
LOAN NUMBER 2742- PAK

LOAN AGREEMENT
(Ordinary Operations)
(Flood Emergency Reconstruction Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 14 April 2011

PAK-44372

LOAN AGREEMENT (Ordinary Operations)

LOAN AGREEMENT dated 14 April 2011 between ISLAMIC REPUBLIC OF PAKISTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for two emergency assistance loans for the purposes of the flood emergency reconstruction project as described in Schedule 1 to this Loan Agreement;

(B) by an agreement of even date herewith between the Borrower and ADB ("Special Operations Loan Agreement"), ADB has agreed to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty one million seven hundred and four thousand Special Drawing Rights (SDR31,704,000) for the Sindh Component (Irrigation) of the Project;

(C) the Government of the Islamic Republic of Pakistan (the "Government") has applied to ADB for capacity development technical assistance on a grant basis to the Government for capacity building and support in project implementation including governance, financial management and safeguards aspects, and ADB has agreed to provide a technical assistance grant to the Government for this purpose in an aggregate amount equivalent to four million Dollars (\$4,000,000);

(D) the Project will be carried out by Province of Sindh (acting through its Planning and Development Department) and National Highway Authority as project executing agencies, and for this purpose the Borrower will make available to Province of Sindh (acting through its Planning and Development Department) and National Highway Authority the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB; and

(E) ADB has agreed to make an emergency assistance loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreements of even date herewith between ADB and each Project Executing Agency;

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 ("Loan Regulations"), are hereby made applicable to this Loan

Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

- (a) Section 2.01(50) is deleted and substituted therefor:

“Project Executing Agency” means:

- (i) in respect of the Sindh Component, Province of Sindh (acting through its Planning and Development Department); and
- (ii) in respect of the NHA Component, NHA,

in each case, including any successor thereto acceptable to ADB.

- (b) Section 3.03 is deleted and the following is substituted therefor:

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.

- (c) Section 3.06 is deleted and the following is substituted therefor:

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

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a

percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

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

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

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

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2010, as amended from time to time);

(b) "Consulting Services" means the services to be financed out of the proceeds of the Loan as described in paragraph 3 of Schedule 1 to this Loan Agreement;

(c) "EARF" means the environmental assessment and review framework prepared and submitted by the Borrower and cleared by ADB;

(d) "Environmental Impact Assessment" or "EIA" means the environmental impact assessment for a Subproject, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(e) "Environmental Management Plan" or "EMP" means the environmental management plan for a Subproject, including any update thereto, incorporated in the EIA or IEE, as applicable;

(f) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(g) "Gender Action Framework" means the gender action framework prepared and submitted by the Borrower and cleared by ADB;

(h) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(i) "Implementing Agency" means, in respect of the Sindh Component, the Irrigation Department of Province of Sindh ("Sindh (IR)") and the Works & Services Department of Province of Sindh ("Sindh (W&S)"), in each case, including any successor thereto acceptable to ADB;

(j) "Initial Environmental Examination" or "IEE" means the initial environmental examination for a Subproject, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(k) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(l) "Land Acquisition and Resettlement Plan" or "LARP" means the resettlement plan for a Subproject, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(m) "LARF" means the land acquisition and resettlement framework prepared and submitted by the Borrower and cleared by ADB;

(n) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2007, as amended from time to time);

(o) "NHA" means the Borrower's National Highway Authority;

(p) "NHA Component" means the activities described in Part A of Schedule 1;

(q) "PAM" means the project administration manual for the Project dated 18 March 2011 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(r) "PMU" means the project management unit established at each Implementing Agency and NHA in accordance with the PAM;

(s) "Procurement Guidelines" means ADB's Procurement Guidelines (2010, as amended from time to time);

(t) "Procurement Plan" means the procurement plan for the Project dated 18 March 2011 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(u) "Project facilities" means facilities to be rehabilitated, reconstructed or provided under the Project;

(v) "Project Management Consultants" means the project management consultants to be engaged by each Implementing Agency (in respect of the Sindh Component) and NHA (in respect of the NHA Component) in providing services including design and construction supervision, assistance in procurement and safeguard monitoring;

(w) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(x) "Safeguards Monitoring Report" means each report prepared and submitted by or on behalf of the Borrower to ADB that describes progress with implementation of, and compliance with, the EMP and the LARP (as applicable), including any corrective and preventative actions;

(y) "Sindh Component" means the activities described in Part B and Part C of Schedule 1;

(z) "Sindh Component (Irrigation)" means the activities described in Part C of Schedule 1;

(aa) "Sindh Component (Roads)" means the activities described in Part B of Schedule 1;

(bb) "Subprojects" means any subproject that is eligible for financing under this Loan Agreement in accordance with paragraph 2 of Schedule 5; and

(cc) "Works" means construction or civil works to be financed out of the proceeds of the Loan.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of six hundred million Dollars (\$600,000,000), 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 principal repayment period of 24 years and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth 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 provided by Section 3.02 of the Loan Regulations, less a credit of 0.30% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 March and 15 September 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 proceeds of the Loan available to each Project Executing Agency upon terms and conditions satisfactory to ADB.

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

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn 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, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 September 2014 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 carry out, or cause each Project Executing Agency to carry out, the Project with due diligence and efficiency and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

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

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

Section 4.04 The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.05. (a) The Borrower shall (i) maintain, 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 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 imprest accounts and statement of expenditure), 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.

(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 auditors appointed by the Borrower pursuant to Section 4.05(a) hereinabove, 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.

Section 4.06. The Borrower shall take all actions which shall be necessary on its part to enable each Project Executing Agency to perform its obligations under the relevant Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following is specified as an additional event 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: The Borrower shall have failed to perform any of its obligations (other than payment obligations as referred to in Section 9.01(a)(ii) of the Loan Regulations) under the Special Operations Loan Agreement.

Section 5.02. The following are specified as additional events for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations:

- (i) the event specified in Section 5.01 of this Loan Agreement shall have occurred and continued for a period of 60 days after notice thereof shall have been given by ADB to the Borrower; and
- (ii) the loan under the Special Operations Loan Agreement has been declared due and payable immediately by ADB in accordance with the terms thereof.

ARTICLE VI

Effectiveness

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: the Special Operations Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions precedent to its effectiveness (other than the condition requiring the effectiveness of this Loan Agreement) shall have been satisfied.

Section 6.02. A date 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

Delegation of Authority

Section 7.01. The Borrower hereby designates the Economic Affairs Division, Ministry of Economic Affairs and Statistics as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.05 of this Loan Agreement and under Sections 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by the Economic Affairs Division, Ministry of Economic Affairs and Statistics pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on the Economic Affairs Division, Ministry of Economic Affairs and Statistics under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Secretary, Economic Affairs Division, Ministry of Economic Affairs and Statistics of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

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

Facsimile Numbers:

(92-51) 920 4086
(92-51) 921 0734

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

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

With copy to:


Asian Development Bank - Pakistan Resident Mission
Level 8, North Wing, Serena Office Complex
Khayaban-e-Suhrawardy G-5
GPO Box 1863, Islamabad
Pakistan

Facsimile Numbers:

(92-51) 208 7397-8
(92-51) 260 0365-6.

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 as of the day and year first above written and to be delivered at the principal office of ADB.

ISLAMIC REPUBLIC OF PAKISTAN

By 
HASSAN NAWAZ TARAR
Additional Secretary
Economic Affairs Division

ASIAN DEVELOPMENT BANK

By 
RUNE STROEM
Country Director
Pakistan Resident Mission

SCHEDULE 1

Description of the Project

1. The impact of the Project will be economic and social recovery from the national flood in Pakistan in 2010. The outcome of the Project will be to restore critical infrastructure to restore livelihood and access to markets and mitigate against future flooding and multi-hazard risks and damages.

2. The Project shall comprise:

Part A: National Highways

Rehabilitation and reconstruction of about 793 km of flood-damaged national highways (including bridges) in all provinces and regions affected by the national flood in 2010. Where justified, cost-effective and technically feasible, the reconstruction and rehabilitation of such national highways may include improvements and multi-hazard resistance enhancements.

Part B: Provincial Roads

Rehabilitation and reconstruction of about 800 km of provincial roads (including bridges) in the Province of Sindh damaged by the national flood in 2010. Where justified, cost-effective and technically feasible, the reconstruction and rehabilitation of such provincial roads may include improvements and multi-hazard resistance enhancements.

Part C: Irrigation and drainage and flood protection infrastructure

Rehabilitation and reconstruction of provincial irrigation, drainage and flood protection infrastructure in the Province of Sindh damaged by the national flood in 2010, including barrages and river training works, canals, drains, civil channels, flood embankments and appurtenant structures; and construction of flood management structures.

3. The Project includes the provision of incremental Project management and implementation support, including providing consulting services in:

- (i) procurement support including establishment of a procurement monitoring system, support in contract structuring, tendering, evaluation, execution and management;
- (ii) safeguards support on the preparation, implementation and monitoring of safeguard action plans, including consultations, social and gender analysis and implementation and monitoring of the Gender Action Framework; and
- (iii) establishment of detailed financial control monitoring and disbursement procedures.

4. The Project is expected to be completed by 31 March 2014.

SCHEDULE 2

Amortization Schedule

(Flood Emergency Reconstruction Project)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 September 2019	0.531843
15 March 2020	0.558435
15 September 2020	0.586357
15 March 2021	0.615675
15 September 2021	0.646459
15 March 2022	0.678781
15 September 2022	0.712721
15 March 2023	0.748357
15 September 2023	0.785774
15 March 2024	0.825063
15 September 2024	0.866316
15 March 2025	0.909632
15 September 2025	0.955114
15 March 2026	1.002869
15 September 2026	1.053013
15 March 2027	1.105663
15 September 2027	1.160947
15 March 2028	1.218994
15 September 2028	1.279944
15 March 2029	1.343941
15 September 2029	1.411138
15 March 2030	1.481695
15 September 2030	1.555779
15 March 2031	1.633568
15 September 2031	1.715247
15 March 2032	1.801009

Schedule 2

<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 September 2032	1.891060
15 March 2033	1.985613
15 September 2033	2.084893
15 March 2034	2.189138
15 September 2034	2.298595
15 March 2035	2.413525
15 September 2035	2.534201
15 March 2036	2.660911
15 September 2036	2.793956
15 March 2037	2.933654
15 September 2037	3.080337
15 March 2038	3.234354
15 September 2038	3.396071
15 March 2039	3.565875
15 September 2039	3.744169
15 March 2040	3.931377
15 September 2040	4.127946
15 March 2041	4.334343
15 September 2041	4.551061
15 March 2042	4.778614
15 September 2042	5.017544
15 March 2043	5.268429
Total	100.000000

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

Schedule 2

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

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table).

Percentages of ADB Financing

2. Except as ADB may otherwise agree, each item of expenditure shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest and Commitment Charge

3. The amount allocated to Category 5 is for financing interest and commitment charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charge.

Reallocation

4. Notwithstanding the allocation of the 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, in consultation 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 allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Imprest Account and Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall ensure that immediately after the Effective Date, each of NHA as a Project Executing Agency and the Irrigation Department and the Works and Services Department of Province of Sindh as Implementing Agency shall establish an imprest account at the National Bank of Pakistan. The imprest accounts shall be established, managed, replenished and liquidated in accordance with the Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The imprest account shall only be used for the purposes of the Project. The currency of the imprest account shall be the Dollar. The aggregate ceiling for the imprest accounts combined shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation and (ii) 10% of the Loan amount.

(b) The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest accounts, in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the statement of expenditures procedure shall not exceed the equivalent of \$100,000.

Retroactive Financing

7. Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred and paid for under the Project before the Effective Date, in connection with items to be retroactively financed, subject to a maximum amount equivalent to 30% of the Loan amount; provided that (i) the expenditures have been incurred and paid for after 7 August 2010 and not earlier than twelve months before the date of this Loan Agreement and (ii) the relevant request for retroactive financing for specified expenditures has been approved by ADB in accordance with the criteria and process as set out in the PAM.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Flood Emergency Reconstruction Project)			
CATEGORY			ADB FINANCING
Number	Item	<u>Total Amount Allocated for ADB Financing (\$) Category</u>	Percentage and Basis for Withdrawal from the Loan Account
1	Works	487,262,000	
1A	NHA	224,378,000	90% of total expenditure claimed
1B	Sindh (ID)	155,300,000	90% of total expenditure claimed
1C	Sindh (W&S)	107,584,000	90% of total expenditure claimed
2	Equipment and Vehicles	965,000	
2A	NHA	556,000	100% of total expenditure claimed*
2B	Sindh (ID)	90,000	100% of total expenditure claimed*
2C	Sindh (W&S)	319,000	100% of total expenditure claimed*
3	Consulting Services	22,678,000	
3A	NHA	16,723,000	100% of total expenditure claimed*
3B	Sindh (ID)	2,430,000	100% of total expenditure claimed*
3C	Sindh (W&S)	3,525,000	100% of total expenditure claimed*
4	Incremental management costs	5,207,000	
4A	NHA	3,687,000	100% of total expenditure claimed *
4B	Sindh (ID)	180,000	100% of total expenditure claimed *
4C	Sindh (W&S)	1,340,000	100% of total expenditure claimed *
5	Interest and Commitment Charge	7,116,000	100% of amounts due
6	Contingencies	76,772,000	
6A	NHA	36,518,000	
6B	Sindh (ID)	23,478,000	

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Flood Emergency Reconstruction Project)			
CATEGORY			ADB FINANCING
Number	<u>Item</u>	<u>Total Amount Allocated for ADB Financing</u>	Percentage and Basis for Withdrawal from the Loan
6C	Sindh (W&S)	16,776,000	
	Total	600,000,000	

*Exclusive of sales taxes and custom duties

SCHEDULE 4

Procurement of Goods, Works and Consulting Services

General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Procurement of Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below, each as described in the PAM:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding;
 - (c) Shopping.
4. Direct contracting may be allowed subject to ADB's prior approval.
5. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

National Competitive Bidding

6. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Borrower and ADB.

Conditions for Award of Contract

7. The Borrower shall ensure that no Works contract shall be awarded until:
 - (a) the relevant environment authority has granted the final approval of the EIA/IEE (if required); and
 - (b) the relevant provisions from the EMP have been incorporated into the Works contract.
8. The Borrower shall ensure that any Works contract which involves involuntary resettlement impacts shall not be awarded until the Borrower has (i) prepared and submitted

to ADB the final LARP based on the Subproject's detailed design; (ii) obtained ADB's clearance of such LARP; and (iii) fully implemented such LARP.

Selection of Consulting Services

9. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply:

- (a) Quality and Cost Based Selection (90:10) or Quality Based Selection for selecting and engaging the Project Management Consultants; and
- (b) Quality and Cost Based Selection (80:20) or (subject to ADB's prior approval according to the Consulting Guidelines) Single Source Selection for selecting and engaging the design and construction supervision consultants until the relevant Project Management Consultants are engaged.

10. The Borrower may recruit individual consultants using Individual Consultant Selection for design and construction supervision consultants until the relevant Project Management Consultants are engaged.

Industrial or Intellectual Property Rights

11. (a) The Borrower shall ensure that all Goods and Works 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 contracts for the procurement of Goods and Works 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.

12. The Borrower shall ensure that all ADB-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.

ADB's Review of Procurement Decisions

13. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

14. The Borrower shall seek ADB's approval before it:

(a) grants any extension of the stipulated time for completion of a contract for Goods or Works; or

Schedule 4

(b) agrees to any modification or waiver of the conditions of a contract for Goods or Works, including any change order that falls under (c) or (d) below; or

(c) issues any change order under a contract for Goods or Works which would in aggregate increase the original contract price (for the avoidance of doubt, such aggregate shall take into account any previous or simultaneous change order or orders under such contract); or

(d) issues any change order under a contract for Goods or Works that would involve more than 15% of the original contract price, even if such change order would not in aggregate increase the original contract price.

15. ADB undertakes to respond to each request for approval under paragraph 14 above within five business days (in Islamabad) of ADB's receipt of such request. Such response will indicate that the request is (i) approved, (ii) declined or (iii) pending receipt of additional information or documentation, as determined by ADB. If ADB fails to respond within five business days (in Islamabad) of ADB's receipt of such request, the request shall be deemed to have been approved by ADB. In the case of (iii), the Borrower shall promptly provide the requested information or documentation to ADB and ADB undertakes to respond to the relevant request within five business days (in Islamabad) upon receipt of such requested information or documentation satisfactory to ADB.

16. The Borrower shall, or shall ensure that each Project Executing Agency will:

(a) provide a copy of all time extensions, modifications or waivers to the contracts (including change orders) requiring ADB's approval in accordance with paragraph 14 above to ADB for its record promptly after signing; and

(b) maintain an accurate record of all change orders under all contracts for Goods or Works which do not require ADB's prior approval under paragraph 14 above and submit such record for ADB's review every six months.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Implementation Arrangements

1. The Borrower and each Project Executing Agency shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Subproject Selection and Monitoring

2. The Borrower will ensure that all subprojects meet, to the satisfaction of ADB, the agreed selection criteria as set out in Annex 1 of the PAM and that all subprojects are properly approved, controlled and monitored to the satisfaction of ADB.

Ineligible Expenditures or Misprocurement

3. If it is determined by ADB, and notified to the Borrower, that any expenditures withdrawn from the Loan Account by or on behalf of the Borrower have been applied to finance:

(a) ineligible expenditures (whether by way of retroactive financing or otherwise), including but not limited to expenditures in relation to subprojects that do not satisfy the Subproject criteria or have not been approved according to the procedures set out in the PAM; or

(b) expenditures in respect of contracts that (i) do not satisfy the retroactive financing procurement parameters as detailed in the PAM; or (ii) are subject to declaration of misprocurement by ADB in accordance with its Procurement Guidelines and the arrangements set out in the PAM,

the Borrower shall promptly repay such amounts equal to such expenditures and accrued interest to ADB.

Counterpart Funding

4. The Borrower will ensure that (i) adequate budgetary allocations of required counterpart funds are made and released in a timely manner to each Project Executing Agency, and that these counterpart funds are in addition to the ongoing development program of each Project Executing Agency and (ii) Province of Sindh as Project Executing Agency will provide such counterpart funds to the relevant implementing agencies in a timely manner.

Operation of Project Facilities

5. The Borrower will ensure that the facilities to be provided or financed under the Project are operated and maintained appropriately, and that adequate budgetary and other resources are provided for their operation and maintenance.

Community and Women's Participation and Social Impacts

6. The Borrower will ensure that each Project Executing Agency will actively seek community participation in the selection, design, monitoring and implementation of all works carried out under the Project to the extent feasible.

7. The Borrower shall ensure that all Works contracts follow all applicable labor laws of the Borrower and that these further incorporate provisions requiring the contractors to:

- (a) give preference to local labor with the required skills;
- (b) use their best efforts to employ women living in the vicinity of the Subproject area, including taking affirmative action for allocating 10% of labor force employed for Works to women for 15% of Subprojects;
- (c) not differentiate between men and women's wages or benefits for work of equal value;
- (d) disseminate information at worksites on the risks of sexually transmitted diseases and human immunodeficiency virus/acquired immunodeficiency syndrome for those employed during construction;
- (e) take measures to protect workers from potential exposure to sexually transmitted diseases; and
- (f) abstain from child labor.

8. The Borrower shall implement the Gender Action Framework in accordance with its terms, shall allocate adequate resources for such implementation, and shall monitor and report to ADB on key gender outcome and output targets in accordance with the performance and monitoring system described in the PAM.

Grievance Redress Mechanism

9. The Borrower shall ensure that:

- (a) a dedicated environment and social unit (ESU) is established in each of (i) the two PMUs in respect of the Sindh Component, (ii) the North zonal office, the South zonal office and the PMU of NHA, and that such ESUs will be adequately staffed including at least one officer dedicated to handle Project related grievances including but not limited to grievances relating to safeguard compliance, employment opportunities, payment by contractors and sub-contractors and access of irrigation water for poor or marginalized groups;

(b) each ESU shall develop and implement an independent and effective grievance mechanism, including an outreach program to provide access to the Subproject areas and gender sensitive protocols; and

(c) linkage between each ESU and the relevant ombudsmen's office at the provincial level is established to provide an open channel for any Project related grievance to be addressed by the ombudsmen's office at the request of the complainant.

Good Governance and Transparency

10. The Borrower will publicly disclose on the website for the Project information on how the proceeds of the Loan are being used for the intended beneficiaries following applicable procedures. The website shall present financial statements and track procurement contract awards, and include information on, among others, status of flood damages and casualties, subproject selection criteria, information on funding commitment by donors, the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of the contract awarded, the list of goods and/or procedures adopted, amount of the contract awarded, the list of goods and/or services purchased, and their intended and actual utilization.

11. The Borrower shall, and shall ensure that each Project Executing Agency and each Implementing Agency shall, (i) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (ii) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

12. The Borrower shall ensure, or cause each Project Executing Agency to ensure, that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

Accounting, Audit and Financial Management

13. The Borrower will ensure that proper accounting and audit procedures are in place to ensure efficient and economic use of the ADB financing proceeds. Accounts and financial statements in relation to the Project and the Subprojects will be maintained and certified by independent auditors acceptable to ADB. The Borrower shall allow, and shall procure that NHA and each Implementing Agency shall allow, ADB representatives to carry out spot or random checks on the flow of funds through the imprest accounts (if applicable).

14. The Borrower shall, and shall procure that each Project Executing Agency shall, allow independent auditors, acceptable to ADB, to undertake performance audits on a random basis to review, among others, implementation of the Gender Action Framework and compliance with ADB's safeguard policies.

15. The Borrower shall ensure that post completion audit is conducted by the independent auditors acceptable to ADB promptly after completion of the Project.

Environment, Land Acquisition and Involuntary Resettlement and Indigenous People

16. The Borrower shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Subprojects and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the EARF and the relevant IEE/EIA, the EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

17. The Borrower shall ensure that, to the extent possible, Subprojects shall avoid or minimize land acquisition and involuntary relocation. In Subprojects where land acquisition and resettlement is required, the Borrower will ensure that:

(a) relevant resettlement information including information from the LARF will be provided in a accessible place and in a form and language(s) understandable, or otherwise communicated via other communication methods, to affected persons and other stakeholders promptly and in any event, within three months from the date of the loan agreement;

(b) compensation and other entitlements have been provided to displaced persons prior to possession of lands;

(c) no land is acquired for the purposes of any of its Subprojects based on the emergency provisions under the Land Acquisition Act (1894), as amended from time to time; and

(d) it will enhance land acquisition staff to coordinate closely with the respective Boards of Revenue and expedite land acquisition while being compliant with the SPS and provide timely finances for land acquisition and resettlement.

18. The Borrower shall ensure that all land and all rights-of-way required for the Project are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the LARF and LARPs, and any corrective or preventative actions set forth in the Safeguards Monitoring Report.

19. Without limiting the application of the Involuntary Resettlement Safeguards or the LARP, the Borrower shall ensure that no physical or economic displacement takes place in connection with the Project until:

(a) compensation and other entitlements have been provided to affected people in accordance with the LARPs; and

(b) as applicable, a comprehensive income and livelihood restoration program has been established in accordance with the LARPs.

Schedule 5

20. The Borrower shall make available or cause each Project Executing Agency to make available necessary budgetary and human resources to fully implement the EARF, the LARF, EMPs and LARPs.

21. The Borrower shall ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

(a) comply with the measures relevant to the contractor set forth in the IEE/EIA, the EMP and the LARPs (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report;

(b) make available a budget for all such environmental and social measures; and

(c) provide the Borrower and the EAs with a written notice of any unanticipated environmental, land acquisition and resettlement and/or social risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE/EIA, the EMP and the LARPs.

22. The Borrower shall do the following or cause each Project Executing Agency to do the following:

(a) submit Safeguards Monitoring Reports to ADB:

(i) quarterly and as requested by ADB from time to time for Category A Subprojects; and

(ii) semi-annually for all other Subprojects,

and disclose relevant information from such reports to affected persons promptly upon submission;

(b) if any unanticipated environmental, land acquisitions, resettlement and/or social risks and impacts arise during construction, implementation or operation of the relevant Subproject that were not considered in the relevant EIA/IEE, the EMP and the LARP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and update to the relevant EIA/IEE, EMP and/or LARP, as applicable, including any proposed corrective action plan; and

(c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP and the LARP promptly after becoming aware of the breach.

Prohibited List of Investments

23. The Borrower shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Monitoring

24. The Borrower shall ensure that the necessary support is provided to ADB to review and monitor the status of Project implementation, including performance of the key indicators under the design and monitoring framework.