

CONFORMED COPY

CREDIT NUMBER 2593 PAK

Development Credit Agreement

(Social Action Program Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 4, 1994

CREDIT NUMBER 2593 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 4, 1994, between ISLAMIC REPUBLIC OF PAKISTAN (the Borrower) acting by its President 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 Borrower intends to contract from the Asian Development Bank a loan (the ADB Loan) in an amount equivalent to \$100,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the ADB Loan Agreement) to be entered into between the Borrower and the Asian Development Bank;

(C) the Borrower has obtained from the Government of the Netherlands a debt relief grant (the Netherlands Debt Relief Grant) in an amount equivalent to Dfl. 6,250,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the Netherlands Debt Relief Grant Agreement) dated December 7, 1993 entered into between the Borrower and the Government of the Netherlands;

(D) the Government of the Netherlands (the Netherlands) intends to make available for the benefit of the Borrower a grant (the Netherlands Grant) in an amount in Dutch Guilders equivalent to \$10,000,000 to be administered by the Association on behalf of the Netherlands for purposes of assisting in financing the Project on terms and conditions set forth in an agreement to be entered into between the Association and the Netherlands (the Netherlands Trust Fund Agreement) and an agreement to be entered into between the Borrower and the Association (the Netherlands Grant Agreement);

(E) The Borrower and the Association intend, to the extent practicable, that the proceeds of the Netherlands Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made;

(F) the relevant activities under Parts A(ii), A(iii), A(iv) and D(1)(b) 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) "AJK" means the territory of Azad Jammu and Kashmir or any successor thereto;

(f) "Provinces" mean Punjab, Sindh, NWFP and Balochistan collectively, and "Province" means each and any of the Provinces individually;

(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 (as hereinafter defined);

(i) "ICT" means the Islamabad capital territory, an administrative unit of the Borrower within the administrative jurisdiction of its Ministry of Interior;

(j) "Project Agreement" means the agreement among the Association, the Provinces, AJK and FATA 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;

(k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(l) "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 "Project Sector" means each and any Project Sector individually;

(m) "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;

(n) "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 Project Sectors;

(o) "Sub-program" means individually the program of the Borrower, each Province, AJK, FATA, FANA or ICT, as the case may be, in respect of each of the Project Sectors for each of the Fiscal Years 94, 95 and 96, which has been, or shall be, as the case may be, formulated within the framework of the Social Action 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 each such Project Sector during each such Fiscal Year, and "Sub-programs" mean all and every such Sub-programs collectively;

(p) "Grants" mean collectively grants made or proposed to be made by the Borrower out of the proceeds of the Credit for the purposes of the Participatory Development Program set forth in Part C of Schedule 2 to this Agreement, and "Grant" means each and every such Grant individually;

(q) "Federal SAP Secretariat" means the secretariat established by the Borrower, inter alia, for the purposes of coordinating, monitoring and evaluating the implementation of SAP to the extent that SAP, including the relevant Sub-programs, is to be carried out by the Borrower on its own behalf; and

(r) "SAP Cells" mean collectively the cells established by the Borrower, the Provinces, AJK and FATA, inter alia, for the purposes of monitoring and evaluating progress in implementing

SAP to the extent that SAP, including the relevant Sub-programs, is to be carried out by the Borrower (on behalf of FANA and ICT), the Provinces, AJK and FATA, respectively, and "SAP Cell" means each and every such cell 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 one hundred forty five million two hundred thousand Special Drawing Rights (SDR 145,200,000).

Section 2.02. (a) The amount of the Credit and the amount of the Netherlands Grant may be withdrawn from the Credit Account and the account established for the purpose of the Netherlands Grant 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 Parts A, B and D 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 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 shall, for the purposes of Part C 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, 1996 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 1 and August 1 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 1 and August 1 commencing August 1, 2004 and ending February 1, 2029. Each installment to and including the installment payable on February 1, 2014 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 Parts A(i), B, C, and D (except D(1)(b)) of the Project) with due diligence and efficiency and in conformity with appropriate administrative, financial, education, health, population and rural water supply and sanitation practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of 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 for purposes of the respective Parts of the Project to be carried out by them.

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. 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 Parts A(ii), A(iii) and A(iv) and D(1)(b) of the Project shall be respectively carried out by the Provinces, AJK and FATA pursuant to Section 2.03 of the Project Agreement.

Section 3.04. (a) The Borrower shall take all such measures as may be necessary or required, satisfactory to the Association, for the purpose of increasing the overall level of expenditures for the Social Action Program in each Fiscal Year during the implementation of the Project to such target levels as agreed within the framework of the Social Action Program, acceptable to the Association, except under circumstances acceptable to the Association, provided, however, that even under these circumstances such levels shall not fall below 2.05% of the Borrower's Gross Domestic Product in FY94, 2.15% in FY95 and 2.30% in FY96.

(b) In achieving such expenditure increases, the Borrower shall ensure that the financing of the Social Action Program in each Fiscal Year during the implementation of the Project from its own resources increases to meet the levels of its target contribution formulated in the context of the financing plan of the Social Action Program, acceptable to the Association, except under circumstances acceptable to the Association, provided, however, that even under these circumstances, such levels shall not fall below 1.6% of the Borrowers' Gross Domestic Product in FY94, 1.7% in FY95 and 1.8% in FY96.

Section 3.05. The Borrower shall ensure that no bans on recruitment of field staff are imposed in respect of the Project Sectors 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, through the Federal SAP Secretariat or the relevant SAP Cell and not later than 60 days after the end of each quarter 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 quarter.

Section 3.08. The Borrower shall, with the participation of the Association, the Provinces, AJK and FATA, carry out, no later than June 30 of each Fiscal Year during the implementation of the Project, an annual review of the Project for purposes, inter alia, of (i) monitoring and evaluating progress made to date under the SAP and the 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 approved Sub-programs; and (iii) obtaining the approval of the Association in respect of the expenditure program and the financing plan for the SAP in the following fiscal year and the Borrower's contribution relating thereto.

Section 3.09. Except as the Association shall otherwise agree, the allocation and withdrawal of the Netherlands Grant shall be governed, mutatis mutandis, by the provisions of Article V of the General Conditions of the Association.

#### 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 Parts A(i), B, C, and D (except D(1)(b)) of the Project of the departments or agencies of the Borrower responsible for carrying out such Parts of 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 or the account established for the purpose of the Netherlands Grant 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.

(c) The ADB Loan Agreement and the Netherlands Grant Agreement shall have each failed to become effective by June 15, 1994 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(d) (i) Subject to subparagraph (ii) of this paragraph:

- (A) The right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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



(a) 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;

(b) any event specified in paragraph (c) of Section 5.01 of this agreement shall occur, subject to the proviso of that Section; and

(c) any event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. 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 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 6.02. 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.

Section 6.03. The provisions of paragraph (a) 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 Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in the Economic Affairs 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 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

Telex:

248423 (RCA)

Washington, D.C.

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/ 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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Netherlands Grant (Expressed in US\$ Equivalent)	% of Expenditures to be Financed
(1) Goods, works, consultants' services and operating costs under approved Sub-programs for:	Such amount as may be allocated by the Association from time to time to sub-categories (a) through (f) hereof	Such amount as may be allocated by the Association from time to time to sub-categories (a) and (b) hereof	Such percentage as may be determined by the Association from time to time for sub-categories (a) through (f) hereof
(a) Balochistan	5,400,000 for FY94	1,200,000 for FY94, provided such funds are utilized for the education sector only	13.2% during FY94
(b) NWFP	3,700,000 for FY94	800,000 for FY94, provided	6.1% during FY94

such funds are  
utilized for  
the education  
sector only

(c) Punjab	17,300,000 for FY94	--	17.3% during FY94
(d) Sindh	7,000,000 for FY94	--	5.5% during FY94
(e) AJK	800,000 for FY94	--	5.3% during FY94
(f) FATA	1,900,000 for FY94	--	14.7% during FY94
(g) Borrower	3,000,000 for FY94	--	100% of foreign expenditures and 17.5% of local expendi- tures during FY94
(h) FANA	1,500,000 for FY94	--	25.9% during FY94
(i) ICT	400,000 for FY94	--	10.2% during FY94
(2) Vaccines, medicines, supplies and pesticides under Part B of the Project	2,100,000	--	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(3) Goods and services under Grants	-0-	--	100%
(4) Consultants' services under Part D of the Project	100,000	--	100%
(5) Operating costs under Part D of the Project	200,000	--	100%
(6) Equipment under Part D of the Project	100,000	--	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(7) Unallocated	101,700,000	8,000,000	
TOTAL	145,200,000 =====	10,000,000 =====	

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;

(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; and

(c) the term "Operating Costs" appearing in Category 5 of the table in paragraph 1 of this Schedule means the office and training costs of staff appointed by the Borrower, the Provinces, AJK or FATA, as the case may be, after July 1, 1993 in the Federal SAP Secretariat or the SAP Cells, as the case may be, and the salaries, allowances and office costs of staff appointed by the Borrower after the date of this Agreement for the purposes of the household survey to be carried out under Part D.2 of the Project.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 29,000,000 may be made out of the proceeds of the Credit in respect of Categories (1), (2) and (5) on account of payments made for expenditures before that date but after July 1, 1993; 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 in: (i) making effective use of existing operating facilities in the Project Sectors so as to reach disadvantaged groups, particularly women, through improved service delivery to all areas; (ii) initiating the rehabilitation and subsequent use of currently run-down or unused facilities; (iii) ensuring better and faster implementation of on-going and planned social sector investment programs; (iv) promoting beneficiary participation in the design and implementation of social service programs; and (v) establishing procedures and institutional capacity, and providing commensurate resources, to expand service delivery capacity and enhance the quality of such services.

The Project, which is a three-year time slice of the Social Action 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 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: Communicable Disease Control Program

Acquisition and distribution of vaccines, medicines, supplies and pesticides needed to control communicable diseases.

Part C: Participatory Development Program

The financing of Grants to develop and test innovative approaches to improving the quality and coverage of service delivery in the Project Sectors with focus, inter alia, on involving communities in such service delivery.

Part D: Coordination, Monitoring and Evaluation

1. Strengthening of (a) the Federal SAP Secretariat, and (b) the SAP Cells, all through the provision of technical assistance and equipment.
2. Designing and implementation of a household survey to monitor the progress of the Social Action Program including the Project.
3. Designing and implementation of a management information system relating to the Project Sectors.

\* \* \*

The Project is expected to be completed by June 30, 1996.

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, goods 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).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods 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.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 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.

2. Except as provided in paragraph 3 of this Part C, (i) goods to be financed under approved Sub-programs under Part A of the Project estimated to cost the equivalent of \$300,000 or less per contract, (ii) vaccines, medicines, supplies and pesticides under Part B of the Project estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$5,000,000, and (iii) equipment under Part D of the Project estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Goods to be financed under approved Sub-programs under Part A of the Project estimated to cost the equivalent of \$25,000 or less per contract, vaccines, medicines, supplies and pesticides under Part B of the Project estimated to cost the equivalent of \$25,000 or less per contract, and equipment under Part D of the Project estimated to cost the equivalent of \$25,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$500,000 under each such Part of the Project, 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.

4. Goods and services to be financed out of the proceeds of the Grants made under Part C 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.

5. Vaccines, medicines and supplies to be financed out of the proceeds of the Credit under Part B of the Project may be procured through the United Nations International Children's Emergency Fund (UNICEF) under arrangements satisfactory to the Association, and contraceptives for the population welfare sector Sub-program of the Borrower to be financed out of the proceeds of the Credit under Part A (i) of the Project may be procured through the United Nations Population Fund (UNFPA) under arrangements satisfactory to the Association.

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 each contract awarded under Part A hereof, and each contract for goods, works, equipment, vaccines, medicines, supplies and pesticides estimated to cost

the equivalent of \$200,000 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 contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association or to amendments of contracts raising the contract value to \$100,000 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 subparagraph (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 C of the Project shall satisfy the following criteria:

(a) the purposes for which such grants may be made shall be to develop and test (i) innovative approaches to improving the quality of social services; (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 government agencies, non-governmental organizations, academic and research institutions, foundations, community organizations and private institutions (the "beneficiaries") to be selected based on the following, among other, 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;

(c) the work program for a Grant activity shall not exceed two and a half years;

(d) the cost of a Grant activity shall not be less than the equivalent of \$100,000; and

(e) 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. No expenditures for goods or services required for a Grant activity shall be eligible for financing out of the proceeds of the Credit unless the Grant for such Grant activity shall have been approved by the Association and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such activity.

3. (a) When presenting a Grant to the Association for approval, 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.

(b) Applications made pursuant to the provisions of subparagraph (a) of this paragraph shall be presented to the Association on or before June 30, 1995.

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.4 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 3 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 C 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.

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 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 in 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Category for Part C 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 C 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 C 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.

