
LOAN NUMBER 4160-PAK

LOAN AGREEMENT
(Ordinary Operations)

(Khyber Pakhtunkhwa Cities Improvement Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 15 December 2021

PAK 51036

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 15 December 2021 between ISLAMIC REPUBLIC OF PAKISTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

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

(B) the Borrower has applied to ADB for a grant in an amount not exceeding five million Dollars (\$5,000,000) for the purposes of financing certain expenditures under Component 3 of the Project described in Schedule 1 to the grant agreement of even date herewith between the Borrower and ADB ("Grant Agreement");

(C) the Project will be carried out by the Government of Khyber Pakhtunkhwa acting through the Local Government, Elections and Rural Development Department of Khyber Pakhtunkhwa (LGE&RDD), and for this purpose the Borrower will make available to the Government of Khyber Pakhtunkhwa the proceeds of the loan provided for herein in Section 3.01(a), upon terms and conditions satisfactory to ADB;

(D) it is agreed that, by a loan agreement expected to be entered into between the Borrower and the Asian Infrastructure Investment Bank ("AIIB") (the "AIIB Loan Agreement"), AIIB will provide a loan to the Borrower in the amount of two hundred million Dollars (\$200,000,000) ("AIIB Loan") for the purposes of financing part of the expenditures of the Project, such loan to be partially administered by ADB in accordance with the terms and conditions of a cofinancing agreement between AIIB and ADB ("AIIB Cofinancing Agreement"); and

(E) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and Khyber Pakhtunkhwa;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of ADB's Ordinary Operations Loan Regulations, dated 1 January 2017 ("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 to the following modifications:

(a) Section 2.01 (Definitions) subsection (xx) shall be deleted and replaced in its entirety as follows:

(xx) "Reference Rate" means, (i) except as ADB has otherwise made a determination in accordance with Section 3.02(c), in respect of any Loan Currency other than Euro, LIBOR, and in respect of Euro, Euribor; and (ii) if a determination is made in accordance with Section 3.02(c), such other reference rate and any spread for the Loan Currency as ADB shall reasonably determine and promptly notify the Borrower and the Guarantor.

(b) A new subsection 3.02(c) shall be inserted after subsection 3.02(b) as follows:

Section 3.02(c). If interest on any amount of the Loan is calculated based on LIBOR or Euribor, and ADB determines that (i) such Reference Rate has permanently ceased to be quoted for the relevant Loan Currency or a public statement or publication of information by the regulatory supervisor for the administrator of the Reference Rate announcing such Reference Rate is no longer representative has been made or (ii) ADB is no longer able, or it is no longer commercially acceptable for ADB, to continue to use such Reference Rate for purposes of its asset and liability management, ADB shall apply such other Reference Rate for the relevant Loan Currency, including any applicable spread, as it may reasonably determine. ADB shall promptly notify the Borrower and the Guarantor of such other reference rate and any spread, and of related amendments to the provisions of the Loan Agreement necessary to give effect to its application, which shall become effective as of the date of such notice.

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) "Abbottabad WSSC" means the Abbottabad Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (b) "AIIB" has the meaning set forth in Recital (D) above;
- (c) "AIIB Cofinancing Agreement" means the cofinancing agreement to be entered into by ADB and AIIB as referred to in Recital (D) above;
- (d) "AIIB Loan Agreement" means the loan agreement to be entered into by the Borrower and AIIB as referred to in Recital (D) above;
- (e) "CAP" means a corrective action plan for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the RP and cleared by ADB;
- (f) "CIUs" means, collectively, the city implementation unit established to assist Abbottabad, and the city implementation unit established to assist Kohat, and the city implementation unit established to assist Mardan, and the city implementation unit established to assist Mingora, and the city

implementation unit established to assist Peshawar, with the implementation of the Project;

- (g) "Consulting Services" means consulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan;
- (h) "Environmental Impact Assessment" or "EIA" means each environmental impact assessment for the Project, including any update thereto, prepared and submitted by the Project Executing Agency and cleared by ADB;
- (i) "Environmental Management Plan" or "EMP" means each environmental management plan for the Project, including any update thereto, incorporated in the IEEs and EIAs;
- (j) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;
- (k) "GAP" means the gender action plan prepared for the Project, including any update thereto, and agreed to between the Borrower and ADB;
- (l) "Goods" means equipment and materials as set out in the Procurement Plan and to be financed out of the proceeds of the Loan, including any related Nonconsulting Services such as transportation, insurance, installation, commissioning, training, and initial maintenance;
- (m) "Grant Agreement" means the grant agreement to be entered into by the Borrower and ADB as referred to in Recital (B) above;
- (n) "IEE" or "Initial Environmental Examination" means each initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (o) "Implementing Agency" means the city implementing unit established in each WSSC, or any successor acceptable to ADB, which is responsible for the carrying out of the Project as an implementing agency;
- (p) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;
- (q) "Khyber Pakhtunkhwa" means the government of the Province of Khyber Pakhtunkhwa of the Borrower, or any successor thereto acceptable to ADB;
- (r) "Kohat WSSC" means the Kohat Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (s) "LGE&RDD" means the Local Government, Elections and Rural Development Department of Khyber Pakhtunkhwa;

- (t) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);
- (u) "Mardan WSSC" means the Mardan Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (v) "Mingora WSSC" means the Mingora Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (w) "Nonconsulting Services" means nonconsulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan;
- (x) "PAM" means the project administration manual for the Project dated 15 October 2021 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;
- (y) "Peshawar WSSC" means the Peshawar Water and Sanitation Services Company incorporated under the Companies Act, 2017, or any successor thereto;
- (z) "PMU" means the Project management unit established to assist Khyber Pakhtunkhwa with the execution of the Project;
- (aa) "Procurement Plan" means the procurement plan for the Project dated 15 October 2021 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Policy, the Procurement Regulations, and other arrangements agreed with ADB;
- (bb) "Procurement Policy" means ADB's Procurement Policy – Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (cc) "Procurement Regulations" means ADB's Procurement Regulations for ADB Borrowers - Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (dd) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Khyber Pakhtunkhwa (acting through LGE&RDD), or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;
- (ee) "Project facilities" means, collectively, the boreholes, tube wells, water reservoirs, water pumping stations, water pipes, meters, and supervisory control and data acquisition (SCADA) systems to be installed, constructed or rehabilitated under the Project, the sewage pumping stations, sewer pipes, wastewater management equipment, local drains, wastewater treatment plant and solid waste collection, disposal system and

segregation equipment to be installed, rehabilitated, replaced, provided, unblocked or constructed under the Project; and the buildings, parks and footpaths to be constructed or rehabilitated under the Project;

- (ff) "Relending Policy, 2020" means the memorandum dated 8 February 2021 entitled "Policy for Relending of Foreign Loans 2020" issued by Economic Affairs Division of the Ministry of Economic Affairs of the Borrower;
- (gg) "Relending Sanction Letter" means the relending sanction letter issued by the Borrower referred to in Section 3.01(a) of this Loan Agreement;
- (hh) "RF" means the land acquisition and resettlement framework for the Project, including any update thereto, agreed between the Borrower and ADB;
- (ii) "RP" means each land acquisition and resettlement plan for a water supply and sanitation or solid waste, or green urban infrastructure component of the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (jj) "RP/CAP Compliance Report" means a report prepared by the external expert or NGO as described in paragraph 8 of Schedule 4 to this Loan Agreement, that covers progress with, implementation of, and compliance with, the RP, including any corrective and preventative actions;
- (kk) "Safeguard Policy Statement" or "SPS" means ADB's Safeguards Policy Statement (2009);
- (ll) "Safeguards Monitoring Report" means each semiannual report prepared and submitted by the Project Executing Agency to ADB that describes progress with implementation of and compliance with the EMPs and the RPs, including any corrective and preventative actions;
- (mm) "SDDR" means a social due diligence report for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the RF and cleared by ADB;
- (nn) "Services" means Consulting Services and Nonconsulting Services;
- (oo) "Works" means construction or civil works as set out in the Procurement Plan and to be financed out of the proceeds of the Loan, including any related Nonconsulting Services, and project related services that are provided as part of a single responsibility or turnkey contract; and
- (pp) "WSSCs" means, collectively, the Abbottabad WSSC, the Kohat WSSC, the Mardan WSSC, the Mingora WSSC and the Peshawar WSSC.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of three hundred twenty-nine million five hundred seventy-five thousand Euro (€329,575,000), 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 25 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove 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:

- (a) Euribor;
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium of 0.20% 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 May and 15 November 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 subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(f) 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 relend the proceeds of the Loan to the Project Executing Agency under a Relending Sanction Letter upon terms and conditions prescribed in the Relending Policy, 2020 as may be satisfactory to ADB.

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

Section 3.02. The 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.

Section 3.04. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2028 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement and the Project Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the Goods, Works and Services, and any relevant records and documents.

Section 4.03. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

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

ARTICLE V

Suspension; 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(m) of the Loan Regulations:

- (a) the Borrower or the Project Executing Agency shall have failed to perform any of its obligations under the Relending Sanction Letter;
- (b) the Borrower shall have failed to perform any of its obligations under the Grant Agreement;
- (c) the AIB Cofinancing Agreement shall have been suspended or cancelled; and
- (d) the AIB Loan shall have become liable for suspension or cancellation or shall have become repayable prior to its agreed maturity date.

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 shall have occurred.

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 Grant Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Borrower, and shall have become legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Grant Agreement has been duly authorized by or ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower, in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. A date 90 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 Project Executing Agency 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 3.04 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 Project Executing Agency 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 Project Executing Agency 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 of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

The Secretary
Economic Affairs Division
Ministry of Economic Affairs
Islamabad, Pakistan

Facsimile Number:

(92-51) 910-4016

For ADB

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


Facsimile Numbers:

(632) 8636-2444

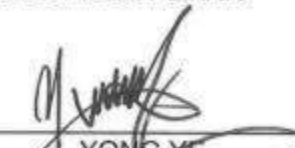
(632) 8636-2424.

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

ISLAMIC REPUBLIC OF PAKISTAN

By 
MIAN ASAD HAYAUD DIN
Secretary, Economic Affairs Division
Ministry of Economic Affairs

ASIAN DEVELOPMENT BANK

By 
YONG YE
Country Director
Pakistan Resident Mission

SCHEDULE 1

Description of the Project

1. The objective of the Project is improved access to reliable and resilient urban services in Abbottabad, Kohat, Mardan, Mingora and Peshawar cities in the territory of the Borrower.

2. The Project shall comprise:

Component One

- (a) Water and Sanitation Component: improvements and augmentation of approximately 1,200 kilometers of water supply, sewerage network and household connection, the construction of two clean water supply treatment facilities, two sewage treatment facilities, and at least ten tube wells, household connection to water supply systems, and the installation of smart water meters and supervisory control and data acquisition systems.
- (b) Solid Waste Management Component: the development of primary and secondary waste collections and five third-generation integrated solid waste management facilities, including material recovery to reduce and recycle waste and to deploy waste-to-energy options.
- (c) Green Urban Infrastructure Component: the development of green infrastructure to promote healthy and sustainable living environments through the rehabilitation of seven existing green spaces and nature trails, improvement of pedestrian sidewalks and streets, conversion of an existing landfill to a park, dedicated spaces for women's sports and physical fitness, and the establishment of a women's sports complex.

Component Two

- (d) Strengthening the institutional capacities of gender-inclusive urban service providers through the establishment of the Khyber Pakhtunkhwa Municipal Regulatory Office to improve the regulatory oversight mechanism of municipal services, the launch of a financial sustainability action plan to introduce cost recovery tariff programs based on new service standards, the development of enterprise resource planning systems for the WSSCs to strengthen their operational systems and management of assets and resources, training staff of the WSSCs, strengthening women's participation in service provision, improved feedback mechanism to improve billing and complaints handling systems, implementation of an effective communication strategy that promotes water, sanitation and hygiene practices.

Component Three

- (e) Increasing the role of women in urban development through improved management of the Women Business Development Centre in Khyber Pakhtunkhwa, improved skills development and income generating activities with a multipurpose community hall and exhibitions center, an outdoor community recreational space, an area for selling home-based products, a day care facility for working mothers, establishment of a livelihood skills development program for women that includes training and materials support, the establishment of a scholarship program for qualified female students to pursue research and education in urban sector development, engineering, and climate change, improving the women's polytechnic institute facilities in Peshawar city, providing water, sanitation and hygiene practices and climate change training for women, and establishing a new community-led water, sanitation and hygiene initiative called Clean City for All within the WSSCs.

3. The Project is expected to be completed by 31 December 2027.

SCHEDULE 2

Amortization Schedule

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 May 2027	1.000000
15 November 2027	1.000000
15 May 2028	1.000000
15 November 2028	1.000000
15 May 2029	1.000000
15 November 2029	1.000000
15 May 2030	2.000000
15 November 2030	2.000000
15 May 2031	2.000000
15 November 2031	2.000000
15 May 2032	2.000000
15 November 2032	2.000000
15 May 2033	2.000000
15 November 2033	2.000000
15 May 2034	2.000000
15 November 2034	2.000000
15 May 2035	2.000000
15 November 2035	2.000000
15 May 2036	2.000000
15 November 2036	2.000000
15 May 2037	2.000000
15 November 2037	2.000000
15 May 2038	2.000000
15 November 2038	2.000000
15 May 2039	2.000000
15 November 2039	2.000000
15 May 2040	2.000000
15 November 2040	2.000000

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 May 2041	2.000000
15 November 2041	2.000000
15 May 2042	2.000000
15 November 2042	2.000000
15 May 2043	2.000000
15 November 2043	2.000000
15 May 2044	2.000000
15 November 2044	2.000000
15 May 2045	2.000000
15 November 2045	2.000000
15 May 2046	2.500000
15 November 2046	2.500000
15 May 2047	2.500000
15 November 2047	2.500000
15 May 2048	2.500000
15 November 2048	2.500000
15 May 2049	2.500000
15 November 2049	2.500000
15 May 2050	2.500000
15 November 2050	2.500000
15 May 2051	2.500000
15 November 2051	2.500000
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; and
- (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 2 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 (a) 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 (b) 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" in this Schedule is to a Category of the Table).

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest and Commitment Charges

3. The amount allocated to Category "Interest and Commitment Charges" is for financing interest and commitment charges 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 charges.

Reallocation

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

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

Retroactive Financing

6. Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Works, Goods and Services, subject to a maximum amount equivalent to 20% of the Loan amount.

Condition for Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account until:

- (a) the AIIB Loan Agreement shall have been executed by the parties thereto; and
- (b) the PMU shall have submitted to ADB, the minutes of the departmental accounts committee meeting, validated by the office of the Auditor General of Khyber Pakhtunkhwa, evidencing the settlement or agreed remedial actions for the audit observations raised on the project financial statements for the project readiness financing facility associated with the Project, for the financial year ended 30 June 2020.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
Number	Item	Total Amount Allocated for ADB Financing (€) Category	Basis for Withdrawal from the Loan Account
1	Works**	261,723,000	65% of total expenditure claimed
2	Mechanical and Equipment**	4,640,000	100% of total expenditure claimed
3	Environment and Social Mitigation**	5,122,000	46% of total expenditure claimed
4	Project Management**	29,005,000	62.5% of total expenditure claimed
5	Community and Social Wings WSSC	875,000	100% of claimed expenditure
6	Interest and Commitment Charges	23,035,000	100% of amounts due
7	Unallocated	5,175,000	
	TOTAL	329,575,000	

** Subject to the condition for withdrawal described in paragraph 7 of Schedule 3.

SCHEDULE 4

Execution of Project; Financial Matters

Implementation Arrangements

1. The Borrower shall ensure, and cause the Project Executing Agency and Implementing Agencies to 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.

Procurement

2. The Borrower shall ensure, and cause the Project Executing Agency and Implementing Agencies to ensure, that:

- (a) the procurement of Goods, Works and Services is carried out in accordance with the Procurement Policy and the Procurement Regulations;
- (b) Goods, Works and Services shall be procured based on the detailed arrangements set forth in the Procurement Plan, including the procurement and selection methods, the type of bidding documents, and ADB's review requirements. The Borrower may modify the detailed arrangements set forth in the Procurement Plan only with the prior agreement of ADB, and such modifications must be set out in updates to the Procurement Plan; and
- (c) (i) all Goods and Works procured and Services obtained (including 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; and (ii) all contracts for the procurement of Goods, Works and Services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor, supplier, consultant or service provider with respect to the matters referred to in this subparagraph.

3. The Borrower, through the Project Executing Agency, shall not award any Works contracts which involves environmental impacts until:

- (a) Khyber Pakhtunkhwa Environmental Protection Agency has granted the final approval of the EIA; and
- (b) the Borrower has, or has ensured that the Project Executing Agency has, incorporated the relevant provisions from the EMP into the Works contract.

4. The Borrower, through the Project Executing Agency, shall not award any Works contract which involves involuntary resettlement impacts until the Borrower has:

- (a) prepared and submitted to ADB the final RP, the final CAP and the final SDDR for that contract and obtained ADB's clearance of such RPs, CAPs and SDDRs; and
- (b) the contract expressly provides that the commencement of the installation and construction phase for any section or part of such Works is strictly conditional upon issuance by the Project Executing Agency and Implementing Agencies of a notice to commence such section or part of such Works.

Environment

5. The Borrower, through the Project Executing Agency and Implementing Agencies, shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower and Khyber Pakhtunkhwa relating to environment, health and safety; and (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEEs, EIAs, the EMPs, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

6. The Borrower, through the Project Executing Agency and Implementing Agencies, shall ensure, that all land and all rights-of-way 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 and Khyber Pakhtunkhwa relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RF, RPs, and any corrective or preventative actions set forth in the Safeguards Monitoring Report. The Borrower shall ensure, and cause the Project Executing Agency and Implementing Agencies to ensure, that no land shall be acquired for the purposes of the Project under the emergency acquisition provisions of the Borrower's Land Acquisition Act (1894), as amended from time to time.

7. Without limiting the application of the Involuntary Resettlement Safeguards or the RF, RPs, or the CAPs, the Borrower shall ensure, or cause the Project Executing Agency and Implementing Agencies to 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 RPs and CAPs; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RPs and CAPs.

8. Without prejudice to paragraphs 6 and 7, the Borrower shall ensure, and shall cause the Project Executing Agency and Implementing Agencies to ensure, that subsequent to the award of any Works contract, no notice to commence Works is issued to a contractor in relation to any section or part of such Works unless the applicable provisions of the RP and/or CAP have been implemented and an RP/CAP Compliance Report, prepared by the external

expert or NGO described in paragraph 12(c) and describing progress with, implementation of, and compliance with, such RP, including any corrective and preventative actions, has been submitted to, and cleared by, ADB.

Indigenous Peoples

9. The Borrower, through the Project Executing Agency and Implementing Agencies, shall ensure, that the preparation, design, construction, implementation and operation of the Project and all Project facilities does not have any indigenous peoples impacts within the meaning of the SPS. In the event that the Project does have any such impact, the Borrower shall, and shall cause the Project Executing Agency and Implementing Agencies to, take all steps required to ensure that the Project complies with applicable laws and regulations of the Borrower and Khyber Pakhtunkhwa and with the SPS.

Human and Financial Resources to Implement Safeguards Requirements

10. The Borrower shall cause the Project Executing Agency and the Implementing Agencies to make available necessary budgetary and human resources to fully implement the EMPs and the RPs.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

11. The Borrower shall cause the Project Executing Agency and the Implementing Agencies to 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 IEEs, EIAs, the EMPs, and the RPs (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;
- (c) provide the Borrower, the Project Executing Agency and the Implementing Agencies with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the EIAs, the EMPs and the RPs;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

12. The Borrower shall cause the Project Executing Agency to do the following:

- (a) submit semiannual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEEs, EIAs, the EMPs, the RF, the RPs and CAPs, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed time-bound corrective action plan;
- (c) no later than finalization of the RPs and CAPs, engage qualified and experienced external experts under a selection process and terms of reference acceptable to ADB, to verify information produced through the Project monitoring process, and facilitate the carrying out of any verification activities by such external experts;
- (d) no later than the commencement of works by the Works contractor, engage external experts to monitor and report upon Project implementation, and facilitate the carrying out of any monitoring activities by such external experts; and
- (e) report any actual or potential breach of compliance with the measures and requirements set forth in the EMPs or the RPs promptly after becoming aware of the breach.

Prohibited List of Investments

13. The Borrower shall cause the Project Executing Agency and Implementing Agencies to 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.

Grievance Redress Mechanism

14. The Borrower shall cause the Project Executing Agency and the Implementing Agencies to ensure that a safeguards grievance redress mechanism acceptable to ADB is established and functional in accordance with the provisions of the IEEs, EIAs, the EMPs and the RPs no later than the date of award of the Works contract to consider safeguards complaints.

Labor Standards, Health and Safety

15. The Borrower shall ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the

employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

16. The Borrower shall strictly monitor compliance with the requirements set forth in paragraph 15 above and provide ADB with regular reports.

Gender and Development

17. The Borrower shall ensure, and cause the Project Executing Agency and Implementing Agencies to ensure, that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; and (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Counterpart Support

18. The Borrower shall cause the Project Executing Agency to make available adequate counterpart funds and other resources in addition to the proceeds of the Loan, and have such counterpart funds and resources released in a timely manner, for the successful implementation of the Project. In addition to the foregoing, the Borrower shall ensure that the Project Executing Agency and Implementing Agencies have sufficient funds to satisfy their liabilities arising from any Works, Goods and/or Services contract.

Financial Covenants

19. The Borrower shall ensure that:

- (a) for the fiscal year ending 30 June 2025, each WSSC has an Operating Ratio of not less than 0.8;
- (b) for the fiscal year ending 30 June 2026, and for each fiscal year thereafter, each WSSC has an Operating Ratio of not less than 1;
- (c) timely and adequate tariff differential subsidy funding is provided to the WSSCs until the target Operating Ratio of "1" is achieved. In addition, the Borrower shall cause the Project Executing Agency to implement a mechanism to forecast the subsidy funding requirements of WSSCs, determined on the basis of semiannual rolling cash flow projections to be submitted by the WSSCs to the Project Executing Agency; and
- (d) each WSSC remains in compliance with the requirements of section 220 to 236 of the Borrower's Companies Act, 2017, and the Public Sector Companies (Corporate Governance) Rules, 2013, as amended from time to time.

20. For the purposes of paragraph 19 above:

- (a) the term "Operating Ratio" means, in respect of a fiscal year of a WSSC, the total revenues divided by the total operating expenses for that fiscal year;
- (b) the term "total revenues" is defined as revenues from all sources related to operations, after making adequate provisions for uncollectable trade receivables, but excluding all government grants, subsidies and transfer of income, reported in the audited entity financial statements of the WSSC for the relevant fiscal year; and
- (c) the term "total operating expenses" is defined as all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding the depreciation following the relevant accounting estimate, interest and other charges on debt and other long-term borrowings, reported in the audited entity financial statements of the WSSC for the relevant fiscal year.

Operational/Sector Performance Covenants

21. The Borrower shall ensure, and cause the Project Executing Agency and Implementing Agencies to ensure that the Project is implemented in accordance with applicable design and technical specifications and construction norms satisfactory to ADB, and construction supervision, quality control and contract management are performed in accordance with international standards.

22. (a) The Borrower shall ensure and cause the Project Executing Agency and Implementing Agencies to ensure that all Project facilities are operated and maintained, in an effective and sustainable manner, in accordance with the Borrower's applicable laws, regulations and standards and, in other respects not covered by such laws, regulations and standards, in accordance with best international industry practice.

(b) The Borrower shall ensure or cause the Project Executing Agency and Implementing Agencies to ensure that adequate budgetary and other resources are allocated timely and provided promptly as necessary and appropriate for the operation and maintenance of Project facilities as described in sub-paragraph (a).

(c) The Borrower shall cause the Project Executing Agency and Implementing Agencies to carry out and complete all key actions in the financial management action plan set out in the PAM. All key actions shall be completed within the time frames indicated in the financial management action plan.

(d) The Borrower shall cause the Implementing Agencies to ensure that any vacancies on the board of directors of the Implementing Agencies is filled in a timely, fair and transparent manner, and in accordance with all applicable laws, regulations and standards of the Borrower and Khyber Pakhtunkhwa.

Change of Ownership

23. The Borrower shall ensure, and cause the Project Executing Agency and Implementing Agencies to ensure that ADB's written consent is obtained at least 6 months prior to the implementation of any of the following: (a) change in the ownership of any asset, facility or structure financed under the Project; (b) sale, transfer, or assignment of any interest or control in any asset, facility or structure financed under the Project; or (c) lease or other contract or modification of the functions and authority of the WSSCs, as the case may be, over the operation and maintenance of any asset, facility or structure financed under the Project. The Borrower shall ensure and cause the Project Executing Agency and Implementing Agencies to ensure that ADB is promptly notified of any proposal to implement any such change and the notification includes sufficient details regarding the change. The Borrower shall ensure and cause the Project Executing Agency and Implementing Agencies to ensure that any such change will be carried out in a legal and transparent manner.

Governance and Anticorruption

24. The Borrower, the Project Executing Agency, and the Implementing Agencies shall (a) 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 (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

25. The Borrower, the Project Executing Agency and the Implementing Agencies shall 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.