

CONFORMED COPY

CREDIT NUMBER 2257 PAK

(Second SCARP Transition Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1991

CREDIT NUMBER 2257 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 1991, between ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Provinces of Punjab and Sindh (the Provinces) and the Agricultural Development Bank of Pakistan (ADBP) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Provinces and ADBP 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 Agreements of even date herewith between the Association and the Provinces and between the Association and ADBP;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Punjab" means the Province of Punjab, a political sub-division of the Borrower, or any successor thereto;

(b) "Sindh" means the Province of Sindh, a political sub-division of the Borrower, or any successor thereto;

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

(d) "ADBP" means the Agricultural Development Bank of Pakistan, established under the Borrower's Agricultural Development Bank Ordinance, 1961, as amended from time to time;

(e) "Provinces Project Agreement" means the agreement between the Association and the Provinces 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 Provinces Project Agreement;

(f) "ADBP Project Agreement" means the agreement between the Association and ADBP 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 ADBP Project Agreement;

(g) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and ADBP pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(h) "PID" means a Provincial Irrigation Department;

(i) "OFWM" means On-Farm Water Management;

(j) "OFWM Directorate" means a Provincial On-Farm Water Management Directorate;

(k) "PAD" means a Provincial Agriculture Department;

(l) "PAED" means a Provincial Agricultural Extension

sion Department;

- (m) "FD" means a Provincial Finance Department;
- (n) "DA" means a district administration in a Province;
- (o) "DAO" means a district administration officer;
- (p) "MCO" means a Mobile Credit Officer of ADBP and "FMCO" means a Functional Mobile Credit Officer of ADBP;
- (q) "AO" means an Agricultural Officer of a PAED;
- (r) "WUA" means a Water Users Association;
- (s) "WAPDA" means the Water and Power Development Authority of Pakistan, established and existing under the Borrower's Water and Power Development Authority Act, 1958, as amended from time to time;
- (t) "PMC" means a Project Management Cell;
- (u) "PD" means the Project Director in charge of a PMC;
- (v) "PFU" means a Project Field Unit;
- (w) "PACC" means a Project Area Coordination Committee;
- (x) "PPC" means a Project Policy Committee;
- (y) "Punjab Project Areas" mean the areas of Punjab in which the Project is to be carried out, being the districts of Sheikhpura, Gujranwala, Faisalabad and Jhang;
- (z) "Sindh Project Areas" mean the areas of Sindh in which the Project is to be carried out, being the districts of Nawab Shah and Naushero Feroze;
- (aa) "Project Areas" mean the Punjab Project Areas and the Sindh Project Areas collectively;
- (bb) "Special Accounts" mean collectively the accounts referred to in Section 2.02 (b) of this Agreement and more fully defined in paragraphs (cc) and (dd) of this Section, and "Special Account" means each and any such account individually;
- (cc) "Punjab Special Account" means the Special Account which Punjab shall open and maintain pursuant to Section 2.02 (b) of this Agreement and Section 2.01 (c) of the Provinces Project Agreement;
- (dd) "Sindh Special Account" means the Special Account which Sindh shall open and maintain pursuant to Section 2.02 (b) of this Agreement and Section 2.01 (c) of the Provinces Project Agreement;
- (ee) "SCARP" means a salinity control and reclamation project;
- (ff) "TW" means a tubewell;
- (gg) "STW" means a SCARP tubewell;
- (hh) "PTW" means private tubewell;
- (ii) "SGW" means saline groundwater;

- (jj) "FGW" means fresh groundwater;
- (kk) "APB" means an agricultural passbook;
- (ll) "O&M" means operation and maintenance;
- (mm) "Rs" and "rupees" mean the Borrower's currency;
- (nn) "FY" or "fiscal year" means the period July 1 through June 30; and
- (oo) "ISRP II" means the Association-financed Second Irrigation Systems Rehabilitation Project (Credit 1888 PAK).

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 fourteen million eight hundred thousand Special Drawing Rights (SDR 14,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of their respective activities under the Project, cause the Provinces to open and maintain in dollars special deposit accounts 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 Accounts shall be made in accordance with the provisions of Schedule 4 to the Provinces Project Agreement.

Section 2.03. The Closing Date shall be December 31, 1997, 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 per cent ($3/4$ 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) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 15 and July 15 commencing July 15, 2001 and ending January 15, 2026. Each installment to and including the installment payable on January 15, 2011 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

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

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

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

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

(a) in respect of Punjab's activities under Parts A, B and C of the Project, the Chairman, Planning and Development Board, Punjab;

(b) in respect of Sindh's activities under Parts A and C of the Project, the Additional Chief Secretary, Planning and Development Department, Sindh; and

(c) in respect of ADBP's activities under Part A of the Project, the Chairman, ADBP.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement:

- (i) shall cause the Provinces and ADBP to perform in accordance with the provisions of the Project Agreements all the obligations of the Provinces and ADBP therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Provinces and ADBP to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; and
- (ii) shall cause WAPDA to enter into the arrangements with the Provinces referred to in Section 3.03 of the Provinces Project Agreement.

(b) The Borrower shall make available out of the proceeds of the Credit:

- (i) to Punjab, an amount equivalent to about SDR 6,984,000, for the purposes of Punjab's activities under Parts A, B and C of the Project; and
- (ii) to Sindh, an amount equivalent to about SDR 1,456,000, for the purposes of Sindh's activities under Parts A and C of the Project.

(c) The Borrower shall relend out of the proceeds of the Credit an amount equivalent to about SDR 6,360,000 to ADBP for the purposes of ADBP's activities under Part A of the Project under a subsidiary loan agreement to be entered into between the Borrower and ADBP, under terms and conditions which shall have been approved by the Association which shall include the terms and conditions set forth in Schedule 3 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to each of the Project Agreements.

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 the activities of the Provinces and ADBP under the Project shall be carried out by the Provinces and ADBP, respectively, pursuant to Section 2.03 of the Provinces Project Agreement and Section 2.03 of the ADBP Project Agreement.

Section 3.04. The Borrower shall:

(a) not later than December 31, 1993, acting jointly with the Provinces and in consultation with the Association, carry out a mid-term review of the Project, and thereafter make such adjustments in the activities to be carried out under the Project and the related organizational and operational arrangements as are agreed with the Association in light of the conclusions of the review; and

(b) not later than December 31, 1992, in consultation with the Provinces, prepare and furnish to the Association for its concurrence the terms of reference for such mid-term review.

ARTICLE IV

Financial Covenants

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

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls

involved in their preparation, can be relied upon to support the related withdrawals; and

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

ARTICLE V

Remedies of the Association

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

(a) A Province shall have failed to perform any of its obligations under the Provinces Project Agreement or ADBP shall have failed to perform any of its obligations under the ADBP 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 a Province will be able to perform its obligations under the Provinces Project Agreement or that ADBP will be able to perform its obligations under the ADBP Project Agreement.

(c) The Agricultural Development Bank Ordinance, 1961, of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ADBP to perform any of its obligations under the ADBP Project Agreement.

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

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and ADBP;

(b) the consultants referred to in Section II (a) and (b) of Schedule 1 to the Provinces Project Agreement have been appointed;

(c) the PMCs and PFUs referred to in paragraphs 2 (a) and (b) of Schedule 2 to the Provinces Project

Agreement have been established;

(d) the arrangements referred to in Section 3.03 of the Provinces Project Agreement have been entered into; and

(e) the Executive Committee of the National Economic Council has approved the PC-1 documents with respect to the Project.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreements have been duly authorized or ratified by the Provinces and ADBP, and are legally binding upon the Provinces and ADBP in accordance with their terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and ADBP and is legally binding upon the Borrower and ADBP in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The provisions of paragraphs (a) and (b) 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 (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. 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 in that Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Economic Affairs Division
Islamabad
Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

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:

INDEVAS
Washington, D.C.

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

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Arshad Farooq
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael H. Wiehen
Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Credit provided by ADBP for PTWs	6,360,000	80% of amounts disbursed by ADBP
(2) Civil works materials for Punjab	4,002,000	89%
(3) Equipment for:		100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 70% of local expenditures for other items procured locally
(a) Punjab	164,000	
(b) Sindh	60,000	
(4) Consultants' services for:		80% of expendi- tures for internationally selected consul- tants and 90% of expenditures for locally selected consultants
(a) Punjab	1,273,000	
(b) Sindh	1,059,000	

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(5) Training for:		90%
(a) Punjab	25,000	
(b) Sindh	5,000	
(6) Incremental staff salaries and (non-travel) allowances for Punjab	400,000	92%
(7) Incremental operating costs for:		85%
(a) Punjab	70,000	
(b) Sindh	114,000	
(8) Unallocated for:		
(a) Punjab	1,050,000	
(b) Sindh	218,000	
	14,800,000	
TOTAL	=====	

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;

(c) the term "incremental staff salaries and (non-travel) allowances" means the salaries and (non-travel) allowances of staff whether newly recruited or transferred from other parts of the Punjab PID and assigned exclusively to the Project; and

(d) the term "incremental operating costs" means the office rental, utilities and vehicle operating costs incurred by a PMC exclusively for the purposes of the Project.

3. (a) Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) payments made for expenditures prior to the date of this Agreement; and (ii) Category (1) on account of payments made for expenditures for a PTW, on account of which withdrawals have been requested or made out of the proceeds of any other foreign loan or credit.

(b) For the purposes of this provision, the term "other foreign loan or credit" means a loan or credit, other than the Credit, financed from sources located in any country other than that of the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to assist the government of Punjab in implementing, and the government of Sindh in testing the viability of, a policy of transition of SCARP tube-wells (STWs) located in fresh groundwater (FGW) areas from public into private ownership, so as to: (i) increase agricultural production and farm incomes through improved and timely availability of supplemental irrigation water supply; (ii) maintain the groundwater table at suitable levels; and (iii) eliminate the government's financial responsibility for O&M and replacement of STWs; and (b) to those ends, to develop and implement a coordinated package of incentives.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Installation of Private Tubewells

Installation by farmers of electrically-powered or diesel-driven privately-owned tubewells (PTWs) to replace, or conversion and/or transfer to farmers of, existing SCARP tubewells (STWs) in the FGW areas of the Project Areas.

Part B: Improvement of Watercourses

Renovation of about 500 watercourses, including brick/cement/precast slab lining of selected sections, installation of permanent outlets (pucca nuccas), construction of culverts, a limited number of check/drop structures and buffalo baths, and improvement of the earthen (katcha) sections, in the Punjab Project Areas.

Part C: Technical Assistance and Training

1. Carrying out of hydrogeological studies in the Project Areas.
2. Preparation of future SCARP transition projects for the Provinces.
3. Training of: (a) AOs in TW water management and soil and water management; (b) FMCOs in TW technology and credit operations; and (c) farmers in techniques of inter-farm distribution and optimum utilization of PTW water.

* * * *

The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Terms and Conditions for Relending of
Credit Proceeds to ADBP referred to
in Section 3.01 (c) of this Agreement

Except as the Association shall otherwise agree, ADBP shall:

- (a) pay a return on the amount of the Credit withdrawn and outstanding at a variable rate equivalent

to the variable lending rate charged by the Bank on loans made by it; and

(b) repay the principal amount of the Credit over a period of fifteen (15) years, including a grace period of three (3) years, the principal amount of the Credit, for this purpose, being the aggregate equivalent of the amounts withdrawn by ADBP out of the Credit Account expressed in rupees determined as of the respective dates of withdrawal.

