

**CONFORMED COPY**

**CREDIT NUMBER 3855 PAK**

# **Project Agreement**

**(Punjab Education Sector Adjustment Credit)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**PROVINCE OF PUNJAB**

**Dated February 20, 2004**

## **CREDIT NUMBER 3855 PAK**

### **PROJECT AGREEMENT**

AGREEMENT, dated February 20, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the PROVINCE OF PUNJAB acting by its Governor (Punjab).

WHEREAS (A) the Association has received from the Islamic Republic of Pakistan (the Borrower) a letter dated May 6, 2003, transmitting to the Association a letter from Punjab dated April 22, 2003, describing a program of actions, objectives and policies designed to enhance access and quality of education in Punjab (hereinafter called the Program), declaring Punjab's commitment to the execution of the Program and the Borrower's support thereto, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) Punjab has carried out the measures and taken the actions described in the Schedule to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework consistent with the Borrower's macroeconomic framework satisfactory to the Association;

(C) by the Development Credit Agreement of even date herewith between the Borrower and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to sixty-nine million five hundred thousand Special Drawing Rights (SDR 69,500,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Punjab agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(D) the Program will be carried out by Punjab with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Punjab the local currency equivalent of the proceeds of the Credit as provided in the Development Credit Agreement; and

WHEREAS Punjab, in consideration of the Association entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## **ARTICLE I**

### **Definition**

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

## **ARTICLE II**

### **Execution of the Program**

Section 2.01. (a) Punjab declares its commitment to the objectives of the Program and, to this end, shall carry out the Program with due diligence and efficiency, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Program.

(b) Punjab shall make available to each District Government its duly allocated share as a grant in a timely manner.

Section 2.02. (a) Punjab shall from time to time, at the request of the Association, and with the participation of the Borrower, exchange views with the Association with regard to the progress of the Program, the actions specified in the Schedule to this Agreement, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) Prior to each such exchange of views, Punjab shall furnish to the Association and the Borrower for their review and comments a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Punjab shall promptly inform the Association and the Borrower of any condition, which interferes or threatens to interfere with the progress of the Program, the accomplishment of the purposes of the Credit, or the performance by Punjab of its obligations under this Agreement.

(d) Without limitation upon the provisions of paragraphs (a), (b) and (c) of this Section, Punjab shall exchange views with the Association 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 this Agreement.

Section 2.03. (a) For the purpose of assisting in the implementation and monitoring of the Program, Punjab shall maintain the Program Monitoring and

Implementation Unit established within its Education Department in a form and with powers, functions, structures, staff and resources satisfactory to the Association.

(b) Notwithstanding the provision of Section 2.04 of this Agreement, the Program Monitoring and Implementation Unit referred to in paragraph (a) above shall supervise, monitor and coordinate with all the agencies implementing the Program, and shall produce quarterly reports consisting of: (i) the fiscal and financial management targets; (ii) progress in the implementation of specific measures agreed under the medium term reform program; and (iii) data on outcomes from surveys and other sources when these become available.

Section 2.04. Punjab shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Program and the achievement of the objectives thereof, including the impact of implementation of the Program on the poor;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than six (6) months after the Closing Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in carrying out the Program and setting out the measures recommended to ensure the efficient carrying out of the Program and the achievement of the objectives thereof; and

(c) review with the Association the report referred to in paragraph (b) of this Section, within forty-five (45) days of the receipt of the report and thereafter, take all measures required to ensure the efficient implementation of the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Section 2.05. (a) Punjab shall use the amounts transferred to it by the Borrower pursuant to Section 2.02 (c) of the Development Credit Agreement in support of the Program. Punjab undertakes that no proceeds of any such amounts shall be used to finance expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of Punjab during the procurement or execution of such contract, unless and until Punjab shall have taken timely and appropriate action satisfactory to the Association to remedy the situation.

(b) If the Association shall have determined at any time that any such amount shall have been used to make a payment for any expenditure not consistent with paragraph (a) above, Punjab shall, promptly upon request from the Association, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

### **ARTICLE III**

#### **Financial Covenants**

Section 3.01. (a) Punjab shall, not later than thirty (30) days of the receipt of the Rupee amount transferred to it by the Borrower pursuant to Section 2.02(c) of the Development Credit Agreement provide confirmation to the Association showing the date and the Rupee amounts received from the Borrower and stating that such amounts have been credited into the Consolidated Account of Punjab on that same day.

(b) Upon the Association's request, Punjab shall, not later than sixty (60) days after the date of such request, provide to the Association an audit report by independent auditors acceptable to the Association showing the date and the Rupee amounts transferred by the Borrower to the Consolidated Account of Punjab pursuant to Section 2.02 (c) of the Development Credit Agreement.

### **ARTICLE IV**

#### **Effective Date; Termination; Cancellation and Suspension**

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and Punjab thereunder shall terminate on the earlier of the following two dates:

- (i) date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify Punjab of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

## ARTICLE V

### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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)	(202) 477-6391

For Punjab:

Chairman  
Planning and Development Board  
Government of Punjab  
Lahore, Pakistan

Facsimile:

92-42-9210110

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Punjab may be taken or executed by the Chairman, Planning and Development Board, Government of Punjab, or such other person or persons as Punjab shall designate in writing, and Punjab shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Islamabad, Pakistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Abid Hasan

Acting Country Director, Pakistan

PROVINCE OF PUNJAB

By /s/ Khushnood Akhtar Lashari

Authorized Representative

## **SCHEDULE**

### **Actions Referred to in Recital (B) of the Preamble to the Development Credit Agreement, and in Recital (B) of the Preamble to the Project Agreement**

#### Improving Public Sector Financing

1. Punjab has developed a three-year medium term budget framework, which gives priority to increasing provincial expenditures on education by more than fifty percent over a three-year period.
2. Punjab has approved its budget for the Fiscal Year 2003-2004 consistent with its medium term budget framework and includes a thirty-eight percent increase in real expenditures per student for elementary education, and an overall budget increase of 20%.

#### Support for Devolution and Public Sector Management Reforms

3. Punjab has made arrangements to transfer resources for the education sector to District Governments on signature of applicable Terms of Partnership (TOP) agreements, and has signed at least 25 TOPs.
4. Punjab has developed satisfactory and acceptable accounting procedures to track various Program expenditures.
5. Punjab has initiated procurement reforms, and has: (i) initiated process for the phased removal requirements for pre-registration of contractors; (ii) initiated development of streamlined standard procurement guidelines for purchase of goods.
6. Punjab has increased thresholds for community contracting to Rs. 200,000, and conferred greater authority to School Councils to manage and implement these contracts.

#### Improving Quality, Access and Governance in the Education Sector

7. Punjab has formulated transparent criteria for new school-specific teacher recruitment in districts that give preference to women and local teachers.
8. Punjab has developed a Terms of Partnership with each of its District Governments, which include, among other things: (i) an agreement on the role of school councils; and (ii) monitoring targets for each district.
9. Punjab has issued guidelines clarifying the role of school councils, including their authority to undertake small procurement of works, their authority to spend government funds allocated to them, and their responsibilities to monitor teacher absenteeism.



10. Punjab has reached agreement with its district governments as included in the Terms of Partnership on monitoring targets.
11. Punjab has taken steps to introduce free schooling up to the matriculation level.
12. Punjab has made provision to supply six million free textbooks for primary school students.
13. Punjab has introduced a special scholarship program for girl students between grades 6 through 8, targeted initially at fifteen disadvantaged districts with low literacy levels.
14. Punjab has announced a policy to open up text book development to authors external to the Textbook Board.
15. Punjab's cabinet has approved a draft law to restructure the Punjab Education Foundation and has submitted the draft law to the Assembly for approval.
16. Punjab has carried out an independent evaluation of the teacher training program to make it more relevant to student learning.