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A.I.D. Loan No. 391-K-189
A.I.D. Project No. 391-0473
Dollar Appropriation No. 72-1131037
Budget Plan Code No. HESA-83-37391-KL13
Project Agreement No. 83-08

PROJECT LOAN AGREEMENT

BETWEEN

THE PRESIDENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

AND THE

UNITED STATES OF AMERICA

FOR

RURAL ELECTRIFICATION

DATE: May 23, 1983

(CONFORMED COPY)

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Dated: May 23, 1983

Between

The President of the Islamic Republic of Pakistan, (hereinafter referred to as the "Cooperating Country")

and the

United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Cooperating Country of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, is designed to assist the Government of

Pakistan to expand reliable electric service to its rural population for productive and social uses, to improve the rural poor's access to that service, and to assist the Cooperating Country to overcome a shortfall in electric power generation capacity. Activities to be financed by A.I.D. include: (a) institutional strengthening of the distribution function within the Water and Power Development Authority (WAPDA) including the development of a National Rural Electrification Master Plan; (b) the design and implementation of a Comprehensive Distribution Function Training Program; (c) the design and implementation of a Comprehensive Distribution System Energy Loss Reduction Program; (d) partial funding of Phase I of the Guddu Combined Cycle Turbine Facility to assist Pakistan to narrow the existing power supply-demand gap; and, (e) the design and implementation of a Rural Electrification System Expansion Program. Annex 1, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be

changed by written agreement of the authorized representatives of the Parties named in Section 10.2, without formal amendment of this Agreement.

SECTION 2.2: Incremental Nature of Project

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of each subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Cooperating Country, may specify in Project Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under each individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Loan. To assist the Cooperating Country to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Cooperating Country under the terms of this Agreement not to exceed Twenty Seven Million United States ("U.S.") dollars (\$ 27,000,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal."

The Loan may be used to finance foreign exchange costs, as defined in Section 8.1, and local currency costs, as defined in Section 8.2, of goods and services required for the Project.

SECTION 3.2. Cooperating Country Resources for the Project.

The Cooperating Country agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

SECTION 3.3. Fixed Amount Reimbursement (FAR) Commitments.

Loan and Grant increments required for Fixed Amount Reimbursement (FAR) of system expansion work orders under the rural distribution component of this Project will not be obligated or made available by A.I.D., unless A.I.D. after review of the comprehensive plan of progress of institutional improvements supported by this Project, and available generation capacity, determines to do so.

SECTION 3.4. Project Assistance Completion Date ("PACD").

(a) The PACD, which is September 30, 1988, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this

Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 9.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Cooperating Country, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Loan Terms

SECTION 4.1. Interest. The Cooperating Country will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per

annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 9.5) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The Cooperating Country will repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Cooperating Country with an amortization schedule in accordance with this Section after the final disbursement of the Loan.

SECTION 4.3. Application, Currency, and Place of Payment.

All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Cooperating Country may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms.

(a) The Cooperating Country and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the

repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Pakistan, which enable the Cooperating Country to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 10.1, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 10.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of the Secretary, Economic Affairs Division, Ministry

of Finance and Economic Affairs, Government of Pakistan, Pakistan
Secretariat, Islamabad, Pakistan.

SECTION 4.6. Termination on Full Payment. Upon payment
in full of the Principal and any accrued interest, this Agreement
and all obligations of the Cooperating Country and A.I.D. under
it will cease.

Article 5: Conditions Precedent to Disbursement.

SECTION 5.1. Conditions Precedent to First Disbursement.
Except as A.I.D. may otherwise agree in writing, prior to any
disbursement of the Loan, or to the issuance by A.I.D. of
documentation pursuant to which such disbursement will be made,
the Cooperating Country will furnish to A.I.D., in form and
substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this

Conditions Precedent to Disbursement of Grant funds appear as
Article 4 of the Project Grant Agreement for Rural Electrification
executed on September 25, 1982.

Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Cooperating Country, and that it constitutes a valid and legally binding obligation of the Cooperating Country in accordance of all of its terms; and,

(b) A statement of the names of the persons holding or acting in the office of the Cooperating Country specified in Section 10.2, and a specimen signature of each person specified in such statement.

SECTION 5.2. Conditions Precedent to Disbursement for Commodities and Construction Related to the Power Generation Component.

Except as A.I.D. may otherwise agree in writing, prior to the disbursement of funds under this Project for commodities and construction related to the Power Generation Component for this Project, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Cooperating Country, acting through WAPDA, shall furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) evidence that adequate and appropriately scheduled

financing has been secured, and a contract has been executed for the construction of a completely operational Guddu IV Steam Generating Facility; and,

(b) an updated feasibility study for Phases I and II of the Guddu Combined Gas Turbine Facility establishing the Facility's technical and economic feasibility; and,

(c) evidence that (1) adequate and appropriately scheduled financing for Phase I of the Guddu Combined Cycle Gas Turbine Facility has been secured and, (2) formal procedures are in progress to arrange adequate and appropriately scheduled financing for Phase II of the Guddu Combined Cycle Gas Turbine Facility.

SECTION 5.3. Conditions Precedent to Disbursement for Fixed Amount Reimbursement of System Expansion Work Orders Under the Rural Distribution System Expansion Component.

Except as A.I.D. may otherwise agree in writing, prior to the disbursement of funds under this Project for Fixed Amount Reimbursement (FAR) of System Expansion Work Orders under the Rural Distribution System Expansion component of this Project, or to the

issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Cooperating Country, acting through WAPDA, shall furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that: (a) a Comprehensive National Rural Electrification Master Plan has been developed and is being implemented according to schedule; (b) execution of plans for additional power generation capacity is proceeding satisfactorily; and (c) an economically feasible and administratively sound System Expansion Work Order Design and Management System consistent with the Master Plan has been developed based on accurate data.

SECTION 5.4. Condition Precedent to Disbursement for Fixed Amount Reimbursement for Work under the Energy Loss Reduction Component.

Except as A.I.D. may otherwise agree in writing, prior to the disbursement of funds under this Project for Fixed Amount Reimbursement (FAR) for work under the Energy Loss Reduction Component of this Project, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Cooperating Country, acting through WAPDA, shall furnish to

A.I.D., in form and substance satisfactory to A.I.D., evidence that an economically feasible and administratively sound Rehabilitation Work Order Design and Management System has been developed based on accurate data.

SECTION 5.5. Condition Precedent to Disbursement for the New Comprehensive Training Program for Distribution Function Personnel of WAPDA Under the Distribution Function Training Component.

Except as A.I.D. may otherwise agree in writing, prior to the disbursement of funds under this Project for the New Comprehensive Training Program under the Distribution Function Training Component of this Project, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Cooperating Country, acting through WAPDA, shall furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that a feasible and effective new Comprehensive Training Program for distribution function personnel of WAPDA has been developed.

SECTION 5.6. Conditions Precedent to Disbursement for Design and/or Construction of a Central Distribution Function Training Institute Under the Distribution Function Training Component.

(a) Except as A.I.D. may otherwise agree in writing, prior to the disbursement of funds by A.I.D. for architectural and engineering services to review the site for the construction of a Central Distribution Function Training Institute under the Distribution Function Training Component of this Project, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Cooperating Country, acting through WAPDA, shall identify a proposed site for the Training Institute acceptable to A.I.D.; and,

(b) Except as A.I.D. may otherwise agree in writing, prior to any disbursement of funds by A.I.D. for architectural and engineering services with respect to such Training Institute, other than site review, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Cooperating Country, acting through WAPDA, shall establish its right, in form and substance satisfactory to A.I.D., to ownership or adequate and

sufficient use and occupancy of the proposed land site for the Training Institute.

SECTION 5.7. Notification. When A.I.D. has determined that the conditions precedent specified in Sections 5.1, 5.2, 5.3, 5.4, 5.5 and 5.6 have each been met, A.I.D. will promptly so notify the Cooperating Country.

SECTION 5.8. Terminal Dates for Conditions Precedent.

(a) If the conditions specified in Section 5.1 have not been met within 60 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Cooperating Country.

(b) If the conditions specified in Section 5.2 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent

not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Cooperating Country. In the event of such termination, the Cooperating Country will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

(c) If the conditions specified in Section 5.3 have not been met by September 25, 1984 or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Cooperating Country. In the event of such termination, the Cooperating Country will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

(d) If the conditions specified in Section 5.4 have not been met by March 25, 1984, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed

balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Cooperating Country. In the event of such determination, the Cooperating Country will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

(e) If the conditions specified in Section 5.5 have not been met by September 25, 1984, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Cooperating Country. In the event of such termination, the Cooperating Country will repay immediately the Principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

(f) If the conditions specified in Section 5.6 have

not been met by September 25, 1984, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Cooperating Country. In the event of such termination, the Cooperating Country will repay immediately the Principal then outstanding and any accrued interest on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

Article 6: Covenants

SECTION 6.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress towards attainment of the objectives of the Project;

(b) identification and evaluation of problem areas and constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and,

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 6.2. Training and Work Requirements. The Cooperating Country, acting through WAPDA, shall make every reasonable effort to require that all persons trained under this Project work in electric utility, electricity distribution, and/or rural electrification activities in Pakistan for not less than three times the length of time of his or her training program provided, however, that, in no event, shall the individual be allowed to work for less than one year nor be required to work for more than five years from the date of the individual's completion of training.

SECTION 6.3. Quarterly Activity Reports. Except as A.I.D.

may otherwise agree in writing, WAPDA shall furnish to A.I.D. quarterly activity reports, the requirements for which shall be set forth by A.I.D. in Project Implementation Letters. These requirements may include, but are not limited to, providing information concerning: (a) comprehensive distribution planning (financial, administrative, and technical), including development of a comprehensive National Rural Electrification Master Plan; and (b) the hierarchy, functions, responsibilities, authority, organization, and staffing of the Office of the General Manager of Distribution and other WAPDA administrative units sharing responsibility for electric power distribution and rural electrification; (c) the functions, responsibility, autonomy, organization, staffing, and facilities of Area Electricity Boards; (d) the duties, responsibility, and authority of the Rural Electrification Office (REO); (e) distribution function staffing and personnel administration, policies, and practices; (f) improvements in customer service facilities and procedures; (g) improvements in customer accounts management;

(h) rationalization of cost and service, rates, recurrent costs, and property valuation, and depreciation practices; (i) improvement in collection, dissemination, and utilization of statistics; and, (j) improvements in procurement and inventory management procedures.

Article 7: Special Conditions - Cultivation of Opium Poppy and Processing of Opium into Heroin.

The Government of Pakistan (GOP) agrees to undertake appropriate measures to prohibit cultivation of opium poppy and/or processing of opium into heroin or morphine base within any area benefiting from this Project. In the event that a determination is made that the cultivation of opium poppy and/or processing of opium into heroin is occurring in an area programmed to benefit or benefiting from this Project, no assistance under this Project directly benefiting that area shall commence and, if commenced, such assistance shall be suspended until the prohibited activity is eliminated. If the prohibited activity found to exist is not fully eliminated within a specified period of time to be agreed

upon by the United States Government and the GOP, all assistance under this Project directly benefiting that area may be terminated. If, prior to the Project Assistance Completion Date (PACD) established by A.I.D. for this Project as it may be from time to time amended, it is determined that the prohibited activity is occurring in an area which has benefited from this Project and the prohibited activity is not eliminated within a period of time to be agreed upon by the United States Government and the GOP, the GOP shall reimburse A.I.D. for all assistance that the GOP has received from A.I.D. under this Project, which has resulted in direct benefits to that area in which the prohibited activity is occurring.

Without limitation of other provisions applicable to termination and/or refund as set forth in this Project Agreement and annexes hereto, if A.I.D. determines that A.I.D. is entitled to reimbursement under the provisions of this Article of the Agreement, A.I.D. may require the Cooperating Country to refund the amount of any disbursements from the Loan for which there is

an entitlement to reimbursement to A.I.D. in U.S. Dollars within 120 days after receipt of request therefor. Such refunds paid by the Cooperating Country to A.I.D. shall be considered as a reduction in the amount of A.I.D.'s obligation under the Loan, but may be made available for reuse under the Loan if so authorized by A.I.D. in writing.

Article B: Procurement Source

SECTION 8.1. Foreign Exchange Costs. Disbursements pursuant to Section 9.1 will be used exclusively to finance the costs of goods and services required for the Project having with respect to goods, their source and origin and with respect to services, their nationality in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services), or Pakistan ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1(b) with respect to marine

insurance. Ocean transportation will be financed under the Loan only on vessels under flag registry of the United States or Pakistan except as A.I.D. may otherwise agree in writing. If A.I.D. determine either that there are no vessels under flag registry of Pakistan generally available for ocean transportation, or that Pakistan has no access to U.S. flag service, A.I.D., in a Project Implementation Letter, may agree to finance under the Loan ocean transportation costs on vessels under flag registry of any country included in A.I.D. Geographic Code Book 941.

SECTION 8.2. Local Currency Costs. Disbursements

pursuant to Section 9.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Pakistan ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

Article 9: Disbursements

SECTION 9.1. Disbursements for Foreign Exchange Costs.

(a) In accord with requirements of conditions precedent, the Cooperating Country may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods and services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D. with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services; or (B) requests for A.I.D. to procure commodities or services in the Cooperating Country's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay

such contractors or suppliers for such goods or services.

Banking charges incurred by the Cooperating Country in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Cooperating Country instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

SECTION 9.2. Disbursement for Local Currency Costs.

(a) In accord with requirements of conditions precedent, the Cooperating Country may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation, as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. Dollars
by purchase or from local currency already owned by the U.S.

Government; or,

(2) by A.I.D. (A) requesting the Cooperating Country to make available the local currency for such costs, and (B) thereafter making available to the Cooperating Country, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Cooperating Country or its designee, an amount of U.S. Dollars equivalent to the amount of local currency made available to the Cooperating Country, which Dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U.S. Dollars equivalent to the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. Dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the

applicable Special Letter of Credit.

SECTION 9.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

SECTION 9.4. Rate of Exchange. Except as may be more specifically provided under Section 9.2, if funds provided under the Loan are introduced into Pakistan by A.I.D. or any public or private agency for the purposes of carrying out obligations of A.I.D. hereunder, the Cooperating Country will make such arrangements as may be necessary so that such funds may be converted into the currency of Pakistan at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Pakistan.

SECTION 9.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Cooperating Country or its designee,

or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Cooperating Country or its designee local currency acquired in accordance with Section 9.2(b) (1); or (c) if local currency is obtained in accordance with Section 9.2(b) (2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 10: Miscellaneous

SECTION 10.1. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Cooperating Country:

Mail Address: Economic Affairs Division
Ministry of Finance & Economic Affairs
Government of Pakistan
Islamabad (Pakistan)

Alternative address for cables: ECONOMIC ISLAMABAD.

To A.I.D.:

Mail Address: USAID Mission to Pakistan
P.O. Box 1028
Ramna 5
Islamabad (Pakistan)

Alternative address for cables: USAIDPAK ISLAMABAD.

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Cooperating Country, in addition, will provide the USAID Mission/Pakistan with a copy of each communication sent to A.I.D.

SECTION 10.2. Representatives. For all purposes relevant to this Agreement, the Cooperating Country will be represented by the individual holding or acting in the Office of the Secretary, Joint Secretary and the Deputy Secretary for Economic Affairs Division and A.I.D. will be represented by the individual holding or acting in the Office of the Director, USAID Mission to Pakistan, each of whom, by written notice, may designate

additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Cooperating Country, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 10.3. Standard Provisions Annex. A "Project Loan Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Cooperating Country and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their

names and delivered as of the day and year first above written.

GOVERNMENT OF PAKISTAN

BY: Sd/-

NAME: Ejaz A. Naik

TITLE: Secretary,
Economic Affairs Division

UNITED STATES OF AMERICA

BY: Sd/-

NAME: Ronald I. Spiers

TITLE: Ambassador of the
United States of America

BY: Sd/-

NAME: Donor M. Lion

TITLE: Director,
USAID/Pakistan

PROJECT DESCRIPTION

A. Project Goal and Purpose

The overall sector goal to which this project contributes is to improve the quality of life of the rural poor. The purpose of the project is to assist the GOP to expand reliable electric service to Pakistan's rural population for productive and social uses, to improve the rural poor's access to that service, and to assist the GOP to overcome a shortfall in electric generating capacity.

B. Project Components

This six-year project is designed to assist the Government of Pakistan to address the following constraints to the effective implementation of a National Rural Electrification Program: lack of trained staff; inability to retain qualified staff due to lack of career advancement incentives; need for improved staff selection procedures; growing backlog of power service applications; system load outstripping power generation capability; and, loss of energy due to overloaded distribution systems, lack of proper metering and pilferage. The project consists of five distinct but complementary and interrelated components. The fifth component, Rural System Expansion and Connections, will be deferred until August 1985 or until the Guddu Gas Turbine Units are operational.

1. Institutional Improvement

The objectives of this component are to assist WAPDA to : (a) prepare a comprehensive National Rural Electrification Master Plan; and, (b) strengthen its human and physical resources and management operations to implement the Plan and to operate the resultant rural distribution system in an efficient and financially sound manner. To achieve these objectives, funds will be provided for long and short-term technical assistance, training of WAPDA employees, including the establishment of a Sister-Utility Exchange Program, commodities, and the design and construction of model warehouses and rural customer service centers.

2. Distribution Function Training

With over 67,000 distribution employees (many of them young, illiterate, and without the minimum aptitudes

and preparation required for the positions they occupy), the distribution function training requirements are of such a magnitude and diversity and are growing so fast that all of them simply cannot be attended to even within the six year life of this project. One of the first activities to be undertaken will be to establish training goals and objectives which are consistent with the basic institutional goals and objectives of WAPDA and the policies of the GOP. Once those goals and objectives are approved by WAPDA management and A.I.D., a Comprehensive Training Program will be developed and its initial stages implemented, including the construction of a distribution function training facility.

3. Distribution System Energy Loss Reduction

The objective of this component is to develop and initiate the implementation of a comprehensive distribution system technical energy loss reduction program. The program will include a management information system to collect and maintain reliable information about distribution circuit and circuit component capacities and loads, economic and financial costs of energy generated by WAPDA's different generating plants, peak demand load management, and economic criteria for selecting conductor and transformer sizes and for deciding when installed conductors and transformers should be changed. Energy and demand losses will be reduced by expanding the use of compression connectors, reducing loads on existing primary and secondary lines, replacing economically undersized conductors with larger sizes, installing capacitors (electric energy storage devices), installing voltage regulators, replacing underloaded and overloaded transformers, and by applying modern load control techniques. The administrative vehicle which will be used to implement the program will be an Energy Loss Reduction Work Order System.

4. Power Generation

Under this component, A.I.D. will assist the GOP and WAPDA to overcome a portion of Pakistan's severe power generation capability shortfall by providing \$52 million toward the foreign exchange costs of Phase I of the Guddu Combined Cycle Gas Turbine Project. WAPDA anticipates that the balance of the currently estimated foreign exchange costs (\$60.5 million) of Phase I will be provided by the ADB and that all of the foreign exchange costs of Phase II (\$84.17 million) will be financed by other donors. Of the \$52 million to be provided by A.I.D., \$50 million will be used for procurement of U.S. goods and equipment and \$2 million will finance technical assistance and training.

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5. Rural System Expansion and Connections Program

A total of about \$57 million will be made available under this component for Rural Distribution System Expansion and Connections. Subject to the availability of funds, an additional \$15 million will be provided under the Agricultural Commodities and Equipment Program (391-0468) in FY 1984 to import transformers, energy (watt-hour) meters and other items required to connect privately owned irrigation tubewells, etc. Because of the severe generation capability shortfall, activities under this component are scheduled to begin about April 1985 after the National Rural Electrification Master Plan has been developed and approved and the additional power generation capacity (component 4) is in place.

Following approval of the Rural Electrification Master Plan, a Rural System Expansion and Connection Program will be developed in conformance with the Master Plan. As many as 215,700 new connections (residential, community, commercial, industrial, and tubewells) may be financed under this project. As in the case of the energy loss reduction activities, a Work Order System will be used to implement the approved Rural System Expansion and Connection Program.

C. Implementation Plan

1. Illustrative Implementation Schedule

All project activities, except for those under the Power Generation and Rural System Expansion Components, are scheduled to take place over a period of six years from the date of signing of the Project Agreement. Activities under the Power Generation Component will be started as soon as the Agreement is signed and are scheduled to be completed during the third project year. Activities under the Rural System Expansion Component will start the third project year and continue until the Project Assistance Completion Date (PACD), which is September 30, 1988.

As soon as possible after the Project Agreement is signed, short-term technical assistance will be provided to assist WAPDA to review and finalize the specifications, economic analysis and tender documents for the Guddu Combined Cycle Power Generation Facility. While the documents are being reviewed, WAPDA, in collaboration with the Mission, will finalize arrangements for financing of the balance of the foreign exchange costs of the Facility. Upon receipt of acceptable documents and

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confirmation that the balance of funding has been secured, the Mission will authorize WAPDA to issue the tender documents for the items that will be financed with A.I.D. funds and a request for proposals for the provision of long-term technical assistance that will be required to approve as built drawings, inspect equipment, and monitor construction.

At the same time, the Mission will negotiate a direct A.I.D. contract for the Technical Assistance Team (TAT) required to implement components 1-4 and will place orders for the vehicles required by the TAT. The priority focus of the TAT will be the development of the Rural Electrification Master Plan which should be finished by June 1983. The TAT will also focus on the development of the Comprehensive Training and Energy Loss Reduction Programs, the organization of the Sister Utilities Exchange Program, arrangements to train WAPDA implementation staff, and the contracting and training of Pakistani TAT staff. All these activities should be completed within six months after the arrival of the TAT. Activities under the Comprehensive Training, Sister Utility Exchange and Energy Loss Reduction Programs will be phased in as each program is approved. Temporary quarters will be used for in-country training under the Comprehensive Training Program until the permanent facility is completed at the end of the third year of the project. The first activity under the Energy Loss Reduction Program will be the award of contracts for commodities that will have to be imported from the United States. Simultaneously, the preparation of energy loss reduction Work Orders will begin and a number of Work Orders will be approved and ready to execute as soon as the first materials arrive at the end of the first quarter of the second project year. Rural System Expansion activities will follow this same sequence with a lag of several months depending on the status of power generation construction and the National Rural Electrification Master Plan.

2. A.I.D. Responsibilities

A.I.D. will be responsible for : (a) contracting with all technical consultants except the long-term advisors to be provided under the Power Generation component; (b) purchasing all vehicles, computer hardware and software and other equipment to be funded under this project as may be mutually agreed between the parties; (c) advance approval of the design and cost estimates for all work orders under the Energy Loss Reduction and Rural System Expansion components, inspections of works, and certification for payment of all such works financed under this project; (d) arranging for short-term and long-term training in the United States; and, (e) providing

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sufficient staff to participate in the scheduled project evaluations and to liaise with GOP/WAPDA staff in the implementation of this project.

3. GOP/WAPDA Responsibilities

GOP responsibility for each of the five components of the project will be as follows :

<u>Project Component</u>	<u>Component Manager</u>
Institutional Improvement	General Manager of Distribution
Distribution Function Training	Chief, Distribution Training (New Position)
Distribution System Energy Loss Reduction	Chief Engineer, Design (Distribution)
Power Generation	Chief Engineer, Thermal Generation
Rural Distribution System Expansion	Chief Engineer, Rural Electrification

Each of the Component Managers in WAPDA will be responsible for : (a) all aspects of the implementation of the component assigned; (b) the timely coordination of the activities of their component with the Managers of the other four components and other officers and administrative units of WAPDA and the GOP; (c) providing adequate counterparts to work with consultants; (d) liaising on a day-to-day basis with A.I.D. representatives and members of the Technical Assistance Team; (e) assisting with the scheduling of and participating in project evaluations; (f) procuring commodities to be financed under this project as may be mutually agreed between the parties. The Chief Engineer, Thermal Generation will also be responsible for contracting for the long-term technical assistance programmed under the Power Generation component.

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ILLUSTRATIVE

SUMMARY OF PROJECT COSTS
BY EXPENSE CATEGORY AND SOURCE OF FUNDING 5/
(In 000s)

A.I.D. Project No.391-0473
Rural Electrification
Project Agreement No. 83-08
ANNEX I
Page 6

Expense Category	CUMULATIVE (FY 1982 AND FY 1983 TO DATE)						LIFE OF PROJECT FUNDING 2/					
	A.I.D. Dollars			US Rupees (Rs.)	GOP Rs. (Rs.)	Other1/ Donors (\$)	A.I.D. Dollars 3/			U.S.Rs. (Rs.)	GOP Rs. (Rs.)	Other1/ Donors (\$)
	Loan (\$)	Grant (\$)	Total (\$)				Loan (\$)	Grant (\$)	Total (\$)			
1. Technical Assistance												
a. Short-Term	-	2,544	2,544	-	-	-	-	2,544	2,544	11,576	-	-
b. Long-Term	-	10,225	10,225	-	-	-	-	14,225	14,225	89,753	-	-
2. Training												
a. U.S.												
i. Short-Term	-	2,899	2,899	-	-	-	-	3,899	3,899	18,458	-	-
ii. Long-Term	-	821	821	-	145	-	-	821	821	705	426	-
b. In-Country	-	-	-	-	23,676	-	-	-	-	-	71,014	-
3. Commodities												
a. Vehicles	-	200	200	-	-	-	-	268	268	-	-	-
b. Other	27,000	3,000	30,000	-	63,208	60,500	55,325	19,334	74,659	1,180	252,830	60,500
4. Other Costs												
a. Construction	-	-	-	-	728,603	-	-	-	-	38,572	945,672	-
b. Operating Costs	-	-	-	-	234,238	-	-	-	-	-	234,238	-
c. FAR 4/	-	1,000	1,000	-	-	-	46,493	-	46,493	-	-	-
Sub-Total	27,000	20,689	47,689	-	1,049,870	60,500	101,818	41,091	142,909	160,244	1,504,180	60,500
Contingency	-	311	311	-	-	-	10,182	1,909	12,091	15,756	150,420	-
TOTAL	27,000	21,000	48,000	-	1,049,870	60,500	112,000	43,000	155,000	176,000	1,654,600	60,500

1/ The ADB is expected to provide \$60.5 million in FY 1983 to cover the balance of the foreign exchange costs of Phase I of the Guddu Combined Cycle Gas Turbine Power Generation Project.

2/ Subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of the parties to proceed at the time of each subsequent increment.

3/ Does not include \$15 million earmarked under the Agricultural Commodities and Equipment Project (391-0468) in FY 1984 to import transformers, capacitors, meters and other equipment to connect irrigation tubewell pumps and other rural customers under this project, subject to the availability of funds to A.I.D. for this purpose.

4/ Payments under fixed Amount Reimbursement System for Energy Loss Reduction and Rural System Expansion Components.

5/ AID Grant Funds are to be provided under separate Agreement.