



4 October 2016

Mr. Tariq Bajwa
Secretary
Economic Affairs Division
Ministry of Finance, Revenue, Economic Affairs,
Statistics and Privatization
Islamabad
Islamic Republic of Pakistan

Re: Project Design Advance for Karachi Bus Rapid Transit Project
Loan Number: PDA 6008 (Ordinary Operations)
Project number: 47279 - 003

Dear Sir,

The Islamic Republic of Pakistan ("Borrower") has requested ADB for financial assistance under ADB's Project Design Facility for the preparation of the Karachi Bus Rapid Transit Project ("Ensuing Project").

In response to the above request, ADB has agreed to provide a project design advance ("PDA") in the form of a loan ("PDA Loan") from ADB's ordinary capital resources in an amount not exceeding nine million seven hundred thousand Dollars (\$9,700,000) on the terms and conditions set forth in this letter agreement and the Attachments hereto ("PDA Loan Agreement") for the purposes of the project ("PDA Project") as set out below.

The PDA Project shall comprise:

- (i) undertaking project management and coordination of all project preparatory work, and capacity building including selection and training of staff who will implement and operate the Ensuing Project;
- (ii) undertaking detailed engineering design, including specifications, plans, drawings, environmental and social safeguards planning documents for the Ensuing Project, and detailed cost estimates; and undertaking advance procurement actions, including preparation of bidding documents and supporting the bidding process until contract award;
- (iii) preparing the operational design and business model of the Ensuing Project, including the design of the bus rapid transit ("BRT") business plan, operations plan and branding and marketing plan, the technical standards and functional requirements for the BRT fleet, the design of viable public-private partnership schemes to finance specific components of the BRT system, and other related tasks; and

- (iv) providing assistance to the PDA Project implementation unit by engaging individual technical specialists as staff consultants for such unit, in order to help manage the PDA Project.

The Borrower acknowledges and agrees that no provision of this PDA Loan Agreement constitutes or implies a commitment or legal obligation on the part of ADB to provide financial assistance for the Ensuing Project.

According to ADB's Public Communication Policy 2011 ("PCP") on disclosure and exchange of information, this PDA Loan Agreement will be publicly disclosed on the ADB website once it has been signed by all the parties. If ADB is advised that this PDA Loan Agreement contains any information or data of a sensitive or confidential nature falling within the PCP exceptions to presumed disclosure under the PCP, this PDA Loan Agreement will be disclosed after removing such information.

The Borrower is requested to confirm its agreement to the terms and conditions of this PDA Loan Agreement by having an authorized representative countersign the two original counterparts of this PDA Loan Agreement in the space indicated below. Please retain one signed original counterpart for your records, and return one signed original counterpart to ADB.

Very truly yours,



By _____

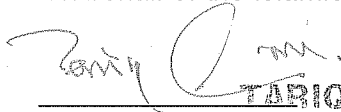
SEAN M. O'SULLIVAN

Director General

Central and West Asia Department

The Borrower hereby agrees to the terms and conditions of this PDA Loan Agreement and confirms that this PDA Loan Agreement does not contain any information or data that falls within the PCP exceptions.

On behalf of the Islamic Republic of Pakistan



TARIQ BAJWA

Name: Secretary
 Title: Economic Affairs Division
 Date: Government of Pakistan
 Islamabad

The Province of Sindh hereby agrees to perform, through its Transport and Mass-Transit Department, all obligations set forth in this PDA Loan Agreement to the extent that they are applicable to the Province of Sindh.

On behalf of the Province of Sindh

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, positioned above a solid horizontal line.

Name:
Title: **Additional Chief Secretary (Dev)**
Date: **Planning & Development Department**
Government of Sindh.

Attachment 1: Terms and Conditions
Attachment 2: Amortization Schedule
Attachment 3: Allocation Table
Attachment 4: PDA Project Administration Manual

Terms and Conditions**ARTICLE I****Loan Regulations; Definitions**

Section 1.01. The provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 ("Loan Regulations"), are hereby made applicable to this PDA Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

- (a) The term "Loan" wherever it appears in the Loan Regulations as a defined term or as part of a defined term, shall be substituted by the term "PDA Loan".
- (b) The term "Project" wherever it appears in the Loan Regulations as a defined term or as part of a defined term, shall be substituted by the term "PDA Project".
- (c) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the PDA Loan at the rate and on the terms specified in this PDA Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in this PDA Loan Agreement, which credit shall remain fixed for the term of the PDA Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

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

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

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

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

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

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

Section 1.02. Wherever used in this PDA 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 PDA Loan Agreement have the following meanings:

(a) "Allocation Table" means the table showing the allocation of the PDA Loan proceeds to items of expenditure under the PDA Project, and the withdrawal percentage for disbursement for each such item of expenditure from the PDA Loan proceeds, as set forth in Attachment 3 to this PDA Loan Agreement;

(b) "Amortization Schedule" means the amortization schedule for repayment of the withdrawn principal amount of the PDA Loan in the event that the PDA Loan is not refinanced by ADB, as set forth in Attachment 2 to this PDA Loan Agreement;

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

(d) "Consulting Services" means the consulting services to be financed out of the proceeds of the PDA Loan;

(e) "Ensuing Loan Agreement" means the loan agreement to be entered into between the Borrower and ADB for financing the Ensuing Project, which, inter alia, provides for refinancing of the PDA Loan made by ADB under this PDA Loan Agreement;

(f) "Goods" means equipment and materials to be financed out of the proceeds of the PDA Loan under a contract for Consulting Services;

(g) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(h) "PDA PAM" means the project administration manual for the PDA Project, as initially set forth in Attachment 4 to this PDA Loan Agreement and as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(i) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(j) "Procurement Plan" means the procurement plan for the PDA Project incorporated in the PDA PAM, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(k) "Refinancing Date" means the effective date of the Ensuing Loan Agreement as specified in Section 2.04 of this PDA Loan Agreement, or such other date as may from time to time be agreed between the Borrower and ADB;

(l) "Sindh" means the Province of Sindh or any successor thereto acceptable to ADB, which is responsible for the carrying out of the PDA Project;

(m) "SMTA" means the Sindh Mass Transit Authority to be established by the Government of Sindh;

(n) "Subsidiary Loan Agreement" means the agreement between the Borrower and Sindh, satisfactory to ADB, referred to in Section 3.01(a) of this PDA Loan Agreement; and

(o) "TMTD" means the Transport and Mass-Transit Department of the Government of Sindh or any successor thereto acceptable to ADB, which is responsible for actually carrying out and implementing the PDA Project.

ARTICLE II

The PDA Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of nine million seven hundred thousand Dollars (\$9,700,000).

Section 2.02. Interest shall accrue on the principal amount of the PDA Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. A commitment charge of 0.15% per annum shall accrue on the full amount of the PDA Loan (less amounts withdrawn from time to time), commencing on the date that is two years after this PDA Loan Agreement is duly signed by both the Borrower and ADB.

Section 2.04. (a) In the event that the PDA Loan is refinanced by ADB pursuant to an Ensuing Loan Agreement, on the Refinancing Date:

- (i) the Borrower shall repay the principal amount of the PDA Loan withdrawn from the PDA Loan Account along with interest, commitment and other charges accrued hereunder in accordance with the terms of the Ensuing Loan Agreement; and
- (ii) the right of the Borrower to make withdrawals from the PDA Loan Account shall terminate, and any unwithdrawn amount of the PDA Loan shall be cancelled.

(b) The Refinancing Date shall be 30 October 2018 or such other date as may from time to time be agreed between the Borrower and ADB.

Section 2.05. (a) In the event that the PDA Loan is not refinanced by ADB, ADB shall notify the Borrower of the PDA Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations, and subsection (b) or subsection (c) hereinafter shall apply.

(b) If the amount of the PDA Loan withdrawn from the PDA Loan Account exceeds \$50,000 equivalent:

- (i) the Borrower shall repay the principal amount of the PDA Loan withdrawn from the PDA Loan Account in accordance with the provisions of the Amortization Schedule, subject to such changes in the Principal Payment Dates as ADB may notify to the Borrower;
- (ii) the PDA Loan will have a principal repayment period of 5 years, and a grace period as defined in subsection (b)(iii) hereinafter;
- (iii) the term "grace period" as used in this subsection (b) means the period prior to the first Principal Payment Date in accordance with the Amortization Schedule, subject to any change as described in subsection (b)(i) hereinabove; and
- (iv) interest, commitment and other charges shall be payable semiannually on 1 May and 1 November in each year, except that interest, commitment and other charges accrued during the grace period shall be payable on the first Principal Payment Date.

(c) If the amount of the PDA Loan withdrawn from the PDA Loan Account on the PDA Loan Closing Date is the equivalent of \$50,000 or less, the Borrower shall repay the entire principal amount of the PDA Loan to ADB along with the interest, commitment and other charges accrued hereunder, within 60 days of a notice to that effect from ADB to the Borrower.

ARTICLE III

Use of Proceeds of the PDA Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the PDA Loan to Sindh (who, in turn, will make the proceeds available to TMTD) under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB.

(b) The Borrower shall cause the proceeds of the PDA Loan to be applied to the financing of expenditures on the PDA Project in accordance with the provisions of this PDA Loan Agreement.

Section 3.02. Except as ADB may otherwise agree, the proceeds of the PDA Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure, as set forth in the Allocation Table.

Section 3.03. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Allocation Table,

(a) if the amount of the PDA Loan allocated to any category appears to be insufficient to finance all agreed expenditures in that category, ADB may, in consultation with the Borrower, (i) reallocate to such category, to the extent required to meet the estimated

shortfall, amounts of the PDA 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 PDA Loan allocated to any category appears to exceed all agreed expenditures in that category, ADB may, in consultation with the Borrower, reallocate such excess amount to any other category.

Section 3.04. Except as ADB may otherwise agree, the PDA Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Section 3.05. 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 PDA Loan in accordance with the Consulting Guidelines and the Procurement Guidelines, as the case may be. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.06. Except as ADB may otherwise agree, the Borrower shall apply such methods for selecting and engaging Consulting Services and for procurement of Goods as are set out in the Procurement Plan.

Section 3.07. All contracts for procurement of Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

Section 3.08. (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 supplier with respect to the matters referred to in subsection (a) hereinabove.

(c) 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.

Section 3.9. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the PDA Loan to be used exclusively in the carrying out of the PDA Project.

Section 3.10. Except as ADB may otherwise agree, the Borrower shall cause Sindh to duly perform all its obligations under the Subsidiary Loan Agreement, and not to take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan

Agreement. No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB. The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the PDA Loan.

ARTICLE IV

Particular Covenants

Section 4.01. The Borrower shall ensure that the PDA Project is implemented in accordance with the detailed arrangements set forth in the PDA PAM. Any subsequent change to the PDA PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PDA PAM and this PDA Loan Agreement, the provisions of this PDA Loan Agreement shall prevail.

Section 4.02. The Borrower shall make available, or cause Sindh (through TMTD) to make available, promptly as needed the funds, facilities and services as required, in addition to the proceeds of the PDA Loan, for the carrying out of the PDA Project.

Section 4.03. Whenever applicable, in the carrying out of the PDA Project, the Borrower shall ensure, or shall cause Sindh (through TMTD) to ensure, that competent and qualified consultants acceptable to ADB are employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

Section 4.04. (a) The Borrower shall, or shall cause Sindh (through TMTD) to, (i) maintain separate accounts and records for the PDA Project; (ii) prepare annual financial statements for the PDA Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the PDA Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the PDA Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the PDA 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.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the PDA Project and the Borrower's financial affairs where they relate to the PDA Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to

participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

Section 4.05. The Borrower shall enable ADB's representatives to inspect the PDA Project, the Goods and any relevant records and documents.

Section 4.06. (a) The Borrower, Sindh and the executing and implementing agencies shall (i) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the PDA Project; and (ii) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

(b) The Borrower, Sindh and the executing and 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 suppliers, consultants, and other service providers as they relate to the PDA Project.

Section 4.07. The Borrower and Sindh shall promptly notify ADB of the establishment of SMTA and discuss with ADB such changes to the implementing arrangements of the PDA Project (including disbursement arrangements for the PDA Project and any related arrangements under this PDA Loan) as may be necessary or appropriate in that connection. The Borrower shall ensure that any change to the implementing arrangements, including any change in TMTD, will have, and be subject to, the prior consent of ADB, and all actions which may be necessary or appropriate to give full effect to the change are duly and promptly taken.

ARTICLE V

Effectiveness

Section 5.01. Notwithstanding the provisions of Sections 10.01 and 10.03 of the Loan Regulations, this PDA Loan Agreement shall become effective upon the date of receipt by ADB of this PDA Loan Agreement duly signed by both the Borrower and ADB.

ARTICLE VI**Miscellaneous**

Section 6.01. The Secretary, Economic Affairs Division, Ministry of Economic Affairs and Statistics of the Borrower is designated as the representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. 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 and Statistics
Government of Pakistan
Islamabad, Pakistan

Facsimile Number:

(92-51) 920-4086
(92-51) 920-2019

For ADB

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2484.

Amortization Schedule
(Project Design Advance for Karachi Bus Rapid Transit Project)

The following table sets forth the Principal Payment Dates of the PDA Loan and the percentage of the total principal amount of the PDA Loan payable on each Principal Payment Date (Installment Share). 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 PDA Loan withdrawn and outstanding as of the first Principal Payment Date, by (b) the Installment Share for each Principal Payment Date.

Payment Due	Installment Share (Expressed as a %)
15 April 2019	10.000000
15 October 2019	10.000000
15 April 2020	10.000000
15 October 2020	10.000000
15 April 2021	10.000000
15 October 2021	10.000000
15 April 2022	10.000000
15 October 2022	10.000000
15 April 2023	10.000000
15 October 2023	10.000000
Total	100.000000

Allocation Table

Allocation and Withdrawal of PDA Loan Proceeds (Project Design Advance for Karachi Bus Rapid Transit Project)			
Number	Category	Amount of PDA Loan Allocated to the Category (\$)	Basis for Withdrawal from the PDA Loan Account
1	Consulting Services	9,700,000	100 % of total expenditure claimed*
	Total	9,700,000	

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

**Project Administration Manual
(Project Design Advance for Karachi Bus Rapid Transit Project)**



Project Design Advance Project Administration Manual

Project Number: 47279
Loan Number:
September 2016

Islamic Republic of Pakistan:
Karachi Bus Rapid Transit Project