

CONFORMED COPY

LOAN NUMBER 3764 PAK

Loan Agreement

(Power Sector Development Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 14, 1994

LOAN NUMBER 3764 PAK

LOAN AGREEMENT

AGREEMENT, dated September 14, 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;

(B) Parts A(1), A(4), A(5), B and C of the Project will be carried out by the Water and Power Development Authority of Pakistan (WAPDA) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to WAPDA a portion of 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 WAPDA;

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 below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) 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."

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) "WAPDA" means the Water and Power Development Authority of Pakistan, established and existing under the WAPDA Act, and any successor thereto;

(b) "WAPDA Act" means the Borrower's Water and Power Development Authority Act, 1958, as amended by the Borrower's Water and Power Development Authority (Amendment) Act of 1994, and as may be further amended from time to time;

(c) "Investment Program" means WAPDA's least cost program for development of power generation, transmission and distribution systems for the period FY 94-99;

(d) "Strategic Plan" means the Borrower's plan dated April 1992 for restructuring and privatizing the power sector;

(e) "NEPRA" means the National Electric Power Regulatory Authority to be established under Part A(2) of the Project;

(f) "AEB" means an Area Electricity Board of WAPDA;

(g) "EHV" means Extra High Voltage;

(h) "STG" means Secondary Transmission Grid;

(i) "MV" means Medium Voltage;

(j) "LV" means Low Voltage;

(k) "Project Agreement" means the agreement between the Bank and WAPDA 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;

(l) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and WAPDA 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;

(m) "Borrower's Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(n) "WAPDA Special Account" means the account referred to in Section 2.02 (c) of the Project Agreement;

(o) "Special Accounts" mean the Borrower's Special Account and the WAPDA Special Account collectively; and "Special Account" means each and any such account individually;

(p) "FY" or "financial year" means the Borrower's or WAPDA's financial year, as the case may be, covering the period July 1 through June

30; and

- (q) "Rs" or "rupees" mean the currency of the Borrower.

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 thirty million dollars (\$230,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower shall, for the purposes of Parts A(2) and A(3) 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. Deposits into, and payments out of, the Borrower's 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, 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 semiannually on April 15 and October 15 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 WAPDA 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 in respect of Parts A(1), A(4), A(5), B and C of the Project.

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: (i) shall carry out Parts A(2) and A(3) of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, commercial and power utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts A(2) and A(3) of the Project; and (ii) without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause WAPDA to perform in accordance with the provisions of the Project Agreement all the obligations of WAPDA 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 WAPDA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts A(2) and A(3) of, and perform its other obligations with respect to, the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend an amount equivalent to \$218,000,000 out of the proceeds of the Loan to WAPDA under a subsidiary loan agreement to be entered into between the Borrower and WAPDA under terms and conditions which shall have been approved by the Bank and which shall include: (i) the principal amount repayable by WAPDA to be the equivalent in Rupees (determined as of the date or respective dates of withdrawals from the Loan Account) of the currency or currencies withdrawn from the Loan Account; (ii) the principal amount to be repaid by WAPDA in thirty equal installments over a period of twenty (20) years, including a grace period of five (5) years; (iii) the payment of interest by WAPDA at the rate of eleven percent (11%) per annum; and (iv) the reimbursement by WAPDA to the Borrower of all amounts paid by the Borrower to the Bank in respect of commitment charges on the proceeds of the Loan relent to WAPDA.

(d) 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 the Schedule 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) in respect of Parts A(1), A(4), A(5), B and C of the Project shall be carried out by WAPDA pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A(2) and A(3) of the Project of the departments or agencies of the Borrower responsible for carrying out Parts A(2) and A(3) of the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Borrower's 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; 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. The Borrower shall cause all federal and provincial governmental agencies and departments to settle all bills for the supply of electricity by WAPDA within three months of receipt of such bills.

Section 4.03. The Borrower shall ensure that, with effect from September 30, 1995, all flat tariffs charged by WAPDA for tubewells will include a metered energy charge component.

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) WAPDA 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 WAPDA will be able to perform its obligations under the Project Agreement.

(c) The WAPDA Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of WAPDA 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 WAPDA 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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and WAPDA; and

(b) draft legislation satisfactory to the Bank has been introduced in the Borrower's Parliament for the establishment of NEPRA.

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 WAPDA, and is legally binding upon WAPDA in accordance with its terms; and

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

Section 6.03. The date one hundred twenty (120) 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. 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:	Telex:
ECONOMIC Islamabad	952-5634

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
A. For the Borrower		
(1) Equipment and materials	1,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(2) Consultants' services and training	10,500,000	100%
B. For WAPDA		
(3) Civil works and installation and erection	58,000,000	60%
(4) Equipment and materials	142,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(5) Consultants' services and training	8,000,000	100%
(6) Unallocated	10,000,000	
TOTAL	230,000,000 =====	

2. For the purposes of this Schedule:

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

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

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made on account of payments made for expenditures before that date but after October 1, 1993;

(b) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the

Bank shall have financed or agreed to finance; and

(c) expenditures for goods supplied under a contract which the Bank or the Association shall have financed or agreed to finance out of the proceeds of any other loan or credit.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for:

(a) expenditures under contracts for goods and works which cost \$200,000 equivalent or less each;

(b) expenditures under contracts for consultants' services which cost \$100,000 equivalent or less each; and

(c) expenditures for training, all 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 to: (a) set the stage for a gradual and orderly privatization of the power sector in general and WAPDA in particular; (b) support WAPDA's least cost power investment program so as to minimize the country's chronic power shortage and to facilitate the privatization process; (c) enhance the resource mobilization capability and operational efficiency, autonomy and accountability of power sector entities; and (d) strengthen the environmental assessment and mitigation capabilities within the power 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: Restructuring and Privatization Program

Implementation of the Strategic Plan through:

- (1) the reorganization and corporatization of WAPDA into a holding company with decentralized generation, transmission and distribution subsidiaries;
- (2) the establishment of NEPRA to set standards for and regulate a gradually privatized power sector;
- (3) the definition and adoption of a power tariff policy and tariff administration system consistent with the efficient operation and the privatization objectives of the sector;
- (4) the development of a manpower transition program to address the concerns of WAPDA's labor and staff arising from WAPDA's gradual passage into the private sector; and
- (5) the initial offering of selected assets of WAPDA for acquisition by the private sector.

Part B: Investment Program

Implementation of a four-year time-slice (FY 95-98) of the Investment Program, such as would, inter alia, improve the reliability of the power sector so as to make it attractive to the private sector, through:

- (1) the expansion of generation facilities, including the completion of certain on-going, and the construction of new, thermal and hydel projects;
- (2) the expansion and reinforcement of the transmission system, including the completion of on-going, and the construction of new, EHV and STG lines and grid-station projects;
- (3) the expansion, reinforcement and rehabilitation of the distribution system, including the construction of MV and LV

lines, the installation of new transformers and the provision of new service drops for LV line customers; and

- (4) the expansion and reinforcement of the rural electrification system, including the construction of MV and LV lines.

Part C: Technical Assistance and Training

1. Carrying out for WAPDA of: (a) a distribution diagnostic study of one WAPDA AEB; (b) a sectoral environmental assessment study; (c) a management information systems (MIS) implementation program; and (d) a financial resource mobilization study.

2. Strengthening of WAPDA's training programs through the provision of special expertise and equipment and materials for: (a) the engineering and generation training academies; (b) the switch-gear workshop; and (c) hot-line maintenance especially for the 220 and 132 kV (kilovolt) lines.

* * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
October 15, 1999	4,355,000
April 15, 2000	4,515,000
October 15, 2000	4,680,000
April 15, 2001	4,850,000
October 15, 2001	5,025,000
April 15, 2002	5,210,000
October 15, 2002	5,400,000
April 15, 2003	5,595,000
October 15, 2003	5,800,000
April 15, 2004	6,010,000
October 15, 2004	6,225,000
April 15, 2005	6,455,000
October 15, 2005	6,690,000
April 15, 2006	6,930,000
October 15, 2006	7,185,000
April 15, 2007	7,445,000
October 15, 2007	7,715,000
April 15, 2008	7,995,000
October 15, 2008	8,285,000
April 15, 2009	8,585,000
October 15, 2009	8,900,000
April 15, 2010	9,225,000
October 15, 2010	9,560,000
April 15, 2011	9,905,000
October 15, 2011	10,265,000
April 15, 2012	10,640,000
October 15, 2012	11,025,000
April 15, 2013	11,425,000
October 15, 2013	11,840,000
April 15, 2014	12,265,000

* 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

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means, in respect of the Borrower, an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited into the Borrower's Special Account, and, in respect of WAPDA, an amount equivalent to \$12,000,000 to be withdrawn from the Loan Account and deposited into the WAPDA Special Account, all pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower or WAPDA, as the case may be, 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 or WAPDA, as the case may be, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower or WAPDA, as the case may be, shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower or WAPDA, as the case may be, 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 or WAPDA, as the case may be, 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 or WAPDA, as the case may be, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower or WAPDA, as the case may be, 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 or WAPDA, as the case may be, out of a Special Account, the Borrower or WAPDA, as the case may be, 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 a Special Account:

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for Parts A(2) and A(3) of the Project in case of the Borrower or for Parts A(1), A(4), A(5) and B of the Project in the case of WAPDA, 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 Parts A(2) and A(3) of the Project in the case of the Borrower or for Parts A(1), A(4), A(5) and B of the Project in the case of WAPDA, shall equal the equivalent of twice the amount of the relevant Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for Parts A(2) and A(3) of the Project in the case of the Borrower or for Parts A(1), A(4), A(5) and B of the Project in case of WAPDA shall follow such procedures as the Bank shall specify by notice to the Borrower or WAPDA, as the case may be. 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 a 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 or WAPDA, as the case may be, 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 or WAPDA, as the case may be, 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 a Special Account will not be required to cover further payments for eligible expenditures, the Borrower or WAPDA, as the case may be, shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower or WAPDA, as the case may be, may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in a 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 5

Implementation Program

A. Undertakings of the Borrower

1. The Borrower shall, subject to the approval of the legislation referred to in Section 6.01 (b) of this Agreement by the Borrower's Parliament, establish NEPRA not later than June 30, 1995.

2. The Borrower shall, with respect to the power tariff policy and tariff administration study required to be carried out for purposes of Part A(3) of the Project: (a) upon completion of the study, review and agree with the Bank on the recommendations thereof by March 31, 1996; and (b) implement the recommendations so agreed with effect from September 30, 1996.

B. Undertakings of WAPDA

1. WAPDA shall, with respect to the distribution diagnostic study of an AEB to be carried out under Part C(1) of the Project: (a) not later than September 30, 1995, employ the consultants required for this purpose pursuant to the provisions of Section II of the Schedule to the Project Agreement; and (b) upon completion of the study, agree with the Bank on the recommendations thereof, implement such agreed recommendations, and extend such recommendations to other AEBs to the extent relevant, all in accordance with an action plan satisfactory to the Bank.

2. WAPDA shall, with respect to its Management Information Systems, currently being implemented under a pilot program: (a) upon completion of such program, agree with the Bank on the findings and recommendations resulting therefrom; and (b) implement such agreed recommendations in accordance with an action plan satisfactory to the Bank.

3. WAPDA shall complete the detailed designs for: (a) the STG facilities to be provided under Part B(2) of the Project, by December 31, 1995; and (b) the distribution facilities to be provided under Part B(3) of the Project, by December 31, 1996.

4. WAPDA shall employ, pursuant to the provisions of Section II of the Schedule to the Project Agreement and not later than September 30, 1995, the consultants required for the implementation of modern automated accounting and financial systems in each of WAPDA's generation plants and AEBs and for its transmission system.

5. WAPDA shall, with respect to the sectoral environmental assessment study to be carried out under Part C.1(b) of the Project: (a) not later than June 30, 1995, employ the consultants required for this purpose pursuant to the provisions of Section II of the Schedule to the Project Agreement; (b) upon completion of the study, review and agree with the Bank on the recommendations thereof; and (c) implement such agreed recommendations in accordance with an action plan satisfactory to the Bank.

C. Undertakings of the Borrower and WAPDA

1. The Borrower and WAPDA shall:

- (a) not later than March 31 in each year, review with the Bank WAPDA's updated five-year rolling investment program covering the current year, the last preceding year and the next three following years, with a view to enabling the Bank to satisfy itself that the program remains consistent with the Borrower's macro-economic targets;

- (b) not later than April 15 in each year, review with the Bank the financing plan for said program, including borrowing proposals aimed at firming up by June 30 of the current year the financing plan for the next following year; and
- (c) ensure that, if the financing plan referred to in paragraph (b) above indicates a short-fall in the funds available for any given year of the Investment Program, the Borrower will provide or cause to be provided to WAPDA the additional funds required to make up the short-fall.

2. The Borrower and WAPDA shall, with respect to the manpower transition program study to be carried out for purposes of Part A(4) of the Project: (a) complete the study by December 31, 1995; (b) review and agree with the Bank on the recommendations of the study by March 31, 1996; and (c) implement the program so agreed with effect from June 30, 1996.

3. The Borrower and WAPDA shall, with respect to the corporatization of WAPDA to be carried out under Part A(1) of the Project: (a) as a step towards such corporatization, commercialize and corporatize one WAPDA thermal power station and one WAPDA distribution AEB by June 30, 1995; and (b) complete the corporatization of WAPDA as a whole by December 31, 1997.

4. The Borrower and WAPDA shall, in carrying out Part A(5) of the Project, offer for acquisition by the private sector one WAPDA thermal power station and one WAPDA distribution AEB by December 31, 1995.

5. The Borrower and WAPDA shall not offer any of WAPDA's assets to a private sector purchaser under Part A(5) of the Project without first obtaining: (a) the concurrence of the Bank to the proposed offering and the terms and conditions thereof; and (b) undertakings, in form and substance satisfactory to the Bank, from the purchaser that any on-going projects relating to the assets being offered shall continue to be implemented under the original arrangements and in accordance with the original plans and that the proceeds of any Bank loan or Association credit provided for the purposes of such projects shall continue to be utilized on the original terms and conditions.

6. The Borrower and WAPDA shall, jointly with the Bank and in accordance with terms of reference acceptable to the Bank, carry out, not later than June 30, 1996, a mid-term review of their respective activities under the Project and make such adjustments in such activities and the related organizational and operational arrangements as may be warranted in the light of such review and agreed with the Bank.

