

CONFORMED COPY

LOAN NUMBER 4435-PAK

Loan Agreement

(Structural Adjustment Loan)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 21, 1999

LOAN NUMBER 4435-PAK

LOAN AGREEMENT

AGREEMENT, dated January 21, 1999, between ISLAMIC REPUBLIC OF PAKISTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank):

WHEREAS (A) the Bank has received a letter dated December 21, 1998 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) the Borrower has carried out the measures and taken the actions described in Schedule 3 to this Agreement to the satisfaction of the Bank; and

(C) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.";

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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

(b) "FY" means the Fiscal Year of the Borrower beginning on July 1 of a calendar year and ending on June 30 of the following calendar year;

(c) "KESC" means the Karachi Electricity Supply Corporation

established under the relevant laws of the Borrower and majority owned by the Borrower;

(d) "NEPRA Act" means the National Electric Power Regulatory Authority Act, 1997 of the Borrower, as amended;

(e) "NEPRA" means the National Electric Power Regulatory Authority established under the NEPRA Act;

(f) "PEPCO" means Pakistan Electric Power Company established by Executive Order of 1998 and wholly owned by the Borrower;

(g) "Rs" means the currency of the Borrower;

(h) "WAPDA Act" means the Water and Power Development Authority Act, 1958 (W.P. Act XXXI of 1958) of the Borrower, as amended; and

(i) "WAPDA" means the Water and Power Development Authority established under the WAPDA Act.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to three hundred fifty million dollars (\$350,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

Section 2.03. The Closing Date shall be June 30, 1999, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum

on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period:

(A) three-fourths of one percent (3/4 of 1%);

(B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in provisions of Schedule 2 to this Agreement.

Section 2.09. The Secretary, Economic Affairs Division, Government of Pakistan, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate 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 four months after the date of the Bank's request for such audit, a certified copy of 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 Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

Section 4.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) the event specified in Section 4.01 of this Agreement shall

occur; and

(b) any action shall have been taken or any omission shall have been made which would have the effect of materially reversing the objectives of the Program or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

ARTICLE V

Termination

Section 5.01. The date forty-five (45) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 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 6.02. 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:

248423 (MCI) or
64145 (MCI)

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Agha Ghazanfar
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Sadiq Ahmed
Country Director
Pakistan

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
not 122	-	Tobacco, manufactured (whether or containing tobacco substitutes)
materials 525	-	Radioactive and associated
667	-	Pearls, precious and semiprecious stones, unworked or worked
718 thereof; fuel non-irradiated, for	718.7	Nuclear reactors, and parts elements (cartridges),

			nuclear reactors
728.43	-		Tobacco processing machinery
897	897.3		Jewelry of gold, silver or
platinum			group metals (except watches and
watch			cases) and goldsmiths' or
silversmiths'			wares (including set gems)
971	-		Gold, non-monetary (excluding
gold			ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Bank);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
September 15, 2004	7,425,000
March 15, 2005	7,640,000
September 15, 2005	7,865,000
March 15, 2006	8,100,000
September 15, 2006	8,335,000
March 15, 2007	8,580,000
September 15, 2007	8,835,000
March 15, 2008	9,095,000
September 15, 2008	9,365,000
March 15, 2009	9,640,000
September 15, 2009	9,920,000
March 15, 2010	10,215,000
September 15, 2010	10,515,000
March 15, 2011	10,825,000
September 15, 2011	11,145,000
March 15, 2012	11,470,000

September 15, 2012	11,810,000
March 15, 2013	12,155,000
September 15, 2013	12,515,000
March 15, 2014	12,885,000
September 15, 2014	13,265,000
March 15, 2015	13,655,000
September 15, 2015	14,055,000
March 15, 2016	14,470,000
September 15, 2016	14,895,000
March 15, 2017	15,335,000
September 15, 2017	15,785,000
March 15, 2018	16,250,000
September 15, 2018	16,730,000
March 15, 2019	17,225,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 3

Actions Referred to in Paragraph (B) of the Preamble to this Agreement

1. The Borrower has agreed with the Bank on a macroeconomic framework for FY 1998-99 and beyond as described in the letter referred to in Recital (A) on page 1 of this Agreement.

2. The Borrower's banking system has collected over Rs. 12 billion from loan defaulters from June 1, 1998 through December 31, 1998.

3. The Borrower has issued: (a) an approved panel list of public auctioneers to the banking courts to assist in the sale of properties belonging to judgement debtors; and

(b) guidelines for use by the banking courts restricting the number of times a property can be put up for auction more than once because of disputes arising as the value of the bid obtained, all with a view to facilitating recovery by financial institutions of debt in default.

4. The Borrower has issued an Executive Order empowering PEPCO to manage the implementation of the Borrower's power sector reform program.

5. The Borrower has submitted to its National Assembly the WAPDA Act to allow, inter alia, for corporatization of WAPDA into separate entities, including separate generation companies, a National Grid Company and several Distribution Companies (DISCOs), and has furnished evidence satisfactory to the Bank of the legal basis for

(a) transfer of consumer contracts from WAPDA to the DISCOs; and

(b) transfer of WAPDA's staff to the said generation companies, National Grid Company and DISCOs.

6. The Borrower has put in place an orderly framework, as agreed with the Bank, to handle disputes with Independent Power Producers.

7. WAPDA has prepared a theft, loss and arrears reduction plan

satisfactory to the Bank.

8. The Borrower's federal and provincial governments have cleared their past bills with WAPDA and given an understanding satisfactory to the Bank to stay current on their future reconciled electricity bills as they become due.

9. The Borrower's Ministry of Water and Power has issued a statement on the government's socio - and economic - policy objectives regarding tariff setting to NEPRA.

10. NEPRA has issued under the NEPRA Act its Tariff Standards and Procedures Rules, and other terms and conditions related to generation, transmission and distribution by licensees.

11. WAPDA has submitted a comprehensive tariff filing to NEPRA satisfactory to the Bank.

12. The Borrower's natural gas sector has accelerated cash recovery and from June through December 1998 has collected over Rs. 1.6 billion of overdues from private consumers and federal and provincial governments.

13. The Borrower has submitted to its National Assembly a bill to establish a Natural Gas Regulatory Authority, inter alia, to regulate tariff setting and strengthen collection.

14. The Borrower has collected over Rs. 3 billion in tax arrears from June through December 1998.

15. The Borrower has: (a) submitted to its National Assembly a law for the establishment of the Pakistan Revenue Authority; (b) increased the number of taxpayers with unified ID numbers to at least 1.6 million; and (c) increased the number of fully functioning tax tribunals from 7 to at least 15.

16. The Borrower has agreed with the Bank the size and content of the budgetary and non-budgetary public development expenditures in line with its development priorities and the agreed macro economic framework referred to in paragraph 1 of this Schedule.

17. The federal and provincial governments of the Borrower have provided adequate funds to meet agreed levels of expenditure as agreed with the Bank under the Social Action Program of the Borrower and have allocated adequate non-salary expenditures for the education and health sectors.

