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**CONFORMED COPY**

**LOAN NUMBER 7565-PK**

# **Loan Agreement**

**(Electricity Distribution and Transmission Improvement Project)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated July 14, 2008**

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## **LOAN AGREEMENT**

AGREEMENT dated July 14, 2008, between the ISLAMIC REPUBLIC OF PAKISTAN (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

Whereas the Borrower has requested the Association to provide additional assistance towards the financing of the Project and by an agreement of even date herewith (“Financing Agreement”) between the Borrower and the International Development Association (“Association”), the Association is agreeing to provide such assistance as follows: (1) an aggregate principal amount equal to eighteen million seven hundred thousand Special Drawing Rights (SDR 18,700,000) (“Portion A of the Credit”); and (2) thirty-two million three hundred thousand Special Drawing Rights (SDR 32,300,000) (“Portion B of the Credit”) (collectively referred to as “Financing”)

Whereas the Borrower and the Bank intend, to the extent practicable, that the proceeds of Financing and the Loan will be disbursed in the following order on account of expenditures in respect of the Project: first proceeds of Portion B of the Credit, followed by proceeds of Portion A of the Credit, and finally proceeds of the Loan.

Now therefore, the Borrower and the Bank hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred seventy three million six hundred thousand United States dollars (USD173,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07.
  - (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
  - (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
  - (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall carry out its Respective Parts of the Project through PEPCO, and cause the Project Implementing Entities to carry out their Respective Parts of the Project, all in accordance with the provisions of Article V of the General Conditions and the respective Project Implementing Entities' Project Agreements.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE BANK**

- 4.01. The Additional Events of Suspension consist of the following, namely, that the respective Project Implementing Entity's Legislation, the NEPRA Act and/or the NEPRA SRO have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any of the Project Implementing Entities to perform any of its obligations under its respective Project Agreement.
- 4.02. The Additional Events of Acceleration consist of the following, namely, that any event specified in Section 4.01 of this Agreement occurs.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) the Subsidiary Agreements have been executed on behalf of the Borrower and the Project Implementing Entities; and
  - (b) all conditions precedent to the effectiveness of the Financing Agreement shall have been fulfilled, other than those related to the effectiveness of this Agreement.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreements have been duly authorized or ratified by the Borrower and the Project Implementing Entities and are legally binding upon the Borrower and the Project Implementing Entities in accordance with their terms.

- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Borrower's Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Borrower's Economic Affairs Division, acting individually.

- 6.02. The Borrower's Address is:

Economic Affairs Division  
Ministry of Economic Affairs and Statistics  
Islamic Republic of Pakistan  
Islamabad, Pakistan

Phone:	Facsimile:
92-51-9203815	92-51-9218976

- 6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

/s/ Junaid Iqbal Ch.  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By

/s/ Yusupha B. Crookes  
Authorized Representative

## SCHEDULE 1

### Project Description

The objective of the Project is to assist the Borrower to: (i) strengthen the capacity of the distribution and transmission networks in Selected Areas to meet the increasing electricity demand more efficiently and with better reliability and quality; and (ii) strengthen the institutional capacity of Distribution Companies and support priority areas of the power sector reform.

The Project constitutes the first phase of the Program, and consists of the following parts:

#### Part A: Investment in Distribution Networks

1. Carrying out of IESCO's investment program aimed at improving its sub-transmission network and reducing energy loss through: (i) the construction, augmentation, and/or conversion of approximately nineteen (19) sub-transmission grid stations, including extension of transformer and line bays in approximately six (6) grid stations; (ii) the construction of approximately five hundred fifty kilometers (550 km) of secondary transmission lines; (iii) the replacement of two (2) existing secondary transmission lines (approximately 44 km); and (iv) the strengthening of the distribution network through, *inter alia*, the replacement of D-fuse links and fitting, loose joints in feeders, aged energy meters, PG connectors, and faulty earthing, and the installation of sectionalizers and capacitor banks.
2. Carrying out of LESCO's investment program aimed at improving its sub-transmission network through: (i) the construction, augmentation and/or conversion of approximately twenty (20) sub-transmission grid stations, including extension of transformer and line bays in approximately five (5) grid stations; and (ii) the construction of approximately fifty kilometers (50 km) of secondary transmission lines.
3. Carrying out of MEPCO's investment program aimed at improving its sub-transmission network and reducing energy loss through: (i) the construction, augmentation, extension and/or conversion of approximately twenty one (21) sub-transmission grid stations; (ii) the construction of approximately two hundred kilometers (200 km) of secondary transmission lines; and (iii) the strengthening of the distribution network through, *inter alia*, the refurbishment of feeders, the installation of capacitor banks, the augmentation/installation of distribution transformers and the replacement of faulty energy meters.
4. Carrying out of HESCO's investment program aimed at improving the sub-transmission network and reducing energy loss, through: (i) the construction,

augmentation, extension and/or conversion of approximately thirteen (13) sub-transmission grid stations; (ii) construction of approximately one hundred twenty kilometers (120 km) of secondary transmission lines; and (iii) the strengthening of the distribution network through, *inter alia*, the installation of approximately four hundred and forty kilometers (440 km) of aerial bunch cable and meters on transformers, the bifurcation/rehabilitation of feeders, and the replacement of consumer meters.

Part B: Investment in Transmission Networks

Carrying out NTDC's investment program, through the construction of: (i) a 220 kV grid station at Kassowal and the acquisition of associated equipment; (ii) ten (10) 132 kV and 220 kV line bays and four 132 kV and 220 kV transformer bays; and (iii) two (2) twin bundle double circuit transmission lines connecting the Kassowal grid station to the transmission grid.

Part C: Institutional Strengthening and Capacity Building

Strengthening the institutional capacity of the MoW&P, PEPCO, NTDC and the Distribution Companies to implement the Project and sectoral investment program and reforms, through: (i) the acquisition of information and technology systems; (ii) the carrying out of specialized studies; (iii) the provision of in-country and overseas training and the revamping of in-house training; (iv) the provision of technical support for Project implementation including office automation, assistance with conceptual and engineering designs, contract management, procurement and legal aspects, financial management, environmental and social analysis; and (v) improving corporate governance of the Distribution Companies.

Part D: Energy Efficiency

Developing and implementing an energy efficiency program involving, *inter alia*: (i) the replacement of incandescent bulbs with compact fluorescent lamps at customer premises; (ii) the provision of low-tension capacitors to selected industrial and tube-well customers; and (iii) the provision of prepaid metering, automatic meter reading (AMR) and remote metering system (RMS) for various categories of selected residential and commercial customers.



## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Borrower shall vest the responsibility for the overall oversight and coordination of the Project in PEPCO.
2. The Borrower shall cause PEPCO to:
  - (a) maintain, throughout the implementation of the Project, a project implementation unit, which unit shall be responsible for the day-to-day technical, financial and procurement management and coordination of the Borrower's Respective Parts of the Project; such unit to be provided with sufficient resources under the direction of a qualified and experienced manager, acceptable to the Bank, and assisted by staff in adequate numbers, with terms of reference acceptable to the Bank;
  - (b) hire, by no later than December 31, 2008, and thereafter retain throughout the project implementation, the services of a qualified and internationally experienced procurement advisor, satisfactory to the Bank, under terms of reference acceptable to the Bank, in order to: (i) strengthen the capacity of PEPCO's procurement monitoring cell; (ii) participate in PEPCO's and the Project Implementing Entities' bid evaluation meetings, and assist these entities with the preparation of the bid evaluation reports; (iii) submit independent reports to PEPCO and the Bank on procurement activities carried out by the Project Implementing Entities; (iv) participate in the inspection of the delivery of goods and works so procured; and (v) provide assistance to Project Implementing Entities for the strengthening of their procurement capacity (including the preparation of comprehensive procurement policies and guidelines); and
  - (c) hire, on an annual basis, independent external auditors satisfactory to the Bank, with terms of reference acceptable to the Bank, to be responsible for carrying out PEPCO's annual audit and the audits of the PEPCO's Project accounts, interim un-audited financial reports and Financial Statements. The audit reports shall include the independent auditor's opinion on PEPCO's compliance with the financial covenants and reports undertaken by the Borrower as set forth in this Agreement.

**B. Subsidiary Agreement**

1. To facilitate the carrying out of the Project Implementing Entities' Respective Parts of the Project, the Borrower shall make part of the proceeds of the Loan available to the Project Implementing Entities under individual subsidiary agreements between the Borrower and each of the Project Implementing Entities, under terms and conditions acceptable by the Bank (collectively the Subsidiary Agreements), which shall include the following:
  - (a) The payment by the Project Implementing Entities to the Borrower of interest charges on the principal amounts withdrawn and outstanding from time to time under the respective Subsidiary Agreement at a rate not to exceed seventeen percent (17%) per annum; and
  - (b) A minimum amortization period of fifteen (15) years, inclusive of a minimum two (2) years grace period, and no penalty for early repayments and/or cancellations;
  - (c) The Project Implementing Entities' undertaking to operate with diligence and efficiency and in conformity with internationally acceptable administrative, technical, financial and economic managerial practices and standards, including a proper and transparent accounting system and regular financial audits in accordance with consistently applied accounting and auditing standards;
  - (d) The Borrower's and Project Implementing Entities' understandings and arrangements for the flow of funds (including disbursement protocols, supporting evidence and reporting requirements therefor); and
  - (e) The Borrower's right to suspend or terminate the respective Subsidiary Agreement, and/or accelerate the recovery of any outstanding amounts withdrawn thereunder, upon: (A) the respective Project Implementing Entity's failure to perform any of its obligations under its Subsidiary Agreement and/or Project Agreement; or (B) the Bank's exercising any of the remedies under Article VII of the General Conditions.
2. The Borrower shall exercise its rights under the Subsidiary Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreements or any of its provisions.

**C. Anti-Corruption**

The Borrower shall carry out and/or cause PEPCO and the Project Implementing Entities to carry out their Respective Parts of the Project in accordance with the provisions of the Anti-Corruption Guidelines and the Procurement Action Plan.

**D. Safeguards**

1. The Borrower shall:

(a) cause the Project Implementing Entities to carry out their Respective Parts of the Project with due regard to health-safety, social, cultural and environmental principles, practices and standards as reflected in their respective Environmental and Social Assessments, Environmental and Social Management Plans, and/or Resettlement Action Plans, as the case may be; and

(b) cause the Project Implementing Entities to update their respective Environmental Social Assessments, Environmental and Social Management Plans, and/or Resettlement Action Plans in accordance with the procedures and criteria set forth in their respective Environmental and Social Guidelines.

2. The Borrower shall ensure, and cause the Project Implementing Entities to ensure, that any civil works that require land takings and the resettlement of Displaced Persons shall not be initiated until adequate monetary compensations have been paid and/or the appropriate resettlement of all such Displaced Persons has taken place, in accordance with their respective Resettlement Action Plans and in form and substance satisfactory to the Bank.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.

2. For purposes of Section 5.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than December 31, 2011.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare, and furnish, and/or cause the Project Implementing Entities to prepare and furnish, to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements, and cause the Project Implementing Entities to have their respective Financial Statements, audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plans shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) National Competitive Bidding procedures*
(b) Shopping

\***National Competitive Bidding** shall be subject to the following additional provisions:

- i. Invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for the submission of bids;
- ii. Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- iii. Foreign bidders shall not be precluded from bidding and price preference as per the Procurement Guidelines shall apply to national bidders in the bidding process;
- iv. Bidding shall not be restricted to pre-registered firms;
- v. Qualification criteria shall be stated in the bidding documents;
- vi. Bids shall be opened in public, immediately after the deadline for submission of bids;
- vii. Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Bank;
- viii. Before rejecting all bids and soliciting new bids, the Bank's prior concurrence shall be obtained;
- ix. Bids shall be solicited and contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates;
- x. Contracts shall not be awarded on the basis of prior negotiated rates;
- xi. Contracts shall be awarded to the lowest evaluated and qualified bidder; and

- xii. Post-bidding price negotiations shall not be allowed with the lowest evaluated or any other bidders.

**C. Particular Methods of Procurement of Consultants' Services**

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plans shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Selection Based on the Consultants' Qualifications
(b) Single Source Selection
(c) Individual Consultants

**D. Review by the Bank of Procurement Decisions**

The Procurement Plans shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

- 1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
- 2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Amount of Portion A of the Credit Allocated (Expressed in SDR)</b>	<b>Amount of Portion B of the Credit Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be financed (inclusive of taxes, except for Categories (1)(b) and (2)(b))</b>
(1) Goods, works, consultants' services, training and workshops for:				100%
(a) IESCO under Parts A.1 and C of the Project	58,496,000	0	0	
(b) LESCO under Parts A.2 and C of the Project	60,290,000	0	0	
(c) MEPCO under Parts A.3 and C of the Project	34,710,000	9,500,000	4,360,000	
(d) HESCO under Parts A.4 and C of the Project	0	0	25,670,000	
(e) NTDC under Parts B and C of the Project	19,670,000	0	0	
(f) MoW&P through PEPCO under Part C of the Project	0	0	2,270,000	
(2) Goods under Part D of the Project for:				100%
(a) IESCO	0	0	0	
(b) LESCO	0	0	0	
(c) MEPCO	0	0	0	
(d) HESCO	0	0	0	

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Amount of Portion A of the Credit Allocated (Expressed in SDR)</b>	<b>Amount of Portion B of the Credit Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be financed (inclusive of taxes, except for Categories (1)(b) and (2)(b))</b>
(3) Front-end Fee	434,000	0	0	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rates Caps and Interest Rate Collars	0	0	0	Amount payable pursuant to Section 2.07 of this Agreement in accordance with Section 4.04(c) of the General Conditions
(5) Unallocated	0	9,200,000	0	
<b>TOTAL AMOUNT</b>	<b>173,600,000</b>	<b>18,700,000</b>	<b>32,300,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for:
  - (a) payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed the equivalent of twenty three million nine hundred thousand United States Dollars (USD23,900,000) may be made for payments made prior to this date but on or after April 1, 2008, for Eligible Expenditures under Categories (1)(a) through (e), subject to the following ceilings per Category:
    - (i) up to USD6,000,000 for Category 1(a);
    - (ii) Up to USD6,000,000 for Category 1(b);



- (iii) Up to USD5,600,000 equivalent for Category 1(c);
  - (iv) Up to USD4,300,000 equivalent for Category 1(d); and
  - (v) Up to USD2,000,000 for Category 1(e).
- (b) under Category (1)(c) until, and unless, the Bank has received satisfactory evidence that MEPCO has revised the terms of reference of its procurement consultant, in a manner acceptable to the Bank, as provided for in paragraph 4 of Section I.A of the Schedule to MEPCO's Project Agreement.
2. The Closing Date is June 30, 2012.

**Section V. Other Undertakings**

1. The Borrower undertakes to:
- (a) cause the Project Implementing Entities to file tariff petitions with NEPRA requesting NEPRA's revision and update of the tariffs structure applicable to their respective services whenever the existing tariffs no longer meet the standards set forth in Part III (Section 17) of the NEPRA SRO; and
  - (b) publish in the Official Gazette or file a request for review of any regulatory order, determination and/or decisions passed by NEPRA (including the revisions and updates of the applicable tariff structures requested in accordance with sub-paragraph (a) above), no later than fifteen (15) days as of NEPRA's final intimation pursuant to sub-section (4) of Section 31 of the NEPRA Act.
2. Without limitation to the obligations set forth in Section 5.03 of the General Conditions, the Borrower undertakes to promptly allocate and transfer on a monthly basis to the Project Implementing Entities (and not later than the 25<sup>th</sup> day of each month), in accordance with the Standard Operating Procedures and in terms satisfactory to the Bank, any and all subsidies required to compensate the difference between the tariffs determined by NEPRA and the tariffs effectively notified by the Borrower.
3. In carrying out Part D of the Project, the Borrower shall cause the Project Implementing Entities to:
- (a) prepare and furnish to the Borrower and the Bank for review, comments and concurrence, their respective draft project description documents

detailing the proposed activities under Part D of the Project, which detail shall include: (i) an assessment of the technical, economic and financial justification/viability of the activities proposed; (ii) implementation plan; (iii) the environmental and social assessment of such activities, whenever necessary, and the mitigation measures therefor; and (iv) the proposed budget and associated procurement plan (including any arrangements for supplementing/strengthening the procurement capacity);

- (b) finalize such project description documents based on the drafts as discussed with, and agreed by, the Borrower and the Bank; and
- (c) thereafter, carry out Project activities under Part D of the Project in accordance with their respective project description documents, as so approved.

**SCHEDULE 3**

**Amortization Schedule**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each March 15 and September 15  Beginning September 15, 2013 through March 15, 2038	2%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the

principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## **APPENDIX**

### **Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) a relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (ii) the involuntary restriction of access to legally designated park and protected areas, resulting in adverse impacts on the livelihood of such persons.
5. “Distribution Companies” means collectively HESCO, IESCO, LESCO, and MEPCO, and any successor thereto.
6. “Environmental and Social Assessments” means the assessments carried out by the Project Implementing Entities in form and substance, and with terms of reference, satisfactory to the Bank, dated January 21, 2008, (HESCO), October 31, 2006, (IESCO), March 8, 2007, (LESCO), January 24, 2007, (MEPCO), and September 3, 2007, (NTDC), respectively for purpose of appraising and evaluating the Project’s potential prospective positive and negative environmental impacts on the Selected Areas. The term “Environmental and Social Assessment” means each such assessment, individually.
7. “Environmental and Social Guidelines” means the guidelines incorporated in the respective Environmental and Social Assessment of each Project Implementing Entity, in form and substance satisfactory to the Bank, which set forth the principles, procedures and environmental standards and criteria to be applied by the Project Implementing Entities in preparing the regular updates of their respective Environmental and Social Assessment and Environmental and Social Management Plans, as provided in the respective Project Agreements, in order to comprise/cover the work plans for subsequent years of Project implementation.

8. “Environmental and Social Management Plans” means, collectively, the plans, in form and substance satisfactory to the Bank, incorporated in the respective Environmental and Social Assessment of each Project Implementing Entity, providing for appropriate evaluation, monitoring, consultation, mitigation and grievance redressal mechanisms, and the institutional responsibilities and procedures, required to offset or eliminate any potentially adverse environmental impact of the Project (including, without limitation, any impact on physical cultural resources and cultural heritage sites), as said plans may be amended from time to time with the prior concurrence of the Bank. The term “Environmental and Social Management Plan” means each such plan, individually.
9. “Financial Management Manual” means PEPCO’s accounting systems manual, in three volumes, filed with the Bank, adopted and applied by PEPCO and the Project Implementing Entities to regulate their financial protocols and procedures, including PEPCO’s and the Project Implementing Entities’: (i) charts of accounts and guidelines; (ii) payroll procedures; (iii) assets coding scheme, and applicable policies and procedures; (iv) construction projects accounting; (v) disbursement; (vi) purchasing; (vii) budgeting; and (viii) general accounting disbursement; which manual shall not be amended, suspended, abrogated, or in any way waived, whether in whole or in part, without the prior concurrence of the Bank, if in the opinion of the Bank, such amendment, suspension, abrogation or waiver might materially affect the Project Implementing Entities’ carrying out of the Project.
10. “Financing Agreement” means the Financing Agreement for the Project between Borrower and the International Development Association, dated the same date as Loan Agreement, as such financing agreement may be amended from time to time; and “Financing Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.
11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
12. “HESCO” means the Hyderabad Electric Supply Company, a power utility established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan and NEPRA’s license 05/DL/2002, and registered with the Joint Registrar of Companies under certificate of incorporation No. L-09496, dated April 23, 1998.
13. “IESCO” means the Islamabad Electric Supply Company, a power utility established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan and NEPRA’s license 01/DL/2001, and registered with the Joint Registrar of Companies under certificate of incorporation No. L-09499 dated April 25, 1998.

14. “Kassowal” means the locality of Kassowal in the Borrower’s Province of Punjab.
15. “LESCO” means the Lahore Electric Supply Company, a power utility established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan and NEPRA’s license 03/DL/2002, and registered with the Joint Registrar of Companies under certificate of incorporation No. L-09415 dated February 18, 1998.
16. “MEPCO” means the Multan Electric Power Company, a power utility established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan and NEPRA’s license 06/DL/2002, and registered with the Joint Registrar of Companies under certificate of incorporation No. L-09522, dated May 14, 1998.
17. “MoW&P” means the Borrower’s Ministry of Water and Power, and any successor thereto.
18. “NEPRA” means the Borrower’s National Electric Power Regulatory Authority, an independent regulatory agency established and existing under the NEPRA Act for purposes of regulating the Borrower’s electric power sector; and/or any successor thereto.
19. “NEPRA Act” means the Borrower’s Act XL of 1997, for the Regulation of Generation, Transmission and Distribution of Electric Power Act.
20. “NEPRA SRO” means NEPRA’s Statutory Notification (SRO) 1399 (I)/98, dated December 23, 1998, setting forth NEPRA’s tariff standards and procedural rules, issued by NEPRA pursuant to Section 46 of the NEPRA Act.
21. “NTDC” means the National Transmission and Dispatch Company Ltd., an electricity transmission and dispatch utility established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan and NEPRA’s license No. TL/01/2002, and registered with the Joint Registrar of Companies under certificate of incorporation No. L-09689, dated November 6, 1998.
22. “PEPCO” means Pakistan Electric Power Company (Pvt) Limited, a company established and operating under Section 32 of the Companies Ordinance (1984) of the Islamic Republic of Pakistan and registered with the Joint Registrar of Companies under certificate of incorporation No. 0039090, dated May 13, 1998.
23. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.

24. “Procurement Action Plan” means the plan dated February 21, 2008, prepared by the Borrower and to be implemented by the Borrower and the Project Implementing Entities, aimed at: (i) overcoming the institutional obstacles and commercial practices hindering the open and transparent competition of bidders; (ii) enhancing the scrutiny of bidding processes through independent monitoring of bid preparation, issuance and evaluation; (iii) developing a sanctions regime; and (iv) carrying out a communications campaign to publicize and enforce the Borrower’s, PEPCO’s, and the Project Implementing Entities’ resolve to combat non-competitive behavior; as such plan may be amended from time to time with the prior concurrence of the Bank.
25. “Procurement Plans” means the Borrower’s and the Project Implementing Entities’ respective procurement plans for the Project, dated April 25, 2008 (NTDC, IESCO, LESCO, MEPCO, and HESCO), and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. “Program” means the policy program aimed at developing the Borrower’s power sector, as set forth or referred to in the letter dated November 26, 2007 from the Joint Secretary (Power), MoWP, addressed to the Bank on behalf the Borrower.
27. “Project Agreements” means, collectively, the agreements between the Bank and the Project Implementing Entities, of the same date as this Agreement, for purposes of carrying out the Project Implementing Entities’ Respective Parts of the Project, as such agreements may be amended from time to time. “Project Agreements” includes all appendixes, schedules, side-letters and agreements supplemental to the Project Agreements.
28. “Project Implementing Entity” means, individually, each of the Distribution Companies as well as NTDC and/or the successors thereof; and the term “Project Implementing Entities” means collectively all such companies and/or their successors.
29. “Project Implementing Entity’s Legislation” means, in respect of:
  - (a) HESCO: HESCO’s Memorandum and Articles of Association, dated April 23, 1998;
  - (b) IESCO: IESCO’s Memorandum and Articles of Association, dated April 25, 1998;
  - (c) LESCO: LESCO’s Memorandum and Articles of Association, dated February 18, 1998;



- (d) MEPCO: MEPCO's Memorandum and Articles of Association, dated May 14, 1998;
  - (e) NTDC: NTDC's Memorandum and Articles of Association, dated November 6, 1998;
30. "Resettlement Action Plans" means, collectively the action plans, incorporated in the respective Environmental and Social Assessment of each Project Implementing Entity, providing for the compensation to Displaced Persons and comprising of, *inter alia*: (i) an entitlement framework setting forth compensation for loss of land, crops, trees and means of livelihood as applicable; (ii) institutional and implementation arrangements; (iii) consultation and grievance redressal mechanisms; and (iv) monitoring and documentation procedures. The term "Resettlement Action Plan" means each such plan, individually.
31. "Respective Parts of the Project" means, in respect of:
- (a) the Borrower: the activities under Part C of the Project;
  - (b) HESCO: Part A.4 and HESCO-related activities under Part C and D of the Project;
  - (c) IESCO: Part A.1 and IESCO-related activities under Part C and D of the Project;
  - (d) LESCO: Part A.2 and LESCO-related activities under Part C and D of the Project;
  - (e) MEPCO: Part A.3 and MEPCO-related activities under Part C and D of the Project; and
  - (f) NTDC: Parts B and NTDC-related activities under Part C of the Project.
32. "Selected Areas" means the Borrower's geographical areas serviced by the Distribution Companies and NTDC.
33. "Standard Operating Procedures" means the Standard Operating Procedures with Timelines and Responsibilities for Sale and Purchase of Electricity, approved and adopted by MoW&P on December 19, 2007.
34. "Subsidiary Agreement" means each of the individual agreements referred to in Section I.B of Schedule 2 to this Agreement, pursuant to which the Borrower shall make the proceeds of the Loan and Financing available to a Project

Implementing Entity; and the term “Subsidiary Agreements” means all such agreements, collectively.

35. “WAPDA” means the Borrower’s Water and Power Development Authority, established and existing under the Water and Power Development Authority Act (1958) as amended from time to time, and any successor thereto.