

CONFORMED COPY

CREDIT NUMBER 4586-PK

Financing Agreement

(Punjab Education Sector Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 9, 2009

CREDIT NUMBER 4586-PK

FINANCING AGREEMENT

AGREEMENT dated June 9, 2009, 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 an amount equivalent to two hundred thirty four million one hundred thousand Special Drawing Rights (SDR 234,100,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are June 1st and December 1st in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is United States Dollar.

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 Events of Suspension consist of the following:
 - (a) Punjab's Medium-Term Sector Framework has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to achieve the objectives of the Project and/or perform any of its obligations under the Project Agreement;
 - (b) A situation has arisen which shall make it improbable that the Punjab's Medium-Term Sector Framework, or a significant part of the core activities thereof, will be carried out; or
 - (c) The Recipient and/or Punjab have taken any action that would have the effect of materially reversing the objectives of Punjab's Medium-Term Sector Framework, including any action specified in Schedule 4 to this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following: namely, that the events specified in Section 4.01(a) and/or (c) of this Agreement occur and are continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V —EFFECTIVENESS; TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety days (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 the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Recipient's Economic Affairs Division, acting individually.

6.02. 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

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 Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

ISLAMIC REPUBLIC OF PAKISTAN

By

/s/ Farrakh Qayyum
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Said N. Al Habsy
Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to improve access and equity, and the quality and relevance of education in Punjab.

The Project consists of the following components:

Component 1: Financing of the Punjab Education Sector Reform Program

1. *Enhanced Education Sector Expenditure and Improved Fiduciary Environment:* Improve and/or strengthen the fiduciary practices and institutional capacity in the execution of the education sector expenditures, including the development and implementation of a Medium-Term Sector Framework aligned with Punjab's Medium-Term Fiscal Framework, the reinforcement of systemic and internal controls (e.g. internal audits, expenditures tracking and validation), and the improvement of procurement performance in Punjab's education sector, and social and environmental practices in school rehabilitation and/or construction.
2. *Improved Quality of Education:* (i) Develop and enhance teaching and learning resources and materials for primary and middle schools; (ii) improve teaching practices by supporting Punjab's Continuous Professional Development Program for teachers; (iii) establish a teacher accreditation, certification and licensing system; and (iv) provide Performance-Based Incentives (cash awards) to teachers in the best performing and/or most improving public primary and middle schools.
3. *Improved Education Access and Equity:* (i) Provide basic missing facilities in at least thirty percent (30%) of Punjab's affected schools; (ii) prepare and implement a policy framework and a medium-term action plan for the upgrading of schools from primary to middle and middle to high school levels; (iii) provide Girl Stipends to approximately three hundred and fifty thousand (350,000) girls enrolled in grades 6 to 10 of public schools; (iv) carry out textbook development and printing reforms, including the adoption of competitive procurement processes, the field-testing of textbooks, and the establishment of a textbook quality evaluation system; and (v) provide financial support to low-cost private sector schools through the Punjab Education Foundation's public-private partnership program.
4. *School Management, Governance & Monitoring:* (i) Carry out a capacity building program for School Councils in all 35 school districts and develop operational guidelines therefor; (ii) develop and implement a medium-term recruitment plan for the recruitment of approximately 34,000 contract teachers on a merit-based criteria; (iii) establish an independent/autonomous and transparent examination and quality assessment system and build capacity thereof; (iv) carry

out a multi-year training and capacity program for officers at district level, including the provision of basic IT equipment; and (v) strengthen field monitoring mechanisms and practices, mainstreaming monitoring function in the district education departments, and enhance SED capacity for evidence-based diagnosis and planning of sector reform agenda.

Component 2: Technical Assistance

Provide technical assistance to, and build the institutional capacity of, Punjab's education sector departments and agencies, including: (i) the implementation of accountability reforms in procurement and financial management in the sector; (ii) the carrying out of third party validations of the sector performance in the various aspects of the Punjab Education Sector Reform Program ("PESRP"); (iii) the design of environmental and social guidelines to be applied to the construction, upgrading and/or refurbishing of the education sector infrastructure; and (iv) the implementation of a comprehensive review of the sector organizational structure in order to identify possible management restructurings at both provincial and district levels, improve the quality of education, evaluate the performance of on-going programs under the PESRP, and strengthen the planning and monitoring systems of the education sector.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity in accordance with the provisions of this Agreement and the Recipient's on-lending policies and budgetary procedures, and under the same terms and conditions as shall have been received from the Association.
2. Notwithstanding 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.1 of this Schedule, are inconsistent with the budgetary procedures of the Recipient, the provisions of this Agreement 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. Safeguards

The Recipient shall cause the Project Implementing Entity to ensure that the activities under the Project: (i) are carried out in accordance with the Environmental and Social Management Framework; and (ii) do not entail land acquisition or involuntary resettlement of persons and/or businesses. In the event that any land is required for the Project, the Recipient, in consultation with the Association, shall cause the Project Implementing Entity to ensure that such land be obtained under the Land Acquisition Act (1894) with the exception of clause 17.4 thereof (urgency/emergency clause), or as a donation or bequest.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate, and/or shall cause the Project Implementing Entity to 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 the indicators agreed with the Association. The Project Reports shall be submitted to the Association twice a year, on or about April 15 and October 15 of each year, covering the immediately

preceding semester of activities (i.e. October through March and April through September, respectively).

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

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, or shall cause the Project Implementing Entity to prepare and furnish, to the Association the following interim unaudited financial reports (“IUFRR”):
 - (a) by no later than January 15 of each year, commencing on January 15, 2009, an IUFRR for the Project, in form and substance satisfactory to the Association, covering:
 - (i) the immediately preceding six-month period (i.e. July through December) of Project activities under Component 1; and
 - (ii) the immediately preceding seven months period (i.e. June through December) of Project activities under Component 2; and
 - (b) by no later than June 15 of each year, commencing on June 15, 2009, an IUFRR for the Project, in form and substance satisfactory to the Association, covering the immediately preceding five-month period (i.e. January through May) of Project activities under both Components.
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 under the Project. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works 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 Works

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

Procurement Method	
(a)	National Competitive Bidding in accordance with the procedures set out in paragraph 3 below.
(b)	Shopping
(c)	Direct Contracting

3. **Procedures for National Competitive Bidding (NCB).** The procedures for procuring goods and works under National Competitive Bidding shall be subject to the following additional provisions for compliance 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) 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 works 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.

Procurement Method
(a) Selection Based on the Consultants' Qualifications
(b) Single-Source Selection
(c) Individual Consultants

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:

- (a) each contract for goods or works procured on the basis of International Competitive Bidding or Direct Contracting;
- (b) the first contract for goods and the first contract for works procured on the basis of National Competitive Bidding regardless of their value;
- (c) all contracts for works estimated to cost the equivalent of USD300,000 or more;
- (d) the first contract for goods and the first contract for works procured on the basis of Shopping;
- (e) the first contract for consultants' services provided by a firm regardless of its value;
- (f) all contracts for consultants' services provided by a firm estimated to cost the equivalent of USD100,000 equivalent or more;

- (g) the first contract for consultants' services provided by individual consultants irrespective of its value; and
- (h) all contracts for consultants' services provided by individual consultants estimated to cost the equivalent of USD50,000 or more.

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:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
1. SC Grants, Girls' Stipends, PEF Grants, Recurrent Costs, Performance-Based Incentives, School Monitoring, SC Capacity Building, District Capacity Building under the Eligible Expenditures Program for the:		
(a) First scheduled disbursement (on or about June 15, 2009)	81,580,000	100%
(b) Second scheduled disbursement (on or about January 15, 2010)	13,390,000	100%
(c) Third scheduled disbursement (on or about June 15, 2010)	59,520,000	100%
(d) Fourth scheduled disbursement (on or about January 15, 2011)	13,390,000	100%
(e) Fifth scheduled disbursement (on or about June 15, 2011)	59,520,000	100%
2. Goods, consultants' services, and Training and Workshops under Component 2 of the Project.	6,700,000	100%
TOTAL AMOUNT	234,100,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section:
 - (a) No withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed the equivalent of seventy million United State Dollars

(\$70,000,000) may be made out of Category (1)(a) (subject to compliance with the provisions of subparagraph (b) below) for the reimbursement of the PEF Grants made, and the Recurrent Costs incurred, prior to this date but on or after July 1, 2008; or

- (b) No withdrawal shall be made under Sub-Category (1)(a) until and unless the Recipient shall have:
 - (i) complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including the submission to the Association of the applicable IUFR and the forecasted expenditures under the EEP for the period July 1, 2009, through December 31, 2009; and
 - (ii) by no later than May 15, 2009, furnished evidence satisfactory to the Association of Punjab's achievement of at least eight (8) DLIs for Actions to be Completed in FY2008/09 for Disbursements in FY2009/10 (Year 1), which actions are set out in Schedule 4 to this Agreement.

- (c) No withdrawal shall be made under Sub-Category (1)(b) until January 1, 2010, and unless the Recipient shall have:
 - (i) complied with, or fulfilled, at least eight (8) DLIs for Actions to be Completed in FY2008/09 for Disbursements in FY2009/10 (Year 1), which actions are set out in Schedule 4 to this Agreement; and
 - (ii) complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including the submission to the Association of the applicable IUFR and forecasted expenditures under the EEP for the period January 1 through May 31, 2010.

- (d) No withdrawal shall be made under Sub-category (1)(c) until June 1, 2010, and unless the Recipient shall have:
 - (i) complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including the submission to the Association of the applicable IUFR and the forecasted expenditures under the EEP for the period July 1, 2010 through December 31, 2010; and
 - (ii) by no later than May 15, 2010, furnished evidence satisfactory to the Association of Punjab's achievement of at least eight (8) DLIs for Actions to be Completed in FY2009/2010 for

Disbursements in FY2010/11 (Year 2), which actions are set out in Schedule 4 to this Agreement.

- (e) No withdrawal shall be made under Sub-Category (1)(d) until January 1, 2011 and unless the Recipient shall have:
 - (i) complied with, or fulfilled, at least eight (8) DLIs for Actions to be Completed in FY2009/2010 for Disbursements in FY2010/11 (Year 2), which actions are set out in Schedule 4 to this Agreement; and
 - (ii) complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including the submission to the Association of the applicable IUFR and forecasted expenditures under the EEP for the period January 1 through May 31, 2011.
- (f) No withdrawal shall be made under Sub-category 1(e) until June 1, 2011, and unless the Recipient shall have:
 - (i) complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including the submission to the Association of the applicable IUFR and the forecasted expenditures under the EEP for the period July 1, 2011, through December 31, 2011; and
 - (ii) by no later than May 15, 2011, furnished evidence satisfactory to the Association of Punjab's achievement of at least eight (8) DLIs for Actions to be Completed in FY2010/2011 for Disbursements in FY2011/12 (Year 3), which actions are set out in Schedule 4 to this Agreement

2. Notwithstanding the foregoing, if the Association has:

- (a) not been satisfied that at least eight (8) DLIs were achieved for purposes of disbursement of Credit precedes under Sub-Categories (1)(a), (1)(b), (1)(c), (1)(d) and (1)(e), as the case may be, the Association, at its sole discretion, may:
 - (i) at any later date when the Association is satisfied that at least eight (8) DLIs have been achieved, authorize withdrawal of the Credit proceeds withheld under the respective Sub-Category; and
 - (ii) at any time, by notice to the Recipient and Punjab, cancel the amount of the Credit withheld or, in the case of Sub-Categories (1)(a), (1)(b), (1)(c) and (1)(d), reallocate any amount withheld to other undisbursed Category or Sub-Categories.

- (b) been satisfied that at least eight (8) DLIs were achieved for purposes of disbursement of Credit proceeds under Sub-Categories (1)(a), (1)(c) and (1)(e), as the case may be, but one (1) or more DLIs (up to a maximum of two (2) DLIs) for the Sub-Category concerned has not been achieved, the Association, at its sole discretion, may:
- (i) (A) with respect to Sub-Category (1)(a), withhold an amount of the Credit equivalent to one-tenth (1/10th) of the Credit amount allocated to said Sub-Category, per each DLI that has not been achieved;
 - (B) with respect to Sub-Category (1)(c), withhold an amount of the Credit equivalent to one-tenth (1/10th) of the aggregated amounts of the Credit allocated to Sub-Categories (1)(b) and (1)(c), per each DLI that has not been achieved; and
 - (C) with respect to Sub-Category (1)(e), withhold an amount of the Credit equivalent to one-tenth (1/10th) of the aggregated amounts of the Credit allocated to Sub-Categories (1)(d) and (1)(e), per each DLI that has not been achieved;
- (ii) at a later date when the Association is satisfied that the Other DLI/s referred to in sub-paragraph (b)(i) above have been achieved, authorize withdrawal of the Credit proceeds so withheld; and
- (iii) at any time, by notice to the Recipient and Punjab, cancel the corresponding amount of the Credit withheld pursuant to sub-paragraph (b)(i) above or, in the case of Sub-Categories (1)(a) and (1)(c), reallocate said amount to other undisbursed Category or Sub-Categories.

3. The Closing Date is June 30, 2012.

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 Punjab's Consolidated Fund – Account No. 1 (Non-Food), in a manner acceptable to the Association.

SCHEDULE 3

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 1 st and December 1 st :	
commencing on December 1, 2019, to and including June 1, 2029	1.25%
commencing December 1, 2029, to and including June 1, 2044	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)

INDICATOR	ACTIONS TO BE COMPLETED IN FY2008/09 FOR DISBURSEMENTS IN FY2009/10 (YEAR 1)	ACTIONS TO BE COMPLETED IN FY2009/10 FOR DISBURSEMENTS IN FY2009/10 (YEAR 2)	ACTIONS TO BE COMPLETED IN FY2010/11 FOR DISBURSEMENTS IN FY2011/12 (YEAR 3)
1. Medium-Term Sector Framework (MTSF).	The education sector core program for FY2008/09 has been approved and fully financed in accordance with the MTSF.	The education sector core program for FY2009/10 and FY2010/11 has been approved and fully financed in accordance with the MTSF.	The education sector core program activities for FY2010/11 has been approved and fully financed in accordance with the MTSF.
2. Improving teachers' performance	SED has undertaken a simulation exercise in at least 2 districts for the implementation of a province-wide program instituting performance-linked incentives (cash awards) for teachers in the 20% highest performing schools in each school district.	(i) SED has disbursed the performance-linked incentives for FY 2009/10 to the 20% highest performing schools in each district based on the approved policy criteria, as validated by a third party; and (ii) SED has expanded the performance-linked incentive program to include a category allocating 20% of the overall amount of the incentives to schools evidencing the greatest performance improvements.	SED has disbursed the performance-linked incentives for FY 2010/2011 to: (A) the 20% highest performing schools in each district, and (B) the schools evidencing the greatest performance improvements, based on the approved criteria, and validated by a third party.
3. Improvements in Basic School Facilities (i.e. boundary walls, clean drinking water, toilets and electricity).	SED has begun implementation of a program to provide for basic missing facilities to public schools, on a whole-school approach basis.	SED has provided basic missing facilities on a whole-school approach basis to at least 1500 public schools.	SED has provided basic missing facilities on a whole-school approach basis to an additional 1500 public schools, as validated by a third party.
4. School up-gradation.	SED had prepared an implementation plan and developed a priority list of 1,400 primary schools and 400 secondary schools identified for up-gradation to secondary and high schools respectively, prioritizing girl schools and schools in rural areas.	SED has upgraded 600 primary schools to middle schools and 200 middle schools to high schools.	(i) SED has upgraded an additional 800 primary schools to middle schools, and an additional 200 middle schools to high schools; and (ii) SED has conducted a third party validation of the up-gradation exercise.

INDICATOR	ACTIONS TO BE COMPLETED IN FY2008/09 FOR DISBURSEMENTS IN FY2009/10 (YEAR 1)	ACTIONS TO BE COMPLETED IN FY2009/10 FOR DISBURSEMENTS IN FY2009/10 (YEAR 2)	ACTIONS TO BE COMPLETED IN FY2010/11 FOR DISBURSEMENTS IN FY2011/12 (YEAR 3)																														
5. Delivery of free textbooks to public schools	SED has delivered free textbooks to at least 80% of Punjab's public schools within the first month of the academic year beginning in August 2008.	SED has delivered free textbooks to at least 90% of Punjab's public schools within the first month of the academic year beginning in April 2009, validated by a third party organization.	(i) SED has delivered free textbooks to at least 90% of Punjab's public schools within the first month of the academic year beginning in April 2010; and (ii) SED has commenced the field testing of at least 5 newly developed books, on sample basis, in at least 8 school districts.																														
6. Timely provision of Girls' Stipends in grades 6 to 10 in public schools.	SED has delivered the Girls Stipends to at least 80% of the eligible girls (grades 6-10 in public schools) as per the following schedule: <table border="1" data-bbox="562 764 884 919"> <thead> <tr> <th>QUARTER</th> <th>BY DATE</th> </tr> </thead> <tbody> <tr> <td>Oct-Dec '07</td> <td>April 1, 2008</td> </tr> <tr> <td>Jan-Mar '08</td> <td>July 1, 2008</td> </tr> <tr> <td>Apr-Jun '08</td> <td>October 1, 2009</td> </tr> <tr> <td>Jul-Sep '08</td> <td>January 1, 2009</td> </tr> </tbody> </table>	QUARTER	BY DATE	Oct-Dec '07	April 1, 2008	Jan-Mar '08	July 1, 2008	Apr-Jun '08	October 1, 2009	Jul-Sep '08	January 1, 2009	SED has delivered the Girls Stipends to at least 85% of the eligible girls (grades 6-10 in public schools) as per the following schedule: <table border="1" data-bbox="1003 764 1325 919"> <thead> <tr> <th>QUARTER</th> <th>BY DATE</th> </tr> </thead> <tbody> <tr> <td>Oct-Dec '08</td> <td>April 1, 2009</td> </tr> <tr> <td>Jan-Mar '09</td> <td>July 1, 2009</td> </tr> <tr> <td>Apr-Jun '09</td> <td>October 1, 2010</td> </tr> <tr> <td>Jul-Sep '09</td> <td>January 1, 2010</td> </tr> </tbody> </table>	QUARTER	BY DATE	Oct-Dec '08	April 1, 2009	Jan-Mar '09	July 1, 2009	Apr-Jun '09	October 1, 2010	Jul-Sep '09	January 1, 2010	SED has delivered the Girls Stipends to at least 90% of the eligible girls (grades 6-10 in public schools) as per the following schedule: <table border="1" data-bbox="1444 764 1766 919"> <thead> <tr> <th>QUARTER</th> <th>BY DATE</th> </tr> </thead> <tbody> <tr> <td>Oct-Dec '09</td> <td>April 1, 2010</td> </tr> <tr> <td>Jan-Mar '10</td> <td>July 1, 2010</td> </tr> <tr> <td>Apr-Jun '10</td> <td>October 1, 2011</td> </tr> <tr> <td>Jul-Sep '10</td> <td>January 1, 2011</td> </tr> </tbody> </table>	QUARTER	BY DATE	Oct-Dec '09	April 1, 2010	Jan-Mar '10	July 1, 2010	Apr-Jun '10	October 1, 2011	Jul-Sep '10	January 1, 2011
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7. Public financial support for students in low costs private schools.	PEF has provided financial support to over 1000 schools under the FAS Program and over 40 schools under the NSP, with appropriate budgetary allocations (3 billion Rupees for FY2008/09) transferred by Punjab to PEF.	(i) PEF has expanded its financial support to cover approximately 1,300 schools under the FAS Program and 150 schools under the NSP, with appropriate resources (budgetary allocation for PEF Grants for FY 2009/10) in line with the Medium-Term Sector Framework; and (ii) Punjab has transferred to PEF the pro rata portion of the annual budgeted allocation for PEF Grants within one month of the beginning of each the fiscal quarter.	(i) PEF has expanded its financial support to cover approximately 1,500 schools under the FAS Program and 200 schools under the NSP, with appropriate resources (budgetary allocation for PEF Grants for FY 2010/11) in line with the Medium-Term Sector Framework; and (ii) Punjab has transferred to PEF the pro rata portion of the annual budgeted allocation for PEF Grants within one month of the beginning of each fiscal quarter.																														

INDICATOR	ACTIONS TO BE COMPLETED IN FY2008/09 FOR DISBURSEMENTS IN FY2009/10 (YEAR 1)	ACTIONS TO BE COMPLETED IN FY2009/10 FOR DISBURSEMENTS IN FY2009/10 (YEAR 2)	ACTIONS TO BE COMPLETED IN FY2010/11 FOR DISBURSEMENTS IN FY2011/12 (YEAR 3)
8. Enhance accountability of teachers; capacity building for School Councils; and reduction of teachers absenteeism.	School Councils in at least 20% of the provincial primary and middle public schools have received: (A) SED's transfers of SC Grants for FY2008/09; and (B) capacity support through arrangement with the RSPs.	(i) School Councils in at least 70% of the provincial primary and middle public schools have received: (A) SED's transfers of SC Grants budgets for FY2009/10; and (B) capacity support through arrangement with the RSPs; and (ii) SED has disseminated operational guidelines for School Council's management and administration.	School Councils in at least 95% of the provincial primary and middle public schools have received: (A) SED's transfers of SC Grants for FY2010/11; and (B) capacity support through arrangement with the RSPs.
9. Teachers recruitment on a merit and need basis.	(i) SED has initiated the recruitment process in order to recruit 34,000 new teachers in accordance with the Merit-Based Policy (2005); and (ii) SED has completed the teachers' recruitment process on a merit basis, in at least 2 school districts	SED has implemented the teachers' recruitment rounds as per the agreed recruitment plan.	SED implemented teachers' recruitment rounds as per the agreed recruitment plan, and as validated by a third party.
10. Examination and Assessment Systems.	PEC has conducted examinations on students in grades 5 and 8 for the academic year beginning in April 2008, by no later than March 31, 2009.	(i) PEAS has completed a province-wide assessment on mathematics of students in grade 5 for the academic year beginning in April 2009, in a district-representative sample of public schools; and (ii) PEC has been properly funded pursuant to the MTSF, and staffed with the appropriate technical personnel.	(i) PEAS has completed a province-wide assessment on language, mathematics and social studies of students in grade 5 for the academic year beginning in April 2010 in a district-representative sample of public schools; and (ii) PEAC has completed the analysis of the province province-wide assessment on mathematics of students in grade 5 undertaken in the academic year beginning in April 2009.

APPENDIX

Section I. Definitions

1. “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.
2. “Budget Execution Report” means the consolidated budget execution report to be prepared by Punjab and furnished to the Association in accordance with the requirement set out in Section II.C of the Schedule to the Project Agreement.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “Continuous Professional Development Program” means Punjab’s program for teachers’ training and professional development implemented by SED’s Directorate of Staff Development pursuant to Notification DSP/DD(P) 2006-64-130, dated March 11, 2006.
6. “Disbursement-Linked Indicators” and the acronym “DLI” mean, collectively, the disbursement-linked targets set forth in the columns entitled “Actions to be Completed in FY2008/09 for Disbursements in FY2009/10 (Year 1)”, “Actions to be Completed in FY2009/10 for Disbursements in FY2010/11 (Year 2)”, and “Actions to be Completed in FY2010/11 for Disbursements in FY2011/12 (Year 3)” in Schedule 4 to this Agreement; and the acronym “DLI” means, individually, any one of such targets.
7. “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.
8. “District Capacity Building” means the reasonable costs of the consultancy services for the provision of training and capacity building activities to education officers at district level, and operating/administrative costs related thereto.

9. “District Steering Committee” means each of the committees established pursuant to Notification PS/Secy. (I&C) 12/2006, dated October 30, 2006, and referred to in Section I.A.1(d) of the Schedule to the Project Agreement.
10. “Eligible Expenditures Program” and the acronym “EEP” mean, collectively, the Girls Stipends, Recurrent Costs, SC Grants, PEF Grants, Performance-Based Incentives, School Monitoring, SC Capacity Building and District Capacity Building each of which are defined expenditures incurred by Punjab under Component 1 of the Project, and financed through the Budget/Account Codes: A03977; A01; A03975; A03976; A01250; LQ5269; LO08000001; and LO01001318, respectively.
11. “Environmental and Social Management Framework” means the social and environmental framework adopted by Punjab pursuant to PMIU’s letter No. PD/PMIU-PESRP/2009/7150, dated April 1, 2009, as the same may be modified from time to time with the prior concurrence of the Association.
12. “Examination Commission Ordinance” means the Punjab Examination Commission Ordinance (2008) (Ordinance VIII of 2008) notified by the Governor of Punjab on July 9, 2007, and published in The Punjab Gazette on July 9, 2008.
13. “FAS Program” means the Foundation Assisted Schools Program designed and implemented by PEF, providing monthly subsidies to low-cost private schools, per child enrolled (i.e. approximately Rs. 350 per child, per month), for the provision of accessible education services to rural and/or underserved communities as determined by the criteria approved by the PEF Board; which funds are meant to assist in defraying the reasonable cost of operating such schools so that tuition will not be collected from students.
14. “Fiscal Year” and the acronym “FY” mean the fiscal year of Punjab, which commences on July 1 and closes on June 30 of each year.
15. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
16. “Girl Stipends” means, collectively: (a) the payments made by the SED (through the General Post Office) to female students enrolled in grades 6 through 10 of public schools in the amount of approximately Rs. 600 per girl, per quarter of the academic year, under targeted fifteen provincial districts; and (b) the costs of administering such program.

17. “IUFRR” means each of the interim unaudited financial reports to be furnished to the Association by the Recipient pursuant to Section II.B.2 of Schedule 2 to this Agreement, and by Punjab pursuant to Section II.B.2 of the Schedule to the Project Agreement.
18. “Land Acquisition Act (1894)” means the Recipient’s Act I of 1894 regulating the acquisition of land for public purposes, as amended from time to time up to the date of this Agreement.
19. “Medium-Term Fiscal Framework” and the acronym “MTFF” mean the fiscal policy framework to be approved by Punjab’s Finance Department for the Province of Punjab providing for a three (3) year resource envelope (FY2009/10 through FY2011/12) for recurrent and development expenditures.
20. “Medium-Term Sector Framework” and the acronym “MTSF” mean the medium term sector policy framework 2008-11 adopted by SED and approved by the Government of Punjab in April 2009 pursuant to Punjab Planning and Development Department’s Letter No. 2(497)RO.(Edu)/P&D/08 setting out the medium term vision, policy objectives and resource envelope for Punjab’s education sector.
21. “Merit-Based Policy (2008)” means the policy approved by SED pursuant to Notification SO (S0IV) 2-34/2008 to the governments of the provincial districts, dated August 23, 2008, setting out the procedures and criteria for recruitment of teachers on a merit basis.
22. “NSP” means the new school program implemented by PEF, providing enrollment-based subsidies, in an amount of approximately Rs. 300, per child, per month, to low-cost private schools established in accordance with criteria approved by PEF’s Board.
23. “PEF Grants” means the grants provided by Punjab’s Finance Department, on request of SED, to the PEF for purposes of financing, among others, the NSP, the FAS Program, and various initiatives to enhance the quality of instruction in low-cost private schools, as well as the reasonable costs of financing such programs and initiatives.
24. “Performance-Based Incentives” means monetary incentives paid by SED to teachers in the best performing public primary, elementary and high schools in the amount of approximately Rs. 1000, Rs. 1500 and Rs. 2000, respectively, per month, per teacher under the program, approved by the SED pursuant to Notification SO (S111) 2-16/2007, dated December 11, 2008.

25. "PEAS" means the Punjab Education & Assessment System, established in October 2005, responsible for the design, implementation and administration of mechanisms for the assessment of students' learning results, as well as the analysis of data collected and the preparation of assessment reports.
26. "PMIU" means the program monitoring and implementation unit established within SED pursuant to SO(F-Aid)11-2/2005 (PRESP), dated July 1, 2003, and referred to in Section I.A.1(c) of the Schedule to the Project Agreement.
27. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
28. "Procurement Plan" means the Recipient's procurement plan for the Project, dated April 21, 2009 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.
29. "Program Steering Committee" means the committee established pursuant to SED's notification PS/SSE/MISC/EDU2008-405, dated October 8, 2008, and referred to in Section I.A.1(a) of the Schedule to the Project Agreement.
30. "Project Implementing Entity" means the Province of Punjab.
31. "Punjab" means the Recipient's Province of Punjab, also referred to as the Project Implementing Entity.
32. "Punjab Education Foundation" and the acronym "PEF" mean the entity established, pursuant to the Punjab Education Foundation Act (1991) (Act I of 1991) as amended by the Act XII of 2004 of Punjab, as a semi-autonomous non-commercial/non-for-profit organization aimed at encouraging and promoting the education in the private sector through public-private partnerships.
33. "Punjab Education Sector Reform Program" means the reform program designed, approved and adopted by Punjab pursuant to the Medium-Term Sector Framework, setting out the reform agenda for the education sector for FY2008/09 through FY2010/11.
34. "Punjab Examination Commission" and the acronym "PEC" mean the commission established pursuant to SED's Notification No. SO(Schools)(PEC)1-1/2006, dated January 16, 2006, for purposes of conducting research and examinations on students' learning outcomes, and teachers' and schools' performance.

35. “Recurrent Costs” means the reasonable costs of salaries, allowances, and related costs of teachers and other education staff of public primary, elementary and secondary schools, as well as district and sub-divisional offices.
36. “RSPs” means the National Rural Support Program and the Punjab Rural Support Program, responsible for providing training and carrying out institutional capacity building activities for the benefit of School Councils.
37. “Rupees” and the acronym “Rs.” mean the currency of the Recipient.
38. “SC Capacity Building” means the reasonable costs of the consultancy contracts to be entered by SED for the provision of capacity building activities to School Councils and operating/administrative costs related thereto.
39. “SC Grants” means the funds transferred on a grant basis by the SED directly to the qualifying School Councils (i.e. School Councils with bank account information verified by the PMIU and an authorized commercial bank of Punjab) in primary and elementary (middle) public schools, in the amount of, approximately, Rs. 20,000, and Rs. 50,000 per year, per school, respectively, which grants are intended to finance the reasonable costs of recurrent expenditures for school maintenance and repairs, school supplies and wages of temporary teachers.
40. “School Council” and the acronym “SC” mean each of the councils established pursuant to the School Council Policy (2007) approved by the SED through Notification No. SO9S-(III)2-12/2006, dated August 6, 2007, as amended, which councils are responsible for the overall management and supervision activities of schools. The term “School Councils” and the acronym “SCs” mean collectively two or more such councils.
41. “School Education Department” and the acronym “SED” mean Punjab’s School Education Department.
42. “School Monitoring” means the reasonable costs of salaries, salary supplements and overheads of the Project Implementing Entity’s term employees and/or staff responsible for the monitoring and evaluation assessment of the performance of schools.
43. “Sub-Category” means any of the sub-categories set forth under Category (1) in the table in Section IV of Schedule 2 to this Agreement; and the term “Sub-Categories” means collectively two or more said sub-categories.
44. “Training and Workshops” means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient or attended abroad by

SED's officials and staff, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005, (as amended through October 15, 2006) are as follows:

Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”