

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4176 - PAK

Financing Agreement

(Third Punjab Education Development Policy Credit)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 5, 2006

Public Disclosure Authorized

CREDIT NUMBER 4176 - PAK

FINANCING AGREEMENT

AGREEMENT dated June 5, 2006, entered into between ISLAMIC REPUBLIC OF PAKISTAN, acting by its President ("Recipient"), and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which Recipient's Province of Punjab ("Punjab") has already taken under the Program and which are described in the Schedule to the Program Agreement, and (b) Punjab's maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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 the Financing 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 an amount equivalent to sixty nine million six hundred thousand Special Drawing Rights (SDR 69,600,000) ("Credit").
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are September 15 and March 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III - PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient, the Association, and Punjab shall from time to time, at the request of any party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association and Punjab on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in the Schedule to the Program Agreement.

ARTICLE IV - EFFECTIVENESS

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Secretary, Additional Secretary, Joint Secretary, or Deputy Secretary, Economic Affairs Division.
- 5.02. The Recipient's Address is:

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

5.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Islamabad, Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Khalid Saeed

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ John W. Wall

Country Director
Pakistan

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

Actions Taken Under the Program. The actions taken under the Program are set forth in the Schedule to the Program Agreement.

Section II. Availability of Credit Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Credit in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
2. The Recipient shall make the rupee equivalent of the proceeds of the Credit available to Punjab in accordance with the Recipient's on-lending policy.

B. Allocation of Credit Amounts. The Credit shall be withdrawn in a single tranche.

C. Deposits of Credit Proceeds

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain on terms and conditions satisfactory to the Association a deposit account in Dollars ("Foreign Currency Deposit Account").
2. The Recipient shall cause Punjab to open, prior to the Recipient furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain on terms and conditions satisfactory to the Association, a deposit account in Rupees ("Local Currency Deposit Account").
3. All withdrawals from the Credit Account shall be deposited by the Association into the Foreign Currency Deposit Account. Upon each deposit of an amount of the Credit into the Foreign Currency Deposit Account, the Recipient shall deposit an equivalent amount into the Local Currency Deposit Account.

D. Audit. Upon the Association's request, the Recipient shall:

1. have both Deposit Accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and

3. furnish to the Association such other information concerning the Deposit Accounts and their audit as the Association shall reasonably request.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Closing Date. The Closing Date is June 30, 2007.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (Expressed as a percentage)*
On each March 15 and September 15:	
commencing September 15, 2016 to and including March 15, 2026	1.25%
commencing September 15, 2026 to and including March 15, 2041	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.

APPENDIX

Section I. Definitions

1. "Account No. 4" means the Account No. 4 of the District Governments.
2. "Continuous Professional Development Framework" means the teachers' Continuous Professional Development Framework referred to in paragraph 8 of the Schedule to the Program Agreement.
3. "Consolidated Fund Account" means the Consolidated Fund Account No. 1 (Non-Food) of the Government of Punjab.
4. "DAC" means the Education Department's Departmental Accounts Committee.
5. "District Government" means a District Government as defined in the Punjab Local Government Ordinance (Ordinance No. XIII of 2001) (PLGO), as may be amended from time to time.
6. "Education Department" means Punjab's Education Department.
7. "Examination Commission" means the Examination Commission as constituted by Punjab, under Notification Number SO (Schools)(PEC) 1-1/2006, and referred to in paragraph 9 of the Schedule to the Program Agreement.
8. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

- (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
9. "Fiscal Year" means the fiscal year of the Borrower and of Punjab beginning on July 1 of a calendar year and ending on June 30 of the next following calendar year.
 10. "Foreign Currency Account" means the account referred to in Part C.1 of Section II of Schedule 1 to this Agreement.
 11. "General Conditions" means the "International Development Association General Conditions for Financings," dated July 1, 2005, with the modifications set forth in Section II of this Appendix.
 12. "Local Currency Account" means the account referred to in Part C.2 of Section II of Schedule 1 to this Agreement.
 13. "PESRP" means the Punjab Education Sector Reform Program.
 14. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable improvement in education and set forth or referred to in the letter dated April 28, 2006, from the Recipient to the Association, transmitting a letter from Punjab dated April 14, 2006, declaring the Punjab's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
 15. "Program Agreement" means the agreement between the Association and Punjab of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Program Agreement.
 16. "Punjab" means the Recipient's Province of Punjab.
 17. "Punjab Education Foundation" means the foundation established under the Punjab Education Foundation Act (Act No. XII of 2004), or successors thereto.
 18. "Rupees" or "Rs" means the currency of the Recipient.
 19. "TOP Agreements" means the agreements executed between the Education Department, on the one hand, and the District Governments, on the other hand, setting out, among other things: (i) various matters relating to the implementation of the Program by the District Governments; (ii) arrangements to ensure that the District Governments maintain appropriate budgetary allocations for the education sector in Fiscal Year 06;

(iii) the respective roles and responsibilities of the Government of Punjab and the District Governments for Program monitoring and implementation; and (iv) annual targets to be achieved by the District Governments.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.