

5. The Borrower shall, and shall cause Punjab to, keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, the progress made in carrying out the Program.
6. The Borrower shall, and shall cause Punjab to, engage in policy dialogue with ADB, in a timely manner, on problems and constraints encountered during Program implementation and on appropriate measures to overcome or mitigate such problems and constraints.
7. The Borrower shall, and shall cause Punjab to, 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, and shall cause Punjab to, take ADB's views into consideration before finalizing and implementing any such proposals.

Counterpart Funds

8. The Borrower shall, and shall cause Punjab to, 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 Punjab.
9. Notwithstanding the generality of paragraph 8 of this Schedule, Punjab shall:
- (a) with respect to the existing allocation in the Public Accounts of Rs12 billion (approximately \$200 million) to the PPF and the GPIF, transfer the amounts for this allocation to the accounts of the PPF and the GPIF in the Bank of Punjab before the end of Financial Year 2009 through (for the avoidance of doubt, the eventual apportionment of the amounts between the PPF and the GPIF shall be determined by Punjab):
 - (i) transferring Rs6 billion (approximately \$101.7 million) before the end of Financial Year 2008; and

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- (ii) transferring Rs6 billion (approximately \$101.7 million) before the end of Financial Year 2009; and
- (b) in capitalizing the PPF and the GPIF with a minimum aggregate amount of Rs100 billion (approximately \$1.7 billion) by Financial Year 2015 and of which the equivalent of Rs5.9 billion (\$100 million) of the aggregate amount shall be derived from the Counterpart Funds (for the avoidance of doubt, the eventual apportionment of the aggregate amount between the PPF and the GPIF shall be determined by Punjab):
 - (i) allocate Rs6 billion (approximately \$101.7 million) for Financial Year 2007;
 - (ii) through the Medium-Term Budget Framework for Financial Years 2008 to 2010, allocate Rs8 billion (approximately \$135.6 million) for Financial Year 2008, Rs10 billion (approximately \$169.5 million) for Financial Year 2009 and Rs14 billion (approximately \$237.3 million) for Financial Year 2010;
 - (iii) through the Medium-Term Budget Framework for Financial Years 2011 to 2013, allocate an amount proportionate to Punjab's budget for each such Financial Year, such amount to be of an increasing order; and
 - (iv) through the Medium-Term Budget Framework for Financial Years 2014 to 2016, allocate an amount proportionate to Punjab's budget for the Financial Years 2014 and 2015, such amount to be of an increasing order; and
- (c) for the purpose of capitalizing the PPF and the GPIF as described in subparagraph (b) above:
 - (i) append the Funding Strategy to the respective Medium-Term Budget Frameworks; and
 - (ii) transfer the respective amounts to the accounts of the PPF and the GPIF in commercial bank(s) that meets the prudential regulatory requirements of the State Bank of Pakistan before the end of the respective Financial Year.

Community Stakeholders Consultation and Participation

10. The Borrower shall, and shall cause Punjab to, ensure that the reform process shall involve periodic consultations with non-government actors and civil society organizations and provide public access to information (both on proposed reforms and progress with implementation).

Review and Evaluation of the Program

11. Without limiting the generality of Section 4.05 of this Loan Agreement, the Borrower shall, and shall cause Punjab to: (a) prepare quarterly progress reports and an annual report on Program implementation for submission to ADB and regularly update the Program website; and (b) prepare an annual report on its budget performance not later than six months after the conclusion of each Financial Year.

12. The Borrower shall, and shall cause Punjab to, undertake review of the Program, with the participation of ADB, for the design of subprograms 2 and 3 for the Program Cluster based on experiences gained under the Program, the findings and recommendations of the TA Project and Advisory TA and changes in circumstances to the external environment. Pursuant to the review, Punjab shall submit a report to ADB recommending revisions to the indicative reforms for subprograms 2 and 3.

13. The Borrower acknowledges, and shall cause Punjab to acknowledge, that the review process described in paragraph 12 of this Schedule does not obligate ADB to make loans for any further subprogram under the Program Cluster and that any further subprogram is subject to ADB Board approval.

Accounting and Auditing

14. The Borrower shall ensure that the federal government and Punjab shall maintain separate accounts and records for the Loan in accordance with sound accounting principles. The accounts shall be audited annually in accordance with standards acceptable to ADB, and Punjab shall provide ADB with certified copies of the audited accounts promptly after their preparation (and no later than six months after the close of the Financial Year for the relevant accounts).

SCHEDULE 6

Prior Actions for the Program

The prior actions for the Program as specified in the Policy Matrix and to be satisfied with respect to Section 6.01 of this Loan Agreement are as follows:

Fiscal and Financial Management

1. the Finance Department shall have adopted a rolling Medium-Term Budget Framework for Financial Year 2008 for achieving greater predictability, transparency and alignment between spending needs and resource allocation in the interdepartmental allocation of resources;
2. the Finance Department shall have adopted a consolidated annual budget statement for increasing budget transparency with sector-specific recurrent and development expenditures;
3. the Finance Department and the P&DD shall have adopted joint protocols for strengthening fiscal discipline through greater coordination between planning (development needs) and budget preparation;
4. the P&DD shall have required implementation of the local government planning manual for increasing fiscal responsibility and facilitating “bottom-up” planning at the district-level and tehsil-municipal level through its notification of the manual;
5. Punjab shall have improved the planning and budget preparation functions of key sectors through:
 - (a) the operationalisation of a strategy and policy unit in the Department of Health for defining strategic priorities and improving medium-term planning and budget preparation processes; and
 - (b) the establishment of a committee for Medium-Term Expenditure Framework in the Department of Irrigation and Power for overseeing medium-term planning and budget preparation processes;

Pension Reform

6. the Finance Department shall have undertaken an actuarial analysis for determining pension liabilities and cash-flow needs;
7. the Finance Department shall have adopted a funding strategy, which includes a time-bound funding plan, for the PPF and the GPIF;
8. Punjab shall have, pursuant to the Punjab Pension Act 2007, adopted rules for the PPF (such rules to include rules for management and investment) and established the Management Committee of the PPF;
9. Punjab shall have submitted the proposed GPIF law to the Provincial Assembly;

10. the Finance Department shall have prepared a policy note on key priorities for pension administration and appointed a Pension Administration Taskforce for establishing sound record-keeping and administration systems following a thorough assessment of existing system weaknesses;

Civil Service Reform

11. Punjab shall have adopted key principles on civil service reform and established a civil service reform task force under the chairmanship of the Chief Secretary (and notification has been served for the task force);

12. Punjab shall have established an upgraded civil service change management wing for coordinating civil service reforms;

13. Punjab shall have initiated the civil service change management process through notification of the designations for change management agents in all the 40 provincial departments and 35 districts.

14. Punjab shall have notified a working group under the chairmanship of the Additional Chief Secretary of Punjab for reviewing HR policies;

15. Punjab shall have trained the first batch of civil servants recruited under the newly established Provincial Management Service, paving way for developing a cadre of qualified middle management officials at the provincial level.

16. Punjab shall have adopted a competitive and incentive-based recruitment system adopted for managing development projects and programs;

17. Punjab shall have:

- (a) identified at least 8 core departments identified for piloting a performance-based human resource management system in at least one unit/section of the department; and
- (b) developed the criteria for selecting such units/sections;

18. Punjab shall have selected at least four departments for functional review and business processes re-engineering;

19. Punjab shall have established a working group for reviewing the Rules of Business of the Government of the Punjab;

20. Punjab shall have designated the Management and Professional Development Department as the principal capacity building arm for public servants and initiated its modernization;

21. Punjab shall have developed a capacity building framework for its civil service;

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22. Punjab shall have established and operationalised a private sector development (PSD) committee, including the terms of reference of the committee, for leading PSD initiatives;
23. Punjab shall have adopted a communication strategy for promoting international standards in labor, international quality and environment; and
24. Punjab shall have established a public-private partnership (PPP) cell in P&DD for developing the policy and regulatory framework for PPP and supporting the systematic development of PPPs in Punjab.