

CONFORMED COPY

CREDIT NUMBER 2688 PAK

Development Credit Agreement

(Population Welfare Program Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 7, 1995

CREDIT NUMBER 2688 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 7, 1995, between ISLAMIC REPUBLIC OF PAKISTAN (the Borrower) acting by its President and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated November 22, 1994 from the Borrower describing the Borrower's plans for the carrying out of the Population Welfare Program;

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

(C) part of the Project will be carried out by the Province of Balochistan, the Province of Punjab, the Province of Sindh, the North West Frontier Province (the Provinces), Azad Jammu and Kashmir (AJK), and the Federally Administered Tribal Areas (FATA), respectively, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Provinces, AJK and FATA a portion of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower

upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith among the Association, the Provinces, AJK and FATA;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, 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) "Punjab" means the Province of Punjab, a political subdivision of the Borrower, or any successor thereto;
- (b) "Sindh" means the Province of Sindh, a political subdivision of the Borrower, or any successor thereto;
- (c) "NWFP" means the North West Frontier Province, a political subdivision of the Borrower, or any successor thereto;
- (d) "Balochistan" means the Province of Balochistan, a political subdivision of the Borrower, or any successor thereto;
- (e) "Provinces" mean Punjab, Sindh, NWFP and Balochistan collectively, and "Province" means each and any of the Provinces individually;
- (f) "AJK" means the territory of Azad Jammu and Kashmir or any successor thereto;
- (g) "FATA" means the Federally Administered Tribal Areas of the Borrower administered through its Ministry of States and Frontier Regions and the Governor of NWFP;
- (h) "FANA" means the Federally Administered Northern Areas of the Borrower within the administrative jurisdiction of its Ministry of Kashmir Affairs and Northern Areas;
- (i) "ICT" means the Islamabad Capital Territory, an administrative unit of the Borrower within the administrative jurisdiction of its Ministry of Interior;
- (j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (k) "SAP Project Sectors" mean collectively the primary education sector, the primary health sector, the population welfare sector and the rural water supply and sanitation sector of each Province, AJK, FATA, FANA or ICT, as the case may be, and "SAP Project Sector" means each and any SAP Project Sector individually;
- (l) "Fiscal Year" or "FY" means the Borrower's, AJK's, FATA's or a Province's fiscal year, as the case may be, covering the period July 1 through June 30;
- (m) "Social Action Program" or "SAP" means the five-year Social Action Program of the Borrower, including also, inter alia, such Program for each Province, AJK, FATA, FANA and ICT, satisfactory to the Association, which has been prepared within

the overall framework of the Borrower's Eighth Five-Year Plan covering FY94 through FY98, with the objective of expanding and improving the coverage and delivery of services in the SAP Project Sectors;

(n) "Population Welfare Program" for the purposes of Schedule 2 to the Development Credit Agreement, means a three-year time slice of the Population Welfare Program of the Borrower's Eight Five-Year Plan covering FY94 through FY98 plus the first year of the next Five-Year Plan;

(o) "Population Welfare Sector" means the population welfare program, one of the SAP Project Sectors being carried out under the SAP with assistance from the Association provided under the SAP Development Credit Agreement and Project Agreement;

(p) "SAP Development Credit Agreement and Project Agreement" means the Development Credit and Project Agreements number 2593-PAK signed on April 4, 1994 for purposes of assisting the Borrower in carrying out the SAP;

(q) "NATPOW" means the National Trust for Population Welfare established under the Borrower's Charitable Endowments Act, 1890, by Notification F.No.15-3/94-SRO-II, dated November 21, 1994 by the Ministry of Health, Social Welfare and Special Education of the Borrower;

(r) "Sub-program" means individually the program of the Borrower, each Province, AJK, FATA, FANA or ICT, as the case may be, in respect of the Population Welfare Sector for each of the Fiscal Years 96, 97, 98 and 99, which has been, or shall be, as the case may be, formulated within the framework of the Population Welfare Program, and which shall be reflected in an operational plan, satisfactory to the Association, setting forth, inter alia, the activities to be carried out, the policy reforms and other measures to be implemented, the expenditures to be undertaken and the financing to be provided under such program in and for such Population Welfare Sector during each such Fiscal Year, and "Sub-programs" mean all and every such Sub-programs collectively; and

(s) "Grants" mean collectively grants made or proposed to be made by the Borrower out of the proceeds of the Credit for the purposes of Part B of Schedule 2 to this Agreement, and "Grant" means each and every such Grant individually.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to forty-five million Special Drawing Rights (SDR 45,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals under Part B of the Project made by the relevant beneficiary under a Grant to meet the reasonable cost of goods and services required for the Grant activities in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of Part B of the Project, open and maintain in dollars a special deposit account

in the National Bank of Pakistan on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1999 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent ($1/2$ of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing August 15, 2005 and ending February 15, 2030. Each installment to and including the installment payable on February 15, 2015 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2\ 1/2\%$) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment

of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

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:

- (i) shall carry out or cause to be carried out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and population practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Provinces, AJK and FATA to perform all their obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Provinces, AJK and FATA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available to the Provinces, AJK and FATA a portion of the proceeds of the Credit in accordance with its standard budgetary procedures, for purposes of the respective Parts of the Project to be carried out by them.

(c) Without any limitation to the generality of paragraph (a) above, the Borrower shall ensure that sufficient funds will be released to the Ministry of Population Welfare and the Departments of Population Welfare by the fifteenth of the first month of every quarter during the Project period, for the purpose of implementing such part of the approved sub-program as is to be carried out in said quarter.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 their respective parts of the Project shall be respectively carried out by the Provinces, AJK and FATA pursuant to Section 2.03 of the Project Agreement.

(b) Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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 Association, a plan designed to ensure the continued achievement of the Project's objectives;
- (ii) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 3.04. (a) The Borrower shall take all such measures, satisfactory to the Association, as may be necessary or required for the purpose of increasing the overall level of expenditures for the Population Welfare Program in each Fiscal Year during the implementation of the Project to such target levels as agreed with the Association within the framework of the Population Welfare Program; provided, however, that such levels shall rise by at least 22% per year (in constant price terms) in FY96 through FY99, and that the aggregate amount of spending for the Population Welfare Program for the same four-year period shall not be less than Rs 10.34 billion; and provided further that the Borrower and the Association may agree on a different percentage for FY99 as determined by the Borrower's next Five-Year Plan commencing in such fiscal year, and that such percentage may yield a different aggregate spending for the aforesaid four-year period.

(b) In achieving such expenditure increases, the Borrower shall ensure that, in each Fiscal Year during the implementation of the Project, the financing of the Population Welfare Program from its own resources increases in FY96 through FY99 from 57% to 60% of total spending on population, including the Borrower's financing of an increasing proportion of incremental costs.

Section 3.05. The Borrower shall ensure that no bans on recruitment of field staff are imposed in respect of the Population Welfare Sector of the Borrower, FANA and ICT.

Section 3.06. The Borrower shall:

(a) by March 31 of each Fiscal Year during the implementation of the Project or such later date as may be acceptable to the Association, provide or cause to be provided to the Association, for its assessment and review, each proposed Sub-program to be carried out by the Borrower, whether on its own behalf or on behalf of FANA or ICT, as the case may be, in the next following Fiscal Year;

(b) by June 30 of each such Fiscal Year during the implementation of the Project, or such later date as may be acceptable to the Association, provide to the Association for its approval each such Sub-program modified in a manner satisfactory to the Association taking into account its comments and recommendations; and

(c) carry out or cause to be carried out each such Sub-program in form and substance as approved by the Association and in a manner satisfactory to the Association.

Section 3.07. The Borrower shall by July 1, 1996, transfer to FANA and ICT the responsibility for the carrying out of its

respective Sub-programs, and shall provide FANA and ICT with the powers and authority necessary for the purpose in the same way the Provinces are provided with such powers and authority.

Section 3.08. The Borrower shall, by December 31, 1995, or such later date as may be agreed by the Association, clarify the administrative status of the staff of the Ministry of Population Welfare and the Population Welfare Departments in such a way as to provide said staff the employment conditions and benefits afforded to other similar federal and provincial staff.

Section 3.09. The Borrower shall take all such measures as may be necessary on its part to ensure that the NATPOW is maintained and operated in a manner satisfactory to the Association.

Section 3.10. The Borrower shall, through the Ministry of Population Welfare and not later than 60 days after the end of each six-month period of each Fiscal Year of Project implementation, furnish to the Association, in form and substance satisfactory to the Association, a progress report on the implementation of each Sub-program for which the Borrower is responsible, whether in its own behalf or on behalf of FANA or ICT, as the case may be, during such period.

Section 3.11. The Borrower shall, with the participation of the Association, the Provinces, AJK and FATA, carry out, no later than March 31 of each Fiscal Year during the implementation of the Project, a review of the preceding eight months and a forecast for the ensuing four months of the Project for purposes, inter alia, of (i) monitoring and evaluating progress made to date under Sub-programs carried out in the current Fiscal Year; (ii) obtaining the approval of the Association in respect of the eligibility of Sub-programs for financing by the Association in the following Fiscal Year, including the amounts to be allocated in respect of such Sub-programs; and (iii) obtaining the approval of the Association in respect of the expenditure program and the financing plan for the Population Welfare Program in the following fiscal year and the Borrower's contribution relating thereto.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall 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 respective activities under the Project of the departments or agencies of the Borrower responsible for carrying out the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the

Association shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) 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.

ARTICLE V

Remedies of the Association

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

- (a) Any Province, AJK or FATA shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Province, AJK or FATA will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraph (a) 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 Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition of effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the FY95 Sub-program for the Population Welfare Sector under SAP has been approved and substantially carried out in a manner satisfactory to the Association pursuant to the SAP Development Credit and Project Agreements.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association namely, that the Project Agreement

has been duly authorized or ratified by the Provinces, AJK and FATA, and is legally binding upon the Provinces, AJK and FATA in accordance with its 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.

Section 6.04. The provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

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 in the Economic Affairs and Statistics 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:

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

Cable address:

ECONOMIC
Islamabad

Telex:

ECDIV-05-634

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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/ Mansoor Elahi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood

Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Equipment and goods (other than vehicles and contraceptives), medicines, supplies, works and operating costs under approved Sub-programs	up to 2,350,000 for FY96 and thereafter such amount as may be allocated by the Associa- tion from time to time	12.0% for FY96, and thereafter such percentage as may be deter- mined by the Association from time to time
(2) Vehicles under approved Sub-programs	1,590,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 65% of local ex- penditures for items procured locally
(3) Contraceptives under approved Sub-programs	17,490,000	100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 65% of local expenditures for items procured locally
(4) Technical Assistance under approved Sub-programs	3,460,000	100%
(5) Grants under Part B of the Project	3,460,000	100%
(6) Unallocated	16,650,000	
TOTAL	<u>45,000,000</u> =====	

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;

(b) the term "local expenditures" means expenditures in the currency of the Borrower for goods or services supplied from the territory of the Borrower;

(c) the term "Operating Costs" appearing in Category (1) of the table in paragraph 1 of this Schedule means the salaries, allowances, office, training and travel costs of staff appointed by the Borrower, the Provinces, AJK or FATA, as the case may be, for the purposes of the Population Welfare Sector.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of a Sub-program, unless such Sub-program has been approved by the Association in accordance with, and subject to, the provisions of Section 3.06 of this Agreement or Section 2.06 of the Project Agreement, as the case may be;

(b) in respect of a Grant, unless the Grant has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement;

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

(d) in respect of payments made for expenditures for goods and services supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works, and services not exceeding \$200,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower, the Provinces, AJK and FATA to: (i) expand service coverage and improve service quality, by enhancing service delivery by the Ministry of Population Welfare, Population Welfare Departments, public sector health facilities, by increasing private sector and non-government involvement, and by expanding the existing cadre of community based female family planning workers; (ii) increase demand for family planning services, by strengthening the information, communication, and education program, by increasing support for family planning in Pakistan, and by mobilizing the private sector; and (iii) strengthen institutional support for family planning and reproductive health by ensuring adequate financial allocations and timely releases, by improving strategic and operational planning mechanisms, by developing a human resources plan, and by promoting decentralization to provincial Governments.

The Project, which is a four-year time slice of the Population Welfare Program, consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such

objectives:

Part A: Sub-Programs

The financing of population sub-programs of (i) the Borrower (including those to be carried out on behalf of FANA and ICT), (ii) the Provinces, (iii) AJK, and (iv) FATA.

Part B: Community Participation in Population Welfare

The financing of Grants through NATPOW to test, develop and support innovative approaches to improving the quality and coverage of service delivery in the Population Welfare Sector with focus, inter alia, on involving communities, non-government organizations, and non-profit institutions in such service delivery.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, vehicles and contraceptives 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 delayed 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 period 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 Association's prior review in accordance with the provisions of Part D.2 (a) of this Section, the Association'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 vehicles and contraceptives in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association 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 bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Contraceptives may be procured through the United Nations Population Fund (UNFPA).

Part B: Preference for Domestic Manufacturers

In the procurement of vehicles and contraceptives 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

1. Civil works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, except in FANA and FATA where force account procedures, acceptable to the Association, may be applied; provided, however, that small civil works may be carried out as set forth in paragraph 2 below.

2. Goods (other than vehicles and contraceptives) to be financed under approved Sub-programs, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association; provided, however, that goods and civil works estimated to cost the equivalent of \$25,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers or contractors eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Vehicles which may be required on an urgent basis, up to an aggregate amount not exceeding the equivalent of \$500,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

4. Contraceptives, up to an aggregate amount not exceeding the equivalent of \$600,000, 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 Association, or, alternatively, through UNFPA.

5. Goods and services to be financed out of the proceeds of the Grants made under Part B of the Project shall be purchased at a reasonable price, account being taken also of other relevant factors, such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and in the case of services, of their quality and the competence of the parties rendering them.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to (i) the first four contracts in respect of the Borrower and each of the Provinces under Part A of the Project, and thereafter each contract estimated to cost the equivalent of \$200,000 or more per contract, and (ii) each contract under Part B of the Project estimated to cost the equivalent of \$100,000 or more per contract, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(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.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit 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, the Provinces, AJK and FATA in carrying out the Project, the Borrower, the Provinces, AJK and FATA shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association 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 Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association 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 Association 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 Association, (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 consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Modifications of the General Conditions

For 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) The words "the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (e) by the date specified in sub-paragraph 3 (b) of Schedule 5 to the Development Credit Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications permitted under sub-paragraph (a) of said paragraph; or (ii) have denied any such applications, the Association may, by notice to the Borrower, terminate the right to submit such applications or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be cancelled."

SCHEDULE 5

Procedures and Terms and Conditions of Grants

1. Grants under Part B of the Project shall be channelled through NATPOW and shall satisfy the following criteria:

(a) the purposes for which such grants may be made shall be to test, develop and support (i) innovative approaches to improving the quality of population welfare; (ii) effective mechanisms for their delivery; and (iii) practical strategies for rapid expansion of their coverage (the "Grant activities");

(b) such grants may be made to agencies such as non-governmental organizations, academic and research institutions, community organizations, non-profit institutions and foundations (the "beneficiaries");

(c) applicants for Grants equivalent to \$50,000 or more will be required to meet the following criteria: (i) demonstrated effectiveness in organizing and delivering community-based services on a substantial scale and in diverse settings; (ii) need for, and ability to make effective use of, additional funding; (iii) potential for replicability of the program on a larger scale; (iv) capacity for working in partnership with government social sector institutions; and (v) willingness to test and analyze the effectiveness of different innovations;

(d) all other applicants to meet criteria agreed between the Borrower and the Association;

(e) the work program for a Grant activity shall not exceed three years; and

(f) proposals for such grants shall have technical merits and the activities to be financed out of such grants shall have a geographic coverage, all satisfactory to the Borrower and the Association.

2. (a) The Borrower shall submit to the Association, for its approval, the first five Grant proposals under the Credit, and thereafter all proposals for Grants equivalent to \$100,000 or more each.

(b) When presenting a Grant to the Association for approval under sub-paragraph (a) above, the Borrower shall furnish to the Association an application, in form satisfactory to the Association, together with (i) a description and appraisal of the Grant activity, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; and (ii) such other information as the Association shall reasonably request.

(c) When submitting requests for withdrawals under the Credit in respect of Grants not covered by sub-paragraph (a) above and not requiring the Association's prior approval, the Borrower shall furnish to the Association documentation containing the date of the Grant and the name of the beneficiary and such other information as the Association shall reasonably request.

(d) Applications and requests made pursuant to the provisions of sub-paragraph (b) and (c) of this paragraph shall be presented to the Association on or before June 30, 1999.

3. No expenditures for goods or services required for a Grant activity shall be eligible for financing out of the proceeds of the Credit unless such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application or request referred to in sub-paragraph 2 (b) and (c) above, respectively.

4. Grants shall be made on terms whereby the Borrower shall obtain, by written contract with the beneficiaries or by other appropriate legal means, rights adequate to protect the interests of the Association and the Borrower, including the right to:

(a) require the beneficiary to carry out and operate the Grant activity 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 Credit shall be purchased in accordance with the provisions of Part C.5 of Section I of Schedule 3 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Grant activity;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the Grant activity, the operation thereof, and any relevant records and documents;

(d) require that: (i) the beneficiary 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 Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the beneficiary to replace or repair such goods;

(e) obtain all such information as the Association or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the beneficiary and to the benefits to be derived from the Grant activity; and

(f) suspend or terminate the right of the beneficiary to the use of the proceeds of the Credit upon failure by such beneficiary to perform its obligations under its contract with the Borrower.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Grant activities under Part B of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the Credit Account plus

the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 500,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified

the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Category for Part B of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Part B of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Category for Part B of the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

