
LOAN NUMBER 3328-PAK

LOAN AGREEMENT
(Ordinary Operations)

(Second Power Distribution Enhancement Investment Program – Project 1)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

ASIAN DEVELOPMENT BANK

DATED 19th November, 2016

PAK 47190

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 19th November 2016 between the ISLAMIC REPUBLIC OF PAKISTAN ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 13 February 2015 between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility to the Borrower for purposes of financing projects under the Second Power Distribution Enhancement Investment Program;

(B) by a periodic financing request dated 19 February 2015, the Borrower has applied to ADB for (i) a loan from ADB's ordinary capital resources and (ii) a loan from ADB's Special Funds resources for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(C) by an agreement between the Borrower and ADB, ADB has agreed to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to fourteen million two hundred eight thousand Special Drawing Rights (SDR14,208,000) for the purposes of the Project;

(D) the Project will be implemented by the DISCO, namely, FESCO, GEPCO, HESCO, IESCO, LESCO, MEPCO, PESCO, QESCO and SEPCO, and for this purpose the Borrower will make available to the DISCO the proceeds of the Special Operations Loan, and to IESCO and LESCO the proceeds of the loan provided for herein, upon terms and conditions satisfactory to ADB; and

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

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All 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 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(50) is deleted and the following is substituted therefor:
 "Project Agreement" means the Project Agreement of even date herewith between ADB and the DISCO.
- (b) The term "Project Executing Agency" appearing in Sections 7.04(b), 9.01(d), 9.01(f), 9.01(k), 10.01(c) and 10.02(c) of the Loan Regulations shall be substituted by the term "DISCO".
- (c) Section 3.03 is deleted and the following is substituted therefor:

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

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

(c) The Borrower shall pay a maturity premium at the rate specified in the Loan Agreement, which maturity premium shall remain fixed for the term of the Loan. ADB shall add the maturity premium to 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 Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding 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 Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding 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 Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any 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 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 Loans shall be increased, any Borrower with an outstanding 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 Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding 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 Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any 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 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 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) "AMI" means advanced metering infrastructure;
- (b) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);
- (c) "Consulting Services" means the services to be financed out of the proceeds of the Special Operations Loan as described in paragraphs 3(e) to 3(g) of Schedule 1 to this Loan Agreement;

(d) "DISCO" means the distribution companies FESCO, GEPCO, HESCO, IESCO, LESCO, MEPCO, PESCO, QESCO and SEPCO, both individually and collectively;

(e) "Environmental Assessment and Review Framework" or "EARF" means the environmental assessment and review framework for the Investment Program, including any update thereto, agreed between the Borrower and ADB and incorporated by reference in the FFA;

(f) "Facility" means the multitranche financing facility provided by ADB to the Borrower for purposes of financing projects under the Investment Program;

(g) "FAM" means the Facility administration manual dated 13 February 2015 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;

(h) "FESCO" means Faisalabad Electric Supply Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(i) "Financial Year" means the period from 1 July to 30 June;

(j) "GEPCO" means Gujranwala Electric Power Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(k) "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;

(l) "HESCO" means Hyderabad Electric Supply Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(m) "IESCO" means Islamabad Electric Supply Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(n) "IFRS" means the International Financial Reporting Standards developed by the International Accounting Standards Board;

(o) "Investment Program" means the Second Power Distribution Enhancement Investment Program;

(p) "LESCO" means Lahore Electric Supply Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(q) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2012, as amended from time to time);

(r) "MEPCO" means Multan Electric Power Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(s) "MOWP" means the Ministry of Water and Power of the Borrower, or any successor thereto acceptable to ADB;

(t) "PESCO" means Peshawar Electric Supply Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(u) "PFR" means the periodic financing request submitted or to be submitted by the Borrower for the purposes of each loan under the Facility, and, for the purpose of this Loan Agreement and the Special Operations Loan Agreement, means the periodic financing request dated 19 February 2015;

(v) "Procurement Guidelines" means ADB's Procurement Guidelines (2013, as amended from time to time);

(w) "Procurement Plan" means the procurement plan for the Project dated 13 February 2015 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;

(x) "Project facilities" means the meters, communication equipment, data management equipment, billing equipment, customer information system and other equipment and facilities to be installed under the Project;

(y) "QESCO" means Quetta Electric Supply Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(z) "Relending Agreement" means the agreement between the Borrower and IESCO, or the Borrower and LESCO, as the case may be, referred to in Section 3.01(a) of this Loan Agreement;

(aa) "Resettlement Framework" or "RF" means the resettlement framework for the Investment Program, including any update thereto, agreed between the Borrower and ADB and incorporated by reference in the FFA;

(bb) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(cc) "SEPCO" means Sukkur Electric Power Company Limited, incorporated under the Borrower's Companies Ordinance, 1984, or any successor thereto acceptable to ADB;

(dd) "Special Operations Loan" means the loan referred to in recital (C) of this Loan Agreement;

(ee) "Special Operations Loan Agreement" means the agreement referred to in recital (C) of this Loan Agreement; and

(ff) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and Project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

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 eighty million Dollars (\$380,000,000), 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 17 years, and a grace period as defined in subsection (c) hereinafter.

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

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

- (a) LIBOR; and
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations.

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 April and 15 October in each year.

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

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

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

(b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan to IESCO and LESCO under Relending Agreements upon terms and conditions satisfactory to ADB.

(b) The Borrower shall cause the proceeds of the Loan to be applied 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. 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 3.04. 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. The Loan Closing Date for the purposes of Section 9.02 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. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business, and development practices.

(b) 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 make available, or cause to be made available, promptly as needed, the funds, facilities, services and other resources, as required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.05. 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 4.06. The Borrower shall take all actions which shall be necessary on its part to enable the DISCO 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.

Section 4.07. (a) The Borrower shall exercise its rights under the Relending Agreements in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under a Relending Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

ARTICLE V**Suspension; Acceleration of Maturity**

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: the Borrower or IESCO or LESCO shall have failed to perform any of its obligations under a Relending Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI**Effectiveness**

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: the Special Operations Loan Agreement has been duly authorized, executed and delivered on behalf of the Borrower and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) have been fulfilled.

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

Section 6.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII**Delegation of Authority**

Section 7.01. The Borrower hereby designates IESCO and LESCO 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 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by IESCO and LESCO pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on IESCO and LESCO under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Secretary, Economic Affairs Division, Ministry of 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 8.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

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

Facsimile Number:

(92-51) 920-4086

For ADB


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

Facsimile Numbers:

(632) 636-2444
(632) 636-2428.

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 
Authorized Representative

ASIAN DEVELOPMENT BANK

By 
Authorized Representative

SCHEDULE 1

Description of the Project

1. The objective of the Investment Program is to increase electricity revenues in the regions served by the DISCO.

2. As a part of the Investment Program, the Project aims to increase electricity revenues in the regions served by IESCO and LESCO.

3. The Project shall comprise:

Investment Component

- (a) the procurement and installation of smart meters and associated equipment at common delivery points, 11 kilovolt feeders, distribution transformers and for customers at the 132/66/11/0.4 kilovolt level;
- (b) the development and installation of related communication infrastructure;
- (c) the installation of related data management systems;
- (d) the upgrade of billing systems and customer information systems;

Support Component

- (e) the provision of training to the personnel and management of each DISCO to enable them to effectively operate and manage the AMI;
- (f) the restructuring of the information technology, metering and testing departments of each DISCO; and
- (g) the provision of support for the implementation of the Investment Program and each project under the Investment Program, including monitoring of the physical progress of the implementation and development of future tranches,

all as more fully described in the PFR.

4. The investment component of the Project is expected to be completed by 31 December 2018.

SCHEDULE 2

Amortization Schedule

(Second Power Distribution Enhancement Investment Program - Project 1)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 October 2019	2.000000
15 April 2020	2.000000
15 October 2020	2.750000
15 April 2021	2.750000
15 October 2021	3.000000
15 April 2022	3.000000
15 October 2022	3.000000
15 April 2023	3.000000
15 October 2023	3.000000
15 April 2024	3.000000
15 October 2024	3.000000
15 April 2025	3.000000
15 October 2025	3.000000
15 April 2026	3.000000
15 October 2026	3.000000
15 April 2027	3.000000
15 October 2027	3.000000
15 April 2028	3.000000
15 October 2028	3.000000
15 April 2029	3.000000
15 October 2029	3.000000
15 April 2030	3.000000
15 October 2030	3.000000
15 April 2031	3.000000
15 October 2031	3.000000
15 April 2032	3.000000
15 October 2032	3.000000
15 April 2033	3.000000
15 October 2033	3.000000

Schedule 2

15 April 2034	3.000000
15 October 2034	3.000000
15 April 2035	3.000000
15 October 2035	3.000000
15 April 2036	3.500000
Total	100.000000

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

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(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

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 and Commitment Charges

3. The amount allocated to Category 3 is for financing interest and commitment charges on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charges.

Reallocation

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

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

(b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

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

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than

12 months before the date of this Loan Agreement in connection with the procurement of Goods and Works, subject to a maximum amount equivalent to 20% of the Loan amount.

Condition for Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for Category 1 or Category 2 unless and until ADB has received, with respect to Category 1, a certified copy of the duly executed and effective Relending Agreement between the Borrower and IESCO, and, with respect to Category 2, a certified copy of the duly executed and effective Relending Agreement between the Borrower and LESCO.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Second Power Distribution Enhancement Investment Program - Project 1)				
Number	Item	Total Amount Allocated for ADB Financing (\$)		Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	IESCO**	139,600,000		
1A	Turnkey Contract		120,800,000	100% of total expenditure claimed*
1B	Unallocated		18,800,000	100% of total expenditure claimed*
2	LESCO**	232,200,000		
2A	Turnkey Contract		201,200,000	100% of total expenditure claimed*
2B	Unallocated		31,000,000	100% of total expenditure claimed*
3	Interest and Commitment Charges	8,200,000		100% of amounts due
	Total	380,000,000		

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

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

SCHEDULE 4**Procurement of Goods and Works**General

1. The procurement of Goods and Works shall be subject to and governed by the Procurement Guidelines.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines.

Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the following method of procurement: international competitive bidding.
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.

Domestic Preference

5. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods, which include equipment and materials that are procured as discrete items under a single responsibility or turnkey contract.

Industrial or Intellectual Property Rights

6. (a) The Borrower shall ensure that all Goods and Works 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 and Works 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.

ADB's Review of Procurement Decisions

7. Contracts procured under international competitive bidding procedures shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.
8. In the case of a contract 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, or the "Loan Closing Date" in the Ordinary Operations Loan Agreement (as this term is defined for the purposes of the Ordinary Operations Loan Agreement), 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).

9. In the case of a contract 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.

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

SCHEDULE 5**Execution of Project; Financial Matters**Implementation Arrangements

1. MOWP shall be the Project executing agency responsible for the overall monitoring of the Investment Program.
2. Each of IESCO and LESCO shall be an implementing agency for its respective portion of the investment component of the Project described in paragraphs 3(a) to 3(d) of Schedule 1 to this Loan Agreement.
3. Each DISCO shall be an implementing agency for its respective portion of the support component of the Project described in paragraphs 3(e) to 3(g) of Schedule 1 to this Loan Agreement.
4. The Borrower shall ensure and cause the DISCO to ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the FAM on one hand, and this Loan Agreement, the Special Operations Loan Agreement and the Project Agreement on the other, the provisions of this Loan Agreement, the Special Operations Loan Agreement and the Project Agreement shall prevail.
5. The Borrower shall ensure and cause MOWP and the DISCO to ensure that all documents forming the basis for the screening, selection and processing of the Project and Project activities shall be made available by the Borrower, MOWP and the DISCO to ADB upon request. Such documents shall be kept available for a minimum period of 5 years from the date of the Project completion report.

Operation and Maintenance

6. The Borrower shall cause each of IESCO and LESCO to operate and maintain the AMI system and equipment installed under the Project and provide proper technical supervision and adequate funds for the purpose. The funds required for the operation and maintenance of the AMI system and equipment shall be allocated annually and released promptly. The Borrower shall cause each of IESCO and LESCO to prepare and adopt an operation and maintenance plan for the AMI system and equipment that is in accordance with national technical standards and rules or is otherwise acceptable to ADB.

Other Operational Covenants

7. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that the project management unit and project implementation unit at IESCO or LESCO, as the case may be, are adequately staffed throughout the entire life of the Project. The staff assigned shall be retained in the units for at least 3 years from the commencement of their assignment and any changes to key staff will need the prior approval of the Board of Directors of IESCO or LESCO, as the case may be.

8. The Borrower shall ensure, and cause MOWP and each of IESCO and LESCO to ensure, that the implementation of the Project is in compliance with all applicable laws, rules and regulations of the Borrower, including any law, rule or regulation which might require the approval of the National Electric Power Regulatory Authority for any aspect of the Project, including any change in the commercial procedures of IESCO or LESCO, as the case may be, in connection with the implementation of the Project.

9. The Borrower shall cause each of IESCO and LESCO to preserve its legal, operational, and financial autonomy. The Borrower shall ensure and cause each of IESCO and LESCO to ensure that its Board of Directors operates effectively and discharges fully their fiduciary responsibilities in accordance with its Memorandum and Articles of Association.

10. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that any change in the ownership of IESCO or LESCO, as the case may be, or sale, transfer, or assignment of the Borrower's interest or shares in it, shall be formally approved and implemented only after consultation with ADB at least 3 months prior to the change in ownership, sale, transfer or assignment, provided that, if the change, sale, transfer or assignment is in connection with a privatization of IESCO or LESCO, then the provisions of paragraphs 18 to 20 of Schedule 5 to this Loan Agreement shall apply.

11. The Borrower shall cause each of IESCO and LESCO to make available and timely release the counterpart funding for its respective portion of the Project.

12. The Borrower shall cause each of IESCO and LESCO to submit tariff petitions as required to maintain its financial viability. Following any tariff determination by the National Electric Power Regulatory Authority, the Borrower shall notify the tariff determination promptly and, in any case, by the dates prescribed by applicable law. The Borrower shall ensure that any and all tariffs formulated for IESCO and LESCO are, (i) for each of them, adequate to cover its operating costs, maintenance, depreciation and financing costs and allow an acceptable return on its equity, and, (ii) adequate to enable each of them to comply with its covenants under paragraphs 14 to 16 of Schedule 5 to this Loan Agreement.

13. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that any government entity failing to pay in full its receivables on account of electricity consumption is disconnected from electricity service in the same manner as any similarly defaulting private customer, subject to compliance by each of IESCO and LESCO, as the case may be, with all notice periods prescribed by applicable law and its own commercial procedures. (Government entities which are exempt from disconnection by law or judicial order, or pursuant to the list of exempt government entities of IESCO or LESCO, as the case may be, shall not be covered by this covenant.) The Borrower shall ensure that any shortfall in payment from government entities which purchase electricity from either of IESCO and LESCO will be promptly financed by the Borrower.

Financial Covenants

14. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that, during the term of this Loan Agreement, its free cash flows for the current Financial Year shall be at least 1.2 times its debt service requirements for the same period on all debt based on its financial statements which shall be prepared in accordance with IFRS. For the purposes of this paragraph:

- (a) "debt" means any indebtedness of the respective DISCO maturing by its term more than 1 year from the date on which it was originally incurred;
- (b) "debt service requirements" means the aggregate amount of all repayments (including sinking fund payments, lease payments under finance lease, if any) whether or not actually paid, and interest and other charges on debt, provided that interest charges which are incurred in financing capital expenditures during development are excluded if they are capitalized; and
- (c) "free cash flows" means the difference between (i) the sum of revenues from all sources related to operations, after making adequate provision for uncollectible debt and net non-operating income; and (ii) the sum of all expenses related to operations including administration, maintenance, current taxes and payments in lieu of taxes (but excluding provision for depreciation, other non-cash expenses, and deferred taxes), movements in working capital other than cash.

15. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that:

- (a) For the Financial Years 2017/2018 and 2018/2019, its accounts receivable as at the end of each Financial Year divided by its annual revenues for the respective category of customers for that Financial Year divided by 360 days shall be: (i) less than 30 days for the private customers; and (ii) less than 75 days for the public customers, based on its financial statements which shall be prepared in accordance with IFRS; and
- (b) From the Financial Year 2019/2020 and for each Financial Year thereafter during the term of this Loan Agreement, its accounts receivable as at the end of the Financial Year divided by its annual revenues for the respective category of customers for that Financial Year divided by 360 days shall be: (i) less than 25 days for the private customers; and (ii) less than 60 days for the public customers, based on its financial statements which shall be prepared in accordance with IFRS.

For the purposes of this paragraph:

- (1) "accounts receivable" means amounts due from others for goods and services delivered in the normal course of business;
- (2) "annual revenues" means the inflows of assets from selling goods and providing services to customers within the current Financial Year, including the reduction of liabilities from selling goods and providing services to customers;
- (3) "private customers" means any and all customers that are not public customers; and
- (4) "public customers" means any and all ministries, agencies, and instrumentalities of the government of the Borrower, including any and all companies and other entities owned and controlled by the Borrower.

16. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that, for the Financial Year 2015/2016 and for each Financial Year thereafter during the term of this Loan Agreement, each of IESCO and LESCO shall maintain a self-financing ratio of at least 20%. For the purposes of this paragraph, "self-financing ratio" means the division of cash from internal sources over average annual capital expenditures, expressed as a percentage, as defined in ADB's Financial Management and Analysis of Projects Guidelines (2006).

Policy Dialogue

17. The Borrower shall ensure, and cause MOWP and each of IESCO and LESCO to ensure, that ADB is kept informed of the Borrower's policies and programs related to the power sector, particularly those that relate to the power distribution sector, tariff rationalization, or any policy or program that could materially affect the financial viability of IESCO or LESCO or the Project.

Privatization

18. Notwithstanding any other provision of this Loan Agreement, the Borrower shall ensure that any privatization of IESCO or LESCO shall be formally approved only after consultation with ADB. The Borrower shall promptly notify ADB of any plan to privatize IESCO or LESCO and discuss the plan with ADB. As part of the discussion, the Borrower shall submit to ADB periodic updates on the progress of the privatization and allow ADB sufficient opportunity and information to consider the plan. The Borrower shall ensure that ADB's consent is obtained prior to any transfer of the business and assets of IESCO or LESCO and substitution of IESCO or LESCO as implementing agency for the Project as a result of a privatization.

19. The Borrower shall cause IESCO or LESCO, as the case may be, to similarly comply with all of the covenants set out in the immediately preceding paragraph in the event of its privatization.

20. In case the business and assets of IESCO or LESCO are transferred as a result of its privatization, the Borrower and IESCO or LESCO, as the case may be, shall cause the transferee to enter into a project agreement with ADB and ensure that the proceeds of the Loan are relent to the transferee on terms and conditions satisfactory to ADB. Where necessary or appropriate in connection with the relending, the Borrower shall cause IESCO or LESCO, as the case may be, to assign or transfer its rights and obligations under its Relending Agreement to the transferee.

Safeguards

21. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that the Project does not have any environmental, indigenous peoples or involuntary resettlement impacts, all within the meaning of the SPS. In the event that the Project does have any such impact, the Borrower shall take and cause each of IESCO and LESCO to take all steps required to ensure that the Project complies with the applicable laws and regulations of the Borrower, with the SPS, and with the EARF and/or RF as applicable. In all cases, the Borrower shall cause each of IESCO and LESCO to comply with all applicable laws and regulations of the Borrower relating to environment, health and safety during the implementation of the Project.

22. The Borrower shall ensure, and cause each of IESCO and LESCO 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.

Labor Standards

23. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall cause each of IESCO and LESCO to include specific provisions in the bidding documents and contracts financed under the Project requiring that the contractors, other provider of goods and services and their subcontractors: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation by providing, inter alia, equal pay for men and women or people from different ethnic groups for work of equal value, and to the extent possible, employing women and local people, including disadvantaged people, living in the Project area, provided that the requirements for efficiency are adequately met; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

24. The Borrower shall cause each of IESCO and LESCO to strictly monitor compliance with the labor standards and provide ADB with regular reports.

Gender and Development

25. The Borrower shall ensure, and cause each of IESCO and LESCO to ensure, that the principles of gender equity aimed at increasing Project benefits and impacts on women in the Project area consistent with ADB's Policy on Gender and Development (1998) are followed during implementation of the Project, including (a) equal pay to men and women for work of equal value; (b) enabling working conditions for women workers; and (c) taking necessary actions to encourage women living in the Project area to participate in the design and implementation of Project activities.

Governance and Anticorruption

26. The Borrower shall, and shall cause MOWP and each of IESCO and LESCO to, (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.

27. The Borrower shall ensure, and cause each of IESCO and LESCO to 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. The Borrower shall allow and assist, and cause each of IESCO and LESCO to allow and assist, ADB's representatives to carry out random spot checks on the work in progress under the Project and the utilization of funds under this Loan Agreement.

28. The Borrower shall cause each of IESCO and LESCO to provide updated information on the Project on its website, including information on the performance of the Project, business opportunities, bidding process and guidelines, outcome of biddings and summary progress reports.