

CONFORMED COPY

LOAN NUMBER 3808 PAK

Project Agreement

(Financial Sector Deepening and Intermediation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE BANK OF PAKISTAN

and

BANKERS EQUITY LIMITED

Dated January 30, 1995

LOAN NUMBER 3808 PAK

PROJECT AGREEMENT

AGREEMENT, dated January 30, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and STATE BANK OF PAKISTAN (SBP) and BANKERS EQUITY LIMITED (BEL).

WHEREAS (A) by the Loan Agreement of even date herewith between the Islamic Republic of Pakistan (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to two hundred sixteen million dollars (\$216,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that SBP and BEL agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary grant agreement to be entered into between the Borrower and SBP and an administration agreement to be entered into between the Borrower and BEL, a portion of the proceeds of the loan provided for under the Loan Agreement will be made available to SBP and BEL, respectively, on the terms and conditions set forth in said Subsidiary Grant Agreement and

Administration Agreement; and

WHEREAS SBP and BEL, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) SBP and BEL declare their commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out their respective activities under Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and banking practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for their respective activities under Part B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and SBP and BEL shall otherwise agree, SBP and BEL shall carry out their respective activities under Part B of the Project in accordance with the Implementation Program set forth in Schedule 9 to the Loan Agreement.

(c) SBP and BEL may, for the purposes of their own respective activities and, in the case of BEL acting as the Administrator, for the purposes of the activities of CLA, CI and PC, under Part B of the Project, each 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 Accounts shall be made in accordance with the provisions of the Schedule to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 7 to the Loan Agreement.

Section 2.03. SBP and BEL shall carry out 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 the Project Agreement and the activities for which they are respectively responsible under Part B of the Project.

Section 2.04. SBP and BEL shall duly perform all their obligations under the Subsidiary Grant Agreement and the Administration Agreement. Except as the Bank shall otherwise agree, SBP and BEL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Grant Agreement or the Administration Agreement or any provisions thereof.

Section 2.05. (a) SBP and BEL shall, at the request of the

Bank, exchange views with the Bank with regard to progress of Part B of the Project, the performance of their obligations under this Agreement and under the Subsidiary Grant Agreement and the Administration Agreement, and other matters relating to the purposes of the Loan.

(b) SBP and BEL shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part B of the Project, the accomplishment of the purposes of Loan, or the performance by SBP and BEL of their obligations under this Agreement and under the Subsidiary Grant Agreement and the Administration Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) SBP and BEL shall maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations, resources and expenditures in respect of their respective activities under Part B of the Project.

(b) SBP and BEL shall:

- (i) have such records and accounts, including those for the Special Accounts, 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 as well as the audit thereof, as the Bank shall from time to time reasonably request.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of SBP and BEL thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify SBP and BEL thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which

it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

For SBP:

State Bank of Pakistan
I.I. Chundrigar Road
P.O. Box 4456
Karachi, Pakistan

Cable address:

PAK MONEY

Telex:

2754 SBP PAK

For BEL:

Bankers Equity Limited
Finance and Trade Centre
Shahra-e-Faisal
Karachi, Pakistan

Cable address:

BANK EQUITY

Telex:

21646 BELKR PK

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of SBP and BEL may be taken or executed by the Governor, in the case of SBP, and by the Managing Director, in the case of BEL, or such other persons as SBP and BEL shall designate in writing, and SBP and BEL shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ D. Joseph Wood

Regional Vice President

STATE BANK OF PAKISTAN
BANKERS EQUITY LIMITED

By /s/ Agha Ghazanfar

Authorized Representative

SCHEDULE

Special Accounts

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means, in respect of SBP, an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited into SBP's Special Account, and, in respect of BEL, an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited into BEL's Special Account, all pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$100,000, in respect of SBP, and \$200,000, in respect of BEL, until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$200,000, in respect of SBP, and \$400,000, in respect of BEL; and the term "Authorized Allocations" means the Authorized Allocation for SBP and the Authorized Allocation for BEL collectively.

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, SBP or BEL, 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 relevant Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of SBP or BEL, as the case may be, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as SBP or BEL, as the case may be, shall have requested.

(b) (i) For replenishment of the Special Account, SBP or BEL, 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,

SBP or BEL, 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 SBP or BEL, as the case may be, withdraw from the Loan Account and deposit into the Special Account such amount as SBP or BEL, 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 Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by SBP or BEL, as the case may be, out of its Special Account, SBP or BEL, 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 SBP or BEL, 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 the Loan Agreement;

(b) if SBP or BEL, as the case may be, shall have failed to furnish to the Bank, within the period of time specified in Section 3.01 (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 such 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 Category for Part B of the Project, 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 B of the Project, shall equal the equivalent of twice the aggregate amount of the Authorized Allocations.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category for Part B of the Project shall follow such procedures as the Bank shall specify by notice to SBP and BEL. 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 Accounts 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, SBP or BEL, 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 SBP or BEL, 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, SBP or BEL, as the case may be, shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) SBP or BEL, 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.

