

CONFORMED COPY

LOAN NUMBER 2884 PAK

(Cement Industry Modernization Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 23, 1987

LOAN NUMBER 2884 PAK

LOAN AGREEMENT

AGREEMENT, dated December 23, 1987, 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 Project will be carried out by the State Cement Corporation of Pakistan (SCCP) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SCCP the proceeds of the Loan as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Bank and SCCP;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

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

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

(a) "Project Agreement" means the agreement between the Bank and SCCP of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SCCP pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

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

(d) "Companies" mean the Associated (ACC), Zeal Pak, Javedan, Maple Leaf, Gharibwal and Mustehkam cement companies collectively, and "Company" means any of those cement companies singly;

(e) "Sub-loan Agreements" mean collectively the agreements to be entered into between SCCP and the Companies pursuant to Section 2.01 (c)(i) of the Project Agreement, as the same may be amended from time to time, and such term includes all Schedules to the Sub-loan Agreements; and

(f) "FY" or "fiscal year" means the Borrower's, SCCP's or the Companies' fiscal year, as the case may be, covering the period July 1 through June 30.

## 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, an amount in various currencies equivalent to ninety-six million dollars (\$96,000,000).

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

(b) The Borrower shall cause SCCP, for the purposes of the Project, to open and maintain in dollars a special account in the National Bank of Pakistan on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1992 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 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.

Section 2.08. The Chairman of SCCP is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause SCCP to perform in accordance with the provisions of the Project Agreement all the obligations of SCCP therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SCCP to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to SCCP under a subsidiary loan agreement to be entered into between the Borrower and SCCP, under terms and conditions which shall have been approved by the Bank and which shall include an interest rate of 14% per annum, a repayment period of 11 years including a grace period of 4 years and a provision that the Borrower shall bear the foreign exchange risk.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the

purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. 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 1 to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by SCCP pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, the Borrower shall associate itself, as necessary, with the formulation of a corporate strategy for SCCP under Part B.2 of the Project, and shall take or cause to be taken all action necessary or appropriate to enable SCCP to implement such strategy.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including 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; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. The Borrower shall at all times maintain a policy environment satisfactory to the Bank and conducive to the growth of an efficient and internationally competitive cement industry. To this end, the Borrower shall continue to review and modify, as necessary, the relevant policies, insofar as these pertain to the cement sub-sector, and shall give the Bank a reasonable opportunity to comment in connection therewith.

#### 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) SCCP shall have failed to perform any of its obligations under the Project Agreement.

(b) 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 SCCP will be able to perform its obligations under the Project Agreement.

(c) The Memorandum and Articles of Association of SCCP shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SCCP to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SCCP or for the suspension of its operations.

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) 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; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

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

(a) the Executive Committee of the National Economic Council shall have approved the PC-1 document with respect to the Project;

(b) the Subsidiary Loan Agreement shall have been executed on behalf of the Borrower and SCCP;

(c) the Sub-loan Agreements shall have been executed on behalf of SCCP and the Companies; and

(d) the Consultants' contract for purposes of Parts B.1 and B.2 of the Project shall have been signed.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by SCCP, and is legally binding upon SCCP in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and SCCP and is legally binding upon the Borrower and SCCP in accordance with its terms; and

(c) that the Sub-loan Agreements have been duly authorized or ratified by SCCP and the Companies and are legally binding upon SCCP and the Companies in accordance with their terms.

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

#### ARTICLE VII

##### Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary, or Section Officer in that Division, of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Economic Affairs Division  
Islamabad  
Pakistan

Cable address:

ECONOMIC  
Islamabad

Telex:

ECDIV-05-634

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT),  
248423 (RCA) or  
64145 (WUI)

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/ C. M. Afzal

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. P. Thalwitz

Regional Vice President  
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment and materials (including supervision of erection and commissioning)		
(a) Part A.1 of the Project	61,500,000	100% of foreign expenditures and 100% of local expenditures (ex-factory cost)
(b) Other Parts of the Project	19,100,000	100% of foreign expenditures
(2) Consultants' services and training	5,900,000	100% of foreign expenditures
(3) Unallocated	9,500,000	
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TOTAL	96,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the rational development of the cement subsector in Pakistan and, to this end, to assist SCCP in meeting its needs in (a) developing a comprehensive and coherent corporate strategy, (b) modernizing and rationalizing its production facilities, and (c) improving its technical and managerial performance.

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: Modernization of SCCP Cement Plants

1. Carrying out of modernization works at the ACC Wah cement plant, including (a) installation of a modern dry-process production line to replace existing wet-process kilns, (b) replacement of the power input system, and installation of a 500 kVA diesel generator, and (c) upgrading of existing process areas and infrastructure, including the access road.

2. Carrying out of balancing, modernization and replacement works at the Zeal Pak, Javedan, Maple Leaf, Gharibwal and Mustehkam cement plants, including (a) replacement of critical parts to prevent major production losses, (b) installation of new facilities to increase production efficiency, and (c) provision of new equipment to improve environmental standards.

Part B: Institutional Development of SCCP

1. Establishment of a Management Information System (MIS), including the provision and installation of computer facilities.

2. Formulation of a comprehensive corporate strategy, including for SCCP's cement companies.

3. Upgrading of the technical training facilities and staff at the Dera Ghazi Khan and Zeal Pak cement plants.

Part C: Establishment of a Cement Research Institute

Establishment of a Cement Research Institute (CRI) with facilities for research on cementitious materials.

Part D: Technical Assistance

Provision of consultants' services to assist in: (i) carrying out the Project; and (ii) carrying out action programs resulting from the MIS established under Part B.1 of the Project.

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The Project is expected to be completed by December 31, 1991.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each April 1 and October 1	
beginning April 1, 1993	
through October 1, 2007	3,200,000



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\* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$6,500,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by SCCP for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of SCCP, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as SCCP shall have requested.

(b) SCCP shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by SCCP out of the Special Account for which SCCP requests replenishment pursuant to paragraph 3 (b) of this Schedule, SCCP shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

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

(ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, SCCP shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until SCCP has made such deposit or refund.

(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, SCCP shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account.

