

**CONFORMED COPY**

**CREDIT NUMBER 4031 PAK  
LOAN NUMBER 7270 PAK**

# **Development Credit Agreement**

**(Banking Sector Development Policy Credit)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated January 14, 2005**

**CREDIT NUMBER 4031 PAK**  
**LOAN NUMBER 7270 PAK**

## **DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated January 14, 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 December 17, 2004, describing a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (hereinafter called the "Program"), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

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

(C) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional financial assistance to support the Program and, by the Loan Agreement of even date herewith between the Borrower and the Bank, the Bank has agreed to provide such assistance in an aggregate principal amount equal to two hundred million dollars (\$200,000,000) (the Loan); and

(D) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower 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(b) of the Development Credit Agreement.”;

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

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

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

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

- (f) Section 9.04 is deleted 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) “ABL” means Allied Bank Limited, a banking company incorporated under the Banking Companies Ordinance and the Companies Ordinance, and previously owned by the Borrower;

(b) “Banking Companies Ordinance” means the Borrower’s Banking Companies Ordinance (No. LVII of 1962), as amended from time to time;

(c) “Companies Ordinance” means the Borrower’s Companies Ordinance (No. XLVII of 1984), as amended from time to time;

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

(e) “HBL” means Habib Bank Limited, a bank incorporated under the Banking Companies Ordinance and the Companies Ordinance, and previously owned by the Borrower;

(f) “NBP” means National Bank of Pakistan, a bank established under the Borrower’s National Bank of Pakistan Ordinance (No. XIX of 1949), incorporated under the Banking Companies Ordinance and the Companies Ordinance, and currently owned by the Borrower; and

(g) “UBL” means United Bank Limited, a bank incorporated under the Banking Companies Ordinance and the Companies Ordinance, and previously owned by the Borrower.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixty-five million three hundred thousand Special Drawing Rights (SDR65,300,000).

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

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

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association 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 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 July 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 March 15, 2015 and ending September 15, 2039. Each installment to and including the installment payable on September 15, 2024, 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 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.

### **ARTICLE III**

#### **Particular Covenants**

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

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

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

the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

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

- (a) have the Deposit Account audited in accordance with appropriate auditing 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 (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

#### **ARTICLE IV**

##### **Remedies of the Association**

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

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

- (a) The event specified in Section 4.01 of this Agreement shall have occurred.
- (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 Schedule 2 to this Agreement.

#### **ARTICLE V**

##### **Termination**

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### **ARTICLE VI**

##### **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:	Telex:	Facsimile:
9205971	ECONOMIC Islamabad	ECDIV-05-634	92-51 92-51 9218976

For the Association:

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

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

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Mushtaq Malik

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ John Wall

Country Director  
Pakistan

## SCHEDULE 1

### Excluded Expenditures

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

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan, credit 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	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
		nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

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.

## **SCHEDULE 2**

### **Actions referred to in Recital (B) of the Preamble to this Agreement**

1. The Borrower has sold fifty-one percent (51%) of its shareholding in, and transferred the management of, HBL to a foreign private strategic investor.
2. The Borrower has sold fifty-one percent (51%) of its shareholding in, and transferred the management of, UBL to a foreign private strategic investor.
3. The Borrower has sold seventy-five percent (75%) of its enhanced shareholding in, and transferred the management of, ABL to a local private strategic investor.
4. The Borrower has, with respect to NBP, appointed professional bankers as managers protected by the law and acting under the direction of an independent and professional board.
5. The Borrower has, with respect to the banking sector: (a) put in place a framework for monitoring, surveillance and supervision of institutional risk of banks; and (b) introduced guidelines on: (i) micro- and small- and medium-enterprise, corporate and consumer finance; (ii) financial disclosure; (iii) risk management; (iv) opening and managing customer accounts so as to prevent the use and transfer of ill-gotten monies; and (v) conducting fit and proper tests for the appointment of boards of directors, chief executive officers and senior managers of banks.
6. The Borrower has introduced prudential regulations for non-bank finance and insurance companies.