Financing Agreement

(Second Punjab Education Sector Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 25th, 2012
CREDIT NUMBER 5106-PK

FINANCING AGREEMENT

AGREEMENT dated May 25, 2012, entered into between the ISLAMIC REPUBLIC OF PAKISTAN ("Recipient") and the 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 and twenty five million Special Drawing Rights (SDR 225,000,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule I 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are January 15 and July 15 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective 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) The Project Implementing Entity has failed to adopt, by May 31, 2013, and thereafter commence to implement the Second Punjab Education Sector Reform Program ("PESRP II"), in form and substance satisfactory to the Association, consistent with Project activities, the agreed performance indicators and the benchmarks reflected in the DLIs; or

(b) Upon PESRP II's approval, the Project Implementing Entity has amended, suspended, abrogated, repealed or waived PESRP II 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;

(c) A situation has arisen which shall make it improbable that the PESRP II, or a significant part of the core activities thereof, will be carried out; or

(d) The Recipient and/or Punjab have taken any action that would have the effect of materially reversing the objectives of PESRP II, 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 paragraphs (a) and/or (c) of Section 4.01 of this Agreement
occurs and is 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 (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 to the Government of Pakistan, Economic Affairs Division ("EAD"), or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in EAD.

6.02. The Recipient’s Address is:

The Secretary
Economic Affairs Division
Government of Pakistan
Islamabad,
Pakistan

Facsimile:

(92-51) 9202417

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 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

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to support Punjab’s education sector reform program in order to increase child school participation (at multiple levels) and student achievement.

The Project consists of the following parts:

Component 1: Financing of the Second Punjab Education Sector Reform Program

Implementing the PESRP II with a view to:

1. Strengthening teacher quality and teaching support by: (i) providing on-site advisory support to teachers through a cluster-based network of District Teacher Educators (“DTEs”) and Teacher Educators (“TEs”) administered by SED’s Directorate of Staff Development; (ii) introducing a competitive, merit-based and transparent mechanism for the recruitment of said DTEs and TEs in line with human resources requirements; (iii) providing formal training at entry to DTEs and TEs, and an attractive performance-based compensation; (iv) focusing DTEs’ and TEs’ on-site support on clusters of government schools with the poorest achievement levels; (v) designing and implementing independent test for purposes of teacher recruitment; and (vi) designing a framework for teacher certification and licensing.

2. Implementing teachers’ performance bonuses by: continuing to pilot the existing Improvers Bonus Program, carrying out an impact evaluation thereof and adapting it as needed;

3. Strengthening school budget and budget management by: introducing school financing reforms aimed at: (i) fixing non-salary budgets at school level pursuant to allocation formulae based on school needs; (ii) implementing a decentralization scheme for the decision making on resource deployment to schools or schools clusters; (iii) providing training to sub-District and school staff on effective budget execution; (iv) facilitating the timely allocation and transfer of budgetary resources to schools or schools clusters; (v) rationalizing teaching staff posts across the school system based on school needs; and (vi) formalizing adequate governance structures to allow schools’/ schools clusters’ control over non-salary budgetary resources, including the allotment of drawing and disbursing powers.

4. Promoting community and parental engagement in school management via School Councils by: undertaking institutional reforms and revising the School Councils’ existing procedures and practices in order to address their performance shortcomings, including: (i) opening up the School Council membership to the
participation of individuals with leadership skills and competencies in planning, managing and executing tasks under the School Councils' purview; (ii) instituting longer tenures for elected School Council members, and increasing decision-making authority and autonomy; (iii) increasing SC Grants and expand their scope and uses subject to appropriate due diligence; and (iv) strengthening School Councils' capabilities and awareness through continuous training and communication campaigns.

5. **Generating and using reliable student test information by:** improving the design and administration of student tests and the dissemination of their findings, including: (i) the recruitment of professional staff (psychometricians and curriculum specialists) for test item development; (ii) the pre-testing and piloting of test items; (iii) the carrying out of an information campaign to test-takers on test contents and requirements; (iv) the improvement of procedures and practices (including controls) for the registration of test candidates and the accurate identification of schools; (v) the development and dissemination of clear and detailed protocols for test administration and grading; and (vi) the carrying out of quality test examinations and the assessment and dissemination of results.

6. **Strengthening the education sector and school performance measurement mechanism by:** reviving the existing monitoring and evaluation system and addressing the main operational gaps through: (i) ensuring full monitoring coverage, on a regular basis, through both random and scheduled visits, of all schools in all Districts; (ii) carrying out competitive merit-based recruitment of administrative staff to fulfill the vacancies of District Monitoring Officers and Monitoring and Evaluation Assistants; (iii) implementing new technological solutions for the collection, processing and dissemination of monitoring and evaluation results; (iv) revising the competencies and responsibilities of the Monitoring and Evaluation Assistants; (v) integrating the databases of various education departments; (vi) improving the accuracy and quality of the annual school census, through data validation, quality revisions and updates of the census questionnaire, and the management of the census database; and (vii) establishing a research cell within the PMIU with appropriate data analysis capacity in order to process, triangulate and integrate the collected data, and produce analytical reports.

7. **Creating an enabling environment for improved stakeholders' oversight of the education sector by:** developing and implementing a pro-active communication and information dissemination strategy including: (i) setting up of a communications units at the provincial level, responsible for the strategy design and implementation; and (ii) strengthening the existing complaint/query handling mechanism.

8. **Assisting Punjab Education Foundation's implementation of a school vouchers public-private partnership program by:** facilitating the program expansion to
cover additional disadvantaged households and extend its geographical coverage, as well as improving the program's efficiency and effectiveness, through:

(i) strengthening the field-based screening of disadvantaged households for program qualification; (ii) allowing schools from non-poor neighborhoods to seek program qualification; and (iii) revising rules and testing alternatives for the assignment of vouchers to children within qualifying households.

9. Strengthening the existing Girls' Stipends program by: (i) phasing in Attendance-tied Supplemental Stipends to beneficiary girls in rural areas; and (ii) improving the program's administrative performance through the adoption of new Stipends delivery mechanism including mobile and branchless-banking options with new authentication and verification protocols.

Component 2: Technical Assistance

Carry out capacity building activities in order to strengthen Punjab's education sector departments and agencies involved in the implementation of the Project, including: (i) the carrying out of the day-to-day coordination, financial management, procurement, environmental and social management, monitoring and evaluation of Project activities; (ii) the implementation of the reforms under PESRP II, as outlined in Component 1 above; and (iii) the verification of the achievement of DLs.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. On-lending Budgetary Arrangements

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 provision 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

1. 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, the objectives, policies and procedures thereof, and the social and environmental mitigation measures and monitoring requirements provided therein including any and all plans, acceptable to the Association, developed thereunder; and

   (ii) do not entail land acquisition or give rise to Displaced Persons.

2. 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 a willing-buyer/willing-seller basis, or as a voluntary donation or bequest.
Section II. Project Monitoring, Reporting and Evaluation

A. Program Implementation Progress Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Program Implementation Progress Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. The Program Implementation Progress 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).

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 to the Association, or shall cause the Project Implementing Entity to prepare and furnish, to the Association the following interim financial reports ("IFR"): (a) by no later than November 30 of each year, commencing on November 30, 2012, an IFR for the Project, in form and substance satisfactory to the Association, covering the immediately preceding six-month period (i.e. May through October) of Project activities; except that the first IFR, due on November 30, 2012, shall cover a shorter period of time commencing on July 1, 2012 and up to October 31, 2012; and (b) by no later than May 31 of each year, commencing on May 31, 2013, an IFR for the Project, in form and substance satisfactory to the Association, covering the immediately preceding six-month period (i.e. November through April) of Project activities.

3. The Recipient shall have its Financial Statements 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. 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, Works and Non-consulting Services. All goods, works and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding (subject to the additional procedures set forth in paragraph 3 below)</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
<tr>
<td>(d) Community Participation procedures which have been found acceptable to the Association</td>
</tr>
</tbody>
</table>
Additional Procedures for National Competitive Bidding. When procuring goods and non-consultant services pursuant to the provision of Rule 5 and 20 through 36(a) of the Recipient's Public Procurement Rules (2010) (No. MD PPRA)2-I'2010), as agreed to with the Association, the Recipient shall ensure that the following additional requirements be applied in order to align such procedures with the principles of economy, efficiency, transparency set forth in the Procurement Guidelines:

(i) Invitation to bid shall be advertised in at least one (1) national newspaper with 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) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(viii) before rejecting all bids and soliciting new bids, the Association's prior concurrence shall be obtained;

(ix) 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;

(x) contracts shall not be awarded on the basis of nationally negotiated rates;

(xi) a single bid shall also be considered for award;

(xii) contracts shall be awarded to the lowest evaluated and qualified bidder;

(xiii) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders; and

(xiv) draft National Competitive Bidding contract would be reviewed by the Association in accordance with prior review procedures;
any 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.

each contract financed from the proceeds of the Credit shall provide that the suppliers, contractors and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts 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:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-Based Selection</td>
</tr>
<tr>
<td>(b) Selection Based on Consultants' Qualifications</td>
</tr>
<tr>
<td>(c) Selection under Fixed Budget</td>
</tr>
<tr>
<td>(d) Least-Cost Selection</td>
</tr>
<tr>
<td>(e) Single-source Selection of consulting firms</td>
</tr>
<tr>
<td>(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(g) Single-source procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Eligible Expenditure Program (“EEP”) under Component 1 of the Project, for the:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) First scheduled disbursement (on or about the Effective Date)</td>
<td>28,920,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Second scheduled disbursement (on or about June 1, 2013)</td>
<td>28,920,000</td>
<td></td>
</tr>
<tr>
<td>(c) Third scheduled disbursement (on or about June 1, 2014)</td>
<td>70,700,000</td>
<td></td>
</tr>
<tr>
<td>(d) Fourth scheduled disbursement (on or about June 1, 2015)</td>
<td>90,000,000</td>
<td></td>
</tr>
<tr>
<td>(2) Goods, non-consulting services, consultants’ services, Training and Workshops, and Incremental Operating Costs under Component 2 of the Project.</td>
<td>6,460,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>225,000,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed USD500,000 equivalent may be made for payments made prior to this date but on or after March 15, 2012, for Eligible Expenditures under Category (2); or

   (b) under Sub-Category 1(a) until and unless the Recipient shall have complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including the submission to the Association of the applicable IFR detailing/forecasting the expenditures incurred, or to be incurred, under the EEPs from the date of this Agreement up and until the date six months following the Effective Date;

   (c) under Sub-Category 1(b), 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 IFR detailing the expenditures incurred under the EEPs up to that date; and

       (ii) by no later than May 31, 2013, furnished evidence, satisfactory to the Association, of Punjab's achievement of one (1) or more DLIs for the actions to be completed in Fiscal Year 2012/13, which actions are set out in the second column of the table in Schedule 4 to this Agreement; or

   (d) under Sub-Category 1(c) 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 IFR detailing the expenditures incurred under the EEPs up to that date; and

       (ii) by no later than May 31, 2014, furnished evidence, satisfactory to the Association, of Punjab's achievement of:

       (A) Five (5) or more DLIs for the actions to be completed in Fiscal Year 2012/13, which actions are set out in the second column of the table in Schedule 4 to this Agreement; and
(B) One (1) or more DLIs for the actions to be completed in Fiscal Year 2013/14, which actions are set out in the third column of the table in Schedule 4 to this Agreement; or

(c) under Sub-Category 1(d) 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 IFR detailing the expenditure incurred under the EEPs up to that date; and

(ii) by no later than May 31, 2015, furnished evidence, satisfactory to the Association, of Punjab's achievement of:

(A) all ten (10) DLIs for the actions to be completed in Fiscal Year 2012/13, which actions are set out in the second column of the table in Schedule 4 to this Agreement;

(B) five (5) or more DLIs for the actions to be completed in Fiscal Year 2013/14, which actions are set out in the third column of the table in Schedule 4 to this Agreement; and

(C) one (1) or more DLIs for the actions to be completed in Fiscal Year 2014/15, which actions are set out in the fourth column of the table in Schedule 4 to this Agreement.

2. Notwithstanding the foregoing, if one or more of the DLIs set forth in Schedule 4 to this Agreement has/have not been achieved, or were no longer achievable, by its/their due date(s) and/or the Closing Date, then, the Association shall only effect a partial release of the amounts allocated to the respective Sub-Category 1(b), 1(c) or 1(d), withholding the allotted price of the unmet DLIs, as per the following formula:

(a) with respect to Sub-Category 1(b), an amount equivalent to $\frac{1}{10}$th of the aggregate amounts of the Credit allocated to Sub-Categories 1(a) and 1(b) per each of the respective DLI unmet; and

(b) with respect to Sub-Categories 1(c) and/or 1(d), an amount equivalent to $\frac{1}{10}$th of the amount of the Credit allocated to each such Sub-Category, (individually considered), per each of the respective DLIs unmet.
3. In the event that the Association has withheld, or was entitled to withhold, part of the Financing pursuant to paragraph 2 above, the Association may, at its sole discretion:

(a) authorize partial releases of the amounts so withheld/to be withheld, if and when the Association is satisfied that: (i) the non-fulfillment of the respective DLI(s) is due to an event of force majeure; and/or (ii) the Recipient and/or Punjab have made reasonable efforts, in the sole opinion of the Association, to remedy the situation in order to achieve said DLIs;

(b) authorize, at a later date, the full release of the amounts so withheld, if and when the Association is satisfied that the respective DLI(s) has/have been achieved; and/or

(c) at any time, by notice to the Recipient, cancel the amount(s) so withheld/to be withheld, and/or reallocating them, whether in full or in part, to any other Category or Sub-Category.

4. Notwithstanding the provisions of sub-paragraphs 1(b), 1(c), 1(d) and 1(e), and those of paragraph 3 of this Sub-section IV.B, the Recipient shall ensure that:

(a) withdrawals from Sub-Categories 1(b), 1(c) and 1(d) shall be made on a "reimbursement basis", whereby the Recipient shall request the Association to reimburse amounts utilized for the pre-financing of Eligible Expenditures incurred under the EEP; and

(b) not more than seventy percent (70%) of the amounts available for withdrawal under each Sub-Category 1(a), 1(b), 1(c) or 1(d), individually considered shall be applied towards the financing of Employee Related Expenses under the EEP.

5. The Closing Date is December 31, 2015.

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.

D. Project Staff Allowance

The Recipient shall cause the Project Implementing Entity to ensure that financing of Project staff allowances referred to as eligible expenditure under Incremental Operating Costs, in Section I, item No. 34, of the Appendix to this Agreement shall be undertaken by the Project Implementing Entity after a period of twenty-four (24) months following the Effective Date (or any other period that the Association may otherwise agree), and that all resources necessary for this purpose shall be made available by the Project Implementing Entity.
# SCHEDULE 3

## Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each January 15 and July 15:</td>
<td></td>
</tr>
<tr>
<td>commencing July 15, 2017 to and including January 15, 2027</td>
<td>1.65%</td>
</tr>
<tr>
<td>Commencing July 15, 2027 to and including January 15, 2037</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* 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.
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Actions to be completed in Fiscal Year 2012/13</th>
<th>Actions to be completed in Fiscal Year 2013/14</th>
<th>Actions to be completed in Fiscal Year 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Field-based professional development</td>
<td>SED has provided strengthened Field-Based Teaching Advisory Support Service to the primary grades of at least 30% of primary and middle Achievement-Poor Schools in all 36 Districts of Punjab.</td>
<td>SED has provided strengthened Field-Based Teaching Advisory Support Service to the primary grades of at least 75% of primary and middle Achievement-Poor Schools in all 36 Districts of Punjab.</td>
<td>SED has provided strengthened Field-Based Teaching Advisory Support Service to the primary grades of 100% of primary and middle Achievement-Poor Schools in all 36 Districts of Punjab.</td>
</tr>
<tr>
<td>2. Teacher recruitment</td>
<td>SED has developed and adopted a revised transparent, objective, merit- and needs-based recruitment program for teachers, acceptable to the Association, including a test based on standards approved by SED.</td>
<td>All general and subject specific teachers recruited by SED during FY2013/14 have been appointed to fill confirmed, rationalized school-specific needs, upon the respective teachers' clearing a test based on standards approved by SED.</td>
<td>All general and subject specific teachers recruited by SED during FY2014/15 have been appointed to fill confirmed, rationalized school-specific needs, upon the respective teachers' clearing a test based on standards approved by SED.</td>
</tr>
<tr>
<td>3. Teachers rationalization</td>
<td>In FY2012/13, SED has: (a) allocated teaching posts to schools in accordance with a school-specific, needs-based formula acceptable to the Association; (b) completed teacher transfers and recruitments in accordance therewith, in at least 3 Districts; and (c) carried out a third party implementation review thereof.</td>
<td>In FY2013/14, SED has: (a) allocated teaching posts to schools in accordance with a school-specific, needs-based formula acceptable to the Association; and (b) completed teacher transfers and recruitments in accordance therewith, in at least 9 Districts.</td>
<td>In FY2014/15, SED has: (a) allocated teaching posts to schools in accordance with a school-specific, needs-based formula acceptable to the Association; and (b) completed teacher transfers and recruitments in accordance therewith, in at least 27 Districts.</td>
</tr>
<tr>
<td>4. School non-salary budgets</td>
<td>SED has: (a) prepared school-specific non-salary budgets for FY2013/14 in accordance with a funding formula acceptable to the Association; and (b) submitted those budgets to the District.</td>
<td>SED has: (a) approved and disbursed (transferred) to schools/school clusters in at least 9 Districts, the respective annual school-specific non-salary budget for FY2013/14, prepared in accordance with a</td>
<td>SED has: (a) approved and disbursed (transferred) to schools/school clusters in at least 18 Districts, the respective annual school-specific non-salary budget for FY2014/15, prepared in accordance with a</td>
</tr>
<tr>
<td>Indicator</td>
<td>Actions to be completed in Fiscal Year 2012/13</td>
<td>Actions to be completed in Fiscal Year 2013/14</td>
<td>Actions to be completed in Fiscal Year 2014/15</td>
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<tr>
<td>Coordination Officer for inclusion in the FY2013/14 District budgets in at least 9 Districts.</td>
<td>funding formula acceptable to the Association; (b) openly-displayed the respective budget and expenditures at every such school; (c) carried out a third party expenditure review thereof; (d) prepared similar budgets for FY2014/15; and (e) submitted those budgets to the District Coordination Officer for inclusion in the FY2014/15 District budgets in at least 18 Districts.</td>
<td>funding formula acceptable to the Association; (b) openly-displayed the respective budget and expenditures at every such school; (c) carried out a third party expenditure review thereof; (d) prepared similar budgets for FY2015/16; and (e) submitted those budgets to the District Coordination Officer for inclusion in the FY2015/16 District budgets in all Districts.</td>
<td></td>
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<tr>
<td>Punjab has devolved the school administrative and financial management powers to Education Officers for Middle Schools and Primary School Clusters in at least 9 Districts.</td>
<td>Punjab has devolved the school administrative and financial management powers to Education Officers for Middle Schools and Primary School Clusters, in at least 18 Districts.</td>
<td>Punjab has devolved the school administrative and financial management powers to Education Officers for Middle Schools and Primary School Clusters in all Districts.</td>
<td></td>
</tr>
<tr>
<td>Throughout FY2012/13 SED has implemented the Improvers Bonus Program in Selected Government Primary Schools in Achievement-Poor Districts, consistent with a program and impact evaluation design agreed with the Association.</td>
<td>Throughout FY2013/14 SED has implemented an Adapted Improvers Bonus Program in Selected Government Primary Schools in at least 3 Achievement-Poor Districts, consistent with a program and impact evaluation design agreed with the Association.</td>
<td>Throughout FY2014/15 SED has implemented an Adapted Improvers Bonus Program in Selected Government Primary Schools in at least 6 Achievement-Poor Districts, consistent with a program and impact evaluation design agreed with the Association.</td>
<td></td>
</tr>
<tr>
<td>SED has, in at least 50% of government schools of at least 5 Districts: (a) reconstituted (operating) School Councils in accordance with the revised School-Council Policy; (b) provided support to them through a new capacity development.</td>
<td>SED has, in at least 50% of government schools of at least 10 Districts: (a) reconstituted (operating) School Councils in accordance with the revised School-Council Policy; and (b) provided support to them through the capacity development.</td>
<td>SED has, in at least 50% of government schools in all Districts: (a) reconstituted (operating) School Councils in accordance with the revised School-Council Policy, (b) provided support to them through the new capacity development program; and</td>
<td></td>
</tr>
<tr>
<td>Indicator</td>
<td>Actions to be completed in Fiscal Year 2012/13</td>
<td>Actions to be completed in Fiscal Year 2013/14</td>
<td>Actions to be completed in Fiscal Year 2014/15</td>
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<tr>
<td>8. Provision and use of system and school performance information</td>
<td>In FY2012/13, SED has: (a) prepared District and school Performance Report Cards following a format and contents agreed with the Association; (b) delivered them, on a semiannual basis, to all District education administrations and all middle and high schools, as well as their respective School Councils; and (c) ensured that said cards have been openly displayed at every such school.</td>
<td>In FY2013/14, SED has: (a) prepared District and school Performance Report Cards following a format and contents agreed with the Association; (b) delivered them, on a quarterly basis, to all District education administrations and, on a semiannual basis, to all middle, high and urban primary schools, as well as their respective School Councils; (c) ensured that said cards have been openly displayed at every such school; and (d) had the implementation of foregoing exercise (including the cards display) duly reviewed by a third party.</td>
<td>In FY2014/15, SED has: (a) prepared District and school Performance Report Cards following a format and contents agreed with the Association; (b) delivered them, on a quarterly basis, to all District education administrations and, on a semiannual basis, to all primary, middle and high schools, as well as their respective School Councils; and (c) ensured that said cards have been openly displayed at every such school.</td>
</tr>
<tr>
<td>9. Private school vouchers</td>
<td>PEF has expanded the coverage of the Adapted Voucher Program to include additional disadvantaged children in the current 17 Districts covered, as well as disadvantaged children in at least 3 new additional Districts to be incorporated in the program.</td>
<td>PEF has expanded the coverage of the Adapted Voucher Program to include additional disadvantaged children in all 20 covered Districts, as well as disadvantaged children in the remaining 16 Districts (which shall have been incorporated in said program), in consistent with an impact evaluation design agreed with the Association.</td>
<td>PEF has expanded the coverage of the Adapted Voucher Program to include additional disadvantaged children in all 36 provincial Districts, consistent with an impact evaluation design agreed with the Association.</td>
</tr>
<tr>
<td>Indicator</td>
<td>Actions to be completed in Fiscal Year 2012/13</td>
<td>Actions to be completed in Fiscal Year 2013/14</td>
<td>Actions to be completed in Fiscal Year 2014/15</td>
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<tr>
<td>10. Stipends for secondary school girls</td>
<td>(i) In FY2012/13, SED has provided Attendance-tied Supplemental Stipends to all girls in grades 6 to 10 in rural government schools of Districts covered by the existing Girls' Stipends, consistent with an agreed impact evaluation design. (ii) SED has: (a) completed the field testing of selected branchless banking options for the payment of Stipends; and (b) contracted with partner financial institution(s) for the implementation thereof.</td>
<td>(i) In FY2013/14, SED has provided Attendance-tied Supplemental Stipends to all girls in grades 6 to 10 in rural government schools of Districts covered by the existing Girls' Stipends, consistent with an agreed impact evaluation design. (ii) SED has delivered the Stipends through branchless banking systems in all urban government schools.</td>
<td>(i) In FY2014/15, SED has provided Attendance-tied Supplemental Stipends to all girls in grades 6 to 10 in rural government schools of Districts covered by the existing Girls' Stipends. (ii) SED has delivered the Stipends through branchless banking systems in all urban government schools and in 50% of rural government schools.</td>
</tr>
</tbody>
</table>
APPENDIX

Section I. Definitions

1. “Achievement-Poor Districts” means Districts that have been ranked within the lowest twenty-five percent (25%) of Districts as per the average scores in the annual grade examinations conducted by the Punjab Examination Commission.

2. “Achievement-Poor Schools” means schools that have been ranked within the lowest twenty-five percent (25%) of the schools as per the average scores in the annual grade examinations conducted by the Punjab Examination Commission.

3. “Adapted Improvers Bonus Program” means the Improvers Bonus Program to be updated by Punjab, in a manner and substance satisfactory to the Association, in order to integrate advanced value-added models for the award of group-based cash bonuses for teachers, which models shall include an improved performance comparison between schools covered by the program vis-à-vis those outside of the Improvers Bonus Program.

4. “Adapted Voucher Program” means the voucher program to be adopted by the Punjab Education Foundation, providing subsidies for the payment of school tuitions to children in socio-economically disadvantaged households, as updated by Punjab, in a manner and substance satisfactory to the Association, in order to, inter alia, improve the screening and qualifying criteria for the eligibility of households and schools, relax the school-proximity criterion, and improve the monitoring and evaluation information systems by incorporating voucher school, voucher household and voucher child level tracking.


6. “Attendance-tied Supplemental Stipends” means the incremental amounts (supplemental stipends) to be offered to Girls' Stipends beneficiaries in rural government schools, pursuant to a revised benefit schedule satisfactory to the Association, contemplating, inter alia, the beneficiary’s age and her class-attendance records.


8. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
9. "Chief Minister's Monitoring Force" means the force of the Monitoring and Evaluation Assistants established within SED, pursuant to the summary approved by the Chief Minister of Punjab on April 29, 2004, as amended to the date to this Agreement.

10. "Chief Minister's Monitoring Force Expenditures" means the reasonable costs of salaries, salary supplements and overheads of the Chief Minister's Monitoring Force term employees and/or staff responsible for the regular inspection of government schools.

11. "Co-financier" means, collectively, the Department for International Development of the United Kingdom of Great Britain and Northern Ireland and the Canadian International Development Agency.

12. "Co-financing" means, for purposes of paragraph 11 of the Appendix to the General Conditions, the co-financing to be provided by the Co-financier to assist in financing the Second Punjab Education Sector Reform Program.

13. "Complaints Redressal System" means the electronic complaint system managed by the Deputy Director of the SED's monitoring cell.

14. "Consolidated Fund – Account No. 1 (Non-Food)" means Punjab's budget account #1 held with the State Bank of Pakistan.


16. "Disbursement-Linked Indicators" and the acronym "DLI" mean, collectively, the disbursement-linked targets set forth in the columns entitled "Actions to be Completed in FY2012/13", "Actions to be Completed in FY2013/14", and "Actions to be Completed in FY2014/15" in Schedule 4 to this Agreement; and the acronym "DLI" means, individually, any one of such targets.

17. "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: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihoods of such persons.

18. "District" means a district within the Province of Punjab.
19. "District Coordination Officer" means the officer within the Finance Department of Punjab, responsible for overall administration of the District.

20. "District Monitoring Officers" means the officers within SED responsible for regular monitoring and inspection of government schools.


22. "District Teacher Educators" and the acronym "DTEs" mean the officers within SED's Directorate of Staff Development responsible for the provision of field-based teaching advisory support to government schools.

23. "Division" means each of the nine (9) administrative level divisions of the government of Punjab.

24. "Education Officer" means the officer within a District government responsible for the provision and administration of local education services.

25. "Eligible Expenditures Program" and the acronym "EEP" mean, collectively, the Stipends, Employee Related Expenses, SC Grants, PEF Grants, Performance-Based Incentives (High-Improvers) and Chief Minister's Monitoring Force Expenditures, each of which are defined expenditures incurred by Punjab under Component 1 of the Project, and financed through the Budget/Account Codes: A03977; A01 (for education sub-functions 091 and 092); A03975 (PEF's Account Codes 32001 through 32005, 32011, 32016, 32210, 32220, 32401 through 32409, 32450, 32500, 32700, 32900, 33010, 33015, 33020); A06507; A01295 and LQ5269, respectively.

26. "Employee Related Expenses" 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 provincial, district and sub-divisional offices thereof.

27. "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, and revised on February 23, 2012; as the same may be further updated from time to time with the prior concurrence of the Association.

28. "Field-Based Teaching Advisory Support Services" means the advisory support to teachers at school level to be provided by SED as part of the PERSP II, under Component 1.1(i) of the Project.
29. "Financial Management & Procurement Guidelines for School Councils" means the guidelines prepared and adopted by SED pursuant to Notification O. (SNE) PMIU/08(p), dated December 15, 2010, setting out the simplified standards and procedures for the School Councils’ administration of SC Grants and the execution of their school development plans in conformity with the Anti-corruption Guidelines, the Procurement Guidelines and the Consultant Guidelines.

30. "Fiscal Year" and the acronym “FY” means each of the fiscal years of the Recipient and of the Province of Punjab, which commence on July 1 of each calendar year, and finish on June 30 of the next following calendar year.

31. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

32. “Girls’ Stipends” means, collectively: (a) the payments made by the SED 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.

33. “Improvers Bonus Program” means the group-based salary bonus notified by SED under a letter dated June 17, 2010, and offered to teachers in selected government schools, in selected Districts, on account of improved students’ achievements and enrollment rates captured through the Punjab Examination Commission and the annual school census carried out by SED.

34. “Incremental Operating Costs” means the reasonable costs of incremental expenditures required for the Project, including: consumable material and supplies; office rental costs; utilities fees; insurance; communications, advertising and newspaper subscriptions; printing and stationary costs; vehicle and/or office equipment operation and maintenance; charges for opening and operating bank accounts required for the Project, travel, lodging and per diems allowances for Project staff; salaries of contractual staff (other than consultants); and reasonable Project allowances for project staff working full time on the Project, as may be permitted under the Recipient’s or the Project Implementing Entity’s civil service statutes, regulations and policies, but excluding salaries of the Recipient or Punjab’s civil servants.

35. “IFR” means each of the interim 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.
36. "Monitoring and Evaluation Assistants" means the officials within the Chief Minister’s Monitoring Force responsible for regular monitoring of and data collection from government schools.

37. "PEF Grants" means the grants provided by Punjab’s Finance Department, on request of SED, to the PEF for purposes of financing: (i) the Voucher Program and/or Adapted Voucher Program; (ii) PEF’s tuition replacement financial assistance to low-cost private schools; (iii) the reasonable costs for the continuous professional development program; and (iv), PEF’s reasonable costs of staff salaries and allowances.

38. "Performance Report Cards" means school assessment card reporting on indicators reflecting student achievement, teacher absenteeism, student attendance, and progress and performance in selected sub-programs from the Chief Minister’s Monitoring Force school inspections.

39. "Primary School Clusters" means clusters of government schools to be notified by Punjab/SED with the prior concurrence of the Association, for the devolution of administrative and financial powers under Component 1.3 of the Project.

40. "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 1.A.1 (b) of the Schedule to the Project Agreement.


42. "Procurement Plan" means the Recipient’s procurement plan for the Project, dated March 24, 2012 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

43. "Project Implementing Entity” and/or “Punjab” mean the Province of Punjab.

44. "Punjab Education Assessment System" means the 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.

45. "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 low-cost private sector though public-private partnerships.
46. "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 examinations of students in selected grades.

47. "School-Council Policy" means the School Council Policy (2007) approved by the SED through Notification No. SO(S)(III)2-12/2006, dated August 6, 2007, as amended up to the date of this Agreement.

48. "Rupees" means the currency of the Recipient.

49. "Second Punjab Education Sector Reform Program" and the acronym "PESRP" means the program for second-generation sectors reforms in Punjab's primary and secondary education, to be adopted by Punjab pursuant to Article 4.01(a) of this Agreement.

50. "Selected Government Primary Schools" means the government's primary schools identified and notified by Punjab/SED with the concurrence of the Association, covered, or to be covered, by the Improvers Bonus Program or the Adapted Improvers Bonus Program, as the case may be.

51. "SC Grants" means the funds transferred on a grant basis by 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 to finance the reasonable costs of recurrent expenditures for school maintenance and repairs, school supplies and wages of temporary teachers.

52. "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. SO(S)(III)2-12/2006, dated August 6, 2007, as amended from time to time with the prior concurrence of the Association, which councils are responsible for the overall management of the SC Grants and supervision activities of schools. The term "School Councils" and the acronym "SCs" mean collectively two or more such councils.


54. "School Education Department" and the acronym "SED" mean Punjab's School Education Department.
55. "Stipends" means collectively, both the Attendance-tied Supplemental Stipends and the Girls’ Stipends.

56. "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.

57. "Teacher Educators" and the acronym "TEAs" mean the officers of SED’s Directorate of Staff Development responsible for the implementation of the Field-Based Teaching Advisory Support.

58. "Training and Workshops" means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient or attended abroad by SED/PMIU’s officials and staff, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees.

59. "Vouchers Program" means the education financial assistance, public-private partnership program adopted by the Punjab Education Foundation pursuant to the minutes of its 29th board meeting held on May 22, 2006, providing subsidies to children in socio-economically disadvantaged households in Punjab for the payment of tuitions in low-cost private schools.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

   "Section 3.02. Service Charge and Interest Charge

   (a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

   (b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."
4. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

5. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the remaining paragraphs accordingly:

"32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

6. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

7. Renumbered paragraph 45 (originally paragraph 44) of the Appendix ("Project Report") is modified by replacing to read as follows:

"'Program Implementation Progress Report' means each report on the Project to be prepared and furnished to the Association for the purpose of Section 4.08(b)."

Any reference to a "Project Report" in the General Conditions shall be deemed references to a "Program Implementation Progress Report".

8. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02 (a).