

CONFORMED COPY

CREDIT NUMBER 3515 PAK

Development Credit Agreement
(Structural Adjustment Credit)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 12, 2001

CREDIT NUMBER 3515 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 12, 2001, 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 April 23, 2001, describing a program of actions, objectives and policies designed to achieve reduction of poverty through a broad-based structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit as hereinafter provided;

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) "Fiscal Year" or "FY" means the fiscal year of the Borrower beginning July 1 of a calendar year and ending on June 30 of the following calendar year; and

(c) "Rupees" or "Rs" means the currency of the Borrower.

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 two hundred seventy-six million one hundred thousand Special Drawing Rights (SDR 276,100,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) 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 undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 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 an 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, 2001 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 January 15 and July 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 January 15 and July 15 commencing July 15, 2011 and ending January 15, 2036. Each installment to and including the installment payable on January 15, 2021 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 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 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 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 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 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 Schedule 2 to this 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 (1) 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 occur; 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 Schedule 2 to this Agreement.

ARTICLE V

Termination

Section 5.01. 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 2.09 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:

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 (MCI) or
64145 (MCI)

Facsimile:

(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/ Tanwir Ali Agha

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ John Wall

Country Director, Pakistan

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) 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:

Group	Subgroup	Description of Items
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, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Association);

6. expenditures (a) in the territories of any country which is not a member Country 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.

SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to
this Agreement

1. The Borrower has extended the coverage of the national value added tax (general sales tax or GST) to include all services previously subject to excise taxes.
2. The Borrower has established fiscal monitoring committees at the federal and provincial levels to oversee the preparation and dissemination of timely reconciled expenditure data, with a view to improving the quality and reliability of public financial statements, and the preparation and dissemination of such data at the federal level has been completed for the first semester of FY 2000-01.
3. The Borrower has adopted a revised form, principles and methods of accounting for the federation and the provinces, with a view to meeting the requirements of a modern integrated financial management system designed to provide timely and reliable information for budget management, financial control, cash forecasting and trend analysis, fiscal administration and debt management purposes.
4. The Borrower has issued: (a) an Ordinance (XXIII of 2001) defining the functions, powers and terms and conditions of service of the Auditor General of Pakistan; and (b) an Ordinance (XXIV of 2001) establishing a new office of the Controller General of Accounts, all with a view to separating the public accounting and auditing functions.
5. The Borrower has established ad hoc federal and provincial public accounts committees (PACs), and opened up the hearings of the federal public accounts committee to the press.
6. The Borrower has issued an Ordinance (LVI of 2000) amending its Federal Public Service Commission (FPSC) Ordinance (XLV of 1977), so as to enhance FPSC's independence, increase its financial autonomy, expand its role in the recruitment of public servants, and limit and define the posts which are outside its purview.
7. The Borrower has issued an Ordinance (LII of 2000), with a view to providing for: (a) a fair and transparent privatization process; (b) the utilization of privatization proceeds to retire federal government debt and alleviate poverty; and (c) an expeditious mechanism for resolution of privatization-related disputes.
8. The Borrower has initiated the market liberalization of petroleum products by: (a) liberalizing the import, transportation and pricing of furnace oil; and (b) liberalizing the pricing of liquefied petroleum gas (LPG).
9. The Borrower has: (a) put in place a system of quarterly adjustments of petroleum product prices in line with international price movements; and (b) made the first six adjustments under that system.
10. The Borrower has: (a) announced a new gas pricing framework providing for: (i) the setting of well-head prices based on international crude (or fuel) oil prices; (ii) the bi-annual revision of consumer prices; (iii) the phasing out of subsidies over a three-year period, except in relation to the fertilizer sector and a lifeline rate for domestic consumers; and (iv) the phased adjustment of consumer prices, so as to reflect the cost of service; and (b) made the first bi-annual consumer price adjustment under said new gas pricing framework for the semester ending June 30, 2001.
11. The Borrower has notified the revised electricity tariff for energy sold by its Water and Power Development Authority (WAPDA), as approved by its National Electric Power Regulatory Authority (NEPRA) during the quarter ending March 31, 2001.
12. The Borrower has: (a) notified the fuel adjustment formula for the quarterly revision of electricity tariffs for energy sold by WAPDA, as approved by NEPRA during the quarter ending December 31, 2000; and (b) furnished to the Association evidence satisfactory to the Association that WAPDA has carried out the first two such revisions based on said formula.
13. The Borrower has adopted and communicated to NEPRA new policy guidelines for setting electricity tariffs, which: (a) allow for differential tariffs for the Karachi Electric Supply Company (KESCO) and for the electricity distribution companies forming part of WAPDA; (b) provide for reduction of cross-subsidies between consumer categories except for lifeline rates; and (c) allow for formula-based multi-year tariffs.

14. The Borrower has reduced or eliminated the differential application of excise taxes on imported and domestic products, so as to bring down the maximum nominal effective tariff to 35% on all but eleven specified products made subject to regulatory duty.

15. The Borrower's federal, provincial and territorial governments have developed a comprehensive education sector reform program (ESR) and action plan.

16. The Borrower's provincial and territorial governments have: (a) introduced a competitive selection system for new teachers, with selection panels including community representatives; and (b) commenced making teacher appointments under a school-based or area-specific contract system.

17. The Borrower's provincial and territorial governments have consolidated their education sector investment programs, with a major portion of the development budget going to complete ongoing works and rehabilitate existing buildings.

18. The Borrower's provincial and territorial governments have introduced programs for monitoring and disciplining teacher and health staff absenteeism.

