
LOAN NUMBER 3537-PAK

LOAN AGREEMENT
(Ordinary Operations)

(Sustainable Energy Sector Reform Program – Subprogram 3)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 16 June, 2017

PAK 47015

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 16-06-17 between ISLAMIC REPUBLIC OF PAKISTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 9 May 2017 ("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 third 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 ordinary capital resources upon the terms and conditions set forth herein;

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, however, to the following modifications:

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

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(vv) is deleted and the following is substituted therefor:

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 4 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) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);
- (e) "MOF" means the Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization of the Borrower or any successor thereto;
- (f) "MPNR" means the Ministry of Petroleum and Natural Resources of the Borrower or any successor thereto;
- (g) "MWP" means the Ministry of Water and Power of the Borrower or any successor thereto;
- (h) "Policy Matrix" means the policy matrix as agreed between the Borrower and ADB, which sets forth actions accomplished or to be accomplished by the Borrower under the Program and is attached to the Policy Letter;
- (i) "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
- (j) "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. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of three hundred million Dollars (\$300,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 12 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

- (a) LIBOR; and
- (b) 0.60% as determined 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. 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 February and 15 August in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and

outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(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. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures for 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. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2017 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. As part of the information and reports referred to in Sections 7.01 and 7.04 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. 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 10.04 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 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 Finance, Revenue, Economic Affairs, Statistics and
Privatization
Islamabad, Pakistan

Facsimile Number:

(9251) 910-4016.

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

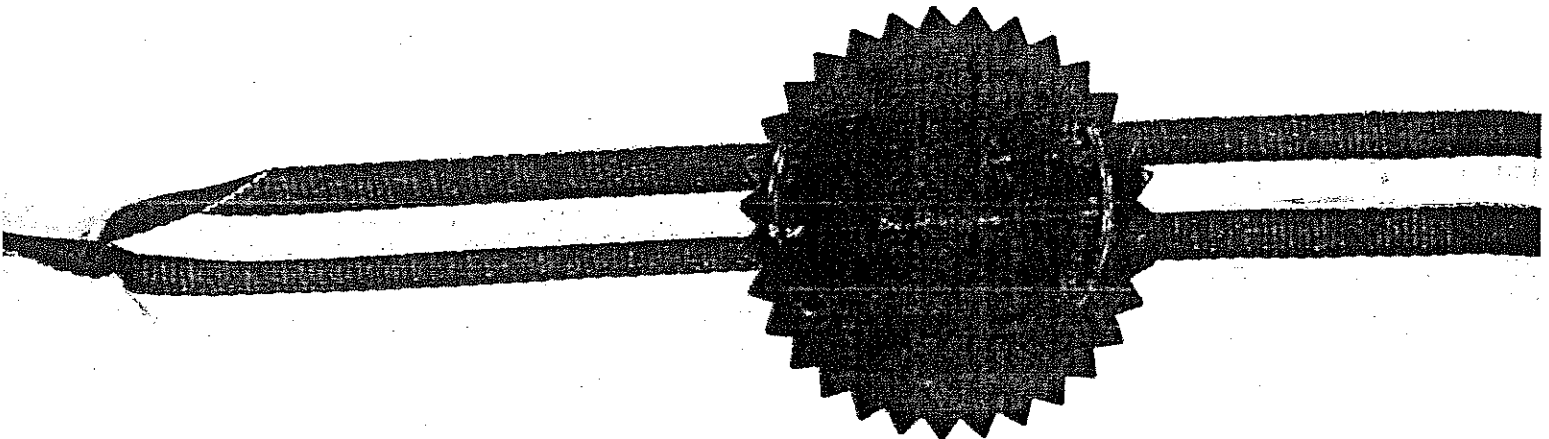
By


TARIQ MAHMOOD PASHA
Secretary
Economic Affairs Division

ASIAN DEVELOPMENT BANK

By


XIAOHONG YANG
Country Director
Pakistan Resident Mission



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 three subprograms and the Program is the third subprogram. The Program is described in more detail in the Policy Letter.

2. The Program was completed on 25 May 2017.

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.

| Date Payment Due | Installment Share ¹ (Expressed as a %) |
|---------------------|--|
| 15 August 2020 | 1.500000 |
| 15 February 2021 | 1.500000 |
| 15 August 2021 | 1.500000 |
| 15 February 2022 | 1.500000 |
| 15 August 2022 | 3.500000 |
| 15 February 2023 | 3.500000 |
| 15 August 2023 | 3.500000 |
| 15 February 2024 | 3.500000 |
| 15 August 2024 | 3.500000 |
| 15 February 2025 | 3.500000 |
| 15 August 2025 | 3.500000 |
| 15 February 2026 | 4.500000 |
| 15 August 2026 | 4.500000 |
| 15 February 2027 | 4.500000 |
| 15 August 2027 | 5.000000 |
| 15 February 2028 | 5.000000 |
| 15 August 2028 | 5.000000 |
| 15 February 2029 | 5.000000 |
| 15 August 2029 | 6.000000 |
| 15 February 2030 | 6.000000 |
| 15 August 2030 | 6.000000 |
| 15 February 2031 | 6.000000 |
| 15 August 2031 | 6.000000 |
| 15 February 2032 | 6.000000 |
| Total | 100.000000 |

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

- (a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.
- (b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

Withdrawal of Loan Proceeds

1. Except as set out in this Schedule or as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook (excluding the requirement that the Borrower submit a certificate to ADB confirming compliance with the formula set out in Section 11.14 thereof).
2. 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.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (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 the applicable regulations and procedures of the Borrower.

(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.
4. No Loan proceeds shall be withdrawn to finance any item specified in the Attachment to this Schedule.
5. The Borrower may withdraw the Loan upon effectiveness of this Loan Agreement.

Negative List

No withdrawals of Loan proceeds 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

1. In respect of implementation of the Programmatic Approach, (a) the Borrower, acting through the ECC, shall continue to provide overall oversight for the Programmatic Approach, (b) the MOF shall continue to be the Program Executing Agency, and (c) the MPNR and MWP shall continue to be the implementing agencies for their respective components under the Programmatic Approach. The Program coordination unit established under the MOF shall continue to coordinate the implementation of the Programmatic Approach.

Policy Actions and Dialogue; Power Sector Reforms

2. The Borrower shall ensure that all policy actions adopted under the Programmatic Approach, as set forth in the Policy Letter and the Policy Matrix, remain in effect.

3. 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.

4. Without limiting the generality of the provisions of paragraphs 2 and 3 above, the Borrower shall ensure that it continues to take prompt and reasonable steps to implement the strategies set out in the National Power Policy 2013 (or any replacement thereof that is adopted by the government) to address the key challenges in the Borrower's power sector, including without limitation (i) due implementation of the government's power sector circular debt management plan (including, but not limited to, imposition of surcharges, as needed), (ii) commercial and sustainable operationalization of Central Power Purchasing Agency Guarantee (CPPA-G) and establishment and operationalization of a sustainable and competitive wholesale electricity market, (iii) completion of the separation of the gas transmission and distribution companies, (iv) continued implementation of multi-year tariff determinations for distribution companies and (v) continued steps to improve the operational efficiency of state-owned power companies.

Use of Counterpart Funds

5. 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

6. 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

7. The Borrower shall carry out a review of the Program and the Programmatic Approach with the participation of ADB. The review shall take into account experiences from Program and Programmatic Approach implementation and recommendations from other ADB assistance to the Borrower in the energy sector. The review shall form the basis for discussions between the Borrower and ADB on further reforms and measures that may be considered necessary or desirable to promote the continued development of the Borrower's energy sector.