

CONFORMED COPY

LOAN NUMBER 3241 PAK

(Transport Sector Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 27, 1990

LOAN NUMBER 3241 PAK

LOAN AGREEMENTS

AGREEMENT, dated July 27, 1990, between ISLAMIC
REPUBLIC OF PAKISTAN (the Borrower) and INTERNATIONAL
BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to
the feasibility and priority of the Project described in
Schedule 2 to this Agreement, has requested the Bank to
assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter
alia, of the foregoing, to extend the Loan to the
Borrower upon the terms and conditions set forth in this
Agreement;

NOW THEREFORE the parties hereto hereby agree as
follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "PR" means Pakistan Railways, a department of the Borrower's Ministry of Railways;

(b) "NHB" means the National Highway Board, an agency subordinated to the Borrower's Ministry of Communication;

(c) "CIMP" means the core investment and maintenance program for the Borrower's highways and railways sub-sectors for the fiscal years 1990/91 through 1992/93;

(d) "Program" means the PR's Investment and Maintenance Program for the fiscal years 1990/91 through 1996/97;

(e) "Rupee" means the currency of the Borrower;

(f) "Committee" means the Committee to be established by the Borrower under the Chairmanship of its Planning Commission to monitor and to review the status of Project implementation;

(g) "PSOs" means the public service obligations for transport and other social services, which PR performs, without adequate costing arrangements, at the direction of the Borrower;

(h) "NHB Special Account" and "PR Special Account" mean the accounts referred to in Section 2.02 (b) of this Agreement; and

(i) "Special Accounts" means the NHB Special Account and the PR Special Account.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred eighty-four million dollars (\$184,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of,

respectively, Part B and Part C of the Project, open and maintain in dollars special deposit accounts in the National Bank of Pakistan to be designated, respectively, as the NHB Special Account and the PR Special Account, on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the NHB Special Account and PR Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1996 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay 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 Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings

determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A of the Project through its Planning Commission, Ministry of Communications and Ministry of Finance, Part B of the Project through NHB and Part C of the Project through PR, with due diligence and efficiency and in conformity with appropriate economic, financial, engineering, managerial and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) For the purpose of carrying out Part B of the Project, the Borrower shall make available to NHB, in the form of budgetary allocations, the equivalent of the proceeds of the Loan allocated from time to time for Part B of the Project under Category (1) of the table set forth in Schedule 1 to this Agreement.

(b) For the purpose of carrying out Part C of the Project, the Borrower shall make available to PR the proceeds of the Loan allocated from time to time for Part C of the Project under Category (2) of the table set forth in Schedule 1 to this Agreement, in accordance with the Borrower's current budgetary and accounting arrangements for financing capital investments or replacement of assets by PR.

Section 3.03. The Borrower shall enable PR to acquire, in a timely manner, the foreign exchange required for the procurement of spare parts needed for the proper operation and maintenance of its locomotives. Such requirements shall be reviewed in the context of the annual review referred to in Part A (2) of Schedule 5 to this Agreement.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause each of PR and NHB to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall cause each of PR and NHB to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for its Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months with respect to NHB and nine months with respect to PR, after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause each of PR and NHB to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal

controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall cause PR to maintain, as of the beginning of the fiscal year 1991/92, separate financial accounts for each of its different traffic streams, manufacturing units and PSOs.

Section 4.03. The Borrower, the Bank and PR shall review, during the month of March in each year, the levels of PR's tariffs with a view to agreeing on the annual adjustments required to such tariffs so as to ensure: (a) that the rate of such adjustments shall be above the inflation rate in Pakistan, as such inflation rate is projected in the Consumer Price Index of Pakistan; (b) that the operating deficits of PR shall be progressively reduced; and (c) that PR shall be able, starting not later than the fiscal year 1994/95, to finance a reasonable portion of its capital expenditures.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause PR:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering and financial practices.

Section 5.02. Until the completion of the Project, the Borrower shall ensure that (a) any material changes in the components of the Program, or (b) increases in expenditures under the Program by more than the equivalent of \$5,000,000 above current expenditures estimates for any given fiscal year, shall be made only after consultation with the Bank.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the PC-1 documents with respect to the Project have been approved by the competent authorities of the Borrower;

(b) the actions referred to in Part (C) (1) (i) and C (2) (i) (a) of Schedule 5 to this Agreement have been taken;

(c) PR has prepared bidding documents satisfactory to the Bank for the procurement of (a) equipment estimated to cost about \$25,000,000 equivalent under Part

C (2) (i), (ii) and (iii) of the Project, and (b) the equipment required under Part C (2) (v) of the Project; and

(d) the Borrower has provided evidence satisfactory to the Bank, demonstrating that the funds needed from the Borrower's own resources for the carrying out of the Project during the fiscal year 1990/91 have been allocated.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Economic Affairs Division
Islamabad
Pakistan

Cable address:	Telex:
ECONOMIC Islamabad	ECDIV-05-634

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:
INTBAFRAD Washington, D.C.	197688 (TRT), 248423 (RCA), 64145 (WUI) or 82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ M. Afzal
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. A. Wapenhans
Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Part B of the Project:		
(a) Works for Part B (2) (a)	52,000,000	70%
(b) Works for Part B (2) (b)	15,000,000	60% of expendi- tures incurred prior to June 30, 1991, 40% of ex- penditures incurred after that date but prior to June 30, 1992 and 20% for ex- penditures incurred there- after
(c) Technical services and training	5,500,000	100%
(d) Equipment and supplies	200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expen- ditures for other items procured locally
(e) Unallocated	4,800,000	
(2) Part C of the Project:		
(a) Equipment spare parts	90,000,000	100% of foreign expenditures
(b) Consultants' services and training	7,300,000	100%

(c) office technology equipment	1,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(d) Unallocated	6,700,000	
(3) Part A of the Project:		
(a) Technical services	1,300,000	100%
(b) Equipment	200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
TOTAL	184,000,000	=====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made in respect of Category (1) and \$5,000,000 in respect of Category (2) on account of payments made for expenditures before that date but after January 1, 1990, and (b) contracts to be financed under Category (1) (a) and (1) (b) and awarded in fiscal year 1991/92 and in any fiscal year thereafter unless the Borrower shall have demonstrated to the satisfaction of the Bank that the funds required to carry out Part B (2) of the Project, during any such fiscal year, have been provided.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the carrying out of measures for (a) reforming the transport sector's policies and institutions; (b) restructuring NHB and the carrying out of its priority investment and maintenance operations; and (c) restructuring PR, improving its organization and operating practices and the carrying out of its priority investment and maintenance operations.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Sectoral Development

The carrying out of measures, including those set forth in Part A of Schedule 5 to this Agreement, to increase the efficiency and improve the management of the Borrower's transport sector.

Part B: Highway

1. The carrying out of measures to improve the organization, and operating policies and procedures of NHB, including the provision of related equipment, training and technical assistance.
2. The carrying out by NHB of (a) a maintenance program for the reconstruction and rehabilitation of sections of the national highway, totalling about 400 km; and (b) a resurfacing and strengthening program for sections of the national highway totalling about 400 km.

Part C: Railways

1. The carrying out of measures to improve the organization, management and operating practices and procedures of PR, including the installation of management and administrative information systems and the provision of training and technical assistance.
2. The provision for PR of (i) spare parts for recommissioning of about 46 locomotives, (ii) tools and equipment to repair/ replace unit exchange system components, (iii) about 270 new traction motors and equipment to rehabilitate about 660 existing traction motors, (iv) communications equipment, including VHF and UHF equipment, and (v) roller bearings for about 15,000 wagons.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
November 1, 1995	3,350,000
May 1, 1996	3,480,000
November 1, 1996	3,615,000
May 1, 1997	3,755,000
November 1, 1997	3,900,000
May 1, 1998	4,050,000
November 1, 1998	4,210,000
May 1, 1999	4,370,000
November 1, 1999	4,540,000
May 1, 2000	4,715,000
November 1, 2000	4,900,000
May 1, 2001	5,090,000
November 1, 2001	5,285,000
May 1, 2002	5,490,000
November 1, 2002	5,705,000
May 1, 2003	5,925,000
November 1, 2003	6,155,000

May 1, 2004	6,395,000
November 1, 2004	6,640,000
May 1, 2005	6,900,000
November 1, 2005	7,165,000
May 1, 2006	7,445,000
November 1, 2006	7,730,000
May 1, 2007	8,030,000
November 1, 2007	8,340,000
May 1, 2008	8,665,000
November 1, 2008	9,000,000
May 1, 2009	9,350,000
November 1, 2009	9,715,000
May 1, 2010	10,090,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (ex pressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with

procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Contracts for the procurement of equipment required for the rehabilitation of traction motors under Part C (2) (iii) of the Project shall include provisions requiring the suppliers thereof to provide technical services to PR in the reconditioning of such traction motors.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Pakistan may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Works under Part B of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Items or groups of items estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to the first four contracts for works and each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes

of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Implementation Program

The Borrower shall ensure the implementation of the following measures towards achieving the objectives of the Project and carrying out the activities and measures included in it:

(A) Sectoral Policies and Measures:

(1) The Borrower shall establish the Committee by October 31, 1990.

(2) Annual Review: The Borrower shall review annually with the Bank, not later than March 31 in each year, starting in the year 1991, the status of implementation of the Project and the CIMP and the funding requirements thereof during the succeeding fiscal year.

(3) Resource Mobilization: The Borrower shall (a) continue its current practice of transferring to consumers all increases in petroleum products, and (b) cause NHB to prepare annually and furnish to the Borrower's Ministry of Finance, financial proposals which shall include recommendations designed to enhance mobilization of resources from road user charges.

(4) Trade Logistics: The Borrower shall: (i) complete by September 30, 1991, studies to develop programs for improving the handling, storage and transport of bulk commodities, determine the future role of the National Logistics Cell of the Borrower, and determine the feasibility of establishing bulk foodgrain and fertilizer facilities at Port Qasim; (ii) discuss the findings and recommendations of such studies with the Bank, and prepare on the basis thereof an action plan for the implementation of such recommendations, and begin to implement the approved action plan by December 31, 1991; and (iii) establish, by December 31, 1990, a committee for simplification of international trade procedures.

(5) Sector Planning: The Borrower shall: (i) carry out, through its Management Services Division, by December 31, 1991, a study of measures to strengthen the capacity for project planning and policy formulation of the various entities responsible for the transport sector; and (ii) prepare and review with the Bank an action plan for implementing the recommendations of such study by June 30, 1992.

(6) Environmental Aspects: The Borrower shall: (i) design, through its Environment and Urban Affairs Division, by December 31, 1991, measures for the purpose of improving safety in the transport of hazardous cargoes and to reduce automotive pollution; and (ii) prepare, by June 30, 1992, a plan satisfactory to the Bank, including

a time-schedule, for the implementation of such measures, and thereafter carry out such action plan.

(7) Road Transport Industry: The Borrower shall: (i) prepare and furnish to the Bank for its comment, by December 31, 1991, an action plan for the development of its trucking industry, including measures to permit the introduction of efficient, high capacity trucks; and (ii) proceed with the implementation of such action plan by June 30, 1992, taking into account the Bank's comments thereon.

(B) Institutional Development of NHB:

The Borrower shall reorganize NHB in accordance with principles agreed upon between the Borrower and the Bank, and which shall be formally approved by the Borrower not later than September 30, 1990.

(C) Institutional Development of PR:

The Borrower shall prepare and implement an action plan satisfactory to the Bank for reorganizing and improving the operating procedures, management and finance of PR, which shall include the following:

(1) Reorganization, finance and management of PR:

- (i) the limitation of the functions of PR's Board to the policy and review aspects of its operations and the assignment of the executive responsibility for the operation of PR to the General Manager in PR's Headquarters in Lahore;
- (ii) the conversion by July 1, 1991, of PR's manufacturing units into corporate entities;
- (iii) the separation, starting in the fiscal year 1991/92, of PR's budget from the Borrower's general budget, and the annual preparation for PR of a revised business plan;
- (iv) the implementation of measures whereby the Borrower shall assume the financial burden of the public service obligations of PR (PSOs). The items included as PSOs shall be identified by March 31, 1991, and the arrangements for costing against such items shall be reviewed annually, in consultation with the Bank, by March 31 of each year;
- (v) the implementation by PR, of a plan, satisfactory to the Bank, for attrition of its surplus staff;
- (vi) the separation, starting in July 1991, of the financial accounts of PR from those of its manufacturing units;
- (vii) the streamlining of procedures for reporting to PR's General Manager; and
- (viii) the introduction by PR, during the fiscal year 1990/91, of improvements to its staff assignment and promotion practices.

(2) Development of PR's commercial aspects, staffing and operation capacity:

- (i) (a) the establishment of a Business Department within PR and the appointment of its manager (Additional General Manager, Business), and (b) the appointment, by October 31, 1990, of managers for corporate planning, commercial passengers, local passengers, freight, containers, terminal and support divisions;
- (ii) the appointment by October 31, 1990, of advisors for the Business Department referred to in (i) above;
- (iii) the appointment, by October 31, 1990, of (a) a group within PR to supervise the implementation of PR's operational improvement program, and (b) under terms of reference satisfactory to the Bank, of an adviser to assist in the performance by such group of its responsibilities;
- (iv) (a) the appointment by October 31, 1990, under terms of reference satisfactory to the Bank, of management advisors for PR, and (b) starting in October 1990, on-the-job training for PR's managers designed to introduce commercial orientation in PR's management methods and procedures;
- (v) the development, starting in December 1990, with the assistance of advisers, of new training courses (which shall include a component on the commercial aspects of railways operations) for PR's staff, including senior managers;
- (vi) the equipping of PR's departments, particularly the Business Department and the Operation Improvement Group, with modern office machinery;
- (vii) the development, with the assistance of consultants to be employed by October 31, 1990, of PR's accounting procedures so as to ensure, by June 1, 1992, that PR's accounts shall be maintained on the basis of commercial accounting principles applicable to commercial enterprises; and
- (viii) the preparation by PR, in conjunction with the concerned agencies of the Borrower, of a program satisfactory to the Bank for reducing the cost of loss-making services and the gradual termination of such services, and the start of implementation of such program by March 31, 1991.

Part D: Implementation of Parts B and C of the Project

1. The Borrower shall cause NHB (a) to select the road sections to be rehabilitated or strengthened annually under Part B of the Project in accordance with technical and economic criteria satisfactory to the Bank, (b) to carry out its periodic and routine maintenance programs in accordance with the procedures described in its maintenance intervention system.

2. The Borrower shall cause PR to ensure, to the extent warranted by technical and commercial considerations,

that (a) wagons equipped with roller bearings under the Project will be run in sets of wagons equipped with the same, (b) between Kundian and Attock: (i) loop capacities will be extended to accommodate 72 wagon-trains; (ii) track will be upgraded to accommodate 22 ton axle load locomotives, and (iii) banking of loaded trains will be undertaken to avoid load shedding.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means in respect of the NHB Special Account an amount equivalent to \$7,500,000 to be withdrawn from the Loan Account and deposited into the NHB Special Account and in respect of the PR Special Account an amount equivalent to \$10,000,000 to be withdrawn from the Loan Account and deposited into the PR Special Account, all pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the NHB Special Account or the PR Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the NHB Special Account or the PR Special Account, as the case may be, such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Accounts at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the relevant Special Account such amount as the Borrower shall

have requested and as shall have been shown by said documents and other evidence to have been paid out of such Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by NHB out of the NHB Special Account or by PR out of the PR Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Accounts:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Accounts as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the NHB Special Account or the PR Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the relevant Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Accounts shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the NHB Special Account or the PR Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in either of the Special Accounts.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

