

CONFORMED COPY

CREDIT NUMBER 2558 PAK

Development Credit Agreement
(Sindh Special Development Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 10, 1994

CREDIT NUMBER 2558 PAK

DEVELOPMENT CREDIT AGREEMENT
AGREEMENT, dated March 10, 1994, between ISLAMIC REPUBLIC OF
PAKISTAN acting by its President (the Borrower) and INTERNATIONAL
DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Borrower's
Province of Sindh (Sindh), the Karachi Development Authority (KDA)
and the Karachi Metropolitan Corporation (KMC), all with the
Borrower's assistance and, as part of such assistance, the Borrower
will make available to Sindh the proceeds of the Credit for use by
Sindh and by KDA and KMC, all 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 between the Association and Sindh
and KDA and KMC;

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 last sentence of Section 3.02 deleted (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) "Sindh" means the Province of Sindh, a political subdivision of the Borrower, or any successor thereto;
- (b) "P&D" means the Planning and Development Department of Sindh;
- (c) "LG&RD" means the Local Government and Rural Development Department of Sindh;
- (d) "E&T" means the Excise and Taxation Department of Sindh;
- (e) "BOR" means the Board of Revenue of Sindh;
- (f) "FD" means the Finance Department of Sindh;
- (g) "SEPA" means the Sindh Environment Protection Agency;
- (h) "KDA" means the Karachi Development Authority, an agency of Sindh established under President's Order No. 5 of 1957;
- (i) "KMC" means the Karachi Metropolitan Corporation, being the local government established pursuant to the provisions of the Sindh Local Government Ordinance, 1979 to serve the metropolitan area of Karachi;
- (j) "Interior Cities" means the cities of Nawabshah, Mirpurkhas and Larkana in Sindh;
- (k) "PPU" means the Project Planning Unit which has been established in the office of the Chief Secretary of Sindh to be responsible for the overall supervision, coordination and monitoring of Sindh's physical investments in urban development programs;
- (l) "EXPACO" means the Executive Policy Action and Coordination Organization which has been established in the office of the Chief Secretary of Sindh as a secretariat to the Cabinet Committee and the Secretaries Sub-committee to oversee the carrying out of policy and institutional reforms in the urban sector;
- (m) "Project Agreement" means the agreement between the Association and Sindh and KDA and KMC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (n) "Sindh Special Account" means the account which Sindh shall open and maintain pursuant to Section 2.01 (c) of the Project Agreement;
- (o) "KDA Special Account" means the account which KDA shall open and maintain pursuant to Section 2.01 (c) of the Project Agreement;
- (p) "KMC Special Account" means the account which KMC shall open and maintain pursuant to Section 2.01 (c) of the Project Agreement;
- (q) "Special Accounts" mean the accounts referred to (n), (o) and (p) above, and in Section 2.02 (b) of this Agreement, and

"Special Account" means each and every such account;

(r) "Policy Statement" means the detailed statement dated September 12, 1992 setting forth Sindh's policies on fiscal and administrative reforms in the public service sector, as subsequently modified in agreement with the Association in September 1993, together with the associated action plans for implementing such reforms;

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

(t) "FY" or "fiscal year" means the fiscal year of the Borrower, Sindh, KDA or KMC, as the case may be, covering the period July 1 through June 30.

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 thirty-three million three hundred thousand Special Drawing Rights (SDR 33,300,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, cause Sindh, KDA and KMC to open and maintain in dollars special deposit accounts in the National Bank of Pakistan on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 3 to the Project Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 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 and 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 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 April 15 and October 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 April 15 and October 15 commencing April 15, 2004 and ending October 15, 2028. Each installment to and including the installment payable on October 15, 2013 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.

Section 2.09. The following are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions:

(a) the Chief Secretary of Sindh, in respect of the activities to be carried out by Sindh under the Project;

(b) the Director General of KDA, in respect of the activities to be carried out by KDA under the Project; and

(c) the Administrator of KMC or the Mayor of Karachi, in respect of the activities to be carried out by KMC under the Project.

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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Sindh, KDA and KMC to perform in accordance with the provisions of the Project Agreement all the obligations of Sindh, KDA and KMC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Sindh, KDA and KMC 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 the proceeds of the Credit available to Sindh to be utilized by Sindh as follows:

- (i) in an amount equivalent to about SDR 12,900,000 for retention by Sindh for the purposes of its activities under the Project;
- (ii) in an amount equivalent to about SDR 18,200,000 for making available to KDA for the purposes of its activities under the Project; and
- (iii) in an amount equivalent to about SDR 2,200,000 for making available to KMC for the purposes of its activities under the Project.

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 1 to the Project Agreement.

Section 3.03. 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) shall be carried out by Sindh, KDA and KMC, respectively pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall cause:

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

- (iii) to be furnished to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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) Sindh or KDA or KMC 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 Sindh or KDA or KMC will be able to perform its obligations under the Project Agreement.

(c) President's Order No. 5 of 1957 or the Sindh Local Government Ordinance of 1979 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KDA or KMC, as the case may be, to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of KDA or KMC or for the suspension of its operations.

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

(a) the 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; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Executive Committee of the National Economic Council of the Borrower (ECNEC) has approved the Planning Commission-1 (PC-1) document with respect to the Project.

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 Sindh, KDA and KMC, and is legally binding upon Sindh, KDA and KMC 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.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Secretary General or the Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Economic Affairs Division
Islamabad
Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

952-5634

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:

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

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Agha Ghazanfar

Authorized Representative

INTERNATIONAL 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:

Amount of the Credit Allocated (Expressed in	% of Expenditures
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Category	SDR Equivalent)	to be Financed
(1) Civil works for:		70%
(a) Sindh	2,560,000	
(b) KDA	12,640,000	
(2) Vehicles and equipment for:		
(a) Sindh	1,420,000	100% of foreign expenditures,
(b) KDA	280,000	100% of local expenditures
(c) KMC	140,000	(ex-factory cost) and 65% of local expenditures for other items procured locally
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Consultants' services for:		100%
(a) Sindh	7,910,000	
(b) KDA	3,900,000	
(c) KMC	1,910,000	
(4) Unallocated	2,540,000	
	<hr/>	
TOTAL	33,300,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statement of expenditure for: (a) expenditures under contracts for goods and works which cost \$200,000 equivalent or less each; (b) expenditures under contracts for services provided by consulting firms which cost \$100,000 equivalent or less each; and (c) expenditures for municipal training programs, and all 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: (a) to begin to overcome serious environmental and infrastructure problems besetting Karachi

and the Interior Cities; (b) to support the first five years of Sindh's policy and institutional reform program for the urban sector and municipal government; and (c) to conclude the preparation of future projects part of Sindh's core investment program for transport improvements in Karachi.

The Project 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: Karachi Environmental Upgrading

1. Provision of storm water drainage through the channellization of the outfall reaches of the Korangi nalla.
2. Provision of flood protection on the Malir river through: (a) the construction of earthen bunds along the banks; (b) the building of spurs along both banks, and four causeways crossing the embankments and linking with existing roads; (c) the channellization of the Pir Bukhari nalla; (d) the building of additional slope protection works along the new bunds; and (e) the resettlement of about 6 small farms, including one poultry farm, currently located along the alignments of the proposed new bunds.

Part B: Transport Improvement

1. Carrying out of transport improvements in Karachi through:
 - (a) (i) the widening and improving of the Lyari river bridge at Rashid Minhas Road, including the resettlement of about 10 habitations and about 51 small businesses; and (ii) the construction of a railway overpass near the University Road and Rashid Minhas Road junction, including the resettlement of about 25 small businesses; and
 - (b) the execution of traffic management measures along intersections, including works for junction improvements, road geometrics and design, intersection control, pavement marking and bus bay construction.
2. Carrying out of transport infrastructure improvements in the Interior Cities, including the improvement of roads and the relocation or renovation of truck and bus terminals.

Part C: Fiscal and Administrative Reforms

Carrying out, as part of the program set forth in the Policy Statement, of:

- (1) property tax reform, first in Karachi and then in the Interior Cities, with focus on: (a) expansion of the property tax net; (b) improvement in property tax administration; (c) rationalization of fees and taxes associated with the transfer of real property; (d) revision of land-use and building regulations as required; (e) selling of land at market prices; and (f) establishment of institutional arrangements for monitoring tax policies for economic and financial impact on households and firms in Sindh, all leading to an increase in the yield through a combination of measures including increased rates, reduced exemptions, property revaluation and improved collections;
- (2) investment planning and budgeting reform throughout Sindh, both at the provincial and local government levels, with focus on: (a) evaluation of existing projects and termination of low-priority investments; (b) improvements in project identification and appraisal procedures and practices; (c) changes in budgetary and planning procedures to include a three-year budgetary plan; and (d) improvements in project supervision and monitoring procedures; and

- (3) financial management reform, including: (a) identification and implementation of strategies for containment of low-priority recurrent expenditures; (b) computerization of financial accounting, monitoring and reporting systems and procedures; (c) standardization of provincial and municipal government accounting practices; and (d) establishment of financial forecasting procedures and strengthening of financial administration.

Part D: Institutional Strengthening

Strengthening of:

- (1) KDA, with a view to assisting it in: (a) implementing a policy of market-pricing of land; (b) reforming and implementing the non-utilization fee policy; (c) implementing a policy of in-filling in Karachi and a strategy for better utilization of surplus government lands; (d) modernizing land record systems and procedures; (e) computerizing records management operations and training senior and middle-level staff; (f) implementing resettlement projects; and (g) developing a base map for Karachi; and
- (2) KMC, with a view to assisting it in developing a corporate development plan, including the strengthening of its organizational capacity to undertake modernized operations and expanded services, including resettlement projects, together with the establishment of a municipal training institute for municipal governments.

Part E: Investment Program Preparation

1. Preparation of final designs and procurement documents for: (a) the first corridor of a proposed urban transport project for Karachi; and (b) other proposed urban transport and infrastructure projects.
2. Carrying out of urban transport studies for Karachi, including on: (a) traffic demand management (including the establishment of an Advisory Group for Urban Transport); (b) traffic engineering training; (c) traffic police training; (d) options for privatizing the Karachi Transport Corporation (KTC); and (e) an environmental impact assessment for the second corridor of a proposed urban transport project for Karachi.
3. Carrying out of an environmental impact assessment (EIA) of the Korangi Industrial and Residential Areas in Karachi in preparation for future projects.

* * *

The Project is expected to be completed by June 30, 1998.

