CONFORMED

CREDIT NUMBER 684 PAK

DEVELOPMENT CREDIT AGREEMENT
(Tenth Railway Project)
between
ISLAMIC REPUBLIC OF PAKISTAN
and
INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 8, 1977
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 8, 1977, between ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

WHEREAS (A) the Borrower has requested the Association to assist in the financing of the Project described in Schedule 2 to this Agreement by making the Credit as hereinafter provided; and

(B) the Borrower has also requested the Bank to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (hereinafter called the Loan Agreement) the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to thirty-five million dollars ($35,000,000) (hereinafter called the Loan); and

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures on the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made.

WHEREAS the Association has agreed, on the basis inter alia of the foregoing, to make the 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 parties to this Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated March 15, 1974, 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 this Agreement, 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) "Loan Agreement" means the agreement of even date here-with between the Borrower and the Bank for the purpose of the Project, as such agreement may be amended from time to time; and such term includes the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated March 15, 1974, as made applicable to such agreement, all agreements supplemental to the Loan Agreement and all schedules to the Loan Agreement;

(b) "PR" means Pakistan Railways, an agency of the Borrower administered by the Pakistan Railway Board and any successor thereto, and shall include any other agency of the Borrower charged with the administration and operation of railways in Pakistan;
(c) "Investment Plan" means PR's Investment Plan of even date herewith incorporating all capital expenditures planned by PR during the period covered by the fiscal years 1976/1977 through 1980/1981 as agreed between the Borrower, the Association and the Bank;

(d) "Plan of Action" means the plan of action for the implementation of Part D of the Project, as set forth in the Annex to Schedule 2 to this Agreement;

(e) "Prior Project Agreement" means the Project Agreement (Ninth Railway Project) Loan No. 621-PAK, between the Bank and the Borrower's former province of West Pakistan, dated June 26, 1969;

(f) "capital-at-charge" means the capital provided by the Borrower to PR for the acquisition of its original installations, equipment and additions thereto, and appearing as such in PR's accounts as the Borrower's investment in PR; and

(g) "Rupees" and the letters Rs mean the currency of the Borrower.
ARTICLE II

The Credit

Section 2.01. The Association agrees to lend 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 twenty-five million dollars ($25,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

Section 2.03. Except as the Association shall otherwise agree, contracts for the purchase of goods to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.04. The Closing Date shall be June 30, 1982 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing February 15, 1987, and ending August 15, 2026, each installment to and including the installment payable on August 15, 1996 to be one-half of one per cent (1/2 of 1%) of such principal amount, and each installment thereafter to be one and one-half per cent (1-1/2%) of such principal amount.

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

Execution of the Project

Section 3.01. (a) The Borrower shall cause PR to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and railroad practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) The Borrower shall relend the proceeds of the Credit and the Loan or the equivalent thereof in the currency of the Borrower to PR for the purposes of the Project at a rate of interest of eight and one-half per cent (8-1/2%) per annum on the principal amount of the Credit and the Loan so relent and outstanding from time to time, to be repaid to the Borrower in the currency in which it is so relent, after a period of grace of 4-1/2 years from the date of this Agreement in semi-annual installments, the last such installment to be paid on or before August 15, 1996; except that with respect to such portion of the proceeds of the Credit and the Loan as shall be used for additions, unless the Association shall otherwise agree, such portion shall, at the time of scheduled repayment, become capital-at-charge not subject to amortization.

Section 3.02. The Borrower shall make its best efforts to obtain credits to finance the cost of goods and services required for the Project and not financed under this Agreement, the Loan Agreement or out of the Borrower's or PR's own resources.
Section 3.03. In order to assist in carrying out Parts C and D of the Project, the Borrower shall cause PR: (a) to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association: (i) for Part C of the Project, and (ii) for Part D of the Project as agreed with the Association with regard to scope and area; and (b) to implement a staff training program acceptable to the Association.

Section 3.04. The Borrower shall cause PR: (i) to carry out Part D of the Project substantially in accordance with the Plan of Action, as such plan may be amended from time to time by agreement between the Borrower and the Association, and (ii) to review the progress together with the Association made in carrying out the Plan of Action for each year, and decide in consultation with the Association on the basis of such review, the action to be taken in the following year for the purpose of attaining the targets included in the Plan of Action for such year.

Section 3.05. (a) The Borrower shall ensure that no substantial changes are made in the Investment Plan except by agreement between the Borrower and the Association.

(b) For the purposes of this Section, "substantial change" shall mean a change or changes which shall amount to more than thirty-five million Rupees (Rs.35,000,000) per annum in the Investment Plan or any part thereof for such year.

Section 3.06. (a) The Borrower undertakes to insure, or make adequate provision for the insurance of, the imported goods to be
financed out of the proceeds of the Credit and the Loan against 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 the Borrower to replace or repair such goods.

(b) Except as the Association shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Credit and the Loan to be used exclusively for the Project.

Section 3.07. (a) The Borrower shall furnish to the Association, promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Association shall reasonably request.

(b) The Borrower: (i) shall maintain records adequate to record the progress of the Project (including the cost thereof) and to identify the goods and services financed out of the proceeds of the Credit and the Loan, and to disclose the use thereof in the Project; (ii) shall enable the Association's accredited representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Credit and the Loan and any relevant records and documents; and (iii) shall furnish to the Association all such information as the Association shall reasonably request concerning the Project, the expenditure of the proceeds of the Credit and the Loan and the goods and services financed out of such proceeds.
Section 3.08. The Borrower shall take or cause to be taken all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for the construction and operation of the facilities included in the Project.
ARTICLE IV

Other Covenants

Section 4.01. (a) The Borrower shall cause PR to maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices the operations and financial condition of PR. The records shall include PR's financial losses incurred on such services provided by PR as have been identified by the studies carried out under Section 2.07 of the Prior Project Agreement.

(b) The Borrower shall cause PR to: (i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; (ii) furnish to the Association as soon as available, but in any case not later than twelve months after the end of fiscal years 1977/1978 and 1978/1979, and nine months after the end of each fiscal year thereafter, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (iii) furnish to the Association such other information concerning the accounts and financial statements of PR and the audit thereof as the Association shall from time to time reasonably request.

Section 4.02. The Borrower shall cause PR to take out and maintain with responsible insurers, or to make other provision,
including self-insurance, satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.03. The Borrower shall:

(i) cause PR to complete, on or before July 1, 1977, a revaluation of PR's fixed assets in accordance with appropriate and consistently maintained methods of valuation acceptable to the Association, and

(ii) provide, on or before July 1, 1978, an adequate annual depreciation charge in PR's accounts based on the aforementioned revaluation of PR's fixed assets.

Section 4.04. The Borrower shall:

(i) cause PR to complete, on or before December 31, 1977, a costing-and tariff-study satisfactory to the Association;

(ii) commence on or before June 30, 1978, and complete on or before December 31, 1978, implementation of a tariff structure satisfactory to the Association based on the results of the aforementioned costing-and tariff-study; and
(iii) ensure that the fares and rates on the above-mentioned study shall, by fiscal year 1979/1980, as a minimum cover the relevant variable cost of each service, passenger and freight, as agreed in consultation with the Association.

Section 4.05. (a) The Borrower shall cause PR to take all necessary measures, satisfactory to the Association, as shall be required to enable PR to earn revenues commencing in fiscal year 1977/1978, sufficient to cover all operating expenses and debt service requirements, and progressively thereafter but not later than fiscal year 1981/1982 a surplus equivalent to the prescribed dividend on capital-at-charge.

(b) For the purposes of this Section: (i) the term "operating expenses" means all direct costs of operation by PR of its facilities, including adequate maintenance expenses and adequate provision for taxes, if any, depreciation and pension funds; (ii) the term "debt service requirements" means the aggregate amount of amortization (which may be paid out of the depreciation reserve), including sinking fund payments, if any, and interest and other charges on debt; and (iii) the term "debt" means all debt of PR excluding capital-at-charge and all debt incurred by the Borrower on behalf of PR, except debt incurred in the ordinary course of business and which is payable not more than one year after it is originally incurred.

Section 4.06. The Borrower shall cause PR to be managed and operated at all times in accordance with appropriate business, financial and railroad practices under the supervision of qualified and experienced management and shall cause PR to operate,
maintain, renew and repair its equipment and property included in the Project, in accordance with appropriate engineering and railroad practices.

Section 4.07. Section 2.10 of the Prior Project Agreement shall be amended to read as provided in Section 4.05 of this Agreement.
ARTICLE V

Remedies of the Association

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following event is specified pursuant to paragraph (h) thereof; namely that:

(i) Subject to paragraph (ii) of this Section:

(A) The right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Paragraph (i) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement, and
(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following event is specified pursuant to paragraph (d) thereof, namely that the event specified in paragraph (i) (B) of Section 5.01 of this Agreement shall occur.
ARTICLE VI

Termination

Section 6.01. The date May 25, 1977, is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary of the Government of Pakistan, Economic Affairs Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

The Secretary of 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: Telex:

INDEVAS 440098 (ITT)
Washington, D.C. 248423 (RCA) or 64145 (WUI)
IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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/ A. M. Mufti
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ernest Stern
Regional Vice President
South Asia
SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit and of the Loan Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Track materials, components and equipment for track renewal on Karachi-Lahore main line</td>
<td>13,900,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(2) Marshalling yard equipment in Karachi area</td>
<td>2,100,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(3) Materials and components for manufacturing passenger coaches</td>
<td>8,800,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(4) Materials and components for conversion of four-wheeler wagons into bogies</td>
<td>3,200,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(5) Plant and machinery for workshops and running sheds</td>
<td>3,700,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Credit and Loan Allocated (Expressed in Dollar Equivalent)</td>
<td>% of Expenditures to be Financed</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>(6) Spare parts for diesel locomotives</td>
<td>5,000,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(7) Equipment for telecommunications and related signaling network</td>
<td>13,800,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(8)</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td>(a) Technical Assistance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Staff Training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Unallocated</td>
<td>8,500,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>60,000,000</td>
<td></td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than the Borrower and for goods or services supplied from the territory of any country other than the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower and for goods or services supplied from the territory of the Borrower.

3. The disbursement percentages have been calculated in compliance with the policy of the Association and the Bank that no proceeds of the Credit and the Loan shall be disbursed on account of payments for taxes levied by, or in the territory of, the Borrower on goods or services, or on the importation, manufacture, procurement or supply thereof; to that end, if the amount of any such taxes levied on or in respect of any item to be financed out of the proceeds of the Credit and the Loan decreases or increases, the Association and the Bank may, by notice to the Borrower, increase or decrease the disbursement percentage then applicable to such item as required to be consistent with the aforementioned policy of the Association and the Bank.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.
In addition, except as the Borrower, the Association and the Bank shall otherwise agree, and until all amounts of the Credit shall have been withdrawn or committed, no withdrawals shall be made from the Loan Account except under commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions referred to in Section 1.01 of the Loan Agreement.

5. Notwithstanding the allocation of an amount of the Credit and of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, if the Association and the Bank have, or after full withdrawal of the entire amount of the Credit, the Bank has reasonably estimated that the amount of the Credit and of the Loan then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Association and the Bank may, by notice to the Borrower: (i) re-allocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Credit and of the Loan which are then allocated to another Category and which in the opinion of the Association and of the Bank are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

6. If the Association and the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditures for such item shall be financed out of the proceeds of the Credit and of the Loan and the Association and
the Bank may, without in any way restricting or limiting any other right, power or remedy of the Association and of the Bank under the Development Credit Agreement and the Loan Agreement, by notice to the Borrower, cancel such amount of the Credit and of the Loan as, in the Association's and the Bank's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Credit and of the Loan.
SCHEDULE 2

Description of the Project

The Project consists of the following Parts:


1. **Track Rehabilitation**

   Complete track renewals of about 185 miles, rail renewals of about 70 miles, sleeper renewals of about 200 miles equivalent of track and the construction of 4 new sleeper factories.

2. **Bridge and Civil Engineering Works**

   Strengthening and expansion of bridges; and construction of a research and development center and staff housing.

3. **Marshalling Yards**

   Completion of the Pipri yard and construction of other yards.
4. **Line Capacity and Terminal Facilities**

Completion of the second bridge at Kotri, construction of the Karachi Passenger Terminal, crossing loops at intermediate stations on the Lalamusa-Rawalpindi line, by-pass lines at Sher Shah and Golra, and freight terminal facilities at about 36 locations.

5. **Motive Power and Rolling Stock**

Provision of six freight wagon movers for the Karachi Port area and four special shunters for the Pipri yard, re-engining of about 20 locomotives, manufacture of about 220 second- and third-class passenger coaches and conversion of about 1,600 four-wheeler wagons into about 800 bogie-wagons.

6. **Plant, Machinery and Facilities for Workshops, Sheds and Depots**

Provision of plant and machinery for the Moghalpura Workshop, the Rawalpindi Diesel Workshop, the Rawalpindi Diesel Spares Workshop and other workshops, sheds and depots; the expansion and rehabilitation of the Rawalpindi Diesel Workshop, the Rawalpindi Diesel Spares Workshop and other workshops, sheds and depots.

7. **New Line Construction**

Completion of about 5 miles of new line on the Islamabad spur.
8. **Change-over to Airbrake and Central Coupler**

Research and development work on the change-over of the present vacuum brake and screw coupler to airbrake and central coupler.

**B. Spare Parts for Diesel Locomotives**


**C. Telecommunications and related Signaling**

Completion of a backbone microwave route from Karachi to Rawalpindi, including spurs to Quetta, Multan and Lahore, related UHF and VHF communication equipment, telephone exchanges, data transmission equipment and related signaling equipment.

**D. Improvement of Railway Operations and Financial Condition**

Improvement of train operations, locomotive maintenance, accounting system and other activities related to railway operations and financial condition as further specified in the Annex to this Schedule, with provision of technical assistance and staff training.

* * * *

The Project is expected to be completed by June 30, 1981.
ANNEX TO SCHEDULE 2

Plan of Action
to implement Part D of the Project

1. PR shall develop and implement measures to achieve the targets set forth below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Number of Passenger Trains Per day* on Karachi-Rawalpindi Line</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Super Express trains</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Long Distance trains</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>Intercity trains</td>
<td>12</td>
<td>16</td>
<td>20</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Express Railcars</td>
<td>8</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Loco Hauled</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Ordinary Railcars</td>
<td>13</td>
<td>9</td>
<td>5</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Mixed</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>72</td>
<td>70</td>
<td>69</td>
<td>69</td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passenger Train Diesel Locomotive-Miles Per Day Per Locomotive in Use**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>330</td>
<td>340</td>
<td>350</td>
<td>360</td>
<td>370</td>
</tr>
</tbody>
</table>

---

* Both directions, up and down and excluding the Karachi suburban shuttle and commuter trains.

** Excluding commuter and passenger diesel railcar trains.
The proposed reductions in average number of passenger trains referred to in sub-paragraph (a) hereinabove will be reviewed periodically by PR and the Association.

** Excluding commuter and passenger diesel railcar trains.

*** Excluding shunting but including departmental trains.

**** Including removal of speed restrictions on Karachi-Lahore main line, a total of 140 miles.
2. PR shall not increase the average number of passenger trains per day on lines other than the Karachi-Rawalpindi Line to exceed 281 from fiscal years 1976/1977 through 1980/1981 without a proper study carried out in consultation with the Association.

3. PR shall:

(a) implement measures for improving freight train operations, specifically in regard to increasing freight train speed, additional unit and block trains and staff training required in this area.

(b) implement specific measures to improve locomotive maintenance practices and staff training.

(c) In collaboration with the Telegraph and Telephone Department of the Borrower's Ministry of Communications carry out the telecommunications and related signaling scheme, staff training and staffing of PR's telecommunications and signaling sections, in a timely and efficient manner.

(d) complete and put into operation Kotri bridge by April 1978 and Pipri marshalling yard by December 1978.

(e) reduce the number of non-professional and unskilled staff through attrition.
SCHEDULE 3

Procurement

A. **International Competitive Bidding**

Except as provided in Part B hereof, contracts for the purchase of goods shall be procured in accordance with procedures consistent with those set forth in Part A of the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in August 1975 (hereinafter called the Guidelines), on the basis of international competitive bidding, provided however that spare parts other than those referred to in Part B hereinafter to be financed under Category (6) of the table set forth in Schedule 1 to this Agreement shall be purchased from established spare parts suppliers.

B. **Other Procurement Procedures**

Subject to agreement of the Association and the Bank, certain critical diesel locomotive spare part components to be financed under Category (6) of the table set forth in Schedule 1 to this Agreement may be purchased on the basis of quotations from original locomotive manufacturers, provided the aggregate expenditure shall not exceed the equivalent of $5,000,000.
C. Review of Procurement Decisions by the Association and the Bank

1. Review of invitations to bid and of proposed awards and final contracts:

   With respect to all contracts for goods, except those to be financed under Category (6) of the table set forth in Schedule 1 to this Agreement, estimated to cost the equivalent of $100,000 or more:

   (a) Before bids are invited, the Borrower shall cause PR to furnish to the Association and the Bank, for their comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall cause PR to make such modifications in the said documents or procedures as the Association and the Bank shall reasonably request. Any further modification to the bidding documents shall require the Association and the Bank’s concurrence before it is issued to the prospective bidders.

   (b) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, cause PR to inform the Association and the Bank of the name of the bidder to which it intends to award the contract together with the reasons for the intended award and to furnish to the Association and the Bank, in sufficient time for their review, a detailed report on the evaluation and comparison of the bids received, and such other information as the Association and the Bank shall reasonably request; with respect to goods financed under Category (7) of the
table set forth in Schedule 1 to this Agreement, the aforementioned detailed report shall include a report by the consultants referred to in Section 3.03 (a) (i) of this Agreement or such other consultants acceptable to the Association and the Bank, to be accompanied by the recommendations for award of the said consultants. The Association and the Bank shall, if they determine that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Association's and the Bank's concurrence, materially differ from those on which bids were asked or prequalification invited.

(d) Two conformed copies of the contract shall be furnished to the Association and the Bank promptly after its execution and prior to the submission to the Association and the Bank of the first application for withdrawal of funds in respect of such contract.

2. With respect to each contract to be financed out of the proceeds of the Credit and the Loan and not governed by the preceding paragraph, the Borrower shall cause PR to furnish to the Association and the Bank, promptly after its execution and prior to the submission to the Association and the Bank of the first application for withdrawal of funds from the Credit Account or the Loan Account as the case may be, in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Association and the Bank shall reasonably request. The
Association and the Bank shall, if they determine that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.