

CONFORMED COPY

CREDIT NUMBER 2992 PAK

Development Credit Agreement

(Northern Education Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 5, 1997

CREDIT NUMBER 2992 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 5, 1997, between ISLAMIC REPUBLIC OF PAKISTAN, acting by its President (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower intends to contract from the Department for International Development (DFID) a grant (the DFID Grant) in an amount of not less than \$3,100,000 equivalent to assist in financing part of the Project on the terms and conditions set forth in an agreement (the DFID Grant Agreement) to be entered into between the Borrower and DFID;

(C) the Project activities in Azad Jammu and Kashmir (AJK) will be carried out by AJK with the Borrower's assistance, and as part of such assistance, the Borrower will make available to AJK part of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and AJK;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations".

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AJK" means the Territory of Azad Jammu and Kashmir and includes any successor thereto;

(b) "AJK Special Account" means AJK's account referred to in Section 2.02(b) of this Agreement;

(c) "AKESP" means the Aga Khan Education Services Pakistan, an NGO established and operating in the territory of the Borrower;

(d) "AKRSP" means the Aga Khan Rural Support Program, an NGO established and operating in the territory of the Borrower;

(e) "Borrower's Special Account" means the Borrower's account referred to in Section 2.02(b) of this Agreement;

(f) "DOE" means, with respect to NA as hereinafter defined, its Department of Education, and, with respect to AJK, its Department of Education;

(g) "Fiscal Year" and "FY" mean a fiscal year covering the period from July 1 to June 30;

(h) "Grants" mean, collectively, grants made or proposed to be made to community schools in NA using the proceeds of the Credit under Part D.1(a) of the

Project; and "Grant" means each and any one of such grants individually;

(i) "NA" and "Northern Areas" mean the Northern Areas of the Borrower within the administrative jurisdiction of its Ministry of Kashmir Affairs and Northern Areas and States and Frontier Regions (KANA and SAFRON);

(j) "NGO" means a non-governmental organization established and operating in the territory of the Borrower;

(k) "NRSP" means the National Rural Support Program, an NGO established and operating in the territory of the Borrower;

(l) "PNGOs" mean collectively any two or more of the Participating NGOs under the Project, being NGO's identified and agreed between the Borrower and the Association from time to time including AKRSP and AKESP participating in the Northern Areas pursuant to the provisions of Section 3.01(a)(i) of this Agreement, and, if selected by AJK for this purpose, NRSP and/or any other NGO participating in AJK pursuant to the provisions of Section 2.01(a) of the Project Agreement; and PNGO means each and any of the PNGOs individually;

(m) "Priorities Statement" means, with respect to the Northern Areas, the document entitled "Northern Areas Priorities and Strategies in Elementary Education" and dated August 1996, and, with respect to AJK, the document entitled "AJ&K Elementary Education Priorities and Investments" and dated August 1996, all satisfactory to the Association, as the same may be amended from time to time with the concurrence of the Association;

(n) "Program" means the Borrower's program of activities in the elementary education sector to be carried out in the Northern Areas and AJK over the period FY1997/1998 through FY2001/2002;

(o) "Project Agreement" means the agreement between the Association and AJK of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(p) "SAP" means the five-year (FY 1994/1995 through FY 1998/1999) Social Action Program of the Borrower prepared within the overall framework of the Borrower's Eighth Five-Year Plan, with the objective of expanding and improving the coverage of delivery of services in the primary education, primary health, population welfare and rural water supply and sanitation sectors; and

(q) "Subprogram" means the subprogram of activities to be carried out in each Fiscal Year as part of the Program under the Project as agreed upon between the Borrower and the Association, and which shall be reflected in an operational plan, satisfactory to the Association, prepared within the framework of the Program and in accordance with the relevant Priorities Statement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixteen million four hundred thousand Special Drawing Rights (SDR 16,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for, and amounts paid (or, if the Association shall so agree, to be paid) under Grants made under the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain and cause AJK to open and maintain in dollars special deposit accounts in the National Bank of Pakistan on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the

provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c), and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing March 15, 2008 and ending September 15, 2032. Each installment to and including the installment payable on September 15, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the abovementioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower,

further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. The Additional Chief Secretary of AJK is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 (a) of this Agreement and Article V of the General Conditions, in respect of expenditures in AJK under the Project.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(i) shall carry out or cause to be carried out activities in the Northern Areas under the Project, through the Department of Education (DOE) of the Northern Areas, and with the participation of PNGOs, all with due diligence and efficiency and in conformity with appropriate administrative, financial and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such activities under the Project; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause AJK to perform in accordance with the provisions of the Project Agreement all of the obligations of AJK therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable AJK to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available to AJK the proceeds of the Credit allocated from time to time to Categories (1)(a)(ii), (1)(b)(ii), (1)(c)(ii), (1)(d)(ii), (1)(e)(ii), (1)(f)(ii), (2) and 3(b) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, in accordance with its standard budgetary procedures, for purposes of activities to be carried out in AJK under the Project.

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Borrower shall otherwise agree, the Borrower shall carry out or cause to be carried out the Project activities in the Northern Areas under the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. The Borrower shall make Grants only on the terms and conditions and according to the procedures set forth or referred to in Schedule 4 to this Agreement.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of activities in AJK under the Project shall be carried out by AJK pursuant to Section 2.03 (a) of the Project Agreement.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and

without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the activities to be carried out in the Northern Areas under the Project of the departments or agencies of the Borrower, including PNGOs, responsible for carrying out said activities.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each Fiscal Year, audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit for the Fiscal Year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during each Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) AJK shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that AJK will be able to perform its obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (c) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

ARTICLE VI

Effective Date

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by AJK, and is legally binding upon AJK in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in that Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section

11.01 of the General Conditions:

For the Borrower:

The Secretary to the Government of Pakistan
Economic Affairs Division
Islamabad, Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

ECDIV-05-634

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Agha Ghazanfar

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Robert Drysdale

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Subprogram		Up to the amount in expenditures for: the aggregate

	allocated to each		subcategory below for FY 1997/1998, and, thereafter, such amount as may be allocated by the Association from time to time to each subcategory below 70% for FY 1997/1998 and, thereafter, such percentage as may be determined by the Association from time to time
(a)	Civil works:		
	(i) for NA	290,000	
	(ii) for AJK	70,000	
(b)	Equipment and vehicles:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
	(i) for NA	350,000	
	(ii) for AJK	210,000	
(c)	Furniture:		70% for FY 1997/1998 and, thereafter, such percentage as may be determined by the Association from time to time
	(i) for NA	60,000	
	(ii) for AJK	10,000	
(d)	Books and materials:		100%
	(i) for NA	30,000	
	(ii) for AJK	60,000	
(e)	Incremental staff salaries:		100% until June 30, 1999, 60% until June 30, 2001, and 40% thereafter
	(i) for NA	160,000	
	(ii) for AJK	80,000	
(f)	Operating costs and travel/daily allowances:		20% for FY 1997/1998 and thereafter such percentage as may be determined by the Association from time to time
	(i) for NA	20,000	
	(ii) for AJK	20,000	
(g)	Grants	350,000	97% of amounts disbursed
(2)	Consultants' and PNGO services for AJK:		100%
	(a) provided by PNGOs	10,000	
	(b) provided by others	530,000	
(3)	Training:		100%
	(a) for NA	140,000	
	(b) for AJK	70,000	

(4) Unallocated	13,940,000
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TOTAL	16,400,000
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "incremental staff salaries" means the salaries and allowances of staff appointed to positions created in AJK and NA, respectively, after the Effective Date and engaged on a full-time basis for the purposes of the Project; and

(d) the term "operating costs" means the operating costs of equipment and vehicles procured, and the maintenance costs of the schools supported, under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of a Subprogram, unless such Subprogram has been approved by the Association in accordance with, and subject to, the provisions of paragraph 1 of Schedule 5 to this Agreement or paragraph 1 of the Schedule to the Project Agreement, as the case may be;

(b) in respect of a Grant, unless the Grant has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement;

(c) in respect of expenditures under Categories (1)(a)(i), (1)(b)(i), (1)(c)(i), (1)(d)(i), (1)(e)(i), (1)(f)(i), (1)(g) and (3)(a), unless the DFID Grant Agreement has been executed on behalf of the parties thereto, and all conditions precedent to the effectiveness thereof have been fulfilled;

(d) in respect of payments made for expenditures prior to the date of this Agreement; and

(e) in respect of payments made for expenditures for goods and services supplied under a contract which any national or international financing institution or agency other than the Association and the Bank shall have financed or agreed to finance, or which the Association and/or the Bank shall have financed or agreed to finance under any other project including SAP.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures: (a) under contracts costing less than the equivalent of: (i) \$200,000 for goods and works; (ii) \$100,000 for services of consulting firms; and (iii) \$50,000 for the services of individual consultants; (b) for training; (c) for incremental staff salaries; (d) for operating costs; (e) for Grants; and (f) for PNGO services, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Program for the development of the elementary school sector in NA and AJK and, to that end, to assist in: (a) improving the quality of education; (b) increasing equitable access to education; (c) strengthening institutional capacity; and (d) promoting community participation.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Improving Quality

1. Teacher and Staff Training

(a) In the Northern Areas: (i) provision of training to about 2,140 additional government and community school teachers under existing field-based teacher development and college-based teacher training programs; (ii) establishment of two female elementary teacher training colleges, one in Gilgit and the other in Skardu; and (iii) strengthening of Allama Iqbal Open University's existing non-formal and distance education program for girls through the provision of tutoring centers.

(b) Development and implementation of refresher courses in specialized subjects for elementary school teachers and training programs in academic and managerial subjects for administrative staff, all in AJK.

2. Curriculum and Materials Development

(a) Carrying out of the following activities in (i) the Northern Areas and (ii) AJK: (aa) development of lists of learning competencies by grade-level; (bb) revision and gradual introduction of existing locally-developed text books; (cc) development and introduction (as feasible) of text books for grades for which none exist currently under (bb); (dd) development and introduction of teacher materials, including multigrade materials and/or low-cost teaching aids; and (ee) provision of supplemental learning materials to schools, in conjunction with teacher training under Part A (1) of the Project.

(b) Carrying out in AJK of field-based research on teaching/learning practices in elementary schools.

(c) Construction and equipment of a Curriculum Research Development Center/ Education Extension Centre in AJK.

3. Assessment Techniques Development

Provision of technical assistance and training to teachers and curriculum developers in continuous student assessment concepts and techniques in (a) the Northern Areas and (b) AJK.

Part B: Increasing Equitable Access

1. Government Schools Construction

(a) Reconstruction and maintenance of: (i) about 18 schools in the Northern Areas; and (ii) about 225 schools in AJK, all of which are in such poor condition as to be considered dangerous.

(b) Construction and maintenance of new school buildings for: (i) about 22 shelterless schools in the Northern Areas; and (ii) about 125 shelterless schools in AJK, priority being given for this purpose to mixed and/or girls primary and elementary schools.

2. Community Schools Construction

Construction and maintenance of about 450 school buildings for community schools in the Northern Areas, priority being given for this purpose to mixed and/or girls primary and elementary schools.

Part C: Strengthening Institutional Capacity

1. Department/Directorate of Education

Strengthening of (a) the Directorate of Education in the Northern Areas and (b) the Department of Education in AJK, through the provision of staff, improved office

tools and facilities, technical assistance and training.

2. Education Management Information Systems

Improvement of Education Management Information Systems (EMIS) in (a) the Northern Areas and (b) AJK, through the provision of staff, improved office equipment, technical assistance and training.

3. Monitoring and Evaluation

Carrying out of field-based studies to evaluate institutional processes (including beneficiary feedback), and provision of technical assistance for achievement testing of students in (a) the Northern Areas and (b) AJK.

Part D: Supporting Community Participation

1. Community Schools

In the Northern Areas: (a) provision of additional financial support through grants for up to 800 community schools; and (b) provision of additional technical and institutional support, inter alia, for: (i) the training of DOE staff in social organization and mobilization; (ii) the piloting of various modalities of providing management and financial support to community schools; and (iii) the training of DOE staff involved in the design and supervision of the community schools program.

2. Other Interventions

(a) Establishment of Parent-Teacher Associations (PTAs) in government schools in the Northern Areas.

(b) Establishment of, and provision of technical assistance and training to, village school committees in AJK.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Schedule, as applicable.

Part B: International Competitive Bidding

1. Vehicles shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. Preference for Domestically Manufactured Vehicles. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to vehicles manufactured in the territory of the Borrower and to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works, equipment and furniture may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Books and materials may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for each Subprogram under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to the first four contracts each in NA and AJK and, thereafter, each contract for vehicles, equipment, materials and works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract awarded under Part C.2 hereof, the following procedures shall apply:

(i) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for school mapping and design under Parts B(1)(a)(ii) and B(1)(b)(ii) and for construction supervision under Part C(1)(b) of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of

the Consultant Guidelines.

2. Single Source Selection

Services for training in community mobilization under Part D(2)(b) of the Project may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for management, procurement, accounting, and management information systems under Parts C(1)(b) and C(2)(b) of the Project may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project may be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Procedures for, and Terms and Conditions of, Grants

1. Grants shall be managed by the Directorate of Education of NA, and shall satisfy the following criteria, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time:

(a) the purpose for which such grants shall be made will be to partially defray the costs associated with the establishment and operation of community schools, including expenditures for (i) teacher salaries, (ii) building rentals, (iii) books and materials, and (iv) building maintenance and/or construction;

(b) such grants may be made to community schools which: (i) are located in villages where they are the only schools, or where there are boys' schools which are not open to girls, or where the available schools do not satisfy the demand because of overcrowding; (ii) have a minimum enrollment of 20 students and a maximum

student-teacher ratio of 40-1; (iii) enjoy community consensus in favor of their establishment, as evidenced by written agreement between community representatives and the Directorate of Education for such establishment; (iv) have adequate space allocated for them by the communities concerned; (v) will have teachers hired for them in accordance with the terms of the agreement referred to in (iii) above; and (vi) will be managed by village education committees appointed by the communities concerned, with capacity, commensurate with the respective size of such communities, to generate and manage funds, to maintain accounts for such funds and have them audited and to report on school activities on a regular basis;

(c) such grants shall be made in amounts to be determined on a school-by-school basis and shall reflect differences in student enrollment between schools according to a formula to be approved by the Association as part of each Subprogram; and

(d) an eligible community school may receive one grant per Fiscal Year of Project implementation for a maximum of five Fiscal Years of Project implementation.

2. Grant proposals for each Fiscal Year of Project implementation shall form part of the Subprograms for such Fiscal Year, and shall be presented to the Association for approval as such, pursuant to the provisions of paragraph 1 of Schedule 5 to this Agreement.

SCHEDULE 5

Implementation Program

1. The Borrower shall, with respect to NA:

(a) not later than March 15 of each Fiscal Year during the implementation of the Project or such later date as the Association may agree, furnish to the Association for its assessment and review: (i) without limitation upon the provisions of Article IX of the General Conditions and in form and substance satisfactory to the Association, a progress report on the carrying out of the Project and the Subprograms for the current Fiscal Year; and (ii) each proposed Subprogram to be carried out in the next following Fiscal Year, including the amounts to be allocated out of the proceeds of the Credit for such Subprogram;

(b) not later than June 15 of each Fiscal Year during the implementation of the Project or such later date as the Association may agree, and provided the Association is satisfied with the progress made in the carrying out of the Project and the Subprograms for the current Fiscal Year, furnish to the Association for its approval each proposed Subprogram to be carried out in the next following Fiscal Year modified in a manner satisfactory to the Association, taking into account its comments and views on the matter;

(c) carry out or cause to be carried out each such Subprogram in accordance with modalities and procedures as approved by, and in a manner satisfactory to, the Association; and

(d) not make any material changes to such Subprogram without the prior approval of the Association.

2. The Borrower shall ensure that sufficient funds will be released to the Directorate of Education of NA, not later than the fifteenth day of the beginning of each quarter, for the purposes of implementing such part of each approved Subprogram as is to be carried out in NA in that quarter.

3. The Borrower shall ensure, with respect to NA, that the Program Steering Committee will meet at least twice a year, and that the Project Implementation Committee will meet at least once a month.

4. The Borrower shall ensure that the Directorate of Education of NA will at all times during the implementation of the Project be fully staffed to the satisfaction of the Association.

5. The Borrower shall ensure that: (a) its support for community school development

in the Northern Areas under the Project will be provided in accordance with policies, procedures and guidelines satisfactory to the Association; and (b) that such policies, procedures and guidelines will be announced not later than December 31, 1998 or such later date as the Association may agree, and may be modified from time to time with the agreement of the Association.

6. The Borrower shall, not later than January 15, 1998, enter into an arrangement with AKRSP and AKESP, satisfactory to the Association, for them to participate in the provision of technical assistance and training as appropriate under Parts A(1)(a)(i) and D(1)(b) of the Project.

7. The Borrower 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 Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by May 30, 2000, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project 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.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means in respect of the Borrower's Special Account, Categories 1(a)(i); 1(b)(i); 1(c)(i); 1(d)(i); 1(e)(i); 1(f)(i); 1(g) and 3(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement and, in respect of the AJK Special Account, Categories 1(a)(ii); 1(b)(ii); 1(c)(ii); 1(d)(ii); 1(e)(ii); 1(f)(ii); (2) and (3)(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means (i) in respect of the Borrower, an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into the Borrower's Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$200,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of the relevant eligible Categories shall be equal to or exceed the equivalent of SDR 2,500,000 and (ii) in respect of AJK, an amount equivalent to \$300,000 to be withdrawn from the Credit Account and deposited into the AJK Special Account pursuant to paragraph 3(a) of this Schedule provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$150,000 until, the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of the relevant eligible Categories shall be equal to or exceed the equivalent of SDR 2,500,000.

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower or AJK, as the case may be, shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower or AJK, as the case may be, withdraw from the Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower, or AJK, as the case may be, shall have requested.

(b) (i) For replenishment of a Special Account, the Borrower or AJK, as the case may be, shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower, or AJK, as the case may be, shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, or AJK, as the case may be, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower, or AJK, as the case may be, shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower, or AJK, as the case may be, out of a Special Account, the Borrower, or AJK, as the case may be, shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower, or AJK, as the case may be, directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower, or AJK, as the case may be, shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower, or AJK, as the case may be, of its intention to suspend in whole or in part the right of the Borrower, or AJK, as the case may be, to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the relevant eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to such eligible Categories, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter,

withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the relevant eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower, or AJK, as the case may be. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower, or AJK, as the case may be shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower, or AJK, as the case may be, has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower, or AJK, as the case may be, shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower, or AJK, as the case may be, may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in a Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6(a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

