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**CREDIT NUMBER 4046-PAK**

# **Development Credit Agreement**

**(Second Punjab Education Development Policy Credit)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 16, 2005**



**CREDIT NUMBER 4046-PAK**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated July 16, 2005, 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 February 18, 2005, transmitting to the Association a letter from the Borrower's Province of Punjab (Punjab) dated January 25, 2005, describing a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (hereinafter called the "Program"), declaring Punjab's commitment to the execution of the Program and the Borrower's support thereto, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) Punjab has requested the Association and the Borrower to support the execution of the Program through a series of Credits over a period of three years, the proceeds of such Credits to be utilized by Punjab for implementing the Program;

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

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

(E) 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 in one tranche 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 May 1, 2004), with the modifications 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 (6) 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 in its entirety 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) “Account No. 4” means the non-lapsable Account No. 4 of the District Governments;

(b) “Consolidated Fund Account” means the Consolidated Fund Account No. 1 (Non-Food) of the Government of Punjab;

(c) “DAC” means the Education Department’s Departmental Accounts Committee;

(d) “District Government” means a District Government as defined in the Punjab Local Government Ordinance (Ordinance No. XIII of 2001) (PLGO), as amended from time to time;

(e) “Education Department” or “ED” means Punjab’s Education Department;

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

(g) “PESRP” means the Punjab Education Sector Reform Program;

(h) “Program Agreement” means the agreement between the Association and Punjab 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 Program Agreement;

(i) “Program Monitoring and Implementation Unit” or “PMIU” means the unit established in ED for overall coordination, monitoring, and facilitation of the Program;

(j) “Punjab” means the Borrower’s Province of Punjab;

(k) “Punjab Education Foundation” or “PEF” means the foundation established under the Punjab Education Foundation Act (Act No. XII of 2004), or successors thereto;

(l) “Punjab Education Management Information System “ or “PMIS” means a system established and maintained by ED for collecting, maintaining, and analyzing education data;

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

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

(o) “Terms of Partnership Agreements” or “TOP Agreements” means the agreements executed between the Education Department, on the one hand, and the District Governments, on the other hand, setting out, among other things: (i) various matters relating to the implementation of the Program by the District Governments;

(ii) arrangements to ensure that the District Governments maintain appropriate budgetary allocations for the education sector in Fiscal Year 2005; (iii) the respective roles and responsibilities of the Government of Punjab and the District Governments for Program monitoring and implementation; and (iv) annual targets to be achieved by the District Governments.

## **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 sixty-five million eight hundred thousand Special Drawing Rights (SDR 65,800,000).

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

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a special 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 Special Deposit Account.

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

(d) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of the Schedule to this Agreement. If the Association determines at any time that an amount of the Credit was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Special 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 cancelled.

Section 2.03. The Closing Date shall be October 31, 2005, 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 (60) 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 March 15 and September 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 March 15 and September 15 commencing September 15, 2015 and ending March 15, 2040. Each installment to and including the installment payable on March 15, 2025, 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 (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) 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. In order to assist Punjab in carrying out the Program, the Borrower shall on-lend the proceeds of the Credit to Punjab in accordance with the Borrower's on-lending policies.

Section 2.10. The Secretary to the Government of Pakistan, Economic Affairs Division, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Particular Covenants**



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

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

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

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

(a) have the Special Deposit Account audited in accordance with appropriate auditing standards 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 Special 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 have occurred.

(b) Any action shall have been taken or any omission shall have been made after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in the Schedule to the Program Agreement.

**ARTICLE V**

**Effective Date; Termination**

Section 5.01. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Program Agreement has been duly authorized or ratified by Punjab and is legally binding upon Punjab in accordance with its terms.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VI**

**Representative of the Borrower; Addresses**

Section 6.01. The Secretary, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer, to the Economic Affairs Division of the Borrower's Ministry of Economic Affairs and Statistics is designated as the 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:

Economic Affairs Division  
Ministry of Economic Affairs and Statistics  
Islamabad  
Pakistan

Cable address:  
Facsimile:

Telex:

9205971	ECONOMIC	ECDIV-05-634	(9521)
9210734	Islamabad		(9521)

For the Association:

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

	Cable address:	Telex:	Facsimile:
6391	INDEVAS	248423 (MCI) or	(202) 477-
	Washington, D.C.	64145 (MCI)	

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 Islamabad, Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Khalid Saeed

Authorized Representative

ASSOCIATION

INTERNATIONAL

DEVELOPMENT

By /s/ John Wall

Country Director  
Pakistan

**SCHEDULE**

**Excluded Expenditures**

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

1. expenditures 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 Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;
2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122 manufactured	-	Tobacco,  (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),

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
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)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. 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);
5. expenditures 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
6. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive or coercive 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.