

CONFORMED COPY

CREDIT NUMBER 3687 PAK

Development Credit Agreement

(NWFP Structural Adjustment Credit)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 10, 2002

CREDIT NUMBER 3687 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 10, 2002, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated May 27, 2002, transmitting to the Association a letter from the North West Frontier Province (NWFP) dated May 24, 2002, describing a program of actions, objectives and policies designed to improve and strengthen the fiscal framework and public institutions of NWFP (hereinafter called the Program), declaring commitment of NWFP to the execution of the Program and the Borrower's support thereto, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) NWFP has to the satisfaction of the Association and the Borrower carried out the measures, and taken the actions, described in the Schedule to the Project Agreement of even date herewith between the Association and NWFP (the Project Agreement) and has maintained a macroeconomic policy framework satisfactory to the Association and the Borrower;

(C) the Program will be carried out by NWFP with the assistance of the Borrower, and, as part of such assistance, the Borrower will make the local currency equivalent of the proceeds of the Credit provided for in Article II of this Agreement available to NWFP, as set forth in this Agreement; and

(D) on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower and to NWFP by making the Credit in one tranche as hereinafter provided in this Agreement;

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, (as amended through October 6, 1999) with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.'";

(b) Section 4.01 is modified to read:

"'Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.'";

(c) Section 5.01 is modified to read:

"'The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development

Credit Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(b) “Economic Reform Unit” means the unit referred to in Section 2.03 of the Project Agreement established by NWFP for the purpose of coordinating the implementation of the Program;

(c) “Fiscal Year” means the fiscal year of the Borrower and of NWFP beginning on July 1 of a calendar year and ending on June 30 of the next following calendar year;

(d) “MTBF” means the medium-term budget framework for NWFP covering the period 2003-2005;

(e) “NWFP” means the North West Frontier Province of the Borrower, or any successor thereto;

(f) “Project Agreement” means the agreement between the Association and NWFP 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;

(g) “Rupees” or “Rs” means the currency of the Borrower; and

(h) “Subsidiary Loan Agreement” means the agreement referred to in Section 2.08 of this Agreement between the Borrower and NWFP.

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 seventy one million two hundred thousand Special Drawing Rights (SDR 71,200,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower shall, promptly after the deposit of the proceeds of the Credit into the Deposit Account, transfer to NWFP, an amount in Rupees equivalent to the amount deposited in the Deposit Account as of the day of such deposit.

(d) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of the Schedule to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for any expenditure so excluded, the Borrower shall, promptly upon notice from the Association:

- (i) deposit into the Deposit Account an amount equal to the amount of said payment;
- or
- (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2002 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 ($\frac{3}{4}$ 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 June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing December 15, 2012 and ending June 15, 2037. Each installment to and including the installment payable on June 15, 2022 shall be one and one-fourth percent ($1\frac{1}{4}\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2\frac{1}{2}\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) 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; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 Borrower shall relend the proceeds of the Credit to NWFP under a

Subsidiary Loan Agreement to be entered into between the Borrower and NWFP under the terms and conditions which shall have been approved by the Association and which shall include the provisions relating to repayment, commitment charges and service charges as provided in Sections 2.04, 2.05, 2.06 and 2.07 of this Agreement. The Borrower shall bear the foreign exchange risk.

Section 2.09. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.10. The Secretary to the Government of Pakistan, Economic Affairs Division, is designated as representative 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.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association, and facilitate the exchange of views between the Association and NWFP, on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in the Schedule to the Project Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

Section 4.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

- (a) the event specified in Section 4.01 of this Agreement shall have occurred; and
- (b) any action shall have been taken or any omission shall have been made which would have the effect of materially reversing the objectives of the Program or any action taken under the Program, including any action specified in the Schedule to the Project Agreement.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 and the Subsidiary Loan Agreement have been duly authorized or ratified by NWFP and are legally binding upon NWFP in accordance with their terms.

Section 5.02. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10 of this Agreement, the Secretary to the Government of Pakistan, Economic Affairs Division or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of that Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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 Division
Islamabad

Pakistan

Cable address:

Telex:

ECONOMIC
Islamabad

ECDIV-05-634

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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/ Mushtaq Ahmed Malik

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ John W. Wall

Country Director, Pakistan

SCHEDULE

Excluded Expenditures

For the purposes of Section 2.02 (d) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the

territory of the Borrower;

2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;

3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

| <u>Group</u> | <u>Subgroup</u> | <u>Description of Items</u> |
|--------------|-----------------|--|
| 112 | - | Alcoholic beverages |
| 121 | - | Tobacco, unmanufactured, tobacco refuse |
| 122 | - | Tobacco, manufactured (whether or not containing tobacco substitutes) |
| 525 | - | Radioactive and associated materials |
| 667 | - | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors |
| 728 | 728.43 | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' |

wares (including
set gems)

971 -

Gold, non-monetary
(excluding gold
ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

