

No. 10357

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
PAKISTAN**

Loan Agreement—*Ninth Pakistan Railway Project* (with annexed General Conditions Applicable to Loan and Guarantee Agreements and Project Agreement between the Bank and the Province of West Pakistan). Signed at Washington on 26 June 1969

Authentic text: English.

Registered by the International Bank for Reconstruction and Development on 16 March 1970.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
PAKISTAN**

Contrat d'emprunt — *Neuvième projet relatif aux chemins de fer pakistanais* (avec, en annexe, les Conditions générales applicables aux contrats d'emprunt et de garantie et le Contrat relatif au Projet entre la Banque et la province du Pakistan occidental). Signé à Washington le 26 juin 1969

Texte authentique : anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 16 mars 1970.

LOAN AGREEMENT ¹

AGREEMENT, dated June 26, 1969, between ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS the Borrower and the Province of West Pakistan have requested the Bank to assist in the financing of a program for the rehabilitation, improvement and expansion of the railway facilities in the Province of West Pakistan;

WHEREAS the Province of West Pakistan will, with the Borrower's assistance, carry out or cause to be carried out such program, and, as part of such assistance, the Borrower will make available to the Province of West Pakistan the proceeds of the loan provided for herein; and

WHEREAS the Bank is willing to make a loan available on the terms and conditions provided herein and in a project agreement of even date herewith ² between the Province of West Pakistan and the Bank;

NOW THEREFORE the parties hereto hereby agree as follows:

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to the Loan Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969, ² with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said General Conditions Applicable to Loan and Guarantee Agree-

¹ Came into force on 28 August 1969, upon notification by the Bank to the Government of Pakistan,

² See p. 88 of this volume.

ments of the Bank as so modified being hereinafter called the General Conditions):

- (a) Section 6.06 of the General Conditions is amended by inserting the words “the Project Agreement” after the words “the Loan Agreement”.
- (b) Section 9.03 of the General Conditions is amended by inserting the words “or the Project Agreement” after the words “or Guarantee Agreement”.

Section 1.02. Wherever used in the Loan Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) “Province” means the Province of West Pakistan, a political subdivision of the Borrower.

(b) “Project Agreement” means the agreement between the Province and the Bank of even date herewith, providing *inter alia* for the carrying out of the Project, and shall include any amendments thereof made by agreement between the Province and the Bank.

(c) “Railway” means the Pakistan Western Railway, an agency of the Province administered by the West Pakistan Railway Board constituted under the Transfer of Railways Order, 1962, of the Borrower, and any successor thereto, and shall include any other agency of the Province charged with the administration and operation of the railway of the Province.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to fourteen million five hundred thousand dollars (\$14,500,000).

Section 2.02. (a) The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan.

(b) The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth

in, the Loan Agreement and in accordance with the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Bank.

Section 2.03. The Borrower shall be entitled to withdraw from the Loan Account such amounts as shall have been paid (or, if the Bank shall so agree, such amounts as shall be required to meet payments to be made) in respect of the reasonable cost of goods or services required for the Project and to be financed under the Loan Agreement.

Section 2.04. If the Borrower shall obtain from sources other than the Bank adequate financing for the carrying out of Part IV (d) of the Project, the Bank, after consultation with the Borrower, may, by notice to the Borrower, cancel the amount of the Loan then allocated for such purpose under Category V of the allocation of the proceeds of the Loan referred to in Section 2.02 of this Agreement, and no longer required. The provisions of Section 6.05 of the General Conditions shall apply to such cancellation.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest at the rate of six and one-half per cent ($6\frac{1}{2}$ %) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

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

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall cause the proceeds of the Loan to be

applied in accordance with the provisions of the Loan Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the procedures and subject to the conditions set forth in the Project Agreement.

Section 3.03. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project and in the operation of the Railway.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

Section 4.02. The Secretary to the Government of Pakistan, Ministry of Finance, and such other person or persons as he shall appoint in writing, are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) The Borrower shall relend the proceeds of the Loan or the equivalent thereof in the currency of the Borrower to the Province for the purposes of the Project at a rate of interest of six and one-half per cent per annum on the principal amount of the Loan so relented and outstanding from time to time, to be repaid to the Borrower in the currency in which it is so relented, after a period of

grace of three years from the date of the Loan Agreement, in semi-annual installments, the last such installment to be paid on or before August 15, 1994.

(c) The Borrower shall cause the Province punctually to perform all the covenants and agreements on its part to be performed as set forth in the Project Agreement, shall take or cause to be taken all action which shall be necessary to enable the Province to perform such covenants and agreements and shall not take any action which might interfere with such performance.

Section 5.02. (a) The Borrower and the Bank shall co-operate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Bank shall from time to time, at the request of either party, exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof.

(c) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof, the performance by the Borrower of its obligations under the Loan Agreement, or the performance by the Province of its obligations under the Project Agreement.

(d) The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Borrower for purposes related to the Loan.

Section 5.03. It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to : (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of

the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term “assets of the Borrower” as used in this Section includes assets of the Borrower or of any of its political subdivisions or of any agency of the Borrower or of any such political subdivision, including the State Bank of Pakistan or any other institution performing the functions of a central bank.

Section 5.04. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories and shall be free from all restrictions imposed under any such laws; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 5.05. The Loan Agreement, the Project Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof, and the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Article VI

REMEDIES OF THE BANK

Section 6.01. If at any event specified in Section 7.01 of the General Conditions or in Section 6.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then, at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, together with the interest and other charges thereon, and upon any such declaration such principal, interest and charges

shall become due and payable immediately, anything to the contrary in the Loan Agreement or in the Bonds notwithstanding.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional event is specified, namely, that a default shall have occurred in the performance of any covenant or agreement of the Province under the Project Agreement, and such event shall continue for a period of thirty days.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 11.01 of the General Conditions, namely, that the execution and delivery of the Project Agreement on behalf of the Province shall have been duly authorized or ratified by all necessary corporate and governmental action.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 11.02 of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Province and constitutes a valid and binding obligation of the Province in accordance with its terms.

Section 7.03. The date September 1, 1969 is hereby specified for the purposes of Section 11.04 of the General Conditions.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be December 31, 1972, or such other date as shall be agreed between the Borrower and the Bank.

Section 8.02. The Secretary to the Government of Pakistan, Economic Affairs Division, is designated as representative of the Borrower for the purposes of Section 10.03 of the General Conditions.

Section 8.03. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Borrower:

The Secretary to the Government of Pakistan
Economic Affairs Division
Islamabad, Pakistan

Cable address:
Economic
Islamabad

For the Bank:

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

Cable address:
Intbafrad
Washington, D.C.

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

Islamic Republic of Pakistan:

BY A. R. BASHIR
Authorized Representative

International Bank for Reconstruction and Development:

BY J. Burke KNAPP
Vice President

SCHEDULE 1

ALLOCATION OF THE PROCEEDS OF THE LOAN

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
I. Track and bridge material and equipment for Part I of the Project	7,800,000
II. Material, plant and equipment for workshops	1,300,000
III. Material and equipment for Part III of the Project	4,200,000
IV. Consulting services under Part IV (a) and (b) of the Project	500,000
V. Consulting services under Part IV (d) of the Project	200,000
VI. Unallocated	500,000
TOTAL	<u>14,500,000</u>

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories I to IV shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category will be reallocated by the Bank to Category VI.

2. If the estimate of the cost of the items included in any of the Categories I to V shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Loan will be allocated by the Bank, at the request of the Borrower, to such Category from Category VI, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of the cost of the items in the other Categories.

SCHEDULE 2

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
February 15, 1973	155,000	August 15, 1974	170,000
August 15, 1973	160,000	February 15, 1975	175,000
February 15, 1974	165,000	August 15, 1975	180,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
February 15, 1976	185,000	August 15, 1985	340,000
August 15, 1976	190,000	February 15, 1986	350,000
February 15, 1977	195,000	August 15, 1986	360,000
August 15, 1977	205,000	February 15, 1987	375,000
February 15, 1978	210,000	August 15, 1987	385,000
August 15, 1978	215,000	February 15, 1988	400,000
February 15, 1979	225,000	August 15, 1988	410,000
August 15, 1979	230,000	February 15, 1989	425,000
February 15, 1980	240,000	August 15, 1989	440,000
August 15, 1980	245,000	February 15, 1990	455,000
February 15, 1981	255,000	August 15, 1990	470,000
August 15, 1981	265,000	February 15, 1991	485,000
February 15, 1982	270,000	August 15, 1991	500,000
August 15, 1982	280,000	February 15, 1992	515,000
February 15, 1983	290,000	August 15, 1992	530,000
August 15, 1983	300,000	February 15, 1993	550,000
February 15, 1984	310,000	August 15, 1993	565,000
August 15, 1984	320,000	February 15, 1994	585,000
February 15, 1985	330,000	August 15, 1994	595,000

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions:

<i>Times of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	1/2%
More than three years but not more than six years before maturity	1 1/4%
More than six years but not more than eleven years before maturity	2 1/4%
More than eleven years but not more than sixteen years before maturity	3 3/4%
More than sixteen years but not more than twenty-one years before maturity	5%
More than twenty-one years but not more than twenty-three years before maturity	6%
More than twenty-three years before maturity	6 1/2%

SCHEDULE 3

DESCRIPTION OF THE PROJECT

The Project includes high priority items in the remaining period of the Third Five-Year Plan (1965-1966 to 1969-1970) for the Railway, and consists of the following parts:

I. The renewal and improvement of track and bridges on the Karachi-Lahore main railway line and on branch lines, including the provision of track and bridge material and equipment.

II. The rehabilitation and improvement of railway workshops and depots, including the provision of material, plant and machinery necessary for these and other miscellaneous works.

III. The increase of line capacity, in particular by improving, and providing additional facilities for, signaling, telecommunications, marshalling yards (including the Samasata marshalling yard) and crossing stations, including the provision of material and equipment necessary therefor.

IV. (a) The improvement of the overall efficiency of the management of the Railway.

(b) A detailed examination of all operations on the Karachi-Lahore main line, the definition of an overall program for improving economic and operational efficiency and the establishment of a program of works to be carried out, setting out the order of priority.

(c) A general examination of diesel locomotive operations, including:

- (i) maintenance and operational requirements for the locomotive fleet; and
- (ii) more efficient use of diesel locomotives and elimination of steam units from main and branch lines.

(d) The modernization of the accounting procedures of the Railways along commercial lines, including computerization and fixed assets accounting.

The Project is expected to be completed by June 30, 1972.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS

(Not published herein. See *United Nations, Treaty Series, vol. 691, p. 300.*)

PROJECT AGREEMENT

AGREEMENT, dated June 26, 1969, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and the PROVINCE OF WEST PAKISTAN, acting by its Governor (hereinafter called the Province).

WHEREAS by a loan agreement of even date herewith¹ between the Islamic Republic of Pakistan (hereinafter called the Borrower) and the Bank, the Bank has

¹ See p. 68 of this volume.

agreed to make available to the Borrower a loan in various currencies equivalent to fourteen million five hundred thousand dollars (\$14,500,000), on the terms and conditions set forth in such loan agreement, to be relented to the Province, but only on condition that the Province agree to undertake certain obligations toward the Bank as hereinafter provided; and

WHEREAS the Province, in consideration of the Bank's entering into the above-mentioned loan agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

Article I

DEFINITIONS

Section 1.01. Wherever used in the Project Agreement, unless the context shall otherwise require, the several terms defined in the loan agreement of even date herewith between the Borrower and the Bank and in the General Conditions Applicable to Loan and Guarantee Agreements of the Bank dated January 31, 1969¹ as made applicable thereto shall have the respective meanings therein set forth.

Article II

PARTICULAR COVENANTS OF THE PROVINCE

Section 2.01. (a) The Province shall cause the Railway to carry out the Project described in Schedule 3 to the Loan Agreement with due diligence and efficiency and in conformity with sound administrative, financial and railway engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) The Province shall make the proceeds of the Loan relented to it by the Borrower available to the Railway on the same terms and conditions as are set out in Section 5.01 *(b)* of the Loan Agreement, except that with respect to such portion of the proceeds of the Loan as shall be used for capital expenditures for additions, unless the Bank shall otherwise agree, such portion shall, at the time of scheduled repayment, become capital-at-charge not subject to amortization.

Section 2.02. (a) The Province shall cause the proceeds of the Loan to be applied in accordance with the provisions of the Loan Agreement and of the Project Agreement to expenditures on the Project described in Schedule 3 to the Loan Agreement.

¹ See p. 88 of this volume.

(b) Except as the Bank shall otherwise agree, (i) the goods and services (other than services of consultants) to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in February 1968, and in accordance with such other procedures supplementary thereto as are set forth in Schedule I to this Agreement or as shall be agreed between the Bank and the Province, and (ii) contracts for the procurement of such goods and services shall be subject to the prior approval of the Bank, except as otherwise provided in such Schedule I.

(c) Except as the Bank and the Province shall otherwise agree, the Province shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project and in the operation of the Railway.

Section 2.03. To assist in carrying out Part IV (a) and (b) of the Project, the Province shall cause the Railway to employ as soon as possible, and not later than March 31, 1970, competent and experienced consultants acceptable to the Bank to an extent, and upon such terms and conditions, as shall have been approved by the Bank.

Section 2.04. (a) Upon request from time to time by the Bank, the Province shall cause to be furnished to the Bank, promptly upon their preparation, the plans, studies, specifications, procurement and work schedules for or in connection with the Project and any material modifications subsequently made therein, in such detail as the Bank shall reasonably request.

(b) The Province shall maintain or cause the Railway to maintain records adequate to identify the goods and services financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Railway; shall enable the Bank's representatives to inspect the Project, the goods, the property and equipment owned or operated by the Railway, and any relevant records and documents; and shall furnish and cause the Railway to furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods and services to be financed out of the proceeds of the Loan, and the administration, operations and financial condition of the Railway.

Section 2.05. (a) The Province and the Bank shall co-operate fully to assure

that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request.

(b) The Province and the Bank shall from time to time, at the request of either party, exchange views through their representatives with regard to matters relating to the purposes of the Loan and the performance by the Province of its obligations under the Project Agreement, and with regard to the administration, operations and financial condition of the Railway.

(c) The Province shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof, or the performance by the Province of its obligations under the Project Agreement.

Section 2.06. The Province shall at all times:

- (a) cause the Railway to be managed, its financial position to be maintained, and its operations to be carried out, in accordance with sound business, financial and engineering practices and under the supervision of competent and experienced management;
- (b) cause the Railway to take all steps necessary to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business;
- (c) cause the Railway to operate and maintain its lines, workshops, telecommunications system, rolling stock, machinery, equipment and other property, and to make promptly all necessary repairs and renewals thereof, in accordance with sound engineering practices, with due regard to economic and financial considerations; and
- (d) ensure that, except in the normal course of business, the Railway shall not sell, transfer or otherwise dispose of any of its property or assets which shall be required for efficient operations.

Section 2.07. The Province shall cause the Railway:

- (a) to strengthen its Planning Cell and to improve the liaison between such Cell and the Planning and Development Department of the Province, so as to enable such Cell to carry out its functions efficiently and effectively, in particular (i) the preparation of the Railway's investment plans, (ii) traffic forecasting, and (iii) assessments of the economic justification of railway services on a continuing basis; and
- (b) to take such steps as are required to ensure that the Railway shall provide no services at an avoidable financial loss unless it shall have received from the Borrower or from the Province, within three months of the identification of such loss, a specific request to provide such services at such loss. Such avoidable

financial loss shall be incorporated in the Railways' financial statements for each fiscal year, specifically identifying each such service so provided.

For the purposes of this Section: (i) the term "avoidable financial loss" means the difference between the Railway's net operating revenue had such services not been so provided by the Railway, and the Railway's actual net operating revenue after providing such services; and (ii) the term "services" shall mean the provision by the Railway of transport and related facilities.

Section 2.08. The Province shall cause the Railway to submit to the Bank the Railway's investment plans, and the corresponding financial plans, for the period July 1, 1970 to June 30, 1975, and shall ensure that such investment plans and the corresponding tentative financial plans shall be sent to the Bank in such time as shall reasonably enable the Bank to comment thereon prior to their finalization.

Section 2.09. The Province shall cause the Railway to revise and complete the evaluation of its fixed assets by December 31, 1969 with a view to establishing by a date to be agreed with the Bank (a) an adequate annual charge in its accounts for depreciation based on current replacement costs and (b) an adequate annual rate of return on the current value of fixed assets in use as determined from time to time.

Section 2.10. (a) The Province shall cause the Railway to take such steps (including, but without limitation, adjustments in the passenger fares and freight rates) as shall be necessary to provide to the Railway revenue sufficient to enable it to maintain an operating ratio not higher than 82% until the completion of the Project, reducing to 80% not later than for the fiscal year 1972-1973, and out of internally generated resources:

- (1) to meet its debt service requirements;
- (2) to maintain adequate working capital; and
- (3) to establish and maintain adequate liquid reserves to meet accruing liabilities and future contingencies.

(b) For the purposes of this Section:

- (i) The term "operating ratio" means the ratio of operating expenses to gross operating receipts, expressed in terms of a percentage.
- (ii) The term "operating expenses" means all direct costs of operation by the Railway of its facilities, including adequate maintenance expenses and adequate

provision for taxes, if any, and for depreciation at a rate of not less than 12% of gross operating receipts.

- (iii) The term “gross operating receipts” means all revenues of the Railway from its operations and other revenues incidental thereto.
- (iv) The term “debt service requirements” means the aggregate amount of amortization (which may be paid out of the depreciation reserve), including sinking fund payments, if any, and interest and other charges on debt, as well as payments in respect of capital-at-charge.
- (v) The term “debt” means all debt of the Railway (excluding capital-at-charge), and all debt incurred by the Borrower or by the Province on behalf of the Railway, except (A) debt in respect of capital expenditures for additions; and (B) debt incurred in the ordinary course of business and which is payable not more than one year after it is originally incurred.

Section 2.11. The Province shall cause the Railway to study appropriate procedures to enable it to provide in its annual accounts for pension liability computed on an actuarial basis, and to initiate such study not later than June 30, 1970.

Section 2.12. The Province shall appoint a committee acceptable to the Bank, to examine, pursuant to terms of reference approved by the Bank, the present accounting procedures of the Railway for capital expenditures (additions as well as replacements), the Railway’s provisions for depreciation, the servicing of foreign loans in respect of replacements and additions by or on behalf of the Railway, and other related matters, and to make recommendations thereon, and shall furnish such committee’s report and recommendations to the Bank by June 30, 1970.

Section 2.13. Except as the Bank and the Province shall otherwise agree, the Province shall insure or cause the Railway to insure the imported goods financed out of the proceeds of the Loan against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Province or by the Railway to replace or repair such goods.

Article III

EFFECTIVE DATE; TERMINATION

Section 3.01. (a) The Project Agreement shall come into force and effect on the Effective Date.

(b) If the Loan Agreement terminates pursuant to Section 11.04 of the General Conditions, the Bank shall promptly notify the Province of this event and, upon the giving of such notice, the Project Agreement and all obligations of the parties thereunder shall forthwith terminate.

Section 3.02. The Project Agreement and all obligations of the parties thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Article IV

MISCELLANEOUS PROVISIONS

Section 4.01. Any notice or request required or permitted to be given or made under the Project Agreement and any agreement between the parties contemplated by the Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

Intbafrad
Washington, D.C.

For the Province:

Chief Secretary
Government of West Pakistan
Lahore

Cable address:

Chiefsec
Lahore

Section 4.02. Any action required or permitted to be taken, and any docu-

ments required or permitted to be executed, under the Project Agreement on behalf of the Province, may be taken or executed by the Chief Secretary to the Government of West Pakistan or such other person or persons as the Province shall designate in writing.

Section 4.03. The Province shall furnish to the Bank sufficient evidence of the authority of the person or persons who will, on behalf of the Province, take any action or execute any documents required or permitted to be taken or executed by the Province pursuant to any of the provisions of the Project Agreement, and the authenticated specimen signature of each such person.

Section 4.04. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under the Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in such default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

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

International Bank for Reconstruction and Development:

By J. Burke KNAPP

Vice President

Province of West Pakistan:

By A. R. BASHIR

Authorized Representative

SCHEDULE 1

PROCUREMENT

1. With respect to goods in Categories I, II and III of the allocation of the proceeds of the Loan referred to in Section 2.02 of the Loan Agreement, required to be procured on the basis of international competitive bidding pursuant to Section 2.02 (b) of this Agreement, identical or similar items to be procured shall be grouped together wherever practicable for the purposes of bidding and procurement.

2. With respect to all contracts involving expenditures expected to exceed the equivalent of \$50,000, the Province shall cause the following procedures to be followed:

- (a) Invitations to bid, specifications, the proposed terms and conditions of contracts, and all other tender documents will be submitted to the Bank for review and approval prior to the issuance of invitations to bid, together with a description of the advertising procedures to be followed.
- (b) In respect of the procurement of rails required for the Project, invitations to bid should specify normally accepted specifications, such as the standard specifications of the American Railway Engineering Association and the International Union of Railways for 90 lb/yd or 100 lb/yd rails.
- (c) After bids have been received and analyzed, the analyses of bids and the Railway's recommendations thereon and proposals for awards will be furnished to the Bank for review and approval prior to making any award of contract.
- (d) For the purpose of evaluating such contracts, bids will be compared on the c.i.f. Karachi basis. For bids incorporating a price escalation clause, a statement of an upper limit of the escalation percentage must be required from bidders and bids which do not meet this requirement must be rejected. Such upper limit will be fully added to the c.i.f. price for purposes of comparison between bids.
- (e) If the final contract is to differ substantially from the terms and conditions contained in the respective documents approved by the Bank under paragraphs (a) and (c) above, the text of the proposed changes will be submitted to the Bank for review and approval prior to the execution of such contract or issuance of such letter of intent.
- (f) One conformed copy of any letter of intent issued and of any contract executed under this paragraph 2 shall be sent to the Bank promptly upon its issuance or execution.

3. With respect to items or groups of items expected to cost the equivalent of \$50,000 or less, copies of all tender documents including invitations to bid, bid analyses and evaluations, as well as one conformed copy of any contract or letter of intent relating to the procurement of such items or groups of items, shall be sent to the Bank promptly after the execution of any such contract or issuance of any such letter of intent and prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of any such contract or letter of intent.