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CREDIT NUMBER 4318-PAK

Financing Agreement

(First Sindh Education Development Policy Financing)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 7, 2007

Public Disclosure Authorized

CREDIT NUMBER 4318-PAK

FINANCING AGREEMENT

AGREEMENT dated June 7, 2007, entered into between the ISLAMIC REPUBLIC OF PAKISTAN (“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 the Recipient, through the PROVINCE OF SINDH (“Sindh”), has already taken under the Program and which are described in the Schedule to the Program Agreement, and (b) the Recipient’s and Sindh’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 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 an amount equivalent to sixty five million six hundred thousand Special Drawing Rights (SDR 65,600,000).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 15 and September 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 United States Dollars.

ARTICLE III — PROGRAM

3.01 The Recipient declares its commitment to the Program and its implementation. To this end:

- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Recipient shall furnish, or cause Sindh to 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, or cause Sindh to exchange, views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

ARTICLE IV — EFFECTIVENESS; TERMINATION

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, Deputy Secretary or Section Officer of the Recipient's Economic Affairs Division, acting indistinctly.

5.02. The Recipient's Address is:

Economic Affairs Division
Ministry of Economic Affairs and Statistics
Islamic Republic of Pakistan
Islamabad, Pakistan

Phone:

Facsimile:

92-51-9203815

92-51-9218976

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)

1-202-477-6391

AGREED at the District of Columbia, 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/ Yusupha B. Crookes

Country Director
Pakistan

SCHEDULE 1

Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Schedule and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Onlending.** The recipient shall make the Rupees equivalent of the proceeds of the Credit available to Sindh in accordance with the Recipient's on-lending policy, acceptable to the Association.
- C. **Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche.
- D. **Deposits of Financing Amounts.** Except as the Association may otherwise agree:
1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association;
 2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for, within two working days, in the Sindh's Consolidated Fund Account No. 1- Non Food, in a manner acceptable to the Association; and
 3. within 45 days after each deposit of an amount of the Credit into the Recipient's designated account, the Recipient shall cause Sindh to provide to the Bank a written confirmation by Sindh's Finance Secretary, certifying the crediting of the Rupees equivalent of each such deposit into the Sindh's Consolidated Fund Account No. 1 – Non Foods; such written certification to include number of the accounts, date of receipt of funds, and the credited amounts and exchange rate applied.
- 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 December 31, 2007.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On March 15 and September 15 of each year:	
commencing September 15, 2017 to and including March 15, 2027	1.25%
commencing September 15, 2027 to and including March 15, 2042	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. “DAC” means the Departmental Accounts Committee of the Education Department.
2. “District’s Account No. IV” means the Account No. IV established within the District Government for the governmental transfer of fund/budgetary allocations to the District Governments.
3. “District Governments” means, collectively, all district governments as defined in the Sindh’s Local Government Ordinance (Ordinance 2001), as amended from time to time.
4. “Education and Literacy Department” means Sindh’s Education and Literacy Department.
5. “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 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.
6. "Executive Order" means, collectively, the Directives No. SO. (IMP)/SGA &CD/10-441-2/06 and No. SO (IMP)/SGA&CD/154-1(DAC)/06, dated November 14, 2006 and February 19, 2007 respectively, issued by the Chief Secretary of Sindh.

7. “Fiscal Year” means the fiscal year of the Recipient and of Sindh, beginning on July 1 of a calendar year and ending on June 30 of the next calendar year.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
9. “Medium Term Financial Plan” means the financial plan approved by the Chief Minister of Sindh, pursuant to Summary No. 108, dated April 30, 2007, as it may be amended from time to time.
10. “Medium Term Fiscal Framework” means the fiscal framework approved by the Chief Minister of Sindh, pursuant to Summary No. 108, dated April 30, 2007, as it may be amended from time to time.
11. “Medium Term Sector Policy Framework” means the sector policy documents approved by the Chief Minister of Sindh, pursuant to Summary No. 108, dated April 30, 2007, as it may be amended from time to time.
12. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated from the Recipient dated May 4, 2007, transmitting to the Association a letter from Sindh dated April 27, 2007 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
13. “PRSP Expenditures” means the expenditures contemplated in the Recipient’s Poverty Reduction Strategy Paper, dated December 13, 2003.
14. “Reform Support Unit” means the unit established within the Education Department, pursuant to Notifications No. SO (C-I)/SGA&CD/4-34/2005 dated January 5/6, 2006 and Order, issued by the Chief Secretary of Sindh, and Order No. SO (B&F)/EDU/SNE/RSU/05-06, issued by the Secretary of Education and Literacy of Sindh, which unit shall be responsible for the overall coordination, monitoring and facilitation of the Program.
15. “Rupees” means the currency of the Recipient.
16. “Sindh” means the Province of Sindh.
17. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part C of Schedule 1 to this Agreement.

18. “Terms of Partnership Agreements” means the agreement executed between the Education Department, on the one hand, and the District Governments, on the other hand, setting out, among other things, various matters relating to the implementation of the Program through 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 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.”

(d) The term “Project Agreement” is modified to read “Program Agreement” and its definition, as set forth in the Appendix, is modified to read as follows:

“‘Program Agreement’ means the agreement between the Association and the Program Implementing Entity relating to the implementation of the Program, as such agreement may be amended from time to time. ‘Program Agreement’ includes these General conditions as applied to the Program Agreement, and all appendices, schedules, and agreements supplemental to the Program Agreement.”

(e) The term “Project Implementing Entity” is modified to read “Program Implementing Entity” and its definition, as set forth in the Appendix, is modified to read as follows:

“‘Program Implementing Entity’ means the legal entity (other than the Recipient) which is responsible for implementing all or part of the Program and which is a party to the Program Agreement.”

- (f) The term “Project Implementing Entity’s Address” is modified to read “Sindh’s Address” and its definition, as set forth in the Appendix, is modified to read as follows:

“‘Sindh’s Address’ means the Sindh’s address specified in the Program Agreement for the purpose of Section 9.01.”

- (g) The term “Project Implementing Entity’s Representative” is modified to read “Sindh’s Representative” and its definition, as set forth in the Appendix, is modified to read as follows:

“‘Sindh’s Representative’ means the Program Implementing Entity’s representative specified in the Program Agreement for the purpose of Section 9.02(a).”