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**LOAN NUMBER 7380-PAK**

# **Loan Agreement**

**(Punjab Municipal Services Improvement Project)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated June 5, 2006**

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## **LOAN NUMBER 7380-PAK**

### **LOAN AGREEMENT**

AGREEMENT dated June 5, 2006, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the "Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank"). The Borrower and the Bank hereby agree as follows:

#### **ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

#### **ARTICLE II - LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifty million dollars (\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (the "Loan"), to assist in financing the project described in Schedule 1 to this Agreement (the "Project").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to: (i) eighty five one-hundredths of one percent (0.85%) per annum from the date on which the Commitment Charge commences to accrue in accordance with the provisions of Section 3.01 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (0.75%) per annum thereafter; subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.08. (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, withdrawn 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 from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable 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 the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

### **ARTICLE III - PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement and the Schedule to the Project Agreement.

### **ARTICLE IV - REMEDIES OF THE BANK**

- 4.01. The Additional Event of Suspension is that the Ordinance has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration is that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

### **ARTICLE V – EFFECTIVENESS**

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

### **ARTICLE VI - REPRESENTATIVE; ADDRESSES**

- 6.01. The Borrower's Representative is the Secretary to the Government of Pakistan, Economic Affairs Division, Ministry of Economic Affairs and Statistics, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division.

6.02. The Borrower's Address is:

Economic Affairs Division  
Ministry of Economic Affairs and Statistics  
Islamabad, Pakistan

Cable Address:	Telex:	Facsimile:
ECONOMIC Islamabad	ECDIV-05-634	(9251) 9205971 (9251) 9210734

6.03. The Bank's Address is:

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

Cable Address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Islamabad, Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Khalid Saeed

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Abid Hasan

Actiing Country Director  
Pakistan

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve the delivery and effectiveness of urban services in Punjab.

The Project consists of the following parts:

#### Part 1: Support for TMAs - Capacity and Development Grants

Provision of grants to TMAs:

(a) for the carrying out of capacity enhancement schemes in such areas as urban planning, financial management, investment planning, operation and maintenance and performance management; and

(b) for the carrying out of infrastructure development schemes in such areas as water supply, sewerage, drainage, solid waste management, street cleaning, roads, street lighting, parks and fire-fighting.

#### Part 2: Support for Other Institutions - Capacity Building and Other Activities

Enhancing of:

(a) LG&RDD's capacity to oversee local government activities, among other things, through: (i) the identification of a structure consistent with its mandate under the Ordinance to ensure optimal performance, and the induction of key staff initially needed for this purpose; and (ii) the establishment of a computerized monitoring and evaluation system for assessing TMA performance and facilitating the implementation of the Ordinance.

(b) PMDFC's capacity to fulfill its mandate, among other things, through: (i) the provision of staff, training and technical assistance for purposes of appraising and monitoring grants made to TMAs; (ii) the provision of technical assistance for purposes of assisting TMAs in designing, implementing, supervising and operating capacity enhancement and infrastructure development schemes financed under such grants; and (iii) the development of a monitoring and evaluation system for assessing TMA performance in carrying out schemes financed under such grants; and

(c) P&DD's capacity to coordinate and implement cultural heritage- and other urban-related activities, among other things, through: (i) the induction of key staff and the provision of staff training; (ii) the rationalizing of the mandate and structure of institutions involved in heritage asset management; (iii) the proposing of changes to

legislation to improve regulation; and (iv) the carrying out of a pilot scheme within the walled city of Lahore.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Subsidiary Financing and General Implementation Arrangements**

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity in accordance with the Borrower's on-lending policy, and under the same terms and conditions as shall have been received from the Bank.

2. The Borrower shall cause the Project Implementing Entity to carry out the Project in accordance with the Schedule to the Project Agreement, the Operations Manual, the Financial Manual and the Environment and Social Framework.

#### **Section II. Project Monitoring, Reporting, Evaluation**

##### **A. Project Reports**

1. The Borrower shall or shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.

2. For purposes of Section 5.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

##### **B. Financial Management, Financial Reports and Audits**

1. The Borrower shall or shall cause the Project Implementing Entity to maintain a financial management system in accordance with the provisions of Section 5.09(a) of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall or shall cause the Project Implementing Entity to prepare and furnish to the Bank as part of the Project Report, interim un-audited financial reports for the Project covering the previous calendar quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall cause the Project Implementing Entity to have its Financial Statements audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal



year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

**Section III. Procurement**

All goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of the Schedule to the Project Agreement.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank shall specify by notice to the Borrower to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (Expressed in USD)</b>	<b>Percentage of Expenditures to be financed</b>
(1) Goods, Works and Consultants' Services:	48,875,000	
(a) for Parts 1(a) and 2 of the Project; and		100%
(b) for Part 1(b) of the Project		85%
(2) Incremental Operating and Administrative costs*	1,000,000	100%

<b>Category</b>	<b>Amount of the Loan Allocated (Expressed in USD)</b>	<b>Percentage of Expenditures to be financed</b>
(3) Front-end Fee	125,000	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07(b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount payable pursuant to Section 2.08(c) of this Agreement
<b>TOTAL AMOUNT</b>	<b>50,000,000</b>	

\*For purposes of this Agreement, the term “Incremental Operating and Administrative Costs” includes the salaries, allowances and other emoluments of LG&RDD, PMDFC and P&DD staff appointed to posts created after June 30, 2004, for the purposes of the Project, the operation and maintenance and/or rental costs of vehicles, equipment and office premises acquired and used for the purposes of the Project, bank charges and the costs of advertising in the media for bids and other purposes of the Project.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

(a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or

(b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$2,000,000 equivalent may be made for payments made prior to this date but on or after July 1, 2005, for Eligible Expenditures.

2. The Closing Date is December 31, 2010.

### SCHEDULE 3

#### 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 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 the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each March 15 and September 15 Beginning September 15, 2014 through September 15, 2025	4.17%
On March 15, 2026	4.09%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn 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 the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn 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.
  - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is 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.

## APPENDIX

### Section I. Definitions

1. "Capacity Grant" means financing provided on a non-reimbursable basis under Part 1(a) of the Project as described in Schedule 1 to this Agreement on the terms and conditions, including eligibility criteria, set out for such financing in the Operations Manual.
2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004.
4. "Development Grant" means financing provided on a non-reimbursable basis under Part 1(b) of the Project as described in Schedule 1 to this Agreement on the terms and conditions, including eligibility criteria, set out for such financing in the Operations Manual.
5. "Environment and Social Framework" means the Project Implementing Entity's environment and social framework for the Project, dated November 2005, as the same shall be amended from time to time with the agreement of the Bank.
6. "Financial Manual" means PMDFC's financial manual for the Project, dated February 2006, as the same shall be amended from time to time in agreement with the Bank.
7. "FY" means the Borrower's fiscal year, beginning July 1 of a calendar year and ending June 30 of the following calendar year.
8. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005.
9. "LG&RDD" means the Local Government & Rural Development Department of the Project Implementing Entity.
10. "Operations Manual" means PMDFC's operations manual for the Project, dated March 2005, as the same shall be amended from time to time in agreement with the Bank.
11. "Ordinance" means the Punjab Local Government Ordinance, 2001, as amended from time to time.

12. "P&DD" means the Planning and Development Department of the Project Implementing Entity.
13. "PMDFC" means the Punjab Municipal Development Fund Company, incorporated under the laws of the Borrower.
14. "Procurement Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004.
15. "Procurement Plan" means the Project Implementing Entity's procurement plan for the Project, dated March 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
16. "Project Implementing Entity" means Punjab.
17. "Punjab" means the Borrower's Province of Punjab.
18. "TMA" means a Tehsil/Town Municipal Administration, a sub-district level local government body established under the Ordinance.