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**CREDIT NUMBER 4887-PK (Portion A)**  
**CREDIT NUMBER 4886-PK (Portion B)**

# **Financing Agreement**

**(Tertiary Education Support Project)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated September 22, 2011**

Public Disclosure Authorized



**CREDIT NUMBER 4887-PK (Portion A)**  
**CREDIT NUMBER 4886-PK (Portion B)**

**FINANCING AGREEMENT**

AGREEMENT dated September 22, 2011, entered into between the ISLAMIC REPUBLIC OF PAKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in two portions as follows to assist in financing the project described in Schedule 1 to this Agreement (the “Project”):
  - (a) an amount equivalent to seventy million five hundred thousand Special Drawing Rights (SDR 70,500,000) (“Portion A of the Credit”); and
  - (b) an amount equivalent to one hundred twenty one million seven hundred thousand Special Drawing Right (SDR 121,700,000) (“Portion B of the Credit”).

(Portion A of the Credit and Portion B of the Credit collectively referred to as variously the “Credit” or the “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Recipient shall pay the Association interest on the amount of Portion B of the Credit withdrawn and outstanding from time to time at a rate equal to three and one fifth of one percent (3.20%) per annum. Such interest shall accrue from the respective date on which the amounts of the Portion B of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Such interest shall be computed on the basis of a 360-day year or twelve 30-day months.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is United States Dollars.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely, that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the Association to the Recipient.

#### **ARTICLE V — TERMINATION**

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is any of the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division of the Federal Government of the Islamic Republic of Pakistan.
- 6.02. The Recipient's Address is:

The Secretary  
Economic Affairs Division  
Government of Pakistan  
Islamabad,  
Pakistan

Facsimile:

(92-51) 9202417

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Washington D.C., United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By/s Abdul Wajid Rana

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s Rachid Benmessaoud

Authorized Representative

## SCHEDULE 1

### Project Description

The objective of the Project is to improve the conditions of teaching, learning and the research for enhanced access, quality and relevance of tertiary education.

The Project consists of the following parts:

#### Part A: Higher Education Development Program

Implement the program of activities corresponding to the first phase (academic years 2012 through 2014) of the Recipient's Second Medium-Term Development Framework for Higher Education ("MTDF-HE II") as articulated in the MTDF-HE II's four pillars, namely:

1. *Improvement of Fiscal Sustainability and Expenditure Effectiveness:* (i) Implement the Recipient's Second Medium-Term Budgetary Framework for the Higher Education ("MTBF-HE II") ensuring prioritization of recurrent and development expenditures, appropriate levels of funding, and the efficient use and allocation of resources; (ii) timely release the funds budgeted to the Project Implementing Entity and HEIs; (iii) commission an education expenditure review, including a public expenditure tracking survey, to help identify sources of inefficiencies and bottlenecks in the flow of funds between sources and points of delivery; (iv) implement the newly refined funding formula for the allocation of resources among HEIs; and (v) encourage the increase of the share of non-budgetary resources in the overall budgets of HEIs through the establishment and/or strengthening of offices for university advancement in each institution.
  
2. *Enhanced Quality and Relevance of Teaching and Research:* (i) Expand the Project Implementing Entity's postgraduate scholarship program; (ii) expand the tenure track system scheme for the appointment of faculty staff in HEIs; (iii) carry out an interim faculty placement program in order to facilitate the re-entry and hiring of recent PhD scholars as faculty staff of HEIs; (iv) implement faculty development programs through the establishment of human resource development centers within HEIs; (v) continue the upgrading of higher education courses' curricula and expand their adoption by HEIs; (vi) develop and implement minimum quality standards for affiliated colleges, including requirements for the modernization of syllabi and training for faculty and staff; (vii) develop and pilot a distance learning strategy for external (distant-learning) students, including academic support activities, teaching materials and learning management software; (viii) enforce and scale up HEIs' implementation of HEC's improved, standardized guidelines for semi-annual system examinations; (ix) introduce incentives to conduct larger scale scientific research at HEIs and develop mechanism for research commercialization and cooperation between

academia and the private sector, including the operation and maintenance of the Pakistan Education and Research Network and the establishment of technology incubator centers, offices of research, innovation and commercialization, and professional development centers, in selected universities; and (x) improve research funding mechanisms and increase the availability of research grants.

3. *Improved Equitable Access to Tertiary Education:* (i) Expand and upgrade physical facilities of HEIs; (ii) develop cost-effective distance education opportunities, including the establishment of approximately twenty (20) new virtual university centers in districts with no nearby HEIs; (iii) increase and consolidate the Project Implementing Entity's need-based financial assistance to students from low income families through the expansion of the on-going need-based scholarship program, the set up of financial aid offices in public and private HEIs, and the mobilization of additional funds from the private sector and/or development partners; (iv) develop and implement a sustainable student loan program to cover approximately two thousand (2,000) students from low income families; (v) reform the regulatory framework of HEIs to facilitate access to public funding by private institutions; and (vi) diversify the sources of funding for higher education through the piloting of public-private partnerships in the delivery of tertiary education services.
  
4. *Strengthened Governance and Management:* (i) improve internal quality assurance mechanisms by establishing and/or strengthening quality enhancement cells within each TEIs in order to enhance their academic, teaching and learning standards; (ii) monitor the performance of those quality enhancement cells through regular scorecard-based assessments; (iii) develop self-assessment manual at departmental level to guide the HEIs' quality enhancement cells in their assessments; (iv) carry out regular evaluations of HEIs in accordance with the Project Implementing Entity's Institutional Performance Evaluation Standards; (v) coordinate and disclose HEIs' institutional rankings; (vi) complete the Recipient's degree supplement form for the education system; (vii) carry out an assessment of the current administrative management practices in public HEIs, and develop an action plan to increase accountability and the participation of faculty staff in decision-making processes; (viii) introduce merit-based appointment for academic administrators; (ix) develop and implement five-year business plans, and prepare annual reports, at HEIs' level; (x) design and implement training modules for the development of institutional strategic plans and university management; (xi) establish a communications office and develop and carry out a nationwide communication strategy to build public awareness regarding the MTDF-HE II and publicize the sector's objectives and achievements; (xii) expand the HEIs' uptake and implementation of a single campus management software platform, streamlining administrative processes, and consolidating information in a single database; (xiii) establish a small, independent higher education statistics agency for the collection and analysis of higher education statistics and the publication of a tertiary education statistical



report; (xiv) carry out a study in selected public HEIs to review the financial management and internal control systems as compared with international best practices; (xv) carry out a complete procurement capacity assessment of the sector and provide training to address any identified weaknesses; and (xvi) set up a procurement complaint-handling mechanism.

Part B: Capacity Building, Policy Design and Monitoring and Evaluation

1. Strengthening the institutional capacity of the Project Implementing Entity and the HEIs in order to implement the MTDF-HE II, including the coordination, financial management, procurement, reporting and monitoring and evaluation of the Project, as well as the dissemination of the developmental objectives and achievements thereof.
2. Provision of technical assistance for: (i) the design and implementation of analytical work, training and policy reforms related to Part A of the Project, with emphasis on budgetary planning, expenditure effectiveness, resource diversification, procurement procedures and regulation, scale-up and sustainability of student financial aid, development and installation of a campus management software platform, integration of college and distance learning education, research performance, publication of annual statistical reports and labor market outcomes; and (ii) the carrying out of third party validation studies regarding the Project's key interventions reflected in the Disbursement-Linked Indicators ("DLIs").

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Budgetary Appropriation for the Credit**

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Credit available to the Project Implementing Entity in accordance with the provisions of this Agreement and the Recipient's policies and budgetary procedures.
2. Notwithstanding the provisions of paragraph 1. above, in the event that any of the provisions of this Agreement, including the instructions that the Association shall have specified by notice to the Recipient pursuant to Section IV.A.I. of this Schedule, were inconsistent with the budgetary procedures of the Recipient, the provisions of this Agreement and related instructions shall govern.

**B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**C. Implementation Arrangements**

The Recipient shall nominate by no later than July 1, 2011 the representatives from the Ministry of Finance, Planning Commission and Economic Affairs Division to the TESP Steering Committee. The Recipient's nominees shall all have the rank of Joint Secretary or higher.

**D. Safeguards.**

The Recipient shall take all actions required on its part to ensure that the Project Implementing Entity shall carry out its obligations set forth under the provisions of Section I.D of the Project Agreement.

**Section II. Project Monitoring, Reporting and Evaluation****A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover a period of six (6) months running from October 1 through March 31 and from April 1 through September 30, within the same

academic year, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association, or cause the Project Implementing Entity to prepare and furnish to the Association, by not later than forty five (45) days after the end of each of the semesters of Project Implementation, running from October 1 through March 31 and from April 1 through September 30, interim unaudited financial reports for the Project covering the respective semester, in form and substance satisfactory to the Association (hereinafter referred to as "IUFs", each, an "IUF"). Notwithstanding the foregoing, the first interim unaudited financial report shall cover the period commencing on the cut-off date for retroactive financing set forth in Section IV.B.1 (a) of this Schedule until the end of the above referred semesters in which the Effective Date took place.
3. The Recipient shall have, or shall cause the Project Implementing Entity to have, the Financial Statements (covering the operations, resources and expenditures related to the Project) audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Non-Consultant Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>
(a) National Competitive Bidding <i>(subject to the additional procedures set forth in paragraph 3 below)</i>
(b) Shopping

3. **Procedures for National Competitive Bidding.** When procuring goods and non-consultant services pursuant to the provisions of Rules 5 and 20 through 36(a) of the Recipient’s Public Procurement Rules (2004) (S.R.O. 432(I)/2004), as agreed to with the Association, the Recipient shall ensure that the following additional requirements be applied in order to align such procedures with the Procurement Guidelines:
  - (i) Invitations to bid shall be advertised in at least one (1) national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for the submission of bids.
  - (ii) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
  - (iii) Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process.
  - (iv) Bidding shall not be restricted to pre-registered firms.
  - (v) Qualification criteria shall be stated in the bidding documents.
  - (vi) Bids shall be opened in public, immediately after the deadline for submission of bids.

- (vii) Single bids shall also be considered for evaluation.
- (viii) Estimates shall be based on market rates and bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.
- (ix) Before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained.
- (x) Contracts shall not be awarded on the basis of nationally negotiated rates.
- (xi) Contracts shall be awarded to the lowest evaluated and qualified bidder.
- (xii) Post-bidding price negotiations shall not be allowed with the lowest evaluated or any other bidders.
- (xiii) Bids shall be solicited and contracts shall be awarded on the basis of unit prices and not on the basis of a composite schedule of rates.
- (xiv) Draft NCB contract would be reviewed by the Association in accordance with the prior review procedures.
- (xv) A firm declared ineligible by the Association, based on a determination by the Association that the firm has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for or in executing an Association-financed contract, shall be ineligible to be awarded an Association-financed contract during the period of time determined by the Association.
- (xvi) Each contract financed from the proceeds of a Credit shall provide that the suppliers, contractors and subcontractors shall permit the Association, at its request to inspect their account and records audited by auditors appointed by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality-and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection,

which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Selection Based on the Consultants’ Qualification
(b) Single-Source Selection
(c) Procedures set forth in paragraph 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(d) Quality-Based Selection
(e) Least-Cost Selection
(f) Fixed-Budget Selection

**D. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of Part A of the Credit Allocated (expressed in SDR)</b>	<b>Amount of Part B of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Eligible Expenditures Program under Part A of the Project for the:			
(a) First scheduled disbursement (on or about November 15, 2011)	27,160,000		100%
(b) Second scheduled disbursement (on or about May 15, 2012)	32,580,000		100%
(c) Third scheduled disbursement (on or about November 15, 2012)	10,760,000	16,480,000	100%
(d) Fourth scheduled disbursement (on or about May 15, 2013)	0	32,660,000	100%
(e) Fifth scheduled disbursement (on or about November 15, 2013)	0	27,160,000	100%
(f) Sixth scheduled disbursement (on or about May 15, 2014)	0	32,580,000	100%
(2) Goods, Consultants' Services, Training and Incremental Operating Costs under Part B of the	0	12,820,000	100%

<b>Category</b>	<b>Amount of Part A of the Credit Allocated (expressed in SDR)</b>	<b>Amount of Part B of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
Project			
<b>TOTAL AMOUNT</b>	70,500,000	121,700,000	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR2,570,000 equivalent may be made for payments made prior to this date but on or after February 10, 2011, for Eligible Expenditures under Category (2); and
  - (b) under Categories (1) (all Sub-Categories) and (2), until and unless the Project Implementing Entity has established the TESP Secretariat pursuant to the provisions of paragraph (b) of Section I.A of the Schedule to the Project Agreement, and:
    - (i) for purposes of Sub-Category (1)(a), until November 15, 2011, and unless the Recipient shall have:
      - (A) submitted the respective IUFRR; and
      - (B) by no later than September 30, 2011, furnish the Association with evidence, satisfactory to the Association, of the achievement of DLIs #1, #2, #3 and #6 for the *Actions to be Completed for Disbursements in FY2011/12 (Year 1)*, as set out in Schedule 4 to this Agreement; or



- (ii) for purposes of Sub-Category (1)(b), until May 15, 2012, and unless the Recipient shall have:
  - (A) submitted the respective IUFR; and
  - (B) by no later than March 31, 2012, furnished the Association with evidence, satisfactory to the Association, of the achievement of DLIs #4, #5, #7, #8, #9 and #10 for the *Actions to be Completed for Disbursements in FY2011/12 (Year 1)*, as set out in Schedule 4 to this Agreement; or
- (iii) for purposes of Sub-Category (1)(c), until November 15, 2012, and unless the Recipient shall have:
  - (A) submitted the respective IUFR; and
  - (B) by no later than September 30, 2012, furnished the Association with evidence, satisfactory to the Association, of the achievement of DLIs #1, #2, #3 and #6 for the *Actions to be Completed for Disbursements in FY2012/13 (Year 2)*, as set out in Schedule 4 to this Agreement; or
- (iv) for purposes of Sub-Category (1)(d), until May 15, 2013, and unless the Recipient shall have:
  - (A) submitted the respective IUFR; and
  - (B) by no later than March 31, 2013, furnished the Association with evidence, satisfactory to the Association, of the achievement of DLIs #4, #5, #7, #8, #9 and #10 for the *Actions to be Completed for Disbursements in FY2012/13 (Year 2)*, as set out in Schedule 4 to this Agreement; or
- (v) for purposes of Sub-Category (1)(e), until November 15, 2013, and unless the Recipient shall have:
  - (A) submitted the respective IUFR; and
  - (B) by no later than September 30, 2013, furnished the Association with evidence, satisfactory to the Association, of the achievement of DLIs #1, #2, #3, and #6 for the *Actions to be Completed for Disbursements in*

*FY2013/14 (Year 1)*, as set out in Schedule 4 to this Agreement; or

- (vi) for purposes of Sub-Category (1)(f), until May 15, 2014, and unless the Recipient shall have:
    - (A) submitted the respective IUFRR; and
    - (B) by no later than March 31, 2014, furnished the Association with evidence, satisfactory to the Association, of the achievement of DLIs #4, #5, #7, #8, #9 and #10 for the *Actions to be Completed for Disbursements in FY2013/14 (Year 1)*, as set out in Schedule 4 to this Agreement; or
  - (vii) for purposes of Category (2), and until and unless the Project Implementing Entity has:
    - (A) selected and employed two (2) qualified and experienced procurement specialists, acceptable to the Association, under terms of reference satisfactory to the Association; and
    - (B) adopted the Operations Manual referred to under paragraph 1(a) of Section I.C of the Schedule to the Project Agreement.
2. Notwithstanding the foregoing, if one or more of the DLIs provided for in the foregoing disbursement conditions applicable to Sub-Categories (1)(a) through (1)(f) have not been achieved by their due dates, as required in said conditions, the Association, at its sole discretion, may:
- (a) (i) with respect to Sub-Categories (1)(a); (1)(c); and (1)(e), withhold:
    - (A) an amount equivalent to two-fifths (2/5<sup>th</sup>) of the Credit amount allocated to said Sub-Categories if the Recipient has not met DLI#1; and
    - (B) an amount equivalent to one-fifth (1/5<sup>th</sup>) of the Credit amount allocated to said Sub-Categories per DLI not achieved, if the Recipient has not met any of DLIs #2, #3 and #6;
  - (ii) with respect to Sub-Categories (1)(b); (1)(d); and (1)(f), withhold an amount equivalent to one-sixth (1/6<sup>th</sup>) of the Credit

amount allocated to said Sub-Categories per DLI that has not been achieved.

- (b) If, at a later date, the Association is satisfied that the DLIs referred to in sub-paragraphs (a)(i) and (a)(ii) above have been achieved, authorize the withdrawal of the Credit proceeds so withheld; and
- (c) at any time, by notice to the Recipient and the Project Implementing Entity, cancel the corresponding amount of the Credit withheld pursuant to sub-paragraphs (a)(i) and (a)(ii) above, or, in the case of Sub-Categories (1)(a) through (1)(e), reallocate said amount to other undisbursed Category or Sub-Categories.

3. The Closing Date is December 31, 2015.

**C. Deposits of Financing Amounts**

Except as the Association may otherwise agree:

- (a) all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
- (b) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount in Rupees shall be deposited, within two (2) working days, in the Federal Consolidated Fund – Account No. 1 (Non-Food), pursuant to guidelines acceptable to the Association.

**SCHEDULE 3**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15:	
commencing September 15, 2021 to and including March 15, 2031	1.25%
commencing September 15, 2031 to and including March 15, 2046	2.5%

\*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

**SCHEDULE 4****Disbursement Linked Indicators (DLIs)**

<b>DISBURSEMENT LINKED-INDICATOR #</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2011/12 (YEAR 1)</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2012/13 (YEAR 2)</b>	<b>ACTIONS TO BE COMPLETED DISBURSEMENTS IN FY2013/14 (YEAR 3)</b>
1. Improving the medium term fiscal and budget management.	(i) FY2011/12 budgetary allocations for HEC are in line with the MTBF-HE II; and  (ii) At least 70% of the budgetary allocations for each of the recurring and development expenditures for FY2010/11 have been released by March 31, 2011	(iii) FY2012/13 budgetary allocations for HEC in line with the MTBF-HE II; and  (iv) At least 70% of the budgetary allocations for each of the recurring and development expenditures for FY2011/12 have been released by March 31, 2012.	(i) FY2013/2014 budgetary allocations for HEC in line with the MTBF- HE II; and  (ii) At least 70% of the budgetary allocations for each of the recurring and development expenditures for FY2012/13 have been released by March 31, 2013.
2. Improving the supply of qualified faculty	HEC has awarded at least 750 scholarships since July 1, 2010 under the Indigenous Postgraduate Scholarship Program.	HEC has awarded at least a total of 1750 scholarships since July 1, 2010 under the Indigenous Postgraduate Scholarship Program.	HEC has awarded at least a total of 3,000 scholarships since July 1, 2010 under the Indigenous Postgraduate Scholarship Program.
3. Improving the quality and performance of academic staff	HEIs have recruited at least 400 faculty members under the Tenure Track System since July 1, 2010.	HEIs have recruited at least a total of 900 faculty members under the Tenure Track System since July 1, 2010.	HEIs have recruited at least a total of 1,500 faculty members under the Tenure Track System since July 1, 2010
4. Improving the quality of affiliated colleges.	(i) HEC has finalized, adopted and implemented the Minimum Quality Standards (“MQS”) for affiliated colleges; and  (ii) At least 100 affiliated colleges meet the MQS criteria .	At least a total of 400 additional affiliated colleges have met the MQS criteria during, as certified by a third party validation.	At least a total of 800 affiliated colleges have met the MQS criteria, as certified by a third party validation.

<b>DISBURSEMENT LINKED-INDICATOR #</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2011/12 (YEAR 1)</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2012/13 (YEAR 2)</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2013/14 (YEAR 3)</b>
5. Improving quality of external student programs	At least four (4) universities have satisfactorily strengthened the capacity of their respective Directorate of External Students' Education since July 1, 2010, measured on the basis of a scorecard assessment agreed with the Association, so as to provide enhanced quality education at Master of Arts ("M.A.") level in at least two (2) subjects.	(i) At least four (4) universities have implemented enhanced quality education programs at M.A. level in at least two (2) subjects since July 1, 2011; and  (ii) At least a total of eight (8) universities have satisfactorily strengthened the capacity of their respective Directorate of External Students' Education since July 1, 2010, measured on the basis of a scorecard assessment agreed with the Association, so as to provide enhanced quality education at M.A. level in at least two (2) subjects.	(i) At least eight (8) universities have implemented enhanced quality education programs at M.A. level in at least two (2) subjects since July 1, 2012; and  (ii) At least a total of twelve (12) universities have satisfactorily strengthened the capacity of their respective Directorate of External Students' Education since July 1, 2010, measured on the basis of a scorecard assessment agreed with the Association, so as to provide enhanced quality education at M.A. level in at least two (2) subjects.
6. Enhancing performance in research, innovation, and commercialization	At least ten (10) offices of research innovation and commercialization have been established in HEIs.	(i) At least a total of twenty (20) offices of research, innovation and commercialization have been established in HEIs ; and  (ii) At least seven (7) offices of research, innovation and commercialization at HEIs have performed satisfactorily based on a score-card assessment agreed with the Association.	(i) At least a total of thirty (30) offices of research, innovation and commercialization have been established in HEIs ; and  (ii) At least fifteen (15) offices of research, innovation and commercialization at HEIs have performed satisfactorily based on a score-card assessment agreed with the Association.

<b>DISBURSEMENT LINKED-INDICATOR #</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2011/12 (YEAR 1)</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2012/13 (YEAR 2)</b>	<b>ACTIONS TO BE COMPLETED FOR DISBURSEMENTS IN FY2013/14 (YEAR 3)</b>
7. Improving equitable access through the establishment of an effective student financial aid system.	(i) HEC has awarded financial aid to at least 1,000 student under the Needs-Based Scholarship Program, since July 1, 2011; and  (ii) HEC has developed a student loan program	Since July 1, 2011, HEC has awarded financial aid to: (A) at least a total of 3,000 students under the Needs-Based Scholarship Program, and (B) at least 1,000 students under the student loan program.	Since July 1, 2011, HEC has awarded financial aid to: (A) at least a total of 6,000 students under the Needs-Based Scholarship Program, and (B) at least a total of 2,000 students under the student loan program.
8. Quality assurance.	At least twelve (12) Quality Enhancement Cells (“QECs”) have been performing satisfactorily based on a score-card assessment agreed with the Association.	At least a total of twenty-seven (27) QECs have been performing satisfactorily based on a score-card assessment agreed with the Association.	At least a total of forty five (45) QECs have been performing satisfactorily based on a score-card assessment agreed with the Association.
9. Governance and Management (I) (Performance evaluation standards).	At least ten (10) HEIs have been assessed against four (4) Institutional Performance Evaluation Standards.	At least a total of thirty (30) HEIs have been assessed against eight (8) Institutional Performance Evaluation Standards.	At least a total of sixty (60) HEIs have been assessed against eleven (11) Institutional Performance Evaluation Standards.
10. Governance and Management (II) (strategic management planning and accountability in public HEIs).	(i) Business plans have been prepared in at least fifteen (15) public HEIs; and  (ii) Annual Reports have been prepared in at least fifteen (15) HEIs.	(i) Business plans have been prepared in at least a total of forty (40) public HEIs; and  (ii) Annual Reports have been prepared in at least a total of forty (40) HEIs	(i) Business plans have been prepared in at least a total of seventy (70) additional public HEIs; and  (ii) Annual Reports have been prepared in at least a total of seventy (70) HEIs.

**APPENDIX****Definitions**

1. “Annual Reports” means the reports to be prepared (individually) by the HEIs and furnished to the Project Implementing Entity on an annual basis, setting forth: (i) the financial resources available, their administration and uses; (ii) an assessment of the compliance with, or progress in the implementation of, the Project Implementing Entity’s policy reforms, and newly adopted education standards/syllabi; and (iii) evolution of key performance indicators agreed for the sector, as agreed with the Project Implementing Entity and the Association, including indicators related to students, academic staff, research, affiliated colleges and external student programs.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January, 2011.
3. “BER” means the consolidated budget execution reports to be prepared by the Project Implementing Entity pursuant to Section II.C of the Schedule to the Project Agreement.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Campus Management Solutions” means the software developed and launched in 2008 by the Project Implementing Entity, comprised of three (3) modules (i.e. student information system, human resources, and financial management) in order to be applied by HEIs in the management and provision of education services, as such system might have been updated from time to time.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” published by the Association in January 2011.
7. “Directorates of External Students’ Education” means, collectively, the directorates within each of the HEIs responsible for the coordination, administration and provision of services under the external students’ programs (i.e. education services for external students).
8. “Disbursement-Linked Indicators” and the acronym “DLI” mean, collectively, the disbursement-linked targets set forth in the columns entitled “*Actions to be Completed for Disbursements in FY2011/2012 (Year 1)*”, “*Actions to be Completed for Disbursements in FY2012/2013 (Year 2)*”, and “*Actions to be*



*Completed for Disbursements in FY2013/14 (Year 3)*", in Schedule 4 to this Agreement; and the acronym "DLI" means, individually, any one of such targets.

9. "Displaced Persons" means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a "Displaced Person" means any of such Displaced Persons.
10. "Eligible Expenditures Program" means, collectively, the Scholarships; the Tenure Track Salaries; the Pakistan Education and Research Network; the National Research Program for Universities; the International Research Support Initiatives Program; and the Recurrent Grants to Universities and other Institutions.
11. "Environmental and Social Management Plan" means the environmental and social plan prepared and adopted by the Project Implementing Entity in January, 2011, setting forth the construction methodologies to be used, and mitigation measure to be applied, by HEIs in the carrying out of any civil works for the expansion/refurbishment of their respective infrastructure (campuses and building facilities) under the MTFD-HE II.
12. "Fiscal Year" and the acronym "FY" mean the fiscal year of the Project Implementing Entity which commences on July 1 of each year and closes on June 30 of the next calendar year.
13. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010.
14. "HEC" means the Recipient's Higher Education Commission, established pursuant to the Project Implementing Entity's Legislation.
15. "HEIs" means, collectively, the Recipient's higher education institutions that fall under the purview of the Project Implementing Entity.
16. "Incremental Operating Costs" means Project-related costs incurred by the Project Implementing Entity in connection with office rental, office consumables, utility fees, operation and maintenance of office equipment and vehicles, bank charges, advertising, media projections, newspaper subscriptions, periodicals, printing and stationary costs incurred for the Project, in-country travel costs, boarding/lodging and per-diems for Project staff, and salaries of contractual staff

(other than consultants) required for Project management, but excluding salaries of civil servants.

17. “Indigenous Postgraduate Scholarship Program” means the scholarship program established by the Project Implementing Entity for the financing of postgraduate studies in the territory of the Recipient, with terms and conditions reviewed and deemed acceptable by the Association.
18. “Institutional Performance Evaluation Standards” means the evaluation standards and criteria prepared by the Project Implementing Entity, reviewed by and agreed with the Association, to be applied by HEIs in carrying out a self-assessment of their performance in the delivery of education services.
19. “International Research Support Initiatives Program” means the reasonable costs of the air fare, lodging, tuition (bench fee) and living expenses for up to six (6) months for PhD students enrolled in HEIs that want to improve their research capability and have been selected for/admitted to a research fellowship in renowned education institutions of advanced industrialized countries; which expenditures are accounted for by the Project Implementing Entity under the Budget/Account Code(s): Z0211306 (fund code PR000001).
20. “M.A.” means Master of Arts.
21. “Minimum Quality Standards” and the acronym “MQS” means the quality standards to be developed by the Project Implementing Entity, in a manner and substance satisfactory to the Association, and to be applied by HEIs as a pre-requisite for the affiliation of colleges and/or requiring the alignment of the colleges’ programs with those of their parent HEIs, as well as prescribing remedial/corrective actions to be taken with underperforming colleges.
22. “National Research Program for Universities” means the amounts made available to researchers on a grant basis for a period of one (1) to three (3) years, for the financing of reasonable research expenditures including remuneration of research staff and operation and maintenance of equipment, utility fees, office rentals, staples cost, periodical subscriptions and the like, but excluding any procurable items; which expenditures are accounted for by the Project Implementing Entity under the Budget/Account Code: Z0211301.
23. “Needs-Based Scholarship Program” means the scholarship program to be scaled up by the Project Implementing Entity providing financial support, on a merit-based basis, to students belonging to unprivileged and deprived income groups, in order to attain higher education instruction.

24. “Operations Manual” means the manual to be prepared by the Project Implementing Entity pursuant to Section I.C.1 of the Schedule to the Project Agreement.
25. “Pakistan Education and Research Network” means the reasonable recurrent costs of operation and maintenance of an ultra-high speed internet, audio/video conference facilities and a digital library for HEIs’ professors, researchers and students (e.g. wages of technicians, bandwidth charges, fiber leasing, etc.), exclusive of any procurable goods, works and services, which expenditures are accounted for by the Project Implementing Entity under the Budget/Account Code(s): Z0211600.
26. “Procurement Guidelines” means the “Guidelines: Procurement of goods, Works and Non-consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” published by the Association in January 2011.
27. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 9, 2011 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
28. “Project Implementing Entity” means the Higher Education Commission and/or any successor thereto, acceptable to the Association.
29. “Project Implementing Entity’s Legislation” means the Recipient’s Higher Education Commission Ordinance 2002, as amended to the date of this Agreement.
30. “Quality Enhancement Cells” and the acronym “QEC” mean, collectively, the units established, or to be established, within the HEIs, and responsible for promoting quality improvements in the academic, teaching and learning standards thereof, as well as monitoring the results of any measures adopted therefor.
31. “Recurrent Grant to Universities and other Institutions” means amounts transferred by the Project Implementing Entity to HEIs pursuant to a weighted formula, reviewed and agreed to by the Association, in order to cover the recurrent non-procurable operating costs of said HEIs, including, *inter alia*, wages, utility fees, vehicle operations, periodicals and office rentals; which amounts shall be deemed reasonable to the Association, and shall be accounted for by the Project Implementing Entity under the Budget/Account Code(s): Z0211101 (Cost Center UN0001-UN9999 and IC0001-IC9999).
32. “Scholarships” means amounts paid by the Project Implementing Entity to eligible beneficiaries under its scholarship programs, reviewed and deemed

satisfactory by the Association, in order to cover the reasonable costs of accommodation, university tuition and fees, travel fares, health insurance and living expenses of the beneficiaries, during the length of their studies, which expenditures shall be accounted for by the Project Implementing Entity under the Budget/Account Codes: DF-1015-0052; DF-1015-004; DF-1015-0004; DF-1015-0029; DF-1015-0017; and DF-1015-0084.

33. “Second Medium-Term Budgetary Framework for Higher Education” and the acronym “MTBF-HE II” mean the Recipient’s budgetary framework for the higher education sector for the Recipient’s FY2011/2013. As the same shall be revised from time to time with the concurrence of the Association.
34. “Second Medium-Term Development Framework for Higher Education” and the acronym “MDTF-HE II” mean the Recipient’s higher education development program set forth and adopted by HEC for the academic years 2011 through 2015, as the same shall be revised from time to time with the concurrence of the Association.
35. “Sub-Category” means, individually, any of the sub-categories (a) through (f) of Category (1), as set forth in the table in Section IV of Schedule 2 to this Agreement.
36. “Tenure Track Salaries” means the reasonable salaries paid on a monthly basis to teachers hired under the Tenure Track System (as hereinafter defined), including the one-month gratuity paid per every year of service, and accounted for by the Project Implementing Entity under the Budget/Account Codes: Z0211501 and Z0211503.
37. “Tenure Track System” means the HEIs’ professor recruitment system, approved and adopted by the Project Implementing Entity pursuant to its board meeting of July 15, 2009, and the terms and conditions therein agreed, as the same may be amended from time to time with the prior concurrence of the Association.
38. “TESP Secretariat” means the unit to be established by the Project Implementing Entity pursuant to Section I.A, subparagraph (b) of the Schedule to the Project Agreement.
39. “TESP Steering Committee” means the committee to be established by the Project Implementing Entity pursuant to Section I.A, sub-paragraph (a) of the Schedule to the Project Agreement.

“Training” means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient or –subject to the prior approval by the Association– attended abroad by the Project Implementing Entity’s officials and staff in connection with the Project, including the purchase and publication of materials, rental of facilities, course fees and travel and subsistence of trainees.