

CONFORMED COPY

LOAN NUMBER 3019PAK
CREDIT NUMBER 1982 PAK

(Third Industrial Investment Credit Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 10, 1989

LOAN NUMBER 3019 PAK
CREDIT NUMBER 1982 PAK

LOAN AGREEMENT

AGREEMENT, dated February 10, 1989, 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 been 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 Borrower has also requested the International Development Association (the Association) to provide additional financial assistance toward the financing of the Project and by the Development Credit Agreement between the Borrower and the Association of even date herewith (the Development Credit Agreement) the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to one million five hundred thousand Special Drawing Rights (SDR 1,500,000) (the Credit); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth in Schedule 4 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "HBL" means the Habib Bank Ltd., established and existing under the Pakistan Companies Ordinance, 1984, as may be amended from time to time;

(b) "UBL" means the United Bank Ltd., established and existing under the Pakistan Companies Ordinance, 1984, as may be amended from time to time;

(c) "MCB" means the Muslim Commercial Bank Ltd., established and existing under the Pakistan Companies Ordinance, 1984, as may be amended from time to time;

(d) "NBP" means the National Bank of Pakistan Ltd., established and existing under the National Bank of Pakistan Ordinance, 1949, of the Borrower, as amended;

(e) "NCBs" mean collectively the Nationalized Commercial Banks, being HBL, UBL, MCB and NBP;

(f) "IDBP" means the Industrial Development Bank of Pakistan, established and existing under the Industrial Development Bank of Pakistan Ordinance, 1961, of the Borrower, as amended;

(g) "NDFC" means the National Development Finance Corporation, established and existing under the National Development Finance Corporation Act (No. XIII of 1973) of the Borrower, as amended;

(h) "PICIC" means the Pakistan Industrial Credit and Investment Corporation Limited, established and existing under the Pakistan Companies Ordinance, 1984, as may be amended from time to time;

(i) "DFIs" mean collectively the Development Finance Institutions, being IDBP, NDFC and PICIC;

(j) "PFIs" mean collectively the Participating Financial Institutions, being those NCBs and DFIs which shall have satisfied the conditions of eligibility for participating in the Project set forth in Schedule 5 to this Agreement;

(k) "Subsidiary Loan Agreements" mean collectively the agreements to be entered into between the Borrower and PFIs 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 supplemental to the Subsidiary Loan Agreements, and "Subsidiary Loan Agreement" means any and each such agreement;

(l) "Sub-loan" means a loan made or proposed to be made by a PFI out of the proceeds of the Loan to an Investment Enterprise

for an Investment Project;

(m) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 3 (b) of Schedule 7 to this Agreement;

(n) "Investment Enterprise" means an enterprise to which a PFI proposes to make or has made a Sub-loan;

(o) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(p) "Charter" or "Statutes" means, in respect of each of HBL, UBL, MCB and PICIC, its articles and memorandum of association and other documentation relating to its establishment and existence, and, in respect of each of NBP, IDBP and NDFC, the legislation under which it was established and exists;

(q) "Statement of Policy" means

(i) with respect to HBL, the statement of lending and investment policy approved by its Directors on November 24, 1988, as amended to the date of this Agreement;

(ii) with respect to UBL, the statement of lending and investment policy approved by its Directors on December 26, 1988, as amended to the date of this Agreement;

(iii) with respect to MCB, the statement of lending and investment policy approved by its Directors on April 12, 1988, as amended to the date of this Agreement;

(iv) with respect to NBP, the statement of lending and investment policy approved by its Directors on December 10, 1988, as amended to the date of this Agreement;

(v) with respect to IDBP, the statement of lending and investment policy approved by its Directors on October 26, 1988, as amended to the date of this Agreement;

(vi) with respect to NDFC, the statement of lending and investment policy approved by its Directors on October 25, 1988, as amended to the date of this Agreement; and

(vii) with respect to PICIC, the statement of lending and investment policy approved by its Directors on September 8, 1988, as amended to the date of this Agreement;

(r) "CLA" means the Corporate Law Authority of the Borrower, established and existing under the Pakistan Companies Ordinance, 1984, as may be amended from time to time;

(s) "BEL" means the Bankers Equity Limited, established and existing under the Companies Ordinance, 1984;

(t) "Development Credit Agreement" means the agreement of even date herewith between the Borrower and the Association for the Project, as such agreement may be amended from time to time, and such term includes the "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Development Credit Agreement;

(u) "Special Account" means the account referred to in

Section 2.02 (b) of this Agreement;

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

(w) "FY" means the Borrower's or a PFI's fiscal year, covering, in the case of the Borrower and IDBP, the period July 1 through June 30, and, in the case of NCBS, NDFC and PICIC, the period January 1 through December 31.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to one hundred forty-eight million dollars (\$148,000,000).

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 amounts paid (or, if the Bank shall so agree, to be paid) by a PFI on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in dollars a special account in the Habib Bank Ltd. on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 9 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1994 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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

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

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

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

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

Section 2.06. Interest and other charges shall be payable semi-annually on May 15 and November 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 Chief Executive Officers of PFIs, or their nominees, are designated as representatives 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 the Sub-loans for which they are respectively responsible.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause PFIs to carry out the Project and conduct their operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with their Charters or Statutes and Statements of Policy, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PFIs 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 PFIs under subsidiary loan agreements to be entered into between the Borrower and PFIs, under terms and conditions which shall have been approved by the Bank and which shall include the terms and conditions set forth in Schedule 6 to this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreements 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 Agreements or any provision thereof.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, PFIs will make Sub-loans in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 7 to this Agreement.

(b) The Borrower shall cause each PFI to exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank, the Borrower and the PFI; (ii) comply with its obligations under the Subsidiary Loan Agreement to which such PFI is a party; and (iii) achieve the purposes of the Project.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 8 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall cause PFIs to maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of PFIs.

Section 4.02. The Borrower shall or, as the case may be, shall cause PFIs to:

(a) have the records referred to in Section 4.01 of this Agreement, their accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year: (A) certified copies of said financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.03. The Borrower shall cause PFIs take such steps satisfactory to the Bank as shall be necessary to protect themselves against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Borrower) used in their operations.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall cause each DFI not to incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than seven to one.

(b) For purposes of this Section:

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

Section 4.05. Except as the Bank shall otherwise agree, the Borrower shall cause each DFI to maintain a debt service coverage ratio of not less than 1.20. Such ratio shall be calculated by dividing the sum of the DFI's net income after tax, interest payments, adjusted for taxes, provisions for losses and loan collections by the sum of the DFI's repayments of debt and payments of interest, adjusted for taxes.

Section 4.06. The Borrower shall, not later than June 30,

1989, issue instructions, satisfactory to the Bank, requiring all financial institutions to include bridge loans in the definition of debt for the purposes of calculating the debt: equity ratios of the enterprises to which such financial institutions lend.

Section 4.07. The Borrower shall, not later than December 31, 1989, take measures, satisfactory to the Bank, throwing open the membership of the Karachi Stock Exchange to financial institutions including private investment finance companies.

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) Any PFI shall have failed to perform any of its obligations under the Subsidiary Loan Agreement to which it is a party.

(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 any PFI will be able to perform its obligations under the Subsidiary Loan Agreement to which it is a party.

(c) The Charter or Statutes or the Statement of Policy of any PFI shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the PFI or its ability to carry out the Project or to perform any of its obligations under the Subsidiary Loan Agreement to which it is a party.

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

(e) A subsidiary or any other entity shall have been created or acquired or taken over by any PFI, if such creation, acquisition or taking over would adversely affect the conduct of the PFI's business, its financial situation, the efficiency of its management and personnel or the carrying out of the Project.

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

(a) any event specified in paragraph (a) or (e) 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) any event specified in paragraph (c) or (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Subsidiary Loan Agreements shall have been entered into between the Borrower and at least two PFIs, of which at least one shall be a DFI and one a NCB.

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, namely, that the Subsidiary Loan Agreements referred to in Section 6.01 of this Agreement have been duly

authorized or ratified by, and are legally binding upon, the Borrower and the concerned PFIs in accordance with their terms.

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

ARTICLE VII

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 of that Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Economic Affairs Division
Islamabad
Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

ECDIV-05-634

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

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

IN WITNESS WHEREOF the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ M. Afzal

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ H. E. Kopp

Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The amount of the Loan may be withdrawn from the Loan Account on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet 100% of foreign expenditures and 60% of local expenditures for goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested.

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:

(a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 7 to this Agreement; and

(b) in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to assist in financing such productive facilities and resources in Pakistan as will contribute to the economic and social development of the country, and to this end, (ii) to assist in: (a) improving the credit delivery system for industrial finance; (b) continuing the institution building programs of PFIs; (c) accelerating equity market development; and (d) focussing on select corporate finance issues relevant to industrial growth.

The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Investment Projects

The financing of specific development projects through loans to private enterprises in the industrial sector.

Part B: Technical Assistance and Training

1. Provision of technical assistance to PFIs for carrying out:

(a) organization and system and subsector studies;

(b) training, mainly to improve PFIs' loan appraisal capabilities; and

(c) activities related to the establishment of a credit bureau, auctioning of the public debt and other reforms in the financial sector.

2. Provision of technical assistance to CLA and BEL for carrying out organization and system studies and staff training.

* * *

The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
May 15, 1994	2,730,000
November 15, 1994	2,835,000
May 15, 1995	2,940,000
November 15, 1995	3,055,000
May 15, 1996	3,170,000
November 15, 1996	3,290,000
May 15, 1997	3,415,000
November 15, 1997	3,545,000
May 15, 1998	3,680,000
November 15, 1998	3,820,000
May 15, 1999	3,965,000
November 15, 1999	4,115,000
May 15, 2000	4,270,000
November 15, 2000	4,430,000
May 15, 2001	4,600,000
November 15, 2001	4,775,000
May 15, 2002	4,955,000
November 15, 2002	5,145,000
May 15, 2003	5,340,000
November 15, 2003	5,540,000
May 15, 2004	5,750,000
November 15, 2004	5,970,000
May 15, 2005	6,195,000
November 15, 2005	6,430,000
May 15, 2006	6,675,000
November 15, 2006	6,930,000
May 15, 2007	7,190,000
November 15, 2007	7,465,000
May 15, 2008	7,750,000
November 15, 2008	8,030,000

* 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

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30

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

SCHEDULE 4

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

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

(2) The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 4 (c) of Schedule 7 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan; (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 5

Conditions of Eligibility for Participating in Project

1. Unless otherwise agreed by the Bank, a PFI shall not be eligible for participating in the Project and shall not have access to the proceeds of the Loan unless:

(a) the PFI shall have revised its Statement of Policy to the satisfaction of the Bank;

(b) in the case of IDBP and PICIC only, the PFI shall have commenced a business diversification program satisfactory to the Bank;

(c) in the case of NCBs and PICIC only, the PFI shall have introduced a staffing and staff training program satisfactory to the Bank;

(d) in the case of DFIs only, the PFI shall have maintained the debt equity: ratio and the minimum debt service coverage ratio specified in Sections 4.04 and 4.05 of this Agreement;

(e) the PFI shall have achieved and maintained a minimum cash collection ratio satisfactory to the Bank, which shall be, for each NCB, 80% of current dues, for NDFC, 85% of current dues,

for IDBP, 75% of current dues (going up to 80% of current dues in FY90), and for PICIC, 80% of current dues under post-1981 loans;

(f) in the case of IDBP and PICIC only, the PFI shall have adopted a plan, satisfactory the Bank, for the treatment of non-performing assets; and

(g) the PFI and the Borrower shall have entered into a Subsidiary Loan Agreement satisfactory to the Bank.

2. If a PFI shall not have fulfilled its conditions for gaining access to the proceeds of the Loan within six months of the signing of the Loan Agreement, the PFI shall cease to be eligible for participating in the Project except as the Borrower and the Bank shall otherwise agree.

3. If after having gained access to the proceeds of the Loan a PFI fails to continue to comply with the conditions for such access, the PFI shall be denied further access and, at the option of the Bank, may cease to be eligible for continued participation in the Project.

4. Pursuant to Section 9.07 of the General Conditions, the Borrower shall, beginning with the quarter next following the date of the Loan Agreement, furnish to the Bank quarterly reports on compliance or continuing compliance by PFIs with the conditions of eligibility for participating in the Project set forth in this Schedule.

SCHEDULE 6

Terms and Conditions for Relending of Loan Proceeds to PFIs

1. Unless otherwise agreed by the Bank, the proceeds of the Loan shall be relented by the Borrower to PFIs pursuant to Section 3.01 (b) of the Loan Agreement, inter alia, on the following terms and conditions:

- (a) Interest rate: 12% per annum
- (b) Repayment period: not exceeding 15 years, including a grace period not exceeding 3 years, each PFI to repay on the basis of a composite amortization schedule of Sub-loans made by it
- (c) Principal amount to be the aggregate equivalent of repaid: the amounts in various currencies withdrawn from the Loan Account expressed in rupees determined as of the respective dates of withdrawal

2. The Borrower shall make the proceeds of the Loan available to PFIs on a first-come first-served basis.

SCHEDULE 7

Terms and Conditions of and Procedures for Sub-loans

A. Terms and Conditions

1. Except as the Bank shall otherwise agree, the terms and conditions of a Sub-loan shall include:

- (a) Amount: to be above \$750,000 equivalent but not to exceed \$6,000,000 equivalent
- (b) Interest rate: at least 15% per annum, or such other minimum rate as may from time to time be established pursuant to paragraph 2 of this Schedule, such rate to allow for a spread of at least 3% per annum
- (c) Repayment period: not exceeding 10 years including a grace period determined on the basis of the projected cash flow of the Investment Enterprise to which the Sub-loan is proposed to be or has been made
- (d) Financial covenants: (i) the Investment Project for which the Sub-loan is proposed to be or has been made to have a financial rate of return of not less than 15%, and an economic rate of return of not less than 15%, and (ii) the Investment Enterprise to which the Sub-loan is proposed to be or has been made to have (aa) a debt: equity ratio of not more than 60:40, debt for this purpose including bridge loans; and (bb) a minimum debt service coverage ratio of 2.0 at full capacity, debt for this purpose including bridge loans

2. The Borrower shall, not later than April 30 in each year, beginning 1989, review with the Bank the minimum interest rate charged for Sub-loans and shall, in order to ensure that such rate remains positive in real terms, cause PFIs to adjust such rate for new Sub-loans made on or after July 1 in such year.

B. Procedures

3. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 4 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 4 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan made by a DFI or HBL or UBL or MCB,

as the case may be, for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of: (i) \$3,000,000 equivalent, in the case of a DFI or HBL or UBL, or \$2,000,000 equivalent, in the case of MCB, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Bank and the Borrower, or of any credit, provided for in any outstanding development credit agreement between the Association and the Borrower, entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project, or (ii) \$75,000,000 equivalent, when added to all other free-limit Sub-loans financed or proposed to be financed out of the proceeds of the Loan, the foregoing amounts being subject to change from time to time as determined by the Bank.

4. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, a PFI shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; (iii) wherever relevant, a statement as to the environmental impact of the Investment Project and, where necessary, the remedial action proposed to be taken in connection therewith; and (iv) such other information as the Bank shall reasonably request.

(b) Each request by a PFI for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iii) wherever relevant, a statement as to the environmental impact of the Investment Project and, where necessary, the remedial action proposed to be taken in connection therewith.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 1991.

5. Sub-loans shall be made on terms whereby each PFI shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and the PFI, including the right to:

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

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 8 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of

the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank or the PFI shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(f) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the PFI.

SCHEDULE 8

Procurement

1. Goods estimated to cost the equivalent of \$2,000,000 or more per contract shall be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines) and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Goods estimated to cost less than the equivalent of \$2,000,000 per contract may be procured under contracts awarded through the standard procedures of PFIs satisfactory to the Bank.

3. Records showing the methods of procurement of goods approved by PFIs shall be maintained in a form satisfactory to the Bank.

SCHEDULE 9

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means the Category set forth 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 Part A of the Project and to be financed out of the proceeds of the Loan allocated to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

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

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or

requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the 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 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Category for Part A 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 A of 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 Category for Part A of the Project 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.

