

CONFORMED COPY

LOAN NUMBER 3812 PAK

Loan Agreement

(Second Private Sector Energy Development Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 20, 1994

LOAN NUMBER 3812 PAK

LOAN AGREEMENT

AGREEMENT, dated December 20, 1994, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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

(B) the Borrower intends to obtain funds from the following financiers in the following amounts or equivalent (the Cofinancing Funds) to assist in financing the Project on the terms and conditions set forth in agreements to be entered into between the Borrower and such financiers (the Cofinancing Agreements):

Government of France (France) - f50,000,000

Export-Import Bank of Japan (JEXIM) - \$110,000,000;
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 modifications set forth in Schedule 4 to this Agreement (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) "MWP" means the Borrower's Ministry of Water and Power;
- (b) "NDFC" means the National Development Finance Corporation, a body corporate established and existing under the Borrower's National Development Finance Corporate Act (No. XIII) of 1973, as amended from time to time;
- (c) "WAPDA" means the Water and Power Development Authority of Pakistan, a body corporate established and existing under the Borrower's Water and Power Development Authority Act (No. XXXI) of 1958, as amended from time to time;
- (d) "PSO" means the Pakistan State Oil Company Limited;
- (e) "SBP" means the State Bank of Pakistan;
- (f) "PED" means NDFC's Private Energy Division;
- (g) "PPIB" means the Borrower's Private Power and Infrastructure Board;
- (h) "Fund" means the Borrower's Long Term Credit Fund referred to in Section 4.03 of this Agreement;
- (i) "Administration Agreement" means the administration agreement between the Borrower and NDFC dated January 14, 1989, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Administration Agreement;
- (j) "Statement of Policy" means the statement of policy on private sector participation in the energy sector as adopted and issued by the Borrower in March 1994, as amended from time to time;
- (k) "Brochure" means the brochure, referred to in paragraph B.1 (b) of Schedule 7 to this Agreement, describing the Borrower's policies and procedures for evaluating and approving proposals for private sector participation in the energy and energy-related infrastructure sector;
- (l) "Fund Guidelines" means the Borrower's guidelines for the operation of the Fund;
- (m) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to an

Investment Enterprise for an Investment Project;

(n) "Investment Enterprise" means an enterprise, incorporated under the Borrower's Companies Ordinance (No. XLVII) of 1984 with at least 51% private sector shareholding, to which the Borrower proposes to make or has made a Sub-loan;

(o) "Investment Project" means a specific development project in the energy, or energy-related infrastructure, sector to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(p) "Hub Power Project" means the 1292 megawatt oil-fired power plant located in the Borrower's province of Balochistan, being one of the Investment Projects to be financed under PSEDP and the Project;

(q) "APL Pipeline Project" means the oil pipeline to be built from Port Qasim in the Borrower's province of Sindh to Khalifa Point in the Borrower's province of Balochistan, being one of the Investment Projects to be financed under the Project;

(r) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(s) "Rs" and "rupees" mean the currency of the Borrower; and

(t) "PSEDP" means the Bank-financed Private Sector Energy Development Project (Loan No. 2982-PAK).

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 two hundred fifty million dollars (\$250,000,000), 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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods and services required, and interest and other charges accrued during construction, for the Investment Project in respect of which the withdrawal from the Loan Account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of consultants' services and training and incremental staff costs required for the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in the National Bank of Pakistan on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1999 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 semi-annually on February 1 and August 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 the Project, or cause the Project to be carried out, with due diligence and efficiency and in conformity with appropriate administrative, financial, commercial, engineering and public utility practices, and shall provide or cause to be provided, 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, or cause the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 7 to this Agreement.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Borrower and the Bank; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. 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 6 to this Agreement.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 3.05. The Borrower shall, with respect to the APL Pipeline Project, ensure that, not later than January 31, 1995 or such later date as the Bank may agree, (a) all necessary governmental consents have been given, (b) the right-of-way has been acquired, and (c) the security package has received the necessary governmental approvals, all to the satisfaction of the Bank.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to monitor the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower

responsible for carrying out the Project or any part thereof and the operation and financial condition of the Fund and of each Investment Enterprise.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account and the financial statements (balance sheets, statements of income and expenses and related statements) of each Investment Enterprise 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 after the end of each such year: (A) certified copies of said 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 said 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:

- (i) maintain or cause to be maintained, 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 representative 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. (a) The Borrower shall continuously monitor and evaluate the application of the policies set forth in the Statement of Policy and related documents, and shall, not later than June 30, 1996, modify and refine such policies taking into account the views of the Bank.

(b) As part of this monitoring and evaluation, the Borrower shall review: (i) its policy of exempting the energy and energy-related infrastructure sector from corporate income tax; and (ii) the feasibility of rolling over and capitalizing customs duties, the education levy (Iqra) and import taxes, during the construction phase, and of recovering these during

the operation phase, of projects.

Section 4.03. The Borrower shall, not later than June 30, 1995, reconstitute its Private Sector Energy Development Fund as an autonomous, commercially-oriented Loan Term Credit Fund, and appoint a board of directors and managing director for it, all to the satisfaction of the Bank.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) For as long as NDFC shall be required to carry out its responsibilities under paragraph A.3 (a) of Schedule 7 to this Agreement:

- (i) NDFC shall have failed to perform any of its obligations under the Administration Agreement; or
- (ii) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that NDFC will be able to perform its obligations under the Administration Agreement; or
- (iii) the NDFC Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NDFC to perform any of its obligations under the Administration Agreement; or
- (iv) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NDFC or for the suspension of its operations.

(b) The Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to carry out the Project or to perform any of its obligations under this Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any of the Cofinancing Funds shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
 - (B) any loan included in the Cofinancing Funds shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) (i) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) the events specified in paragraphs (a) (iii), (a) (iv) and (b) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (c) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

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) all conditions precedent to the effectiveness of the Cofinancing Agreements, other than the effectiveness of this Agreement, have been fulfilled;

(b) the Fund Guidelines have been modified, pursuant to paragraph B.2 (a) of Schedule 7 to this Agreement, to permit the use of the proceeds of the Loan and, to the extent allowed under the agreements providing therefor, of the Cofinancing Funds forming part of the Fund for financing interest and other charges accrued on Sub-loans during construction of the Investment Projects for which the Sub-loans shall be made; and

(c) the application of the Statement of Policy has been extended to the energy-related infrastructure sector so as to enable the Borrower to perform its obligations under the provisions of paragraphs A.1 and A.3 of the Annexure to Schedule 7 to this Agreement.

Section 6.02. The date thirty (30) 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 and Statistics 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 and Statistics Division
Government of Pakistan
Islamabad
Pakistan

Cable address:

Telex:

ECONOMIC
Islamabad

ECD IV-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/ Agha Ghazanfar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ D. Joseph Wood

Regional Vice President
South Asia

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) Sub-loans co-financed with JEXIM:		
(a) Works	39,000,000	35%
(b) Equipment	49,000,000	50% of foreign expenditures and 50% of local expenditures (ex- factory cost)
(c) All risks and marine insurance	8,000,000	50% of foreign expenditures

(2) Other Sub-loans:

(a) Works	41,000,000	70%
(b) Equipment	82,000,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Interest and other charges on Sub-loans accrued during the construction of Investment Projects	25,000,000	100% of such interest and charges accrued on the amounts of Sub-loans financed out of the proceeds of the Loan
(4) Institution building:		
(a) Consultants' services and training	2,000,000	100%
(b) Equipment and materials	1,000,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 70% of other items procured locally
(c) Incremental staff costs	3,000,000	90% until December 31, 1995; and 80% from January 1 through December 31, 1996
TOTAL	250,000,000 =====	

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;

(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; and

(c) the term "incremental staff costs" means the salaries and allowances of staff appointed to positions created in PPIB after June 30, 1994 and engaged on a full time basis for the purposes of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement; and

(b) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$350,000, may be made under Category (4) on account of payments made for expenditures before that date but after June 30, 1994.

4. The Bank may require withdrawals from the Loan Account in respect of Part B of the Project to be made on the basis of statements of expenditure for expenditures for goods under contracts not exceeding \$200,000 equivalent, for consultants' services under contracts not exceeding \$100,000, in the case of firms, and \$50,000, in the case of individuals, and for all training and incremental staff costs, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to continue to assist the Borrower in mobilizing the additional resources required to develop the energy sector through the participation of the private sector; and (b) to build on the institutional and policy framework established by the Borrower to facilitate the participation of the private sector in the energy sector.

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: Investment Projects

Financing of specific development projects through Sub-loans to private enterprises in the energy and energy-related infrastructure sector.

Part B: Institution Building

Provision of technical and other assistance for: (1) strengthening PPIB; and (2) formulating an operational framework for making, and making, the Fund fully operational as an autonomous, commercially-oriented financial institution, providing long term credit for energy and related infrastructure projects.

* * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
August 1, 2000	4,805,000
February 1, 2001	4,975,000
August 1, 2001	5,150,000
February 1, 2002	5,335,000
August 1, 2002	5,520,000
February 1, 2003	5,720,000
August 1, 2003	5,920,000
February 1, 2004	6,130,000
August 1, 2004	6,350,000
February 1, 2005	6,575,000
August 1, 2005	6,810,000
February 1, 2006	7,050,000
August 1, 2006	7,300,000
February 1, 2007	7,560,000
August 1, 2007	7,830,000

February 1, 2008	8,105,000
August 1, 2008	8,395,000
February 1, 2009	8,690,000
August 1, 2009	9,000,000
February 1, 2010	9,320,000
August 1, 2010	9,650,000
February 1, 2011	9,995,000
August 1, 2011	10,345,000
February 1, 2012	10,715,000
August 1, 2012	11,095,000
February 1, 2013	11,490,000
August 1, 2013	11,895,000
February 1, 2014	12,320,000
August 1, 2014	12,755,000
February 1, 2015	13,200,000

* 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 (expressed 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 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

- (1) The last sentence of Section 3.02 is deleted.
- (2) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be

inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(3) The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 5 (b) of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 5

Procedures for, and Terms and Conditions of, Sub-loans

A. Terms and Conditions

1. Except as the Bank shall otherwise agree, the terms and conditions of each Sub-loan shall be:

(a) Interest rate:

(i) in the case of the Sub-loan for the Hub Power Project;

(aa) during the construction of the Investment Project for which the Sub-loan has been made, a fixed rate of 14% per annum;

(bb) after completion of construction of such Investment Project but before all loans other than the Sub-loan for the Investment Project which are senior to the Sub-loan have been repaid, a variable rate, to be reviewed annually, equal to the greater of (x) the sum of the prevailing one-year United States (US) Treasury bond rate plus the FERI Margin plus a spread of 300 basis points, and (y) the sum of the prevailing World Bank Lending Rate plus the FERI Margin plus a spread of 250 basis points; and

(cc) after repayment of such senior loans and until the Sub-loan has been fully repaid, a variable rate, to be reviewed annually, equal to the greater of (x) the sum of the prevailing one-year United States (US) Treasury bond rate plus the FERI Margin plus a spread of 400 basis points, and (y) the sum of the prevailing World Bank Lending Rate plus the FERI Margin plus a spread of 350 basis points.

(ii) in the case of all other Sub-loans:

(aa) during the construction of the Investment Project for which the Sub-loan has been made, a fixed rate equal to the greater of (x) the sum of the prevailing five-year

United States (US) Treasury bond rate plus a spread of 200 basis points, and (y) the sum of the prevailing World Bank Lending Rate plus a spread of 150 basis points;

(bb) after completion of construction of such Investment Project but before all loans other than the Sub-loan for the Investment Project which are senior to the Sub-loan have been repaid, a variable rate, to be reviewed annually, equal to the greater of (x) the sum of the prevailing one-year United States (US) Treasury bond rate plus a spread of 300 basis points, and (y) the sum of the prevailing World Bank Lending Rate plus a spread of 250 basis points; and

(cc) after repayment of such senior loans and until the Sub-loan has been fully repaid, a variable rate, to be reviewed annually, equal to the greater of (x) the sum of the prevailing one-year United States (US) Treasury bond rate plus a spread of 400 basis points, and (y) the sum of the prevailing World Bank Lending Rate plus a spread of 350 basis points.

(iii) For the purposes of this provision:

(aa) "FERI Margin" shall mean the premium percentage (as quoted by SBP under its Foreign Exchange Rate Insurance (FERI) Program) prevailing for one-year dollar exchange rate insurance for rupees. In the event SBP no longer provides quotes for insurance under its FERI Program, the FERI Margin shall be calculated based on the premium percentage quotes by the National Bank of Pakistan (or such other financial institution mutually designated by the parties to the Sub-loan) prevailing for one-year dollar exchange rate insurance for rupees.

(bb) "World Bank Lending Rate" shall mean the rate as defined in Section 2.05 (a) of this Agreement.

(b) Amortization period: up to 23 years, including a grace period of up to 8 years

(c) Principal amount to be repaid: (i) in the case of the Sub-loan for the Hub Power Project, the aggregate equivalent of the amounts in various currencies withdrawn from the Loan Account expressed in rupees determined as of the respective dates of withdrawal; and (ii) in the case of all other Sub-loans, the aggregate equivalent of the amounts in various

currencies with-
drawn from the Loan
Account, calculated
in dollars as of
the respective
dates of withdrawal
and expressed in
rupees determined
as of the respec-
tive dates of
repayment

2. The Borrower shall ensure that: (a) the annual review of interest rates required to be carried out under paragraph 1(a) above, in respect of Sub-loans for Investment Projects which have become operational, will be carried out, in consultation with the Bank, not later than April 30 of each year; and (b) any adjustment of such interest rates following such review will be made with effect from July 1 of such year and will be automatically reflected in the tariff charged by such Investment Projects for subsequent sales of electricity to WAPDA and the Karachi Electric Supply Company (KESC).

3. The Borrower shall ensure that the proceeds of the intermediation spread charged on Sub-loans will be utilized as follows: (a) 25 basis points to be made available to PPIB to cover the cost of its services under the Project; and (b) the remainder to be retained by the Fund for purposes of its future lending operations.

B. Procedures

4. No expenditures for goods or works required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 4 (a) of this Schedule in respect of such Sub-loan.

5. (a) When presenting a Sub-loan to the Bank for approval, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.

(b) Applications made pursuant to the provisions of subparagraph (a) of this paragraph shall be presented to the Bank on or before June 30, 1998.

6. Sub-loans shall be made on terms whereby the Borrower shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Borrower and the Bank, including the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project: (i) with due diligence and efficiency and in accordance with sound technical, financial, commercial, public utility and managerial standards and to maintain adequate records; and (ii) without limitation upon the foregoing and to the extent relevant, in accordance with the provisions of Part B of, and the Annexure to, Schedule 7 to this Agreement;

(b) require that: (i) the goods and works to be financed out of the proceeds of the Loan shall be procured in accordance

with the provisions of Schedule 6 to this Agreement; and (ii) such goods and works shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Borrower and the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the Borrower.

SCHEDULE 6

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works 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 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part E.1 (a) of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use, and shall cause Investment Enterprises to use, the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents

have been issued by the Bank, the Borrower shall use, and shall cause Investment Enterprises to use, bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, a margin of preference may be granted to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Equipment available from a limited number of sources and all risks and marine insurance may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Equipment and works estimated to cost up to an aggregate amount not to exceed the equivalent of \$29,000,000 may be procured under contracts awarded: (i) with due attention to considerations of economy and efficiency; (ii) in accordance with sound commercial practices acceptable to the Bank; and (iii) in accordance with procedures which meet the requirements of paragraphs 1.4 and 1.5 of the Guidelines; provided, however, that, with respect to each Investment Project for which such equipment and works are required, no such contract shall be eligible for financing out of the proceeds of the Loan if it shall have been awarded to suppliers and/or contractors who are also the sponsors or shareholders of the Investment Enterprise carrying out the Investment Project.

3. Equipment and materials required for 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.

Part E: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract financed out of a Sub-loan and estimated to cost the equivalent of \$5,000,000 or more, and each contract under Part B of the Project 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 8 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made 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

1. In order to assist the Borrower in (a) appraising, approving and supervising Investment Projects, and (b) carrying out Part B of the Project, the Borrower shall employ, or cause to be employed, 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 7

Implementation Program

A. Project Implementation Arrangements

1. Private Power and Infrastructure Board (PPIB)

(a) PPIB shall be responsible for all policy and regulatory aspects of the Borrower's dealings with the private sector for the purposes of PSEDP and the Project, including in particular for: (i) evaluating and approving proposals submitted by the private sector for energy and related infrastructure development projects; and (ii) negotiating agreements with the

private sector relating to such projects. In carrying out its responsibilities, PPIB shall be assisted in any way necessary by all relevant departments and agencies of the Borrower, including WAPDA, PSO, SBP and NDFC.

(b) PPIB shall also be assisted by consultants appointed under the Project, inter alia, in outlining PPIB's structure, staff profile and financial and performance framework.

2. Long Term Credit Fund (the Fund)

(a) The Fund shall be responsible for all financing aspects of the Borrower's dealings with the private sector for the purposes of PSEDP and the Project, including in particular for appraising, approving, and supervising the implementation of Investment Projects.

(b) The Fund shall undertake the preparation of its operational framework under Part B (2) of the Project. To that end, the Fund shall (i) not later than September 30, 1995, appoint consultants, with expertise in financial management, accounting and investment banking, pursuant to paragraph 1 (b) of Section II of Schedule 6 to this Agreement, and (ii) not later than June 30, 1996, review with the Bank the recommendations of such consultants and agree on a timetable, satisfactory to the Bank, for the implementation of said recommendations as shall be acceptable to the Bank.

3. National Development Finance Corporation (NDFC)

(a) Until such time as the Fund shall have become fully operational under Part B (2) of the Project, NDFC shall continue to be responsible for administering the Fund, and for appraising, approving and supervising the implementation of Investment Projects, on the terms and conditions, including the fee to be paid to NDFC for this purpose, set forth in the Administration Agreement.

(b) NDFC shall carry out these responsibilities through the Private Energy Division (PED). PED shall be assisted, as necessary, by the consultants employed for this purpose pursuant to paragraph 1 (a) of Section II of Schedule 6 to this Agreement, with expertise in project appraisal, engineering and supervision, and in investment banking.

B. Investment Projects

1. Evaluation and Approval Criteria for Investment Projects

(a) The Borrower shall not approve any proposal for an Investment Project unless the Borrower and the Bank are satisfied:

- (i) that the price per unit of the energy produced by the Investment Project shall be:
 - (aa) in the case of power, not more than the avoidable cost, being the incremental cost that would be incurred by the Borrower in generating an additional unit of electricity;
 - (bb) in the case of coal, equal to or less than the economic cost of supply (the long run marginal cost), expressed in terms of thermal equivalency; and
 - (cc) in the case of gas, less than the cost, insurance, freight (c.i.f.) price of fuel oil, expressed in terms of thermal equivalency;
- (ii) that, if the Investment Project is an energy-

related infrastructure project, its tariff shall be set at a level sufficient to cover principal and interest on foreign and local loans, fixed and variable operation and maintenance (O&M) costs, insurance costs, wages, salaries, benefits and mandatory social contributions, development costs, fuel costs and a 25% return on equity after tax;

- (iii) that the Investment Enterprise sponsoring the Investment Project shall be able to arrange financing for the Investment Project on a limited recourse basis; and
- (iv) that the Investment Project is technically, economically and financially viable.

(b) The Borrower shall continue to make available, for the use of Investment Enterprises, a brochure, in form and substance satisfactory to the Bank, inter alia, describing the policy and incentive framework for private sector participation in the energy and energy-related infrastructure sector (including the measures set forth or referred to in the Annexure to this Schedule), setting out the guidelines for the preparation, evaluation and approval of proposals for Investment Projects and including models of the Implementation and Purchase Agreements referred to in Parts C (ii) (a) and (b) of the Annexure to this Schedule.

2. Appraisal, Approval and Supervision of Investment Projects

(a) The Fund shall continue to use its operational guidelines, including the guidelines for the appraisal, approval and supervision of Investment Projects, issued under PSEDP (the Fund Guidelines), subject to such modifications thereof as shall be required to be made under Part B (2) of the Project and considered appropriate by the Borrower and the Bank.

(b) With respect to each Investment Project, the Fund shall, subject to the Fund Guidelines:

- (i) require the Investment Enterprise sponsoring the Investment Project to prepare a detailed feasibility study covering matters including:
 - (aa) suitability of site; (bb) availability of inputs; (cc) appropriateness of, and proven experience with, the technology offered; (dd) project design; (ee) arrangements for detailed engineering; (ff) cost estimates; (gg) construction and procurement arrangements; (hh) arrangements for operation and maintenance; (ii) arrangements for compliance with environmental and resettlement standards; (jj) financial viability of the Investment Project; (kk) adequacy of the proposed financing and the incentives to be offered to attract such financing, including the contractual arrangements to be made therefor; and (ll) the corporate structure of the Investment Enterprise; and
- (ii) review such feasibility study and, on the basis thereof, prepare and furnish to the Bank for its review and approval, pursuant to paragraph 4 (a) of Schedule 5 to this Agreement, a comprehensive appraisal report on the Investment Project.

3. Financing of Investment Projects

(a) For the purposes of financing Investment Projects, the Borrower shall use the Fund, into which the proceeds of the Loan and of the Cofinancing Funds shall be placed.

(b) The Fund shall provide financing for each Investment Project, including the Sub-loan approved for such Investment Project, in amounts sufficient to cover up to 30% of the total cost of such Investment Project on terms and conditions including those set forth in Part A of Schedule 5 to this Agreement; provided, however, that, in exceptional cases and with the prior approval of the Bank, such limit may be increased to 40% of the total cost of each Investment Project.

(c) The financing required for each Investment Project, in addition to the financing provided by the Fund, shall be provided by the Investment Enterprise sponsoring such Investment Project through equity investment sufficient to cover at least 20% of the cost of the Investment Project and at least 40% of the cost of the Investment Project through commercial loans and/or export credits raised without the Borrower's guarantee. To attract such financing, the Borrower shall take or cause to be taken, with respect to each Investment Project, the measures described in the Annexure to this Schedule.

4. Implementation of Investment Projects

With respect to each Investment Project, the Fund shall require the Investment Enterprise sponsoring such Investment Project to engage:

(a) engineering services satisfactory to the Bank for the preparation of detailed designs and bidding documents and supervision of project implementation; and

(b) financial services satisfactory to the Bank for the preparation of proposals for and assistance in mobilizing project financing.

5. Environmental Standards for Investment Projects

Each Investment Project shall comply with the standards set forth in the Bank's "Environmental Guidelines" dated September 1988 and the Bank's "Occupational Health and Safety Guidelines" dated September 1988 or other more stringent standards as shall be found acceptable by the Bank. To that end, the Borrower shall:

(a) specify such standards in the Brochure;

(b) require each Investment Enterprise applying for a Sub-loan to furnish evidence satisfactory to the Borrower and the Bank, showing that the Investment Project in respect of which the application has been made would comply with such standards, such evidence to include an environmental impact assessment and, where applicable, a resettlement plan for displaced populations, for such Investment Project; and

(c) in respect of each Investment Project, include both in the Letter of Support or Letter of Intent referred to in Part C (i) of the Annexure to this Schedule and the Implementation Agreement referred to in Part C (ii) (a) of the Annexure to this Schedule a suitable provision obligating the Investment Enterprise sponsoring such Investment Project to ensure compliance with such standards.

C. Progress Reports

Pursuant to Section 9.07 (a) (iii) of the General Conditions, the Borrower shall furnish or cause to be furnished to the Bank, within thirty days of the end of each quarter, a report, in form and substance satisfactory to the Bank, on the progress of the Project and each Investment Project during such quarter.

Annexure to Schedule 7

Measures Referred to in Paragraph 7 (c) of Schedule 7
to this Agreement to Attract Financing for
Investment Projects

A. Incentives for Investment Enterprises

1. With respect to each Investment Project, the Borrower shall, pursuant to the Statement of Policy, permit the Investment Enterprise sponsoring such Investment Project:

- (a) to charge a tariff determined in accordance with the relevant provisions of paragraphs B.1 (a) (i) and (ii) of this Schedule;
- (b) (i) to repatriate its initial capital investment, profits and debt service payments under arrangements with SBP; and (ii) to be compensated, and shall make suitable arrangements for the Investment Enterprise to be compensated, for loss of profits, initial capital investment and capital appreciation resulting from the failure of any of the Borrower's institutions to perform their obligations owed to the Investment Enterprise or the occurrence of a political event, whose causes are beyond the control of the Investment Enterprise, involving the Borrower;
- (c) to adjust the price of energy produced or services provided by the Investment Project in accordance with agreed adjustment indices to reflect changes in prices of inputs and exchange rate movements, but not necessarily so as to reflect changes in any other costs of the Investment Project;
- (d) to take appropriate measures to off-set the effects of any changes in duties and taxes and other actions taken by the Borrower or its agencies affecting the cost and price of energy produced or services provided by the Investment Project as previously agreed with the Borrower;
- (e) to receive additional finance from the Fund, on terms and conditions satisfactory to the Bank, so as to enable the Investment Enterprise: (a) to meet up to 80% of any additional financing needs of the Investment Project arising from an increase in the costs thereof, provided the Investment Enterprise finances at least 20% of such needs through equity investment; and (b) to continue to meet its debt service payments in respect of the Investment Project in the event of delay in the completion of construction or the suspension of operations of the Investment Project resulting from causes beyond the control of the Investment Enterprise; and
- (f) to enter into arrangements under which the commercial loans and/or export credits obtained for the purposes of the Investment Project shall have priority over the financing obtained from the Fund for such purposes in the allocation and distribution of funds available with the Investment Enterprise for purposes of making debt-service payments and/or meeting obligations arising in the event of liquidation.

2. With a view to facilitating the determination and adjustment, pursuant to the provisions of paragraphs 1 (a) and (c) above, of the price of electricity produced by Investment Projects in the power sector, the Borrower shall, having, pursuant to the Statement of Policy, as of January 1, 1994, set the bench-mark tariff based on the avoidable cost (as defined in paragraph B.1 (a)(i)(aa) of this Schedule) for the purchase

of electricity at high voltage from the private power sector at the equivalent of \$0.065 per kilowatt hour (kWh):

(a) review such tariff once every six months, taking into account changes in the cost of commercial borrowing, foreign exchange risk cover, operation and maintenance (O&M) and fuel, and, to that end, continue to provide an explicit outline of the indices to be used for such adjustment, with an explanation of the methodology used for deriving such indices and the approach to be adopted for their application;

(b) in particular, ensure that the return on the investment component of the price of electricity produced by the private power sector shall be indexed to annually compensate for the depreciation of the rupee relative to the dollar; and

(c) ensure that any taxes, duties and levies imposed on the private power sector shall be reflected as pass-through items in the price of electricity produced by such sector and collected from consumers.

3. With a view to facilitating the determination and adjustment, pursuant to the provisions of paragraphs 1 (a) and (c) above, of the tariff for non-tradable energy products, other than electricity, produced by Investment Projects in the energy sector, and services provided by Investment Projects in the energy-related infrastructure sector, the Borrower shall:

(a) review such tariff once every six months, taking into account changes in the cost of commercial borrowing, foreign exchange risk cover, operation and maintenance (O&M) and fuel, and, to that end, continue to provide an explicit outline of the indices to be used for such adjustment, with an explanation of the methodology used for deriving such indices and the approach to be adopted for their application;

(b) in particular, ensure that the return on the investment component of the price of such products and services produced or provided by the private energy and energy-related infrastructure sector shall be indexed to annually compensate for the depreciation of the rupee relative to the dollar; and

(c) ensure that any taxes, duties and levies imposed on the private energy and energy-related infrastructure sector shall be reflected as pass-through items in the price of such products and services, and collected from consumers.

B. Incentives for Lenders/Creditors

With respect to each Investment Project, the Borrower shall require the Investment Enterprise sponsoring such Investment Project:

- (i) to assign, as necessary, to its lenders/creditors the performance guarantee furnished to the Investment Enterprise by the main contractor responsible for implementing the Investment Project, to which such lenders/creditors shall have recourse in the event of delay in the implementation of the Investment Project;
- (ii) to provide for its lenders/creditors to have recourse also to the assets of the Investment Project;
- (iii) to assign to its lenders/creditors the performance guarantee furnished to the Investment Enterprise by the operator (if other than the Investment Enterprise itself) of the Investment Project, to which such lenders/creditors shall have recourse in the event of a shortfall in the performance of the Investment Project; and

- (iv) to establish, and shall enable the Investment Enterprise to establish, either at the outset of the financing arrangements for, or at the time of the commissioning of, the Investment Project, debt service escrow accounts, which shall at all times hold sufficient funds to meet debt service payments in respect of the Investment Project and other such escrow amounts as shall be required by the lenders/creditors and approved by the Borrower.

C. Contractual Framework for Incentives

In order to clearly lay down the mutual rights and obligations of the Borrower, the Investment Enterprise and the latter's lenders/creditors, the Borrower shall with respect to each Investment Project:

- (i) before the Investment Enterprise is required to prepare and submit a detailed feasibility study for the Investment Project, issue to the Investment Enterprise a Letter of Support or Letter of Intent, in form and substance satisfactory to the Bank, conveying the Borrower's approval of the proposal for the Investment Project and indicating the Borrower's willingness to offer the incentives described in Part A of this Annexure; and
- (ii) at appropriate stages following approval by the Borrower of the detailed feasibility study for the Investment Project, require the Investment Enterprise to enter into the following agreements, each in form and substance satisfactory to the Bank:
 - (a) an Implementation Agreement with the Borrower, superseding the Letter of Intent referred to in (i) above and setting forth the obligations of the Investment Enterprise, particularly with respect to the financing, design, construction, and operation and maintenance of the Investment Project within mutually agreed parameters and to mutually acceptable standards and including the obligation to offer the incentives described in Part B of this Annexure, and the obligations of the Borrower, particularly with respect to the incentives described in Part A of this Annexure;
 - (b) a Purchase Agreement with WAPDA or any other purchaser of the energy produced or services provided by the Investment Project, guaranteed by the Borrower and setting forth the obligations of the Investment Enterprise, particularly with respect to the operation of the Investment Project to mutually acceptable standards, and the obligations of the purchaser, particularly with respect to the purchase of a guaranteed minimum of the energy produced or services provided by the Investment Project, the purchase price of such energy or services, and the adjustment of such price as provided for pursuant to Part A.1 (c) of this Annexure;
 - (c) a Construction Agreement with the main contractor responsible for the construction

and commissioning of the Investment Project, as approved by the Bank and including a performance guarantee furnished by the contractor;

- (d) an Operation and Maintenance Agreement with the operator (if other than the Investment Enterprise itself) of the Investment Project, approved by the Borrower and setting forth the obligations of the operator, particularly with respect to the operation of the Investment Project to the standards specified in the Implementation Agreement referred to in (a) above and in the Purchase Agreement referred to in (b) above, and including a performance guarantee furnished by the operator;
- (e) in the energy sector, a Fuel Supply Agreement, to the extent relevant, with the supplier of fuel required by the Investment Project, guaranteed by the Borrower and setting forth the obligations of the supplier, particularly with respect to the quality, quantity and frequency of supplies, and the penalties for inadequate performance of such obligations; and
- (f) other agreements, including a Shareholders' Agreement (setting forth the rights and obligations of the shareholders of the Investment Enterprise), a Loan Agreement or Agreements (setting forth the obligations of the Investment Enterprise towards its lenders/creditors, particularly with respect to the assignment to the latter of the performance guarantees furnished by the main contractor and the operator of the Investment Project pursuant to Parts B (i) and (iii) of this Annexure), and an Escrow Agreement (establishing and providing for a debt service escrow and other escrow accounts pursuant to Part B (iv) of this Annexure).

SCHEDULE 8

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 Investment Projects and 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 an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General

Conditions shall be equal to or exceed the equivalent of \$10,000,000.

2. Payments out of the Special Account 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 Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the 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 into the Special Account of an amount or amounts determined by the Bank to be required to pay for eligible expenditures during the four months following the date of each request, which amount shall 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 into the Special Account such amount or amounts as the Bank shall have determined to be so required.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account 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 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 the 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 the Borrower out of the 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 Account:

(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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the

right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 Account 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 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 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 Account 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 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 the Special Account.

(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.

