

No. 10658

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
PAKISTAN**

Development Credit Agreement—*Second Telecommunications Project* (with annexed General Conditions Applicable to Development Credit Agreements). Signed at Washington on 22 May 1970

Authentic text: English.

Registered by the International Development Association on 11 August 1970.

**ASSOCIATION INTERNATIONALE
DE DÉVELOPPEMENT
et
PAKISTAN**

Contrat de crédit de développement — *Deuxième projet relatif aux télécommunications* (avec, en annexe, les Conditions générales applicables aux contrats de crédit de développement). Signé à Washington le 22 mai 1970

Texte authentique : anglais.

Enregistré par l'Association internationale de développement le 11 août 1970.

DEVELOPMENT CREDIT AGREEMENT¹

AGREEMENT, dated May 22, 1970 between the ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (hereinafter called the Borrower), and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association);

WHEREAS by a development credit agreement dated March 6, 1969² between the Borrower and the Association, the Association has granted to the Borrower a development credit in various currencies equivalent to \$16,000,000 for a telecommunications project, which is expected to be completed by June 30, 1972.

WHEREAS the Association is willing at this time to grant a second development credit to the Borrower upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The Borrower and the Association accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 31, 1969,³ with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Development Credit Agreements of the Association being hereinafter called the General Conditions).

Section 1.02. Wherever used in the Development Credit Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "First Development Credit Agreement" means the development credit agreement dated March 6, 1969 between the Borrower and the Association and referred to in the preamble to this Agreement;

¹ Came into force on 30 June 1970, upon notification by the Association to the Government of Pakistan.

² United Nations, *Treaty Series*, vol. 679, p. 293.

³ See p. 264 of this volume.

(b) "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; and

(c) "Program" means all expansion schemes described in at least one of the following: (i) the Project, (ii) the project described in the First Development Credit Agreement, (iii) the telecommunication sector plan included in the revised Third Five-Year Plan of the Borrower, and (iv) such part of the telecommunication sector plan included in the Borrower's Fourth Five-Year Plan, the execution of which is scheduled to be undertaken before June 30, 1973, as shall be agreed to by the Association.

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, an amount in various currencies equivalent to fifteen million dollars (\$15,000,000).

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 forth in, the Development Credit Agreement 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.

Section 2.03. 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, as shall be required to meet payments to be made) for the reasonable cost of goods or services required for the Project and to be financed under the Development Credit Agreement.

Section 2.04. No withdrawals from the Credit Account shall be made on account of payments: (i) under any of the Categories I (a), II and III of the allocation of the proceeds of the Credit referred to in Section 2.02 of this Agreement for goods produced in, or services supplied from, the territories of the Borrower, or (ii) for taxes imposed by the Borrower or any of its

political subdivisions on, or in connection with the importation or supply of, any of the goods or services financed out of the proceeds of the Credit.

Section 2.05. The currency of the United Kingdom of Great Britain and Northern Ireland is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.06. 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 2.07. Service charges shall be payable semi-annually on February 1 and August 1 in each year.

Section 2.08. The Borrower shall repay the principal of the Credit withdrawn from the Credit Account in semi-annual installments payable on each February 1 and August 1 commencing August 1, 1980 and ending February 1, 2020, each installment to and including the installment payable on February 1, 1990 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 on the Project, described in Schedule 2 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, (i) the goods and services 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 Bank in August 1969, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 3 to this Agreement or as shall be agreed between the Borrower and the Association, and (ii) all contracts for the procurement of any of the goods and services to be financed out of the proceeds of the Credit shall be subject to the prior approval of the Association except as otherwise provided in such Schedule 3.

Section 3.03. Except as the Association shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of

the Credit to be used exclusively in carrying out the Project.

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 and one quarter per cent ($6\frac{1}{4}\%$) per annum on the aggregate amounts of the proceeds of the Credit so made available and outstanding from time to time.

Section 4.02. (a) The Borrower shall cause T & T and all times to manage its affairs and carry on its operations, including its financial operations, in accordance with sound management and financial practices, with the assistance of adequate qualified and experienced staff and under the supervision of competent and experienced management.

(b) Until completion of the Project, the Borrower shall cause T & T to increase its staff productivity to such level as shall be agreed between the Borrower and the Association, by reducing the ratio of staff employed to number of stations in service.

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

Section 4.03. (a) The Borrower shall cause T & T to furnish to the Association, promptly upon their preparation, the reports, studies, plans, specifications, work and procurement schedules for, or in connection with, 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 cause T & T to maintain records adequate: (i) to identify at all times the goods and services 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 (ii) upon the establishment of the accounting system referred to in Part IV of the project described in the First Development Credit Agreement, and at all times thereafter, to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of T & T.

(c) The Borrower shall enable the Association's representatives to inspect the Project, T & T's properties, equipment and operations, including the goods financed out of the proceeds of the Credit and any relevant records and documents.

(d) 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 and services financed out of such proceeds, the Project and the management, operations and financial condition of T & T.

Section 4.04. (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 4.05. Until the establishment of the accounting system referred to in Part IV of the project described in the First Development Credit Agreement, the Borrower shall effect no reduction in its telecommunication 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 the First Development Credit Agreement shall have been established, the Borrower shall establish, and thereafter maintain, telecommunication tariffs and a level of operating expenses which shall provide to T & T operating income sufficient to produce an annual return on the net fixed assets in operation of T & T of not less than 10%, or such other percentage 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 equal to 4% of such average net fixed assets in operation and, as the numerator, an amount equal to 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 telecommunication operations and other revenues incidental thereto.
- (v) The term “operating expenses” means all costs of operation by T & T of its telecommunication 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 4.07 (b) below, but excluding interest and other charges on debt.

(c) Section 4.06 (a) of the First Development Agreement is deleted and the following is substituted in lieu thereof:

“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 telecommunication tariffs and a level of operating expenses which shall provide to T & T operating income sufficient to produce an annual return on the net fixed assets in operation of T & T of not less than 10%, or such other percentage as may be agreed from time to time between the Borrower and the Association."

Section 4.07. (a) Until the establishment of the accounting system referred to in Part IV of the project described in the First Development Credit Agreement, the financial arrangements between the Borrower and T & T applicable at the date of the First 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 such accounting system shall have been established:

- (i) long-term debt of T & T shall be repaid by T & T out of its 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 the First Development Credit 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" has the meaning set forth in Section 4.06 (b) of this Agreement; and
- (ii) the term "long-term debt of T & T" shall mean all debt incurred by or 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.

Section 4.08. (a) Until the establishment of the accounting system referred to in Part IV of the project described in the First Development Credit Agreement, the Borrower shall submit to the Association, promptly upon their preparation, the annual budget accounts relating to T & T.

(b) After such accounting system 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 statements) 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 4.09. 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 telecommunication services furnished by T & T.

Section 4.10. 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 4.11. Prior to the completion of the Project, the Borrower shall ensure that no major expansions of telecommunication facilities other than as provided in the Program shall be undertaken without prior 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 4.12. (a) Until the establishment of the accounting system referred to in Part IV of the project described in the First Development Credit Agreement, the Borrower shall ensure that no debt, other than for money borrowed under terms and conditions acceptable to the Association for financing the Program, shall be incurred by or for the benefit of T & T without prior consultation with or approval by the Association.

(b) After such accounting system 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 operating revenues, 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 provisions for the contribution to the Borrower defined in Section 4.07 (b) above, but before provision covering depreciation and debt service requirements.
- (iv) The term “operating revenues” has the meaning set forth in Section 4.06 (b) of this Agreement.
- (v) The term “debt service requirement” means the aggregate amount of amortization (including sinking fund payments, if any), interest and other charges on debt.
- (vi) 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 4.13. 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 4.14. 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. If any event specified in Section 7.01 of the General Conditions shall occur and shall continue for the period, if any, therein set forth, then, at any subsequent time during the continuance thereof, the Association, at its option, may by notice to the Borrower declare the principal of the Credit then outstanding to be due and payable immediately together with the service charges thereon and upon any such declaration such principal, together with such charges, 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, 1973, 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 July 31, 1970 is hereby specified for the purposes of Section 10.04 of the General Conditions.

Section 6.03. The obligations of the Borrower under Sections 4.02 (a) and (c); 4.03; 4.06; 4.07 (b); 4.08 (b) and 4.12 (b) 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 Secretary to the Government of Pakistan, Economic Affairs Division, is designated for the purposes of Section 9.03 of the General Conditions.

Section 6.05. The following addresses are specified for the purposes of Section 9.01 of the General Conditions:

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.

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 J. BURKE KNAPP
Vice President

SCHEDULE 1

ALLOCATION OF THE PROCEEDS OF THE CREDIT

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
I. Microwave system for Part A of of the Project:	
(a) modulating and radio equipment, including related surveys, studies, supervision and training	6,300,000
(b) multiplex channeling equipment	500,000
II. Cables and related accessories for Part B of the ... Project	5,700,000
III. Air conditioning equipment for Part C of the Project	1,500,000
IV. Unallocated	1,000,000
	<u>15,000,000</u>

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories I through III 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 IV.

2. If the estimate of the cost of the items included in any of the Categories I through III 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 IV, 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 telecommunication phase of the Borrower's Five-Year Development Plans and provides for the modernization and expansion of T & T's local and long-distance telecommunication facilities. The Project consists of the following parts:

- A. The installation of a microwave system from Karachi to Rawalpindi, consisting of two microwave links (of at least 960 channels each) to Multan, with one continuing to Rawalpindi and the other branching off to Lyallpur, together with the associated multiplex equipment, and the provision of spur connections in particular for Hyderabad-Mirpur Khas; Darya Khan-D.I. Khan; and Lahore-Gujranwala; including all necessary surveys, studies, supervision and training.
- B. The installation during the fiscal years 1970-1972 of local and junction exchange cables and related accessories for about 50,000 new telephones included in Part I of the project described in the First Development Credit Agreement but not financed under such Agreement.
- C. The installation during the fiscal years 1970-1972 of air-conditioning equipment for exchange and transmission rooms.

The Project is expected to be completed by June 30, 1973.

SCHEDULE 3

PROCUREMENT OF GOODS

1. Identical or similar items to be procured for the Project 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 any 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. In respect of items included in Category I (b) of the allocation of the proceeds of the Credit referred to in Section 2.02 of this Agreement, bids will be compared, for the purpose of awarding contracts, on the basis of the ex-factory price of the bids submitted by Pakistani manufacturers and on the basis of a price, for each bid submitted by a non-Pakistani manufacturer, consisting of its c.i.f. (Karachi) price plus 15% of such price or the actual rate of customs duties and similar taxes paid or to be paid, whichever is the lower.

4. 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

GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS

[Not published herein. See *United Nations, Treaty Series*, vol. 703, p. 244.]