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**CREDIT NUMBER 4588-PK**

# **Financing Agreement**

**(Pakistan Higher Education Support Program)**

**between**

**ISLAMIC REPUBLIC OF PAKISTAN**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated September 15, 2009**

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## **FINANCING AGREEMENT**

AGREEMENT dated September 15, 2009, entered into between the ISLAMIC REPUBLIC OF PAKISTAN (the “Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “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 has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’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 six million nine hundred thousand Special Drawing Rights (SDR 66,900,000) (variously, “Credit” and “Financing”).
- 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 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 Dollar.

### **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 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 promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

### **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 of the Recipient's Economic Affairs Division of the Ministry of Economic Affairs and Statistics, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that 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

Facsimile: Telephone:

92-51 9218976

92-51 9203815

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 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**

### **Program Actions; Availability of Financing Proceeds**

#### **Section I. Actions Taken under the Program**

The actions taken by the Recipient under the Program include the following:

1. The Finance Division has issued a letter No. F.4(10)R.4/02(Vol.I) approving the model tenure track statues for faculty staff in public higher education institutions; which statues have been notified by the HEC to said institutions pursuant to Notification No.F.P.2-103/HEC/2007/726;
2. The Planning Commission, through Office Memorandum No. 8(35)S&T/PD/2005, has notified to the HEC the agreed policy criteria allowing high quality private sector higher education institutions to qualify for funding for developments project for up to fifty percent (50%) of their costs, subject to the adoption of a merit-based and “need-blind” admission policy for the enrollment of students.
3. The HEC has: (i) through letter No 15-05/HEC/A&A/2007/121, notified to the private sector higher education institutions HEC’s approval of the revised policy criteria facilitating the establishment of private higher education institutions; and (ii) through letters No.15-35/HEC/A&A/2007/363, No 15-22/HEC/A&A/2002, No. 15-25/HEC/A&A/2008/1118, and 15-61/HEC/ A&A/2005/54, applied such policy criteria in the establishment of new higher education institutions.
4. Quality Enhancement Cells have been established in at least twenty (20) public higher education institutions pursuant to the criteria set forth by the HEC in its quality assurance manual for higher education.
5. The HEC has: (i) prepared a draft manual of procurement policies and standard operating procedures for the procurement of goods, civil works and routine services; and (ii) through letter No. 111/HEC/Services/2008, has submitted such manual to the PPRA for comments.
6. The MoF has approved, through Dy.1704/S/FS/2009, the Medium-Term Financing Framework (MTFF) for the HEC for the triennium commencing in FY2009/2010 through FY2011/2012.
7. The MoF has released the funds for recurrent and development expenditures for the third and fourth quarter grants according to FY2008/2009 budgetary allocations.

**Section II. Availability of Financing Proceeds**

**A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

**B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>
Single Tranche	66,900,000
<b>TOTAL AMOUNT</b>	<b>66,900,000</b>

**C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. the withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon deposit of the amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

**D. 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.

**E. Closing Date.** The Closing Date is December 31, 2009.

**SCHEDULE 2**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each June 15 and December 15:	
Commencing December 15, 2019, to and including June 15, 2029	1.25%
Commencing December 15, 2029, to and including June 15, 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.

## APPENDIX

### Section I. Definitions

1. “Finance Division” means the Finance Division of the Recipient’s Ministry of Finance.
2. “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) 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, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
3. “FY” means a fiscal year of the Recipient commencing on July 1 of each year and closing on June 30 of each year.
  4. “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.
  5. “HEC” means the Higher Education Commission of Pakistan established pursuant to the Recipient’s Presidential Ordinance LIII (2002).
  6. “Medium-Term Financing Framework” and the acronym “MTFF” mean HEC’s medium term financial envelope setting out HEC’s estimates resources and expenditures (recurrent and developmental) for FY2009/10 through FY2011/12.
  7. “MoF” means the Ministry of Finance of the Recipient.
  8. “need-blind” admission policy means a policy for the admission/enrollment of students on a strictly merit-based basis, regardless the applicants’ financial situation.
  9. “Planning Commission” means the Recipient’s Planning Commission.
  10. “PPRA” means the Public Procurement Regulatory Authority of the Recipient established pursuant to the Recipient’s Presidential Ordinance XXII of 2002 issued on May 15, 2002, (the PPRA Ordinance).

11. “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 May 2, 2009, 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.
12. “Quality Enhancement Cells” means the units within higher education institutions responsible for, *inter alia*: (i) ensuring quality and standards of knowledge being imparted for the award of tertiary/university degrees; (ii) reviewing higher education institutions’ academic affiliations; and (iii) develop quality assurance process and methods of evaluations, including, *inter alia*, procedures for institutional audits, subject and departmental reviews, student and employer feedback, and quality improvements in institutional management/leadership.
13. “Rupees” and the acronym “PKR” means the currency of the Recipient.
14. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006) 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. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

### *“Section 2.05. Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and

outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. 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.
5. 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.
6. 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.”

7. 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.”

8. 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 “Program Preparation Advance” (renamed as such pursuant to subparagraph 8(c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”