

CONFORMED COPY

LOAN NUMBER 3318 PAK

(Microenterprise Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 28, 1991

LOAN NUMBER 3318 PAK

LOAN AGREEMENT

AGREEMENT, dated June 28, 1991, 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 1 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) Parts A (1) and B.2 (a) of the Project will be carried out by the Participating Leasing Companies (PLCs, as hereinafter defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PLCs the proceeds of the Loan as provided in this Agreement;

(C) the Borrower has obtained from the Netherlands

a grant (the Dutch Grant) in an amount of four million eight hundred thousand Dutch Guilders (Dfls 4,800,000) to assist in financing Parts A (2) and B of the Project on the terms and conditions set forth in the agreement (the Dutch Grant Agreement) of even date herewith between the Borrower and the Bank as Administrator of Grant Funds provided by the Minister for Development Cooperation of the Netherlands; 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 6 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) "PLCs" mean collectively the Participating Leasing Companies under the Project, being leasing companies which shall have satisfied the eligibility criteria set forth in paragraph A.1 of Schedule 4 to this Agreement; and "PLC" means each and any of the Participating Leasing Companies under the Project individually;

(b) "AKRSP" means Aga Khan Rural Support Program, a company established and existing under the Borrower's Companies Ordinance of 1984, as amended from time to time;

(c) "OPP" means Orangi Pilot Project Society, a society registered under the Borrower's Societies Registration Act of 1860, as amended from time to time;

(d) "BUSTI" means Basic Urban Services for Katchi Abadis, a society registered under the Borrower's Societies Registration Act of 1860, as amended from time to time;

(e) "ADI" means Alfalah Development Institute, a society registered under the Borrower's Societies Registration Act of 1860, as amended from time to time;

(f) "PNGOs" mean collectively the Participating Non-Governmental Organizations under the Project, being AKRSP, OPP, BUSTI and ADI; and "PNGO" means each and any of the Participating Non-Governmental Organizations under the Project individually;

(g) "Participating Institutions" mean collectively PLCs and PNGOs; and "Participating Institution" means each and any of the PLCs or PNGOs individually;

(h) "Adminstrating Institution" means the Bankers Equity Limited, a company incorporated and existing under the Borrower's Companies Ordinance of 1984, as amended from time to time, or any successor thereto;

(i) "Administration Agreement" means the agreement to be entered into between the Borrower and the Adminis-
trating Institution pursuant to Section 3.01 (a) of this
Agreement, as the same may be amended from time to time;

(j) "Microenterprise" means a manufacturing,
commercial or service enterprise, employing, in the case
of a manufacturing enterprise, fewer than ten workers in-
factory, and, in the case of a commercial or service
enterprise, fewer than ten workers;

(k) "Small-scale Enterprise" means a privately-
owned manufacturing, repair, industrial service or agro-
processing enterprise, owning total fixed assets (exclud-
ing land and buildings) valued at Rs.10,000,000 or less,
and whose incremental fixed cost per worker is not
expected to exceed Rs. 200,000;

(l) "Lease Financing" means financing provided or
proposed to be provided through a PLC out of the proceeds
of the Loan to an Investment Enterprise for an Investment
Project;

(m) "free-limit Lease Financing" means Lease
Financing, as so defined, which qualifies as free-limit
Lease Financing pursuant to the provisions of paragraph
C.1(b) of Schedule 4 to this Agreement;

(n) "Sub-loan" means a loan made or proposed to be
made by a PNGO out of the proceeds of the Dutch Grant to
an Investment Enterprise for an Investment Project;

(o) "Investment Enterprise" means a Microenterprise
or a Small-Scale Enterprise to which a Participating
Institution has provided or proposes to provide Lease
Financing or has made or proposes to make a Sub-loan, as
the case may be;

(p) "Investment Project" means a specific develop-
ment project to be carried out by an Investment Enter-
prise utilizing the proceeds of Lease Financing or a Sub-
loan, as the case may be;

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

(r) "SBP" means the State Bank of Pakistan;

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

(t) "FY" or "fiscal year" means 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, various currencies
that shall have an aggregate value equivalent to the
amount of twenty-six million dollars (\$26,000,000), 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 under Part A (1) of the
Project for amounts paid (or, if the Bank shall so agree,
to be paid) by a PLC on account of withdrawals made by

such PLC on behalf of an Investment Enterprise under Lease Financing to meet 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally for equipment and machinery required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; provided, however, that no withdrawal shall be made: (i) in respect of Lease Financing not provided in accordance with the provisions of Schedule 4 to this Agreement; and (ii) in respect of payments made for expenditures prior to the date of this Agreement.

(b) For the purposes of paragraph (a) of this Section: (i) the term "foreign expenditures" means expenditures in any currency other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and (ii) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

(c) The Borrower shall, for the purposes of Part A (1) of the Project, open and maintain in dollars a special deposit account in a commercial bank 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1998 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

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

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

(c) For the purposes of this Section:

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

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions

thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

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

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

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

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

Section 2.06. Interest and other charges shall be payable semiannually on 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 2 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 1 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall carry out Part A (1) of the Project, through the Administrating Institution, to whom responsibility for this purpose shall be assigned under an administration agreement to be concluded between the Borrower and the Administrating Institution, under terms and conditions satisfactory to the Bank, which shall include those set forth in Schedule 4 to this Agreement.

(b) The Borrower shall, for the purposes of Part A (1) of the Project, relend the proceeds of the Loan to PLCs through the Administrating Institution, such proceeds to be utilized by PLCs on a first-come first-serve basis, under terms and conditions which shall have been approved by the Bank which shall include those set forth in Schedule 3 to this Agreement.

(c) The Borrower shall exercise its rights under the Administration 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 Administration Agreement or any provision thereof.

Section 3.02. The Borrower undertakes that, except as the Bank shall otherwise agree, PLCs will provide Lease financing in accordance with the procedures and on terms and conditions set forth or referred to in Schedule 4 to this Agreement.

Section 3.03. (a) The Borrower shall, jointly with the Bank, carry out a review of the performance of the Participating Institutions and their micro-enterprise clients not later than October 31, 1993, and shall thereafter, in agreement with the Bank, make such adjustments in the organization and operation of the Project as may be appropriate in light of the conclusions of said review.

(b) The Borrower shall complete the assessment study referred to in Part B.3 of the Project, not later than December 31, 1992, and shall thereafter, after consultation with the Participating Institutions and in agreement with the Bank, take such actions as may be appropriate in light of the findings of said study.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause the Administrating Institution to maintain with respect to PLCs' activities under Part A (1) of the Project procedures and records adequate to monitor and record 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 consistently maintained sound accounting practices their resources and operations with respect to the Project.

(b) The Borrower shall:

- (i) cause the records referred to in Section 4.01 of this Agreement, and records and accounts for the Special Account for each fiscal year audited, in accordance with sound 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 (6) 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 or not PLCs have complied with the prudential regulations and maintained the ratios referred to in paragraph A.1 (d) and (e) of Schedule 4 to this Agreement; 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.

(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 representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Except as the Bank shall otherwise agree, the Borrower shall require each PLC not to incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 10 to 1.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of the PLC maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.
- (iii) The term "equity" means the sum of the total un-impaired paid-up capital, retained earnings and reserves of the PLC not allocated to cover specific liabilities.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in

the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall require each PLC to ensure that its net income for each fiscal year, when added to provisions for losses and loan collection and interest and other charges on debt, adjusted for income taxes, for such year, shall be at least 1.25 times the maximum of its debt service requirements for such year on all its debt.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of the PLC maturing by its terms more than one year after the date on which its debt is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net income" means the difference between:
 - (A) the PLC's income from all sources; and
 - (B) the sum of all of the PLC's expenses including those relating to administration, income taxes and payments in lieu of income taxes, provisions for losses and loan collection and interest and other charges on debt.
- (iv) The term "debt service requirements" means the aggregate amount of repayments of, and interest and other charges, adjusted for income taxes, on, the PLC's debt.
- (v) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to 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) The Administrating Institution shall have failed to perform any of its obligations under the

Administration 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 the Administrating Institution will be able to perform its obligations under the Administration Agreement.

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

(d) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Dutch Grant shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Dutch Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the Dutch Grant 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) 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 event specified in paragraph (c) 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) all conditions precedent to the effectiveness of the Dutch Grant Agreement, other than the effectiveness of this Agreement, have been fulfilled; and

(b) the Administration Agreement has been executed on behalf of the Borrower and the Administrating Institution.

Section 6.02. 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

Representative of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of 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:

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/ A. Farooq

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ M. H. Wiehen

Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Description of the Project

The objectives of the Project are: (a) to support the Borrower's efforts to provide Microenterprises with direct access to credit from formal sources thereby contributing to the correction of distortions and imperfections in the financial market; and, to that end:

(b) to assist the institutions involved in providing such credit in strengthening their capacity to deliver their financial, technical and/or social services to an increasing constituency of Microenterprises, including particularly those owned and operated by women; (c) to assist such institutions, in particular, in developing and promoting new financial instruments to benefit their clients in the microenterprise subsector; and (d) to assist in demonstrating the replicability of the initiatives taken by such institutions to others, particularly commercial banks.

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: (1) Lease Financing provided through PLCs to Small-Scale Enterprises and Microenterprises; and (2) Sub-loans made by PNGOs to Microenterprises.

Part B: Technical Assistance and Training

1. Provision of technical assistance to PNGOs to assist in: (a) strengthening institutional capacity; (b) designing technical and social support service programs, credit procedures and supervision information systems relevant to microenterprise operations; (c) training staff in implementation, supervision and evaluation of said technical and social support service programs; and (d) developing and applying indicators for monitoring and evaluating the impact of assisted Microenterprises.

2. Establishment of a Microenterprise Fund to finance through (a) PLCs and (b) PNGOs any training, consultancies or studies required to be provided or carried out to assist Microenterprises.

3. Carrying out of an assessment of the microenterprise subsector in light of the changing policy and institutional environment over a period of about two years from commencement of the Project.

* * * * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
August 1, 1996	475,000
February 1, 1997	490,000
August 1, 1997	510,000
February 1, 1998	530,000
August 1, 1998	550,000
February 1, 1999	575,000
August 1, 1999	595,000
February 1, 2000	620,000
August 1, 2000	640,000
February 1, 2001	665,000
August 1, 2001	695,000
February 1, 2002	720,000
August 1, 2002	745,000

February 1, 2003	775,000
August 1, 2003	805,000
February 1, 2004	835,000
August 1, 2004	870,000
February 1, 2005	905,000
August 1, 2005	940,000
February 1, 2006	975,000
August 1, 2006	1,010,000
February 1, 2007	1,050,000
August 1, 2007	1,090,000
February 1, 2008	1,135,000
August 1, 2008	1,180,000
February 1, 2009	1,225,000
August 1, 2009	1,270,000
February 1, 2010	1,320,000
August 1, 2010	1,370,000
February 1, 2011	1,435,000

* 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 eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 3

Terms and Conditions for Relending of Loan Proceeds to PLCs referred to in Section 3.01 (b) of this Agreement

Except as the Borrower and the Bank shall otherwise

agree, each PLC shall:

(a) pay a charge on the amount of the Loan withdrawn by it and outstanding at a floating annual rate adjusted every six months so as to be equal to the prevailing lending rate for loans made by the Bank plus a spread which shall cover the charge for the foreign exchange risk cover provided by SBP at the prevailing rate, a commitment fee charge of 1/4% (one-fourth of one percent) per annum and an administration fee of 1/2% (one-half of one percent) per annum;

(b) repay the proceeds of the Loan relented to it over a period of ten years, including a grace period of 3 years, the principal amount to be repaid being the aggregate equivalent of the amounts withdrawn by the PLC from the Loan Account expressed in rupees determined as of the respective dates of withdrawal; and

(c) give an undertaking, in terms satisfactory to the Bank, that the PLC shall at all times hold unencumbered by any lien or hypothecation assets in value exceeding the amount of the Loan withdrawn by the PLC and outstanding, except insofar as such lien or hypothecation is required to secure a guarantee for such amount.

SCHEDULE 4

Administration of Credit Component carried out,
and Terms and Conditions of and Procedures for
Lease Financing provided by, PLCs under
Part A (1) of the Project

A. Administration of Credit Component

The administration of the credit component to be carried out by PLCs under Part A (1) of the Project shall be assigned under the Administration Agreement to the Administrating Institution. The Administration Agreement shall include, inter alia, provisions whereby:

1. Except as the Bank shall otherwise agree, Lease Financing shall be provided only through those leasing companies each of which shall have:

(a) demonstrated to the satisfaction of the Bank that it has: (i) a sound organizational structure suited to managing a large number of relatively small-value leases in a cost-effective manner; (ii) a marketing apparatus geared to addressing the lease financing needs of a diverse and informal class of enterprises; and (iii) strategic corporate objectives and current operations which are compatible with the objectives of the Project;

(b) got its board of directors to approve and issue a circular setting out its strategies, operating policies and procedures to the satisfaction of the Bank;

(c) prepared an unqualified financial statement audited by external auditors in accordance with internationally accepted auditing principles;

(d) complied with all existing, and agreed to comply with all future, prudential regulations of the State Bank of Pakistan; and

(e) maintained a debt/equity ratio and a debt service coverage-ratio within the limits referred to in Sections 4.02 and 4.03, respectively, of this Agreement.

2. The Administrating Institution shall act under the Administration Agreement solely as an administrator to

enable, on behalf of the Borrower, the utilization by PLCs of the proceeds of the Loan for the provision of Lease Financing by PLCs under Part A (1) of the Project; therefore (a) the Borrower shall bear all financial obligations due on such proceeds under the provisions of the Loan Agreement; and (b) all debt service payments by PLCs with respect to such proceeds utilized in the provision of Lease Financing shall be made by PLCs, through the Administrating Institution, to the Borrower.

3. To assist in defraying the administration cost assumed by the Administrating Institution under the Administration Agreement, the Administrating Institution shall receive from the Borrower a fee at the rate of 1/2% (one-half of one percent) per annum of the amount of the Loan withdrawn and outstanding.

4. The Administrating Institution shall make the proceeds of the Loan available to PLCs for utilization by them for the provision of Lease Financing under Part A (1) of the Project on terms whereby the Administrating Institution shall obtain, by written agreement with each PLC, rights adequate to protect the interests of the Borrower and the Bank, including the right to:

(a) require the PLC to comply with the terms and conditions referred to in Section 3.01 (b) of this Agreement;

(b) require the PLC to apply in the provision and administration of Lease Financing the rules and procedures set forth in, and to comply, mutatis mutandis, with the provisions of Sections 4.02 and 4.03 of, the Loan Agreement;

(c) require that: (i) the equipment and machinery required for each Investment Project and to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor; and (ii) records shall be kept in satisfactory form of the methods of procurement used, the summaries of quotations received and awards made in procuring said equipment and machinery;

(d) require that the PLC shall take out and maintain with responsible insurers such insurance as shall cover hazards incident to the acquisition, transportation and delivery of the equipment and machinery 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 PLC to replace or repair such equipment and machinery;

(e) require the PLC to prepare applications for, and requests for authorization to make withdrawals from the Loan Account in respect of, Lease Financing for presentation to the Bank through the Administrating Institution for approval;

(f) 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 PLC; and

(g) suspend or terminate the right of the PLC to present new applications for, or requests for authorizations to make withdrawals from the Loan Account in respect of, Lease Financing for approval by the Bank upon failure by the PLC to: (i) obtain the prior concurrence

of the Bank to an amendment of the PLC's circular setting out its strategies, operating policies and procedures; or (ii) comply with the prudential regulations of SBP; or (iii) perform its obligations under its agreement with the Administrating Institution.

B. Terms and Conditions of Lease Financing

1. Except as the Bank shall otherwise agree, Lease Financing shall be provided only:

(a) to Investment Enterprises which: (i) qualify as Micro-enterprises or Small-Scale Enterprises; (ii) are established and currently operational (except in the case of Microenterprises owned and operated by women which are to be newly started-up); (iii) are economically and financially viable; and (iv) have control over the production and marketing of their products or services; and

(b) to finance equipment and machinery to be used exclusively for productive purposes.

2. Except as the Bank shall otherwise agree, no Lease Financing shall be provided to an Investment Enterprise, if, after such Lease Financing has been provided, the aggregate amount of the proceeds of the Loan provided for the financing of such Investment Enterprise shall exceed the equivalent of \$46,000.

3. Except as the Bank shall otherwise agree:

(a) the proceeds of each Lease Financing shall be utilized to finance equipment and machinery purchased by the PLC concerned in accordance with the provisions of paragraph A.4 (c) of this Schedule and leased to the Investment Enterprise requesting the Lease Financing for the purposes of the Investment Project for which the Lease Financing is requested;

(b) each such Lease Financing shall be subject to payment on the amount of the Lease Financing withdrawn and outstanding of a charge per annum at the prevailing market rate for any lease financing provided by the PLC concerned; and

(c) the term of each such Lease Financing shall be not less than 2 years nor more than 6 years, and which shall in any case not exceed the projected economic life of the equipment and machinery financed out of the proceeds of the Lease Financing, at the end of which the ownership of the equipment and machinery shall pass to the Investment Enterprise upon payment by the Investment Enterprise of an additional charge.

C. Procedures for Lease Financing

1. No expenditures for equipment and machinery required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Lease Financing for such Investment Project shall have been approved by the Bank and, except as the Bank shall otherwise agree, such expenditures shall have been made not earlier than one hundred eighty (180) days prior to the date on which the Bank shall have received the application and information required under paragraph C.2 (a) of this Schedule in respect of such Lease Financing; or

(b) the Lease Financing for such Investment Pro-

ject shall have been a free-limit Lease Financing for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred eighty (180) days prior to the date on which the Bank shall have received the request and information required under paragraph C.2 (b) of this Schedule in respect of such free-limit Lease Financing. For the purpose of this Agreement, a free-limit Lease Financing shall be a Lease Financing for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$23,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Borrower and the Bank, entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project.

2. (a) When presenting a Lease Financing to the Bank for approval, each PLC shall furnish to the Bank an application, through the Administrating Institution, 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 equipment and machinery proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Lease Financing, including the schedule of amortization of the Lease Financing; (iii) whenever relevant, a statement as to the environmental impact of the Investment Project and, when necessary, the remedial action to be taken in this respect; and (iv) such other information as the Bank shall reasonably request.

(b) Each request by a PLC, through the Administrating Institution, for authorization to make withdrawals from the Loan Account in respect of a free-limit Lease Financing shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the terms and conditions of the Lease Financing, including the schedule of amortization therefor; and (iii) whenever relevant, a statement as to the environmental impact of the Investment Project and, when necessary, the remedial action proposed to be taken in this respect.

(c) Applications and requests made pursuant to the provisions of sub-paragraph (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1997.

3. Lease Financing shall be provided on terms whereby each PLC shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Borrower, the Bank and such PLC including the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that the equipment and machinery to be financed out of the proceeds of the Loan 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 equipment and machinery and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that 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;

(e) obtain all such information as the Bank or the PLC 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 PLC.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of equipment and machinery required for Investment Projects and to be financed out of the proceeds of the Loan in accordance with the provisions of Section 2.02 (a) of this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special 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, 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 the Loan Agreement; or

(b) once the total unwithdrawn amount of the Loan, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Part A (1) of the Project, shall equal the equivalent of \$3,000,000, twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

SCHEDULE 6

Modifications of 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) 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 (c) of paragraph C.2 of Schedule 4 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraphs (a) and (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and the Guarantor, 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."

