

CONFORMED COPY

LOAN NUMBER 3965 PAK

Loan Agreement

(Ghazi-Barotha Hydropower Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 7, 1996

LOAN NUMBER 3965 PAK

LOAN AGREEMENT

AGREEMENT, dated March 7, 1996, 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) 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 the proceeds of the Loan as provided in this Agreement;

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

Asian Development Bank (ADB) - \$300,000,000 (the ADB Loan)

Overseas Economic Cooperation Fund (OECF)	-	\$350,000,000 (the OECF Loan)
Kreditanstalt fuer Wiederaufbau (KfW)	-	\$150,000,000 (the KfW Loan)
European Investment Bank (EIB)	-	\$60,000,000 (the EIB Loan)
Islamic Development Bank (IDB)	-	\$40,000,000 (the IDB Loan) 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 for Single Currency Loans" of the Bank, dated May 30, 1995 (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) "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) "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;

(d) "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;

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

(f) "NWFP" means the North West Frontier Province, a political subdivision of the Borrower;

(g) "Punjab" means the Province of Punjab, a political subdivision of the Borrower;

(h) "Sindh" means the Province of Sindh, a political subdivision of the Borrower;

(i) "Balochistan" means the Province of Balochistan, a political subdivision of the Borrower;

(j) "Provinces" mean NWFP, Punjab, Sindh and Balochistan collectively;

(k) "POE" means the Panel of Technical Experts, which WAPDA has established for the purposes of the Project and will maintain until the completion of the Project, all to the satisfaction of the Bank;

(l) "ERP" means the Environment and Resettlement Panel, which WAPDA has established for the purposes of the Project and will maintain until the completion of the Project, all to the satisfaction of the Bank;

(m) "ADB Loan Agreement" means the agreement between the Borrower and ADB providing for the ADB Loan;

(n) "OECF Loan Agreement" means the agreement between the Borrower and OECF providing for the OECF Loan;

(o) "KfW Loan Agreement" means the agreement between the Borrower and KfW providing for the KfW Loan;

(p) "EIB Loan Agreement" means the agreement between the Borrower and EIB providing for the EIB Loan;

(q) "IDB Loan Agreement" means the agreement between the Borrower and IDB providing for the IDB Loan;

(r) "Environment Mitigation and Monitoring Plan" means the plan furnished by the Borrower to, and agreed with, the Bank as of September 1995, for purposes of monitoring and mitigating the environmental impact of the Project, as the same may be amended from time to time with the agreement of the Bank;

(s) "RAP I" means the resettlement action plan furnished by WAPDA to, and agreed with, the Bank as of September 1994 for purposes of Part A of the Project, as the same may be amended from time to time with the agreement of the Bank;

(t) "RAP II" means the resettlement action plan to be furnished by WAPDA to, and agreed with, the Bank pursuant to the provisions of paragraph 5 of Schedule 2 to the Project Agreement for purposes of Part B of the Project, as the same may be amended from time to time with the agreement of the Bank;

(u) "Resettlement Action Plans" or "RAPS" mean collectively RAP I and RAP II;

(v) "Integrated Regional Development Plan" means the plan to be furnished by the Borrower to the Bank pursuant to the provisions of paragraph 7 of Schedule 2 to the Project Agreement for purposes of carrying out Part C (3) of the Project;

(w) "km" means kilometer;

(x) "MW" means megawatt;

(y) "kV" means kilovolt;

(z) "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

(aa) "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, an amount equal to three hundred fifty million dollars (\$350,000,000).

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 may, for the purposes of the Project, open and maintain in dollars a special deposit account in the National Bank of Pakistan on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) On each of the semiannual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 2.03. The Closing Date shall be June 30, 2002 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 per cent ($3/4$ 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding, the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent ($1/2$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a

percentage per annum.

(c) The Bank shall notify the Borrower of the LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable September 15 and March 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, 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.

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, 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) The Borrower shall relend 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 which shall include the terms and conditions set forth in Schedule 4 to this Agreement.

(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 WAPDA pursuant to Section 2.03 of the Project Agreement.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

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 take all action necessary or appropriate to enable WAPDA to implement the

recommendations of the Borrower's ongoing domestic resource mobilization (DRM) study insofar as it relates to WAPDA, as agreed with the Bank, not later than December 31, 1996.

Section 4.03. The Borrower shall take all action necessary or appropriate to enable WAPDA to establish under Part D.1(b) of the Project, to the satisfaction of the Bank and not later than December 31, 1998, a subsidiary corporate entity to assume responsibility for transmission and dispatch of power.

Section 4.04. The Borrower shall take steps, satisfactory to the Bank, to complete the reorganization and corporatization of WAPDA into a holding company with decentralized generation, transmission and distribution subsidiaries by December 31 1998.

Section 4.05. The Borrower shall, under guidelines satisfactory to the Bank, with immediate effect, authorize WAPDA to:

- (a) automatically adjust the fuel adjustment surcharge (FAS) or any other component of its electricity tariff as and when needed to ensure full recovery of fuel costs;
- (b) from time to time, adjust its electricity tariff to ensure full recovery of profits payable to the Provinces on the bulk generation of hydroelectric power, and to pay out as such profits only those amounts as shall have been collected for payment of such profits; and
- (c) from time to time, adjust its electricity tariff rates charged to its various consumer categories, in performance of its obligations under Section 4.04 of the Project Agreement.

Section 4.06. 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 4.07. (a) The Borrower shall take or cause to be taken all action necessary or appropriate to ensure that the financing of the Project will not adversely affect the Borrower's ability to continue to fund its Core Public Sector Development Program and Social Action Program, as discussed and reviewed with the Bank on an annual basis.

- (b) For the purposes of this Section:
 - (i) The term "Core Public Sector Development Program" means a program consisting of those high-priority investment projects and programs to be carried out by the Borrower or any of its political subdivisions, departments or agencies which are protected against future budgetary cuts by the Borrower resulting in reductions in the allocation of funds, facilities, services and other resources required for the carrying out of such projects and programs.
 - (ii) The term "Social Action Program" means the program which the Borrower has initiated with the assistance of the International Development Association and other donors, consisting of high-priority projects and programs to be carried out by the Borrower or any of its political subdivisions, departments or agencies in the primary education, primary health, population welfare and rural water supply and

sanitation sectors.

Section 4.08. The Borrower shall, 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.

Section 4.09. The Borrower shall, not later than December 31, 1996, introduce a set of policies, including an appropriate solicitation mechanism, satisfactory to the Bank, which will ensure that new power plants are sanctioned in accordance with the latest demand forecasts, so that power supply capacity requirements are satisfied on a timely basis.

Section 4.10. The Borrower shall, not later than June 30, 1996, review the incentives offered by it to attract private investment to the power sector, particularly in the form of exemptions from income and other taxes, and, based on such review, shall announce and introduce, not later than December 31, 1996, a new set of such incentives, satisfactory to the Bank, under which such exemptions will no longer be provided as part of such incentives.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) 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.

(e) The Borrower or WAPDA or any other authority having jurisdiction shall have failed to carry out, in whole or in part, the action plan referred to in Section 6.01 (c) of this Agreement.

(f) The KfW Loan Agreement and the EIB Loan Agreement shall have failed to become effective by September 30, 1996 or the IDB Loan Agreement shall have failed to become effective by December 31, 1997, or such later date in each case as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that 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.

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

(A) the right of the Borrower to withdraw the proceeds of any loan made to the Borrower for the financing of the Project shall have been suspended, canceled or

terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

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

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

(c) the event specified in paragraph (f) of Section 5.01 of this Agreement shall occur, subject to the proviso of that paragraph; and

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

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and WAPDA;

(b) the ADB Loan Agreement and the OECF Loan Agreement have been executed and delivered and all conditions precedent to their effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled; and

(c) a survey has been carried out to determine the status of outstanding claims of persons affected by the Tarbela Dam project on the Indus River, and an action plan has been agreed with the Bank to settle those claims and to redress the legitimate grievances, if any, arising from those claims, of such persons on a timely basis.

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:

ECONOMIC
Islamabad

Telex:

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:

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/ Mansoor Elahi

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 Dollars)	% of Expenditures to be Financed
(1) Works, installation and erection		
(a) for Part A.2 of the Project	250,000,000	70%
(b) for Part A.3 of the Project	45,000,000	15%
(2) Equipment and materials	2,000,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services	3,000,000	100%
(4) Interest and other charges on the Loan accrued on or before September 14, 2002	40,000,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	10,000,000	
	<hr/>	
TOTAL	350,000,000 =====	

2. 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, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$35,000,000 may be made in respect of Categories (1) and (3) on account of payments made for expenditures before that date but after October 1, 1995.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods and works under contracts not exceeding \$1,000,000 equivalent, and for consultants' services under contracts not exceeding \$100,000 equivalent, in the case of firms, and \$50,000, in the case of individuals, 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) develop domestic energy resources in a cost effective and environmentally sustainable manner; (b) provide reliable power supply at least cost to reduce load-shedding and support the country's long-term energy development objectives; (c) reinforce and complement the reform program for the power sector; (d) strengthen WAPDA's capability to address environmental and resettlement issues related to hydropower projects; and (e) further rationalize the use of electricity.

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: Power Generation Facilities

Construction of power generation facilities comprising:

(1) a barrage and ancillary works, located near Ghazi village downstream of Tarbela Dam in NWFP, including open-flume standard bays, undersluice bays, a dividing island, and a head regulator;

(2) a concrete-lined power channel, about 52 km. long and with a capacity of 1,600 cubic meters per second (cumecs), and ancillary works, including about 33 bridges, about 45 cross drainage structures, and fencing along selected parts of the channel alignment; and

(3) a power complex and ancillary works, located near Barotha village at the confluence of the Indus and Haro rivers in Punjab, with an installed generating capacity of about 1,450 MW based on 5 units of about 290 MW each.

Part B: Power Transmission Facilities

Construction of power transmission facilities to connect the power complex constructed under Part A of the Project to the interconnected grid, consisting of:

(1) two 500 kV transmission lines about 100 km long, from Barotha village to Rewat village, and related substations; and

(2) about 140 km of 500 kV loop in and out of the existing 500 kV Tarbela-Gatti line at Barotha village.

Part C: Environment, Land Acquisition and Resettlement Management

Carrying out by WAPDA of measures to:

(1) monitor and mitigate the environmental impact of the Project in accordance with the Environment Mitigation and Monitoring Plan;

(2) compensate, resettle and rehabilitate persons affected by the Project in accordance with the Resettlement Action Plans; and

(3) generally uplift the social and economic conditions of the area affected by the Project, inter alia, through the provision of improved social services and access to credit for agricultural, business and industrial development, in accordance with the Integrated Regional Development Plan.

Part D: Institutional Development and Technical Assistance

1. Establishment by WAPDA of:

(a) a Project entity, with separate management, operations and financial accounts, within the framework of WAPDA's restructuring

and corporatization program being implemented under the Power Sector Development Project (Loan No. 3764 PAK); and

- (b) a subsidiary corporate entity to be responsible for transmission and dispatch of power.

2. Provision of technical assistance to WAPDA for:

- (a) strengthening of WAPDA's environment and resettlement-related capabilities;
- (b) strengthening its demand side management (DSM) capabilities;
- (c) having its accounts audited by private auditors; and
- (d) having its self-insurance scheme reviewed by actuaries.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)
September 15, 2001	7,280,000
March 15, 2002	7,505,000
September 15, 2002	7,735,000
March 15, 2003	7,970,000
September 15, 2003	8,215,000
March 15, 2004	8,465,000
September 15, 2004	8,725,000
March 15, 2005	8,995,000
September 15, 2005	9,270,000
March 15, 2006	9,550,000
September 15, 2006	9,845,000
March 15, 2007	10,145,000
September 15, 2007	10,460,000
March 15, 2008	10,780,000
September 15, 2008	11,110,000
March 15, 2009	11,450,000
September 15, 2009	11,800,000
March 15, 2010	12,160,000
September 15, 2010	12,535,000
March 15, 2011	12,920,000
September 15, 2011	13,315,000
March 15, 2012	13,725,000
September 15, 2012	14,145,000
March 15, 2013	14,575,000
September 15, 2013	15,025,000
March 15, 2014	15,485,000
September 15, 2014	15,960,000
March 15, 2015	16,450,000
September 15, 2015	16,950,000
March 15, 2016	17,455,000

SCHEDULE 4

Terms and Conditions of Relending of Loan Proceeds

Except as the Bank shall otherwise agree, the terms and conditions of relending of the proceeds of the Loan to WAPDA shall be:

- (a) Interest rate:
 - (i) during the construction of the Project, a variable rate equal to the sum of the prevailing World Bank Lending Rate plus a spread of 150 basis points; and
 - (ii) after completion of construction of the Project, a variable rate equal to the sum of the prevailing World Bank Lending Rate plus a spread of 350 basis points.
 - (iii) For the purposes of this provision, "World Bank Lending Rate" shall mean the rate as defined in Section 2.05 (a) of this Agreement.
- (b) Amortization period: up to 23 years including a grace period of up to 8 years
- (c) Principal be repaid: the aggregate equivalent of amount to the amounts in various currencies withdrawn from the Loan Account, calculated in dollars as of the respective dates of withdrawal and expressed in rupees determined as of the respective dates of repayment

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 works 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 of \$15,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$8,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed \$100,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts 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 into 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 under the respective eligible Categories, and in the respective amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

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

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

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

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any

payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

