
LOAN NUMBER 3049-PAK (SF)

LOAN AGREEMENT
(Special Operations)
(Social Protection Development Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 25 NOVEMBER 2013

PAK 45233

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 25 November 2013 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 Project will be carried out by the Benazir Income Support Program ("BISP"), and for this purpose the Borrower will make available to BISP the loan proceeds provided for herein upon terms and conditions satisfactory to ADB; and

(C) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. 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) "AETP Subprogram 2" means the second subprogram of the ADB Accelerating Economic Transformation Program (Loan Nos. 2524/2525(SF));

(b) "AGP" means the office of the Auditor-General of Pakistan or any successor thereto;

(c) "BISP" means the Benazir Income Support Program established pursuant to the Benazir Income Support Program Act 2010 or any successor thereto;

(d) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(e) “Consulting Services” means the services to be financed out of the proceeds of the Loan as described in sub-paragraphs 2(b) and (c) of Schedule 1 to this Loan Agreement;

(f) “Counterpart Funds” means the Rupee proceeds accruing to the Borrower and generated from the proceeds of the Loan;

(g) “Eligible Families” means families that are selected for Part 1 of the Project based on: (i) the BISP nationwide poverty scorecard survey; and (ii) their female head of family being issued with the Borrower’s computerized national identity card;

(h) “Financial Year” means the period from 1 July of the preceding year to 30 June of the current year (i.e. Financial Year 2013 means the period from 1 July 2012 to 30 June 2013);

(i) “GAP” means the gender action plan for the Project;

(j) “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;

(k) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2012, as amended from time to time);

(l) “PAM” means the project administration manual for the Project dated 18 September 2013 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;

(m) “Part” means each of Parts 1 to 3 of the Project as described in paragraph 2 of Schedule 1 to this Loan Agreement;

(n) “Procurement Guidelines” means ADB’s Procurement Guidelines (2013, as amended from time to time);

(o) “Procurement Plan” means the procurement plan for the Project dated 18 September 2013 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;

(p) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means BISP or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

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

(r) “Safeguard Policy Statement” or “SPS” means ADB’s Safeguard Policy Statement (2009).

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to two hundred eighty-three million seven hundred seventy-six thousand Special Drawing Rights (SDR283,776,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in subsection (a) 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 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 January and 1 July in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall make the proceeds of the Loan, in Rupees equivalent, available to BISP upon terms and conditions satisfactory to ADB and shall cause BISP 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. 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. Withdrawals from the Loan Account in respect of Goods, Works, and Consulting Services shall be made only on account of expenditures relating to:

- (a) Goods which are produced in and supplied from and Consulting Services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) Goods and Consulting Services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2019 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 5 to this Loan Agreement and the Project Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, 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 30 days of the date of their receipt 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 BISP 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

Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

- (a) the Board of BISP shall establish an audit committee of the Board to oversee the financial reporting and audit of BISP, which includes reviewing internal audit reports. Such committee shall include a non-government member, preferably with experience in audit oversight; and
- (b) BISP shall provide to ADB:
 - (i) BISP's unaudited financial statements for Financial Years 2012 and 2013; and
 - (ii) BISP's audited financial statements for Financial Year 2013 with an action plan satisfactory to ADB to address the deficiencies identified in the audit.

Section 5.02. 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 9.04 of the Loan Regulations.

ARTICLE VI

Delegation of Authority

Section 6.01. The Borrower hereby designates BISP 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 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

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

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

ARTICLE VII

Miscellaneous

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

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

For the Borrower

The Secretary
Economic Affairs Division
Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization
Islamabad, Pakistan

Facsimile Numbers:

(9251) 920-4086
(9251) 920-2019.

For ADB

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

Facsimile Numbers:

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

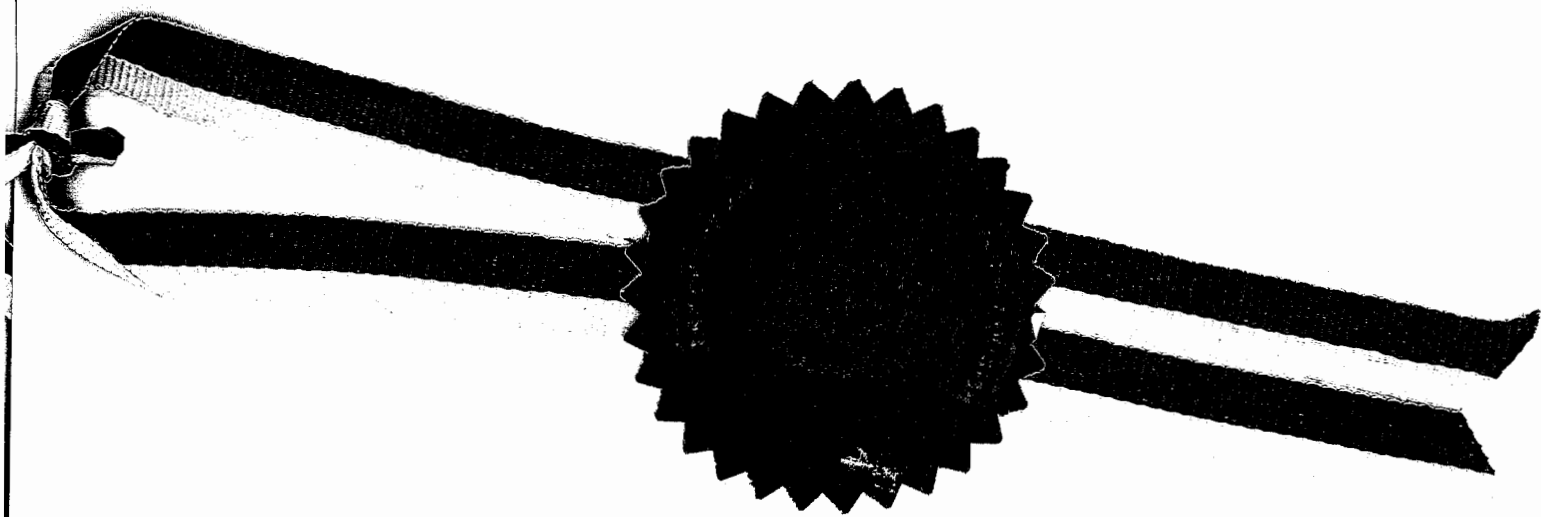
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

ISLAMIC REPUBLIC OF PAKISTAN

By Nargis Sethi
NARGIS SETHI
Secretary
Economic Affairs Division

ASIAN DEVELOPMENT BANK

By Werner Liepach
WERNER LIEPACH
Country Director
Pakistan Resident Mission



SCHEDULE 1**Description of the Project**

1. The objective of the Project is to increase resilience for BISP female beneficiaries and their families.
2. The Project shall comprise:
 - (a) expansion of BISP's cash transfer program to reach all Eligible Families ("Part 1");
 - (b) improvement and expansion of BISP's Waseela-e-Rozgar (skills development program) and the Waseela-e-Sehet (health insurance program) ("Part 2"); and
 - (c) improvement of BISP's financial management and internal control systems ("Part 3").
3. The Project is expected to be completed by 31 December 2018.

SCHEDULE 2**Amortization Schedule****(Social Protection Development Project)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
01 January 2019	7,094,400
01 July 2019	7,094,400
01 January 2020	7,094,400
01 July 2020	7,094,400
01 January 2021	7,094,400
01 July 2021	7,094,400
01 January 2022	7,094,400
01 July 2022	7,094,400
01 January 2023	7,094,400
01 July 2023	7,094,400
01 January 2024	7,094,400
01 July 2024	7,094,400
01 January 2025	7,094,400
01 July 2025	7,094,400
01 January 2026	7,094,400
01 July 2026	7,094,400
01 January 2027	7,094,400
01 July 2027	7,094,400
01 January 2028	7,094,400
01 July 2028	7,094,400
01 January 2029	7,094,400
01 July 2029	7,094,400
01 January 2030	7,094,400
01 July 2030	7,094,400
01 January 2031	7,094,400
01 July 2031	7,094,400
01 January 2032	7,094,400
01 July 2032	7,094,400
01 January 2033	7,094,400
01 July 2033	7,094,400
01 January 2034	7,094,400
01 July 2034	7,094,400
01 January 2035	7,094,400
01 July 2035	7,094,400
01 January 2036	7,094,400
01 July 2036	7,094,400
01 January 2037	7,094,400
01 July 2037	7,094,400

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
01 January 2038	7,094,400
01 July 2038	7,094,400
Total	283,776,000

* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of 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 or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

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

Interest Charge

3. The amount allocated to Category 7 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

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

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by 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.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Social Protection Development Project)				
Number	Item	Total Amount Allocated for ADB Financing (SDR)		Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Cash Payments	220,077,000		
1A	Cash Grants (Eligible Families)		219,996,000	100 % of total expenditure claimed*
1B	Transport Costs (Health Insurance)		81,000	100 % of total expenditure claimed*
2	Performance Allocation	26,398,000		100 % of total expenditure claimed*
3	Consulting Services	10,986,000		100 % of total expenditure claimed*
4	Training (including workshops and conferences)	528,000		100 % of total expenditure claimed*
5	Project Management Support (including office equipment and recurrent costs)	33,000		100 % of total expenditure claimed*
6	Equipment	17,000		100 % of total expenditure claimed*
7	Interest Charges	16,023,000		100% of amount due
8	Contingencies	9,714,000		
	Total	283,776,000		

* Exclusive of taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4

Procurement of Goods and Consulting Services

General

1. The procurement of Goods 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.

Goods

3. Except as ADB may otherwise agree, Goods shall only be procured on the basis of the following method of procurement: shopping for computer and office equipment.
4. The method of procurement is subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the method of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

Consulting Services

5. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging Consulting Services.
6. The Borrower shall recruit the individual consultants for in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

7. (a) The Borrower shall ensure that all Goods 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 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.
8. 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

9. In the case of a contract of Goods, which is subject to ADB's prior review, the Borrower shall seek ADB's prior approval of any modification or waiver of the terms and conditions of the contract, including:

- (a) granting an extension of the stipulated time for completion of a contract for a period of 1 month or more, or which is likely to require an extension of the Loan Closing Date; and
- (b) increases in aggregate of the original price by more than 5% (for the avoidance of doubt, such increase shall take into account any previous change under such contract).

10. In the case of a contract for Goods, which is subject to ADB's post review, ADB shall review the required contract modification or waiver and respond to the Borrower as soon as practicable, but not later than 1 month after the receipt of the required document.

11. The Borrower shall provide to ADB copies of all time extensions, modifications or waivers to the contracts (including charge orders) within 1 month following amendment of the contract.

SCHEDULE 5

Execution of Project; Financial Matters

Implementation Arrangements

1. The Borrower and BISP 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 and the Project Agreement, the provisions of this Loan Agreement and the Project Agreement shall prevail.

Use of Counterpart Funds

2. Without limiting the detailed arrangements described in the PAM, the Borrower shall ensure that the Counterpart Funds are provided as and when due to BISP for efficient Project implementation.

3. The Borrower shall cause BISP to ensure that Counterpart Funds of SDR219,996,000 equivalent are only used for Part 1 of the Project. This is provided that (a) the Borrower ensures that BISP continues the cash grants to the Eligible Families after such cash grants are financed under Part 1 of the Project for the first 5 quarters (at Rs. 3,000 per quarter) following the selection of the Eligible Families (i.e. BISP shall provide the cash grants for the Eligible Families from the sixth quarter onwards); and (b) the Borrower and BISP make available in a timely manner funds from their budgetary allocations for such cash grants. In the event there is any change to the amount of the quarterly payments, the revised amount and frequency of payments shall be agreed between the Borrower and ADB.

4. Notwithstanding the generality of paragraph 3 hereinabove, the Borrower shall ensure that AGP provides confirmation satisfactory to ADB that there had been no payment to ineligible beneficiaries under AETP Subprogram 2 by 31 March 2016. Such confirmation may be in the form of a revised audit opinion from AGP for its audit of AETP Subprogram 2 or a formal written confirmation from AGP. In the event that:

- (a) the confirmation from AGP indicates that there are some payments to ineligible beneficiaries, such confirmation shall specify the aggregate amount of such payments and the Borrower shall repay ADB the equivalent amount of Loan proceeds by 30 September 2016; or
- (b) there is no such confirmation from AGP (or the confirmation is unclear to ADB) by 31 March 2016, the Borrower shall repay ADB the equivalent amount of Loan proceeds for payments to ineligible beneficiaries (i.e. Rs. 2,049,703,000 equivalent) as specified in the audit opinion of AGP dated 19 March 2013 for its audit of AETP Subprogram 2 by 30 September 2016.

5. Notwithstanding any other provision in this Loan Agreement, ADB shall not process any withdrawal application for the Loan received after 30 September 2016 unless

ADB receives either the confirmation or the repayment described in paragraph 4 hereinabove.

Eligible Families

6. The Borrower shall ensure that BISP uses the cut-off score of the nation-wide poverty scorecard survey for identifying potential Eligible Families.

Financial Management

7. The Borrower shall cause BISP to ensure that the BISP financial management manual to be adopted by the BISP Board is fully and effectively implemented in accordance with its terms.

8. The Borrower shall cause BISP to (a) appoint a financial management specialist (as a consultant under the Project) with at least 7 years of experience in internal control and financial reporting for the duration of the Project within 3 months of the Effective Date; and (b) ensure that the financial management specialist is provided with adequate resources and support to carry out his/her duties. For longer term sustainability of BISP, the Borrower shall cause BISP to appoint such financial management specialist as a BISP staff within 3 years of the Effective Date.

9. The Borrower shall cause BISP to maintain the audit committee of the BISP Board described in Section 5.01(a) of this Loan Agreement in accordance with its terms of reference for the duration of the Project.

Environment, Involuntary Resettlement and Indigenous Peoples

10. No environmental or social impact under the SPS is expected for the Project. In the event that there is any such impact, the Borrower shall cause BISP to ensure that it adheres to applicable laws and regulations of the Borrower and the SPS. If there is any discrepancy between the SPS and the Borrower's laws and regulations, the SPS shall prevail.

Prohibited List of Investments

11. The Borrower shall cause BISP 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.

Waseela-e-Rozgar and Waseela e-Sehet

12. The Board of BISP shall approve BISP's organizational structure and staff arrangement for its Waseela-e-Rozgar (skills development program) and the Waseela-e-Sehet (health insurance program) within 3 months of the Effective Date.

13. The Borrower shall cause BISP to ensure that the SDR26,398,000 allocated for performance allocation in the Attachment to Schedule 3 of this Loan Agreement shall be

used in accordance with the implementation arrangement agreed between the Borrower, BISP and ADB following the midterm review of the Project.

Gender and Development

14. The Borrower shall cause BISP to ensure that (a) the GAP is implemented and monitored in a timely manner in accordance with its terms; (b) adequate resources are allocated for the implementation of the GAP; and (c) key gender outcome and output targets (including (i) at least 35% of skilled employment gained by beneficiaries of the skills development program in pilot districts within 3 months of training will be women; (ii) skills development training will integrate local women's income generation needs; (iii) cash payment for transport to hospitals will be provided upon discharge to beneficiaries, including women beneficiaries admitted for reproductive and other catastrophic health problems; and that (iv) BISP research framework will include a gender analysis of women's empowerment outcomes of the Project) are monitored regularly and achieved.

Governance and Anticorruption

15. The Borrower and BISP 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.

16. The Borrower and BISP 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.