

CONFORMED COPY

LOAN NUMBER 3808 PAK

Loan Agreement

(Financial Sector Deepening and Intermediation Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 30, 1995

LOAN NUMBER 3808 PAK

LOAN AGREEMENT

AGREEMENT, dated January 30, 1995, between ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) Part B.1 of the Project will be carried out by the State Bank of Pakistan (SBP) and Parts B.2 and B.5 of the Project will be carried out, and Parts B.3, B.4 and B.6 of the Project will be administered, by the Bankers Equity Limited (BEL) all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SBP and BEL a portion of the proceeds of the Loan as provided in this Agreement;

(C) the Bank has received a letter dated September 28, 1994 from the Borrower describing a program of actions, objectives and policies designed to achieve a deepening and expansion of the financial sector of the Borrower's economy (the Program) and declaring the Borrower's commitment to the execution of the Program; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and SBP and BEL;

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) "PFIs" mean collectively the Participating Financial Institutions under the Project, being financial institutions which shall have satisfied the eligibility criteria set forth in paragraph 1 of Schedule 5 to this Agreement; and "PFI" means each and any of the Participating Financial Institutions individually;

(b) "BEL" means the Bankers Equity Limited, a company incorporated and existing under the Borrower's Companies Ordinance of 1984, as amended from time to time, or any successor thereto;

(c) "Administration Agreement" means the agreement to be entered into between the Borrower and BEL pursuant to Section 3.01(c)(iii) of this Agreement and providing, inter alia, for the matters referred to in paragraphs 1, 2, and 3 of Schedule 9 to this Agreement, as the same may be amended from time to time;

(d) "Administrator" means BEL acting in its capacity as administrator on behalf of the Borrower of Parts A, B.3, B.4 and B.6 of the Project pursuant to the Administration Agreement;

(e) "AU" means the Administrative Unit referred to in paragraph 1 of Schedule 9 to this Agreement;

(f) "Participation Agreements" mean collectively the agreements to be entered into between the Borrower and PFIs pursuant to Section 3.01 (c)(ii) of this Agreement, as the same may be amended from time to time;

(g) "SBP" means the State Bank of Pakistan, being the Borrower's central bank established and existing under the Borrower's State Bank Act of 1956, as the same may be amended from time to time, or any successor thereto;

(h) "Subsidiary Grant Agreement" means the agreement to be entered into between the Borrower and SBP pursuant to Section 3.01 (c)(iii) of this Agreement, as the same may be amended from time to time;

(i) "CLA" means the Borrower's Corporate Law Authority established and existing under the Borrower's Companies Ordinance of 1984, as the same may be amended from time to time, or any successor thereto;

(j) "CI" means the Borrower's Controller of Insurance or any successor thereto;

(k) "PC" means the Borrower's Privatization Commission established and existing under the Borrower's Gazette Notification No. F.5(1)-Adm.-I/91, dated January 22, 1991, as the same may be amended from time to time, or any successor thereto;

(l) "FIs" mean collectively financial institutions;

(m) "NBFIs" mean collectively non-bank financial institutions;

(n) "DFIs" mean collectively Development Finance Institutions;

(o) "NCBs" mean collectively Nationalized Commercial Banks;

(p) "SLIC" means the State Life Insurance Corporation of Pakistan;

(q) "PIC" means the Pakistan Insurance Corporation;

(r) "NIT" means the National Investment Trust;

(s) "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;

(t) "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 6 to this Agreement;

(u) "Lease Investment" means an investment in the form of lease financing, other than a Sub-loan, made or proposed to be made by a PFI out of the proceeds of the Loan in an Investment Enterprise for an Investment Project;

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

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

(x) "Project Agreement" means the agreement between the Bank and SBP and BEL of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(y) "Special Accounts" mean collectively the accounts referred to in Section 2.02 (b) of this Agreement and Section 2.01 (c) of the Project Agreement; and "Special Account" means each and any such account individually;.

(z) "Task Force" means the task force established by the Borrower pursuant to Gazette Notification No. Dy.1031.AII dated April 18, 1994 to examine proposals for, and recommend, reforms to improve the legal and judicial environment for debt recovery;

(aa) "T-bill" means Treasury bill;

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

(cc) "DM" means Deutsche Marks, being the currency of Germany;

(dd) "Yen" means the currency of Japan; and

(ee) "FY" or "fiscal year" means the period from July 1 through June 30.

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, various currencies that shall have an aggregate value equivalent to the amount of two hundred sixteen million dollars (\$216,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-loan or Lease Investment 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; (ii) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part B of the Project and to be financed out of the proceeds of the Loan; and (iii) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of the services of the Administrator and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of Part B of the Project, cause SBP and BEL to open and maintain in dollars special deposit accounts in the National Bank of Pakistan on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of the Schedule to the Project Agreement.

Section 2.03. The Closing Date shall be December 31, 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 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 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this

Agreement, beginning with the Interest Period in which this Agreement is signed.

- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on July 15 and January 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.

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, shall:

- (i) carry out or cause to be carried out Parts A, B.3, B.4 and B.6 of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause SBP and BEL to perform in accordance with the provisions of the Project Agreement all the obligations of SBP and BEL therein set forth, shall take or cause

to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable SBP and BEL to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out or cause to be carried out Parts A, B.3, B.4 and B.6 of the Project in accordance with the Implementation Program set forth in Schedule 9 to this Agreement.

(c) The Borrower shall: (i) retain out of the proceeds of the Loan an amount equivalent to \$1,000,000 for payment as an advance on the Administrator's fee pursuant to paragraph 2 of Schedule 9 to this Agreement; (ii) for purposes of Part A of the Project, relend out of the proceeds of the Loan to PFIs an aggregate amount equivalent to \$200,000,000 on a first-come first-serve basis under participation agreements to be entered into between the Borrower (acting through the Administrator) and PFIs under terms and conditions which shall have been approved by the Bank including those set forth in Schedules 5 and 6 to this Agreement; and (iii) for purposes of Part B of the Project, make the remainder of the proceeds of the Loan available as grants to SBP for its use under a subsidiary grant agreement to be entered into between the Borrower and SBP, and to BEL for its own use and for use by it as the Administrator for the benefit of CLA, CI and PC under an administration agreement to be entered into between the Borrower and BEL, all under terms and conditions which shall have been approved by the Bank.

(d) The Borrower shall exercise its rights under the Participation Agreements, under the Subsidiary Grant Agreement and under the Administration Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the Participation Agreements or the Subsidiary Grant Agreement or the Administration Agreement or any provisions thereof.

Section 3.02. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Sub-loans and Lease Investments will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Borrower and the Bank; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. (a) The Borrower and the Bank shall, on two occasions, the first arising after Sub-loans and Lease Investments which have been approved or for which withdrawals have been authorized by the Bank shall have reached an aggregate amount equivalent to \$65,000,000 or one year after the Effective Date (whichever occurs first), and the other arising two years after the Effective Date, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 8 to this Agreement.

(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 and the actions specified in Schedule 8 to this Agreement, in such detail as the Bank shall reasonably request.

(c) If, after any such exchange of views, the Bank shall have given notice to the Borrower that it is not satisfied: (i) with the progress achieved by the Borrower in the carrying out of the Program, and, to the extent relevant (ii) that the actions specified in Schedule 8 to this Agreement have been taken, the Bank may (A) refuse to approve fresh applications or authorize fresh withdrawals under paragraphs 3 (a) and 3 (b) of Schedule 6 to this Agreement until the Borrower can demonstrate to the Bank that progress has been achieved and actions have been taken satisfactory to the Bank, and (B) by further notice to the Borrower, cancel the unwithdrawn amount of the Loan not required for Sub-loans and Lease Investments which have already been approved or for which withdrawals have already been authorized by the Bank, if, within 90 days of the first notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank.

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 7 to this Agreement.

Section 3.05. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part B.1 of the Project shall be carried out by SBP, and in respect of Parts B.2 and B.5 of the Project shall be carried out by BEL, all pursuant to Section 2.03 of the Project Agreement.

Section 3.06. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

- (a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;
- (b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and
- (c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

ARTICLE IV

Financial and Other Covenants

Section 4.01. The Borrower shall:

- (a) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof; and
- (b) cause each PFI 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 the PFI.

Section 4.02. (a) The Borrower shall:

- (i) have the records and accounts referred to in Section 4.01 of this Agreement and each PFI's accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year: (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
- (iii) 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.

(b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to enable each PFI, and shall cause each PFI, to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Borrower) used in its operations.

Section 4.04. The Borrower shall adhere to its policy of requiring all wholly- or partially-state-owned, or state-controlled, financial institutions to be operated along commercial lines, with full managerial and operational autonomy.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) A situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) SBP and/or BEL shall have failed to perform any of their obligations under the Project Agreement.

(c) 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 SBP and/or BEL will be able to perform their obligations under the Project Agreement.

(d) The Borrower's State Bank Act of 1956 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SBP to perform any of its obligations under the Project Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SBP and/or BEL or for the suspension of their operations.

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

(a) the event specified in paragraph (b) 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) the events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Administration Agreement has been signed and all conditions precedent to the effectiveness thereof have been fulfilled;

(b) the AU has been established, a banking/credit manager and environment specialists have been appointed to it and operational policies and procedures have been developed for it, all as referred to in paragraph 1 of Schedule 9 to this Agreement;

(c) the Subsidiary Grant Agreement has been signed and all conditions precedent to the effectiveness thereof have been fulfilled;

(d) a Participation Agreement with at least one PFI has been signed and all conditions precedent to the effectiveness thereof have been fulfilled;

(e) the consultants required for purposes of Parts B.5 and B.6 of the Project have been appointed in accordance with the provisions of Section II of Schedule 7 to this Agreement; and

(f) a time-table, satisfactory to the Bank, has been established for the privatization of one NCB, and all such actions have been taken as have fallen due under such time-table before the Effective Date.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by SBP and BEL, and is legally binding upon SBP and BEL in accordance with its terms;

(b) that the Participation Agreement or Agreements signed pursuant to Section 6.01 (d) of this Agreement have been duly authorized or ratified by the Borrower and the relevant PFI or PFIs and are legally binding upon the Borrower and such PFI or PFIs in accordance with their terms; and

(c) that the Subsidiary Grant Agreement and the Administration Agreement have been duly authorized or ratified by the Borrower and SBP and the Borrower and BEL, respectively, and are legally binding upon the Borrower and SBP and the Borrower and BEL, respectively, 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

Representatives of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs and Statistics 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 and Statistics Division
Islamabad
Pakistan

Cable address:

Telex:

ECONOMIC

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:

Telex:

INTBAFRAD
Washington, D.C.

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Agha Ghazanfar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ D. Joseph Wood

Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Sub-loans and Lease Investments:		
Equipment and materials	200,000,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 75% of local expenditures for other items pro- cured locally
(2) Items under Part B of the Project:		
(a) Equipment and materials for:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(i) SBP	2,148,000	
(ii) BEL	50,000	
(iii) CLA	1,000,000	
(iv) CI	500,000	
(v) PC	--	
	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(b) Consultants' services and training for:		100%
(i) SBP	3,205,000	

(ii) BEL	2,002,000	
(iii) CLA	1,370,000	
(iv) CI	1,625,000	
(v) PC	1,400,000	
(c) Unallocated	1,700,000	
(3) Administrator's fee	1,000,000	100%
	<hr/>	
TOTAL	216,000,000	=====

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 or Lease Investment unless the Sub-loan or Lease Investment has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement;

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

(c) in respect of payments made for expenditures for items to be financed under Categories (2) (a) (i) and (2) (b) (i), unless and until the consultants required for purposes of Parts B.1(a) and (e) of the Project have been appointed in accordance with the provisions of Section II of Schedule 7 to this Agreement;

(d) in respect of payments made for expenditures for items to be financed under Categories (2) (a)(iii) and (2) (b)(iii), unless and until Part B.3(a) of the Project has been carried out to the Bank's satisfaction and the consultants required for purposes of Parts B.3(a) and B.3(c) of the Project have been appointed in accordance with the provisions of Section II of Schedule 7 to this Agreement; and

(e) in respect of payments made for expenditures for items to be financed under Categories (2) (a) (iv) and (2) (b) (iv) unless and until Parts B.4(a) and (e) of the Project have been carried out to the Bank's satisfaction and the consultants required for purposes of Parts B.4 (b), (c) and (d) of the Project have been appointed in accordance with the provisions of Section II of Schedule 7 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (a) for goods under contracts not exceeding \$200,000 equivalent; and (b) for consultants' services under contracts not exceeding \$100,000 equivalent in the case of firms, and \$50,000 equivalent, in the case of individuals, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in (i) implementing the Program and, to that end, in particular, in: (a) supporting the continuing development of the prudential regulatory framework for the financial sector; (b) improving the legal environment for debt recovery; (c) strengthening bank and non-bank financial institutions; (d) reducing the amount of available concessional financing; (e) developing a private sector market in foreign exchange cover; (f) improving the management of monetary instruments so as to eliminate inter-sectoral and inter-institutional distortions; (g) strengthening the payments system; (h) improving the regulatory framework for, and the performance of, securities and insurance markets; (i) privatizing and/or restructuring banks, development finance institutions and insurance companies; and (j) strengthening the capacity of financial institutions to deliver financial services; and (ii) financing such productive facilities and resources in the territories of the Borrower as will contribute to the economic and social development of those territories.

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

Part A: Investment Projects

The financing of specific development projects through Sub-loans and Lease Investments made by the Participating Financial Institutions.

Part B: Institutional Development and Policy Support

1. Strengthening of SBP, inter alia, through improvements in its: (a) off-site supervision techniques and on-site examination capabilities; (b) computer capacity for its credit information bureau; (c) capacity to manage and operate the payments system; (d) management and staffing arrangements; (e) information systems; and (f) library facilities.

2. Strengthening of BEL, inter alia, through: (a) the establishment of staff capability in environmental assessment and monitoring; (b) the adoption of measures to promote more effective project administration; and (c) the carrying out of a term lending study.

3. Strengthening of CLA, inter alia, through: (a) the establishment of a separate wing, headed by a Member, for securities law and regulations; (b) the development of regulatory regimes for licensing of securities market participants, insider trading and investor protection funds; (c) the preparation of an information technology strategy and provision of hardware and software for the securities regulatory wing; (d) the development of staff capability in monitoring for insider trading and regulating new markets; and (e) the development of an over-the-counter or small capitalization exchange.

4. Strengthening of the office of CI, inter alia, through: (a) the effective operation of a professionally staffed and adequately remunerated Insurance Advisory Board; (b) the preparation of proposals for insurance law reform; (c) the evaluation of the Borrower's State Life Insurance Corporation of Pakistan (SLIC) and Pakistan Insurance Corporation (PIC) for possible restructuring; (d) the introduction of reforms in such areas as minimum capital requirement for insurance business, compulsory reinsurance with PIC and PIC's right of first refusal, closing down of companies, rate setting, and

investment rules governing life insurance company holdings of private sector debt and equity; and (e) the making of arrangements for the provision of adequate budgetary support.

5. Carrying out with respect to DFIs of: (a) institution-specific strategy studies to facilitate their privatization process; and (b) a sector-wide study of systemic problems relating to loan administration and portfolio management relevant to term lending.

6. Facilitating the work of PC through the carrying out of: (a) institution-building activities; (b) an evaluation of NCBs with a view to their privatization; and (c) an actuarial valuation and an options study with a view to restructuring SLIC.

* * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
July 15, 2000	4,150,000
January 15, 2001	4,295,000
July 15, 2001	4,450,000
January 15, 2002	4,610,000
July 15, 2002	4,770,000
January 15, 2003	4,940,000
July 15, 2003	5,115,000
January 15, 2004	5,300,000
July 15, 2004	5,485,000
January 15, 2005	5,680,000
July 15, 2005	5,880,000
January 15, 2006	6,090,000
July 15, 2006	6,305,000
January 15, 2007	6,530,000
July 15, 2007	6,765,000
January 15, 2008	7,005,000
July 15, 2008	7,250,000
January 15, 2009	7,510,000
July 15, 2009	7,775,000
January 15, 2010	8,050,000
July 15, 2010	8,340,000
January 15, 2011	8,635,000
July 15, 2011	8,940,000
January 15, 2012	9,255,000
July 15, 2012	9,585,000
January 15, 2013	9,925,000
July 15, 2013	10,280,000
January 15, 2014	10,645,000
July 15, 2014	11,020,000
January 15, 2015	11,420,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
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The interest rate (expressed as a percentage per annum) applicable to 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 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 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) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(3) 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 6 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 and the Guarantor, 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

Eligibility of, and Terms and Conditions for Relending of Loan Proceeds to, PFIs

A. Eligibility Criteria

1. Except as the Bank shall otherwise agree, each PFI shall satisfy the following criteria in order to be eligible to participate under the Project:

(a) it shall have had a profitable operation for at least two full years of operation preceding its application for participation and this fact shall have been attested to by unqualified audit reports prepared by independent private auditors acceptable to the Bank;

(b) it shall have demonstrated to the satisfaction of the Bank that it is carrying on its operations and conducting its affairs in accordance with sound administrative, commercial and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers and that, in particular, it has adequate technical, financial and administrative capacity to undertake term lending or lease financing, as the case may be, including an organizational structure for appraising and supervising projects for such lending or financing;

(c) it shall have complied with all prudential regulations of SBP;

(d) without any limitation or restriction upon any of its other obligations under (a) through (c) above, it shall have demonstrated to the satisfaction of the Bank that: (i) it conducts portfolio audits, to the extent necessary, to properly classify and account for problem loans or overdue rentals, as the case may be, in accordance with SBP's guidelines for commercial banks; (ii) with respect to the most recent annual accounts, it has made provision for bad debts or overdue rentals, as the case may be, and suspended interest or rental income, as the case may be, and issued an annual audit report, all in accordance with SBP's prudential regulations for commercial banks; (iii) except in the case of a PFI engaged in lease financing, it meets a capital adequacy requirement of at least 4% of risk-adjusted assets after fully providing for bad debts and suspending interest, all in accordance with SBP's prudential regulations for commercial banks, and has a time-bound action plan agreed with SBP and the Bank for increasing its capital adequacy ratio to 8% within three years; (iv) in the case of a PFI engaged in lease financing, it has a debt/equity ratio not greater than 10:1, a current ratio of over 1.25 and a minimum debt service coverage ratio of 1.25, all as determined in a manner satisfactory to the Bank; (v) it has a minimum collection ratio on all term loans or lease financing, as the case may be, of 80% and this is expected to rise to 85% within two years; (vi) it has a pre-tax profit of at least 1% of total assets using proper accounting methods, as required under SBP's prudential regulations for commercial banks; and (vii) it has arrears as a percentage of total portfolio and as a percentage of portfolio affected by arrears at the end of the most recent fiscal year which are either lower than in the previous two fiscal years or are less than 10%; and

(e) it shall have demonstrated to the satisfaction of the Bank that it is currently not disqualified from participating as a financial intermediary under other Bank-financed projects or any Asian Development Bank-financed projects.

2. Each PFI shall satisfy the criteria set forth in paragraph 1 above both as a condition of commencing and, to the extent relevant, continuing its participation in the Project. To that end, the performance of each PFI under the Project shall be reviewed by the Bank once every six months against such criteria, and, if during any such review the Bank shall reasonably form the opinion that a given PFI is no longer in compliance with such criteria, the Bank reserves the right to, and may, suspend such PFI from further participation under the Project until the PFI shall have taken specific steps to be,

and shall once again be, in full compliance with such criteria to the satisfaction of the Bank.

B. Terms and Conditions

3. Except as the Borrower and the Bank shall otherwise agree, each PFI making Sub-loans shall:

(a) pay to the Borrower a charge on the amount or amounts of the Loan withdrawn by the PFI and outstanding from time to time at a floating annual rate determined for each currency of withdrawal, being one or another of Dollars, DM and Yen, and adjusted every six months so as to be equal to the prevailing component currency cost rate for such currency under loans made by the Bank plus a spread which shall be sufficient to cover a commitment fee charge at the rate of 1/4% (one-fourth of one percent) per annum and the fee payable to the Administrator pursuant to paragraph 2 of Schedule 9 to this Agreement;

(b) if not a state-owned financial institution, provide to the Borrower a guarantee, satisfactory to the Borrower and the Bank, from a suitable third party; and, if a state-owned financial institution, pay to the Borrower an additional charge of 1/2% (one-half of one percent) per annum on the amount or amounts of the Loan withdrawn by the PFI and outstanding from time to time; and

(c) repay to the Borrower the proceeds of the Loan relented to the PFI in accordance with an amortization schedule which shall be an aggregate composite of the repayment schedules of the Sub-loans made by the PFI, the principal amount to be repaid being the aggregate of the amounts withdrawn by the PFI from the Loan Account expressed in the currency or currencies of withdrawal, being one or more of Dollars, DM and Yen, determined as of the respective dates of withdrawal.

4. Except as the Borrower and the Bank shall otherwise agree, each PFI making Lease Investments shall:

(a) pay to the Borrower a return on the amount or amounts of the Loan withdrawn by the PFI and outstanding from time to time at a provisional rate to be confirmed at the end of each six-month period so as to be equal to the agreed installment of the principal to be repaid plus a spread which shall be sufficient to cover an agreed profit margin, a commitment fee charge at the rate of 1/4% (one-fourth of one percent) per annum and the fee payable to the Administrator pursuant to paragraph 2 of Schedule 9 to this Agreement;

(b) give an undertaking to the Borrower, in terms satisfactory to the Borrower and the Bank, that the PFI shall at all times hold unencumbered by any lien or hypothecation assets in value exceeding the amount or amounts of the Loan withdrawn by the PFI and outstanding from time to time, except insofar as such lien or hypothecation shall be required to secure a guarantee for such amount or amounts; and

(c) repay to the Borrower the proceeds of the Loan made available to the PFI over a period of 9 years, including a grace period of 3 years, the principal amount to be repaid being the aggregate of the amounts withdrawn by the PFI from the Loan Account expressed in the currency or currencies of withdrawal, being one or more of Dollars, DM and Yen, determined as of the respective dates of withdrawal.

SCHEDULE 6

Procedures and Eligibility Requirements
for, and Terms and Conditions
of, Sub-loans and Lease Investments

A. Eligibility Requirements

1. Except as the Bank shall otherwise agree, Sub-loans and Lease Investments shall be made only:

(a) to or in Investment Enterprises which: (i) carry on any legitimate private sector activity other than in real estate, trading and certain specified consumer services; and (ii) have a debt/equity ratio not greater than 60/40, a current ratio of over 1.2 and a minimum debt service coverage ratio of 1.4, all determined in a manner satisfactory to the Bank; and (iii) are not in default of repayments to any bank or DFI; and

(b) for Investment Projects which: (i) produce goods other than those meant primarily for the domestic market and the importation of which is restricted by means other than import taxes; and (ii) have an after-tax financial rate of return (in constant prices) of at least 15% in a low-case scenario where all forms of tax exemption, concessions and holidays have been withdrawn, determined in a manner satisfactory to the Bank.

B. Terms and Conditions

2. Except as the Bank shall otherwise agree, Sub-loans and Lease Investments shall be subject to the following terms and conditions:

- (a) Currency of denomination and withdrawal : Dollars, DM, Yen or rupees (if, in the last case, foreign exchange risk cover is obtainable by or on behalf of the Investment Enterprise for a fee)
- (b) Lending rate : To be determined by the PFI concerned in agreement with the Investment Enterprise concerned, after taking into account the charge or return payable by the PFI to the Borrower in accordance with paragraph 3(a) or paragraph 4(a), as the case may be, of Schedule 5 to this Agreement and allowing for a spread to the PFI sufficient to cover its costs, foreign exchange risk, fees, perceived credit risk and a profit margin
- (c) Repayment : To be over a period of up to 12 years including a grace period of up to 2 years, in the case of a Sub-loan, and up to 9 years or the useful life of the equipment financed, whichever is shorter, including a grace period of up to 2 years, in the case of a Lease Investment, the principal amount to be repaid in each case being the aggregate of the amounts withdrawn by the Investment Enterprise from the Loan Account expressed

in the currency of withdrawal determined as of the respective dates of withdrawal

- (d) Maximum Amount to be disbursed from the Loan Account : \$8,000,000 equivalent per Investment Project
- (e) PFI contribution : at least 40% of the debt or lease financing requirements of the Investment Project to be provided by the PFI concerned as follows: at least 20% from its own resources and the rest arranged by it from other sources (other than an SBP line of credit) as long-term financing, with a maturity of 5 years or more
- (f) Investment Enterprise equity contribution : at least 40% of the cost of the Investment Project to be covered by the Investment Enterprise in the form of equity excluding bridge loans

C. 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 or Lease Investment for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred eighty 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 Lease Investment; 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 one hundred eighty 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 for an Investment Project: (i) in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$3,000,000 equivalent, 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 Borrower and the Bank 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, the foregoing amount being subject to change from time to time and/or from PFI to PFI as determined by the Bank; and (ii) made or proposed to be made by a PFI for which the Bank shall have approved such a free limit.

4. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) or a Lease Investment to the Bank for approval, each 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 or Lease Investment, including the schedule of amortization of the Sub-loan or of repayment to the Bank of the amount of the Loan to be used for the Investment; (iii) whenever relevant, a statement as to the environmental impact of the Investment Project and any remedial action to be taken with respect thereto; 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) whenever relevant, a statement as to the environmental impact of the Investment Project and any remedial action proposed to be taken with respect thereto.

(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 June 30, 1998.

5. Sub-loans and Lease Investments 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 Borrower, the Bank and the PFI including, in the case of any Sub-loan and, to the extent that it shall be appropriate, in the case of any Lease Investment, 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 7 to this Agreement; (ii) arrangements shall be made to enable the PFI to ascertain the prices of the lowest evaluated bids for such goods and services, and to ensure that such goods and services shall be purchased at reasonable and competitive prices; and (iii) 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 7

Procurement and Consultants Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delay beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1 (a) of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use or cause to be used the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use or cause to be used bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Pakistan may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Under Part A of the Project

1. Goods estimated to cost less than the equivalent of \$5,000,000 per contract may be purchased at a reasonable and competitive price, account being taken also of other relevant factors such as time of delivery, and quality, efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, all in accordance with procedures satisfactory to the Bank.

Under Part B of the Project

2. Except as provided in paragraph 3 of this Part C, goods estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$3,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. Goods estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract awarded in accordance with the procedures referred to in Part A of this Schedule 7 and the first two contracts awarded in accordance with the procedures referred to in each of Parts C.1 and C.2 of this Schedule 7, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of the Schedule to the Project Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower SBP and BEL in carrying out the Project, the Borrower, SBP and BEL shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consulting raising the contract value to \$50,000 equivalent or above.

SCHEDULE 8

Actions Referred to in Section 3.03 of this Agreement

A. Actions to be taken by the First Exchange of Views

1. With a view to reducing the fiscal cost of SBP credit operations and promoting the flow of private sector credit: (a) except as the Bank shall otherwise agree, fix the SBP lending rate to FIs at no more than 3 percentage points below the average T-bill rate; (b) promote the ability of the private market to provide foreign exchange coverage for medium-term loans; and (c) take measures to contain the growth of SBP credit to the private sector within the limits of the corresponding growth in overall private sector credit.

2. With a view to improving monetary and credit management and introducing a level playing field for FIs, carry out a study and, on the basis of the recommendations thereof as agreed with the Bank, develop and implement a plan to regulate FIs by activity, and, in particular, to prescribe liquidity ratios for NBFIs compatible with those applying to banks in regard to foreign exchange and other deposits.

3. With respect to foreign exchange deposits, price the provision of foreign exchange risk coverage so as to reduce the attractiveness of such deposits.

4. With respect to prudential regulations, define the minimum capitalization requirement for banks in relation to risk-weighted assets and develop a program to achieve compliance therewith.

5. With a view to promoting long-term financing, review the desirability of issuing long-term variable rate debt instruments and, in the light of such review, take necessary action to facilitate the issue of such instruments.

6. With a view to promoting the development of the securities market: (a) reduce NIT's privileged access to new issues pursuant to a phased program for eliminating such access; (b) take measures to promote the establishment of investor protection funds; (c) study the desirability of establishing an over-the-counter equities market; (d) commence the operations of CLA's securities regulation wing established under Part B.3(a) of the Project; and (e) take measures, with respect to the stock exchanges, to promote the incorporation of individual members, to ensure the capital adequacy both of individual and corporate members and to enhance the requirement of disclosure of information.

7. With respect to NBFIs, complete: (a) the term lending study to be carried out under Part B.2(c) of the Project; and (b) the

DFI studies to be carried out under Part B.5 of the Project.

8. With a view to strengthening the insurance sector: (a) on the basis of a review of the options study carried out under Part B.4(c) of the Project, decide on the modalities for restructuring SLIC and PIC; (b) pursuant to the reforms introduced under Part B.4(d) of the Project, increase the minimum capital requirements for general and life insurance companies; and (c) enable CI to regulate state-owned insurance companies.

9. With a view to improving the legal environment for debt recovery, take measures to implement the first phase of the reforms that shall have been recommended by the Task Force.

B. Actions to be taken by the Second Exchange of Views

1. With a view to reducing the fiscal cost of SBP credit operations and promoting the flow of private sector credit, fix the SBP lending rate to FIs at least to equal the T-bill rate.

2. With a view to improving monetary and credit management, complete the shift from the cash deposit rate (CDR) to indirect method for purposes of control of credit.

3. With a view to introducing a level playing field for FIs: (a) review the implementation of the plan referred to in A.2 above, and agree on and take further necessary actions; and (b) reduce the differences among FIs and between FIs and non-FIs, as to income taxation of such institutions.

4. With respect to prudential regulations, define the minimum capitalization requirement for NBFIs in relation to risk-weighted assets and develop a program to achieve compliance therewith.

5. With a view to promoting long-term financing, evaluate the actions taken pursuant to paragraph A.5 above, and take any further necessary action to continue to facilitate the issue of long-term variable rate debt instruments.

6. With a view to promoting the securities market: (a) complete a study of the possibility of establishing a regulatory framework to facilitate the trading of commodities, foreign exchange and stock futures; and (b) take measures under Part B.3(a) of the Project to regulate insider trading.

7. With respect to NBFIs, implement the agreed recommendations of the DFI studies carried out under Part B.5 of the Project.

8. With a view to strengthening the insurance sector: (a) initiate a program for the restructuring of SLIC and PIC pursuant to proposals prepared under Part B.4(c) of the Project; (b) pursuant to reforms introduced under Part B.4(d) of the Project, further reduce the requirement of compulsory reinsurance with PIC; and (c) review the system of rate-setting by the Insurance Association of Pakistan with a view to phasing out that system.

9. With a view to improving the legal environment for debt recovery, take measures to implement the second and final phase of the reforms that shall have been recommended by the Task Force.

SCHEDULE 9

Implementation Program

1. The responsibility for the administration of Sub-loans and Lease Investments under Part A of the Project and of the technical assistance under Parts B.3, B.4 and B.6 of the Project shall be assigned to the Administrator. To that end,

the Administrator shall establish an Administrative Unit (AU) headed by a banking/credit manager to be appointed under the Project and comprising, in addition, two project officers, environment specialists, an accounts/disbursements officer and support staff. The AU shall, inter alia, monitor the eligibility status of each PFI; provide information on financial institutions interested in participating under the Project; receive from PFIs and pass on to the Bank applications for approval of Sub-loans and Lease Investments and requests for authorization of withdrawals in respect of free-limit Sub-loans under Part A of the Project; channel withdrawal applications from, and funds to, PFIs under Part A of the Project; channel funds to CLA, CI and PC under Parts B.3, B.4 and B.6, respectively, of the Project; channel payments and repayments due to the Borrower from PFIs under Part A of the Project; and account for expenditures under Parts A, B.3, B.4 and B.6 of the Project. The AU shall not be responsible for deciding on the participation of financial institutions under the Project which shall be a matter falling exclusively within the domain of the Bank; nor shall it be responsible for judging the merits of Investment Projects, which shall be a matter falling within the exclusive domain of PFIs. The AU shall have its own operational policies and procedures, which it shall develop under the Project, and shall train its staff, all with the assistance of the banking/credit manager referred to above.

2. The Administrator shall receive from the Borrower a fee payable at the rate of 1/2% (one-half of one percent) per annum on the amount or amounts withdrawn from the Loan Account and outstanding from time to time with respect to Sub-loans and Lease Investments under Part A of the Project until the preparation of the project implementation completion report referred to in Section 9.07(c) of the General Conditions, and at the rate of 1/4% (one-fourth of one percent) per annum on such amount or amounts thereafter and until all Sub-loans and Lease Investments under Part A of the Project shall have been repaid. The Administrator shall receive from the Borrower an advance on its fee in an amount equivalent to \$1,000,000 payable out of the proceeds of the Loan, which the Administrator shall repay in equal semi-annual installments over a period of six years commencing on the date the Administrator shall have received, on behalf of the Borrower, the first of the repayments due to the Borrower from PFIs under Part A of the Project.

3. The responsibilities and terms and conditions of the Administrator shall be set forth in the Administration Agreement in form and substance satisfactory to the Bank.

4. SBP shall be responsible for monitoring progress in carrying out the Program, and SBP and BEL shall be responsible for the administration of their own technical assistance under Parts B.1 and B.2 and B.5, respectively, of the Project, and shall report on these matters directly to the Bank.

5. SBP and BEL (in its own right and as the Administrator) shall each furnish to the Bank, within 45 days of each reporting period, a semi-annual report in form and substance satisfactory to the Bank on progress under the Project. The Administrator shall also furnish to the Bank, within 45 days of each reporting period and in form and substance satisfactory to the Bank, a semi-annual report on the expenditures incurred by the AU under the Project. SBP shall include in its report progress in the carrying out of the Program. The indicators against which progress under the Program and the Project shall be monitored shall be set forth in an Implementation Plan satisfactory to the Bank. The Implementation Plan shall be reviewed and revised as necessary by the Borrower and the Bank not later than January 31 and July 31 in each year, with the first such review taking place not later than January 31, 1996.

