

No. 9667

INTERNATIONAL DEVELOPMENT ASSOCIATION
and
PAKISTAN

Development Credit Agreement — *Telecommunications Project* (with annexed Credit Regulations No. 1, as amended). Signed at Washington on 6 March 1969

Authentic text: English.

Registered by the International Development Association on 25 June 1969.

ASSOCIATION INTERNATIONALE
DE DÉVELOPPEMENT
et
PAKISTAN

Contrat de crédit de développement — *Projet relatif aux télécommunications* (avec, en annexe, le Règlement n° 1 sur les crédits de développement, tel qu'il a été modifié). Signé à Washington le 6 mars 1969

Texte authentique: anglais.

Enregistré par l'Association internationale de développement le 25 juin 1969.

DEVELOPMENT CREDIT AGREEMENT¹

AGREEMENT, dated March 6, 1969, between the ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

Article I

CREDIT REGULATIONS ; SPECIAL DEFINITIONS

Section 1.01. The parties to this Agreement accept all the provisions of Development Credit Regulations No. 1 of the Association, dated June 1, 1961, as amended February 9,² 1967, with the same force and effect as if they were fully set forth herein (said Development Credit Regulations No. 1 being hereinafter called the Credit Regulations).

Section 1.02. Unless the context otherwise requires, the term "T & T" means the Telegraph and Telephone Department of the Ministry of Communications of the Borrower and includes any other department, agency or entity which shall perform in whole or in part the telecommunications services theretofore performed by such Department.

Article II

THE CREDIT

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions in the Development Credit Agreement set forth or referred to, a development credit in an amount in various currencies equivalent to sixteen million dollars (\$16,000,000).

Section 2.02. (a) The Association shall open a Credit Account on its books in the name of the Borrower and shall credit to such Account the amount of the Credit.

(b) The amount of the Credit may be withdrawn from the Credit Account as provided in, and subject to the rights of cancellation and suspension set

¹ Came into force on 11 April 1969, upon notification by the Association to the Government of Pakistan.

² See p. 320 of this volume.

forth in, this Agreement and the Credit Regulations and in accordance with the allocation of the proceeds of the Credit set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Association; provided, however, that, except as the Association shall otherwise agree, until the Borrower shall have retained the consultants referred to in Section 4.02 (b) of this Agreement in accordance with the provisions thereof, not more than the equivalent of four million dollars (\$4,000,000) shall be withdrawn or committed from the Credit Account.

Section 2.03. (a) The Borrower shall be entitled to withdraw from the Credit Account such amounts as shall have been paid (or, if the Association shall so agree, such amounts as shall be required to meet payments to be made) in currencies other than currency of the Borrower for the reasonable cost of goods required for the Project and to be financed under the Development Credit Agreement.

- (b) No withdrawals from the Credit Account shall be made on account of:
- (i) expenditures made prior to the date of the Development Credit Agreement; or
 - (ii) expenditures made in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in (including services supplied from) such territories.

Section 2.04. The currency of the United Kingdom of Great Britain and Northern Ireland is hereby specified for the purposes of paragraph (a) of Section 3.02 of the Credit Regulations.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1 %) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Service charges shall be payable semi-annually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal of the Credit withdrawn from the Credit Account in semi-annual installments payable on each June 15 and December 15 commencing June 15, 1979 and ending December 15, 2018, each installment to and including the installment payable on December 15, 1988 to be one-half of one per cent ($\frac{1}{2}$ of 1 %) of such principal amount, and each installment thereafter to be one and one-half per cent ($1\frac{1}{2}$ %) of such principal amount.

Article III

USE OF PROCEEDS OF THE CREDIT

Section 3.01. The Borrower shall apply the proceeds of the Credit in accordance with the provisions of the Development Credit Agreement to expenditures required to carry out the Project described in Schedule 2 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, (i) the goods, other than services of consultants, to be financed out of the proceeds of the Credit shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Association in February 1968, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 3 to this Agreement ; and (ii) all contracts for the procurement of any of the goods to be financed out of the proceeds of the Credit shall be subject to the approval of the Association.

Section 3.03. Except as the Association shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Credit to be used in the territories of the Borrower exclusively in the carrying out of the Project until the completion thereof.

Article IV

PARTICULAR COVENANTS

Section 4.01. (a) The Borrower shall cause T & T to carry out the Project with due diligence and efficiency and in conformity with sound engineering, financial and public utility practices, and shall make available, promptly as needed, all funds, facilities, services and other resources required for the purpose.

(b) Without limiting or restricting the Borrower's obligations under paragraph *(a)* of this Section, the Borrower shall make the proceeds of the Credit available to T & T on the basis of reimbursement by T & T over a period of twenty-four years from the Effective Date of the Development Credit Agreement, including therein a period of grace of four years, and subject to charges of six per cent per annum on the aggregate amounts of the proceeds of the Credit so made available and outstanding from time to time.

(c) Without limiting or restricting the Borrower's obligations under paragraph *(a)* of this Section, the Borrower shall use its best efforts to obtain for the benefit of T & T other loans or other financing under terms and condi-

tions acceptable to the Association from sources outside Pakistan and to cause T & T to apply the proceeds of such loans or financing to meet the expenses in currencies other than currency of the Borrower required to carry out the Project and not financed out of the proceeds of the Credit.

Section 4.02. (a) The Borrower shall cause T & T at all times to conduct its operations, including its financial operations, in accordance with sound management and financial practices and under the supervision of competent and experienced management.

(b) To assist in carrying out Part IV of the Project described in Schedule 2 to this Agreement, the Borrower shall employ or cause T & T to employ competent and experienced consultants acceptable to the Association, to an extent, and upon such terms and conditions as shall have been approved by the Association, and the Borrower shall furnish to such consultants all information relevant to the purposes of such Part IV of the Project.

Section 4.03. (a) The Borrower shall cause T & T to furnish to the Association promptly upon their preparation, the reports, plans, specifications, construction and procurement schedules for the Project, and any material modifications subsequently made therein, in such detail as the Association shall from time to time request.

(b) The Borrower shall: (i) cause T & T to maintain records adequate to identify the goods financed out of the proceeds of the Credit, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and the operations, including financial operations, of T & T; and (ii) enable the Association's representatives to inspect the Project, T & T's properties and equipment including the goods and any relevant records and documents.

(c) The Borrower shall furnish or cause T & T to furnish to the Association all such information as the Association shall reasonably request concerning the expenditures of the proceeds of the Credit, the goods, the Project and the management and operations, including financial operations, of T & T.

Section 4.04. The Borrower shall at all times cause T & T to operate and maintain its plants, equipment and property, and to make promptly all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.05. Until the establishment of the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement, the

Borrower shall effect no reduction in its telecommunications tariffs without the agreement of the Association.

Section 4.06. (a) After the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement shall have been established, the Borrower shall establish and thereafter maintain telecommunications tariffs which shall provide revenues sufficient to produce an annual return on the net fixed assets in operation of T & T at a rate of not less than 10 %, or at such other rate as may be agreed from time to time between the Borrower and the Association.

(b) For the purposes of this Section :

- (i) The annual rate of return shall be calculated by using as the denominator the value of net fixed assets in operation of T & T at the beginning, and at the end of the year in question, and dividing the total by two, plus an amount as working capital equal to 4 % of such average net fixed assets in operation and, as the numerator, the operating income of T & T for that year.
- (ii) The term “ value of net fixed assets in operation of T & T ” means the gross value of fixed assets in operation of T & T as revalued from time to time, based on appropriate valuation methods approved by the Association, less accumulated straight-line depreciation.
- (iii) The term “ operating income ” means the difference between operating revenues and operating expenses.
- (iv) The term “ operating revenues ” means all revenues from T & T’s telecommunications operations and other revenues incidental thereto.
- (v) The term “ operating expenses ” means all costs of operation by T & T of its telecommunications facilities, including overhead costs, maintenance expenses, and adequate provision for straight-line depreciation at a rate of at least 5 % per annum and for the contribution to the Borrower defined in Section 4.08 (b) below, but excluding interest and other charges on debt.

Section 4.07. The Borrower shall promptly pay to the account of T & T’s revenues, on a current basis, all charges incurred by the Borrower or by any of its departments, agencies or instrumentalities in respect of telecommunications services furnished by T & T.

Section 4.08. (a) Until the establishment of the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement, the financial arrangements between the Borrower and T & T applicable at the date of the Development Credit Agreement shall continue to be applied

and any change in such arrangements will be subject to agreement between the Borrower and the Association.

(b) After the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement shall have been established,

- (i) long-term debt of T & T other than under development credit agreements entered into with the Association, including long-term debt entered into for the benefit of T & T to be separated from the capital-at-charge, shall be repaid by T & T to the Borrower out of T & T's operating revenues under the terms and conditions applicable to such debt, and
- (ii) The Borrower shall cause T & T to pay annually to the Borrower out of its operating revenues a contribution equal to 6 % of the Borrower's equity in T & T, as determined with the assistance of the consultants retained to assist in carrying out Part IV of the Project described in Schedule 2 to this Agreement, or such other percentage as may be established from time to time after consultation between the Borrower and the Association.

(c) For the purposes of this Section, (i) the term "operating revenues" shall have the meaning set forth in Section 4.06 (b) above; (ii) the term "long-term debt of T & T" shall mean all debt incurred for the benefit of T & T which will mature by its terms more than one year after the date on which it is originally incurred; and (iii) the term "capital-at-charge" shall mean the aggregate of all funds placed by the Borrower at the disposal of T & T, the principal of which is not repayable to the Borrower, but which is subject to annual interest payments by T & T which are at the date of the Development Credit Agreement equal to 6 % of such capital-at-charge.

Section 4.09. (a) Until the establishment of the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement, the Borrower shall submit to the Association, promptly upon their preparation, the annual budget accounts relating to T & T.

(b) After the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement shall have been established, the Borrower shall have T & T's accounts audited annually by competent and experienced auditors acceptable to the Association, and shall promptly after the audited statements (balance sheet, operating statement and sources and uses of funds statement) are available, and not later than six months after the close of the fiscal year to which they apply, transmit to the Association certified copies of such statements and a signed copy of the auditor's report.

Section 4.10. (a) The Borrower and the Association shall cooperate fully to ensure that the purposes of the Credit will be accomplished. To that

end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Credit. On the part of the Borrower, such information shall include information with respect to : (i) the administration and financial operations of T & T and of any other agency or agencies of the Borrower responsible for carrying out the Project or any part thereof and (ii) financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Association shall from time to time, at the request of either party, exchange views through their representatives with regard to matters relating to the purposes of the Credit and the maintenance of the service thereof.

(c) The Borrower shall promptly inform the Association of (i) any proposed material changes in the structure, organization, powers or responsibilities of T & T and (ii) of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit, the maintenance of the service thereof or the performance by the Borrower of its obligations under the Development Credit Agreement.

(d) The Borrower shall afford all reasonable opportunity for accredited representatives of the Association to visit any part of the territories of the Borrower for purposes related to the Credit.

Section 4.11. The Borrower undertakes to insure or cause to be insured the imported goods financed out of the proceeds of the Credit against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by T & T to replace or repair such goods.

Section 4.12. Prior to the completion of the Project, the Borrower shall ensure that major expansions of telecommunications facilities other than as provided in the Project or in the telecommunications phase of the Borrower's revised Third Five-Year Plan shall only be undertaken after consultation and agreement with the Association. The term "major expansion" shall mean any expansion scheme or project, the total expenditures for which are expected to exceed the equivalent of two million dollars (\$2,000,000).

Section 4.13. (a) Until the establishment of the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement, the Borrower shall not, without prior consultation with the Association, nor without its approval, incur any debt for the benefit of T & T, other than for money borrowed for financing the Project or the telecommunications phase of the Borrower's revised Third Five-Year Plan under terms and conditions acceptable to the Association.

(b) After the accounting system referred to in Part IV of the Project described in Schedule 2 to this Agreement shall have been established, except as the Association shall otherwise agree, the Borrower shall not incur any debt for the benefit of T & T, or cause any debt to be so incurred, unless T & T's net revenues for the preceding fiscal year or for any later twelve-month period, whichever is the greater, shall be at least 1.5 times the maximum debt service requirement for any succeeding fiscal year on all debt including the debt to be incurred.

(c) For the purposes of this Section :

- (i) Debt incurred for the benefit of T & T means all indebtedness incurred by the Borrower or others, for the purpose of financing the operations or investments of T & T, including debt for the service of which T & T is responsible, which will mature by its terms more than one year after the date on which it is originally incurred.
- (ii) The term "incur" with reference to any debt includes any modification of the terms of payment of such debt. Debt shall be deemed to be incurred on the date of execution and delivery of a contract, loan agreement or other instrument providing for such debt or for the refinancing of such debt.
- (iii) The term "net revenues" means gross revenues from all sources, adjusted to take account of T & T's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the fiscal year or twelve-month period to which such revenues relate, less all operating, maintenance and overhead expenses and provision for the contribution to the Borrower defined in Section 4.08 (b) above, but before provision covering depreciation and debt service requirements.
- (iv) The term "debt service requirement" means the aggregate amount of amortization (including sinking fund payments, if any), interest and other charges on debt.
- (v) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt or, if such other currency is not so obtainable, at the rate of exchange that will be reasonably determined by the Association.

Section 4.14. The principal of, and service charges on, the Credit shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories, and free from all restrictions imposed under the laws of the Borrower or laws in effect in its territories.

Section 4.15. The Development Credit Agreement shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, delivery or registration thereof.

Article V

REMEDIES OF THE ASSOCIATION

Section 5.01. (i) If any event specified in paragraph (a) or paragraph (c) of Section 5.02 of the Credit Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (b) of Section 5.02 of the Credit Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower, then, at any subsequent time during the continuance thereof, the Association, at its option, may declare the principal of the Credit then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in the Development Credit Agreement to the contrary notwithstanding.

Article VI

TERMINATION ; MISCELLANEOUS

Section 6.01. The Closing Date shall be December 31, 1972, or such other date as may from time to time be agreed between the Borrower and the Association as the Closing Date.

Section 6.02. The date May 15, 1969 is hereby specified for the purposes of Section 8.04 of the Credit Regulations.

Section 6.03. The obligations of the Borrower under Section 4.01 (b) ; 4.02 (a) ; 4.03 (c) ; 4.04 ; 4.06 ; 4.08 (b) and (c) ; 4.09 (b) ; 4.10 (a) (i), (c) (i) and (d) ; and 4.13 (b) and (c) of this Agreement shall terminate on the date on which the Development Credit Agreement shall terminate or on a date twenty-four years after the date of the Development Credit Agreement, whichever shall be the earlier.

Section 6.04. The following addresses are specified for the purposes of Section 7.01 of the Credit Regulations :

For the Borrower :

The Secretary to the Government of Pakistan
Economic Affairs Division
Islamabad, Pakistan

Cable address :

Economic
Islamabad

For the Association :

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

Cable address :

Indevas
Washington, D.C.

Section 6.05. The Secretary to the Government of Pakistan, Economic Affairs Division, is designated for the purposes of Section 7.03 of the Credit Regulations.

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

Islamic Republic of Pakistan :

By A. R. BASHIR
Authorized Representative

International Development Association :

By A. BROCHES
General Counsel

SCHEDULE 1

ALLOCATION OF THE PROCEEDS OF THE CREDIT

<i>Category</i>	<i>Maximum Amounts Expressed in Dollar Equivalent</i>
A. Telephone cables, overhead line networks, subscribers' concentrators and carrier systems for Part I of the Project . . .	6,800,000
B. Microwave and coaxial cable systems, very high frequency mobile radio equipment, open wire lines to exchanges and public call offices in East and West Pakistan for Part II of the Project	7,800,000
C. High frequency radio equipment, materials and supplies for Part III of the Project	400,000
D. Consultants' services for Part IV of the Project	200,000
E. Unallocated	800,000
	Total 16,000,000

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories A through D shall decrease, the amount of the Credit then allocated to, and no longer required for, such Category will be reallocated by the Association to Category E.

2. If the estimate of the cost of the items included in any of the Categories A through D shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Credit will be allocated by the Association, at the request of the Borrower, to such Category from Category E, subject, however, to the requirements for contingencies, as determined by the Association, in respect of the cost of the items in the other Categories.

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project consists of part of the telecommunications phase of the Borrower's Five-Year Development Plans and provides for the modernization and expansion of T & T's local and long-distance telephone facilities. The Project includes :

- I. the installation of and extensions to the local telephone subscribers' distribution network and the associated buildings, telephone exchange switching equipment and accessory facilities in telephone areas in East and West Pakistan ; during the fiscal years 1969-1972, 175,000 new telephones will be added to such network ;
- II. the installation of microwave and coaxial cable systems between Dacca and Mymensingh ; Dacca and Sylhet ; Kushtia, Rangpur and Rajshahi ; Hajigang and Comilla ; Rawalpindi and Haripur ; and of a network of open wire lines to minor exchanges and public call offices, as well as the provision of multiplexing, terminating, exchange switching and interconnecting facilities ;
- III. the improvement of the high frequency radio system utilized for telecommunications between East and West Pakistan, as well as for international telecommunications ;
- IV. a study of the organization of T & T and of its relationship with the Borrower and with the Telephone Industries of Pakistan, which shall result in the elaboration of a program acceptable to the Borrower and the Association designed to ensure that T & T shall be in a position to operate its telecommunications services effectively and on the basis of sound financial and management principles ; such program, to be implemented by the date of completion of the Project according to a timetable agreed with the Association, shall include the following :
 - (i) the form of control exercised by the Borrower over T & T and its operations shall ensure that the chief executive officer of T & T shall have such financial and operational responsibility as shall be required to enable him to manage the activities and operations of T & T on the basis of sound financial and management principles ;
 - (ii) T & T shall be provided with an effective accounting system which would supply to T & T's management all information necessary for effective planning of T & T's operations and services, including expansions thereof, as well as for efficient control over T et T's current operations ;
 - (iii) the relationship between T & T and the Telephone Industries of Pakistan shall be placed on a fully commercial basis ; and
 - (iv) all other recommendations resulting from such study which shall have been accepted by the Borrower and the Association.

The Project is expected to be completed by June 30, 1972.

SCHEDULE 3

PROCUREMENT OF GOODS

1. With respect to goods in Categories A, B and C as set out in Schedule 1 to this Agreement, required to be procured on the basis of international competitive bidding under Section 3.02 of this Agreement, identical or similar items to be procured shall be grouped together wherever practicable for the purposes of bidding and procurement, and such grouping of items shall be subject to the approval of the Association.

2. With respect to all procurement contracts involving expenditures expected to exceed the equivalent of \$50,000, the Borrower shall cause T & T to comply with the following procedures :

- (a) Invitations to bid, specifications, the proposed terms and conditions of contracts, and all other tender documents will be submitted to the Association for review and approval prior to the issuance of invitations to bid, together with a description of the advertising procedures to be followed.
- (b) After bids have been received and analyzed, the analysis of bids, recommendations of the consulting engineer where applicable, and T & T's proposals for awards, together with the reasons for such proposals will be submitted to the Association for review and approval prior to making any award of contract or issuing any letter of intent.
- (c) If the final contract is to differ substantially from the terms and conditions contained in the respective documents approved by the Association under paragraphs (a) and (b) above, the text of the proposed changes will be submitted to the Association for its review and approval prior to the execution of such contract or issuance of such letter of intent.
- (d) One conformed copy of any letter of intent issued and of any contract executed under this paragraph 2 shall be sent to the Association promptly upon its issuance or execution.

3. With respect to items or groups of items expected to cost the equivalent of \$50,000 or less, copies of all tender documents, including invitations to bid, bid analyses and evaluations, as well as one conformed copy of any contract or letter of intent relating to the procurement of such items or groups of items, shall be sent to the Association promptly after the execution of any such contract or issuance of any such letter of intent and prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of any such contracts or letters of intent.

INTERNATIONAL DEVELOPMENT ASSOCIATION

DEVELOPMENT CREDIT REGULATIONS No. 1, DATED 1 JUNE 1961,
AS AMENDED 9 FEBRUARY 1967REGULATIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS WITH MEMBER
GOVERNMENTS

[Not published herein. See United Nations, Treaty Series, Vol. 617, p. 60.]