
LOAN NUMBER 3126-PAK(SF)

LOAN AGREEMENT
(Special Operations)

(Sustainable Energy Sector Reform Program – Subprogram 1)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 28 APRIL 2014

PAK 47015

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 28 April 2014 between ISLAMIC REPUBLIC OF PAKISTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 27 March 2014 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's energy sector ("Program");

(B) the Program comprises the first subprogram of a programmatic approach, as described in paragraph 1 of Schedule 1 to this Loan Agreement ("Programmatic Approach"), and the Borrower has applied to ADB for a loan for the purposes of the Program; 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 the 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, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term “Program Executing Agency” means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term “Project Executing Agency” wherever it appears in the Loan Regulations shall be substituted by the term “Program Executing Agency”.

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) “Counterpart Funds” means the local currency generated from the Loan proceeds under the Program and referred to in paragraph 8 of Schedule 4 to this Loan Agreement;

(b) “Deposit Account” means the account referred to in paragraph 3 of Schedule 3 to this Loan Agreement;

(c) “ECC” means the Economic Coordination Committee of the Cabinet of the Borrower or any successor thereto;

(d) “Eligible Imports” means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports of ineligible items specified in the Attachment to Schedule 3 to this Loan Agreement; and
- (iii) imports financed by official international or bilateral aid agencies or any other loans or grants made by ADB;

(e) “Eligible Items” means the Eligible Imports and services in connection with the delivery and installation of such imports;

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

(g) “MOF” means the Ministry of Finance of the Borrower or any successor thereto;

(h) “MPNR” means the Ministry of Petroleum and Natural Resources of the Borrower or any successor thereto;

(i) “MWP” means the Ministry of Water and Power of the Borrower or any successor thereto;

(j) “PCU” means the program coordination unit described in paragraph 2 of Schedule 4 to this Loan Agreement;

(k) “Policy Matrix” means the matrix of policy actions as agreed between the Borrower and ADB and attached to the Policy Letter which sets forth actions accomplished or to be accomplished by the Borrower under the Programmatic Approach;

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

(m) “SBP” means the State Bank of Pakistan, established pursuant to the State Bank of Pakistan Act 1956, or any successor thereto.

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 fifty-seven million four hundred forty-three thousand Special Drawing Rights (SDR257,443,000).

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 paragraph (a) 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 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 January and 15 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 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 cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be 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. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and 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) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.04. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2015 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 Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan

Regulations: the policy actions for the Program as specified in the Policy Letter shall have been carried out to the satisfaction of ADB.

Section 5.02. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. 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 6.02. 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) 636-2301.

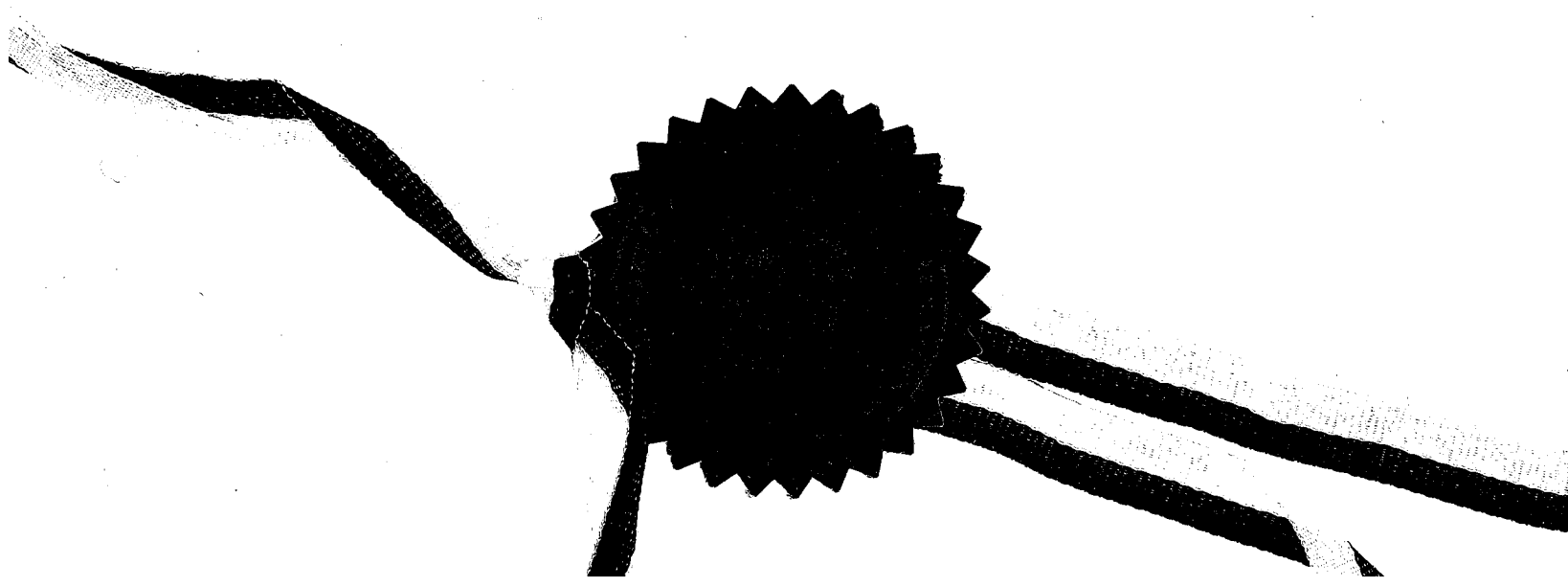
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

ISLAMIC REPUBLIC OF PAKISTAN

By Nazir Sethi
Authorized Representative

ASIAN DEVELOPMENT BANK

By Wesley K. Pa...
Authorized Representative



SCHEDULE 1**Description of the Program**

1. The principal objective of the Programmatic Approach is to improve the reliability, sustainability and affordability of the Borrower's energy sector to support the economic growth of the Borrower. The Programmatic Approach comprises five subprograms and the Program is the first subprogram. The Program is described in more detail in the Policy Letter.
2. The Program is expected to be completed by 30 June 2015.

SCHEDULE 2**Amortization Schedule****(Sustainable Energy Sector Reform Program – Subprogram 1)**

| <u>Date Payment Due</u> | <u>Payment of Principal</u> (expressed in Special Drawing Rights)* |
|-------------------------|--|
| 15 July 2019 | 6,436,100 |
| 15 January 2020 | 6,436,100 |
| 15 July 2020 | 6,436,100 |
| 15 January 2021 | 6,436,100 |
| 15 July 2021 | 6,436,100 |
| 15 January 2022 | 6,436,100 |
| 15 July 2022 | 6,436,100 |
| 15 January 2023 | 6,436,100 |
| 15 July 2023 | 6,436,100 |
| 15 January 2024 | 6,436,100 |
| 15 July 2024 | 6,436,100 |
| 15 January 2025 | 6,436,100 |
| 15 July 2025 | 6,436,100 |
| 15 January 2026 | 6,436,100 |
| 15 July 2026 | 6,436,100 |
| 15 January 2027 | 6,436,100 |
| 15 July 2027 | 6,436,100 |
| 15 January 2028 | 6,436,100 |
| 15 July 2028 | 6,436,100 |
| 15 January 2029 | 6,436,100 |
| 15 July 2029 | 6,436,100 |
| 15 January 2030 | 6,436,100 |
| 15 July 2030 | 6,436,100 |
| 15 January 2031 | 6,436,100 |
| 15 July 2031 | 6,436,100 |
| 15 January 2032 | 6,436,100 |
| 15 July 2032 | 6,436,100 |
| 15 January 2033 | 6,436,100 |
| 15 July 2033 | 6,436,100 |
| 15 January 2034 | 6,436,100 |
| 15 July 2034 | 6,436,100 |
| 15 January 2035 | 6,436,100 |
| 15 July 2035 | 6,436,100 |
| 15 January 2036 | 6,436,100 |

| <u>Date Payment Due</u> | <u>Payment of Principal</u> (expressed in Special Drawing Rights)* |
|-------------------------|--|
| 15 July 2036 | 6,436,100 |
| 15 January 2037 | 6,436,100 |
| 15 July 2037 | 6,436,100 |
| 15 January 2038 | 6,436,100 |
| 15 July 2038 | 6,436,100 |
| 15 January 2039 | 6,435,100 |
| Total | 257,443,000 |

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

SCHEDULE 3**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be greater than the amount of the Loan expected to be disbursed during such year.

(c) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at SBP into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

4. The Borrower may withdraw the Loan upon effectiveness of this Loan Agreement.

Negative List

No withdrawals will be made for the following:

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

Table: Ineligible Items

| Chapter | Heading | Description of Items |
|----------------|----------------|---|
| 112 | | Alcoholic beverages |
| 121 | | Tobacco, unmanufactured; tobacco refuse |
| 122 | | Tobacco, manufactured (whether or not containing tobacco substitute) |
| 525 | | Radioactive and associated materials |
| 667 | | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors |
| 728 | 728.43 | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971 | | Gold, nonmonetary (excluding gold ore and concentrates) |

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 4

Program Implementation and Other Matters

Implementation Arrangements and Monitoring

1. The Borrower shall, through the ECC, provide overall oversight for the Programmatic Approach and, in connection therewith, shall establish units within both MPNR and MWP to monitor progress of the Programmatic Approach. Such monitoring units within MPNR and MWP shall prepare and submit to ECC quarterly reports on the progress of the Programmatic Approach and such reports shall be provided to ADB. Such quarterly reports shall be reviewed by a team of independent experts as advisors appointed by MPNR and MWP who shall provide suggestions and recommendations as a part of each such report.
2. The MOF shall be the Program Executing Agency. The MPNR and MWP shall be the implementing agencies for their respective components under the Programmatic Approach. The PCU established under the MOF shall coordinate the implementation of the Programmatic Approach. The respective Programmatic Approach monitoring units established within the MPNR and MWP discussed in paragraph 1 of this Schedule 4 shall coordinate with the PCU on implementation matters.
3. The Borrower shall ensure that MOF, MPNR and MWP are adequately staffed and provided with the necessary financial, technical and other resources to perform their respective functions as executing or implementing agencies under the Programmatic Approach. ADB shall closely collaborate with MOF, MPNR and MWP on the technical support for the policy actions contemplated under the second and subsequent subprograms of the Programmatic Approach.

Policy Actions and Dialogue

4. The Borrower shall ensure that all policy actions adopted under the Programmatic Approach, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Programmatic Approach.
5. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Programmatic Approach and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.
6. The Borrower shall ensure that, prior to finalization of the least-cost generation and transmission expansion plans referred to in the Policy Matrix, strategic environmental assessments of the least-cost generation and transmission expansion plans are carried out and that any identified long term environmental impact for purposes of ADB's Safeguard Policy Statement (2009) is addressed in accordance with the Safeguard Policy Statement (2009).

Use of Counterpart Funds

7. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Programmatic Approach.

Governance and Anticorruption

8. The Borrower, MOF, MPNR and MWP 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 Programmatic Approach; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Review

9. The Borrower shall carry out review of the Program with the participation of ADB for the design of the remaining subprograms of the Programmatic Approach. The review shall take into account experiences from Program implementation and recommendations from other ADB assistance to the Borrower in the energy sector. The Borrower acknowledges that the review described in this paragraph does not obligate ADB to make loans from any further subprogram under the Programmatic Approach and that any further subprogram for the Programmatic Approach is subject to ADB Board approval.