

CONFORMED COPY

CREDIT NUMBER 3050 PAK

Development Credit Agreement

(Second Social Action Program Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 28, 1998

CREDIT NUMBER 3050 PAK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 28, 1998, 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 has contracted from the Asian Development Bank (the ADB) a loan (the ADB Loan) in an amount equivalent to \$200,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the ADB Loan Agreement) dated January 8, 1997 entered into between the Borrower and the ADB;

(C) the Government of the Netherlands (the Netherlands) intends to make available for the benefit of the Borrower a grant (the Netherlands Grant) in an amount of Dutch Guilders 40,000,000 and in such additional amounts as the Netherlands may agree from time to time, to be administered by the Association on behalf of the Netherlands for purposes of assisting in financing the Project on terms and conditions set forth in an agreement to be entered into between the Association and the Netherlands (the Netherlands Trust Fund Agreement) and an agreement to be entered into between the Borrower and the Association (the Netherlands Grant Agreement);

(D) the Department for International Development (DFID) of the United Kingdom

intends to make available for the benefit of the Borrower a grant (the DFID Grant) in an amount in British Pound Sterling equal to 45,000,000 pounds and in such additional amounts as DFID may agree from time to time, to be administered by the Association on behalf of the DFID for purposes of assisting in financing the Project on the terms and conditions set forth in an arrangement to be entered into between the Association and the DFID (the DFID Trust Fund Arrangement) and an agreement to be entered into between the Borrower and the Association (the DFID Grant Agreement);

(E) the Commission of the European Communities, acting on behalf of the European Community (EC), intends to make available for the benefit of the Borrower a grant (the EC Grant) in an amount of ECU 46,500,000 and in such additional amounts as the EC may agree from time to time, to be administered by the Association on behalf of the EC for purposes of assisting in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Association and the EC (the EC Trust Fund Agreement) and an agreement to be entered into between the Borrower and the Association (the EC Grant Agreement);

(F) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Netherlands Grant, the DFID Grant and the EC Grant allocated for expenditures in respect of the Project during each Fiscal Year (as hereinafter defined) of Project implementation be disbursed pro rata with the proceeds of the Credit also as so allocated are made; and

(G) the relevant activities under Parts A(ii), (iii) and (iv), C(ii), (iii) and (iv), D(1)(b), D(2)(b), (c) and (d), D(4)(b), (c) and (d), and E(ii), (iii) and (iv) of the Project will be carried out by the Province of Balochistan, the Province of Punjab, the Province of Sindh, the North West Frontier Province (collectively the Provinces), Azad Jammu and Kashmir (AJK), and the Federally Administered Tribal Areas (FATA), respectively, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Provinces, AJK and FATA a portion 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 among the Association, the Provinces, AJK and FATA;

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 in Schedule 4 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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 or any successor thereto;

(b) "Balochistan" means the Province of Balochistan, a political subdivision of the Borrower, or any successor thereto;

(c) "Bilateral Grants" mean collectively the Netherlands Grant, the DFID Grant and the EC Grant;

(d) "Bilateral Grant Accounts" mean collectively the accounts established for the purposes of the Bilateral Grants;

(e) "FATA" means the Federally Administered Tribal Areas of the Borrower administered through its Ministry of Kashmir Affairs, Northern Areas, States and

Frontier Regions and the Governor of NWFP (as hereinafter defined);

(f) "Federal Area Subprograms" mean collectively the twelve Subprograms (as hereinafter defined), six of which shall be carried out by the Borrower on behalf of NA and ICT, three of which shall be carried out by AJK and three of which shall be carried out by FATA;

(g) "Federal SAP Secretariat" means the secretariat established by the Borrower, inter alia, for the purposes of coordinating, monitoring and evaluating the implementation of SAP (as hereinafter defined);

(h) "Federal Subprograms" mean collectively the three Subprograms (as hereinafter defined) which shall be carried out by the Borrower on its own account;

(i) "Fiscal Year" or "FY" means the Borrower's, AJK's, FATA's or a Province's fiscal year, as the case may be, covering the period July 1 through June 30;

(j) "Grants" mean collectively grants made or proposed to be made by the Borrower or the Provinces or AJK or FATA, as the case may be, out of the proceeds of the Credit for the purposes of the Participatory Development Program referred to in Part C of Schedule 2 to this Agreement; and "Grant" means each and any of the Grants individually;

(k) "ICT" means the Islamabad Capital Territory, an administrative unit of the Borrower within the administrative jurisdiction of its Ministry of Interior;

(l) "medium-term sector strategy" means the sector strategy, satisfactory to the Association, developed and adopted, and furnished to the Association prior to the date of this Agreement, by the Borrower, each Province, AJK, FATA, NA or ICT, as the case may be, for each Project Sector, covering the period FY97 through FY02 and setting forth the objectives to be achieved, the key reforms and activities to be carried out, and the expenditure plans to be implemented with respect to such Project Sector, all sequenced over the duration of the SAP;

(m) "NGO" means a non-governmental organization;

(n) "Northern Areas" or "NA" means the Northern Areas of the Borrower within the administrative jurisdiction of its Ministry of Kashmir Affairs, Northern Areas, States and Frontier Regions;

(o) "NWFP" means the North West Frontier Province, a political subdivision of the Borrower, or any successor thereto;

(p) "PIHS" means the Pakistan Integrated Household Survey referred to in Part D.3 of Schedule 2 to this Agreement;

(q) "Project Agreement" means the agreement among the Association, the Provinces, AJK and FATA 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;

(r) "Project Sectors" mean collectively, with respect to the Borrower, the elementary education sector, the primary health care sector and the population welfare sector, and, with respect to each Province, AJK, FATA, NA or ICT, as the case may be, the elementary education sector, the primary health care sector, the population welfare sector and the rural water supply and sanitation sector; and "Project Sector" means, in each case, each and any of the Project Sectors individually;

(s) "Provinces" mean Punjab (as hereinafter defined), Sindh (as hereinafter defined), NWFP and Balochistan collectively; and "Province" means each and any of the Provinces individually;

(t) "Provincial SAP Secretariats" mean collectively the secretariats established by the Provinces, inter alia, for the purposes of coordinating, monitoring and evaluating the implementation of SAP (as hereinafter defined) within their respective jurisdictions;

(u) "Provincial Subprograms" mean collectively the twelve Subprograms (as

hereinafter defined) which shall be carried out by the Provinces;

(v) "Punjab" means the Province of Punjab, a political subdivision of the Borrower, or any successor thereto;

(w) "SAP Cells" mean collectively the cells established by the Borrower (for NA and ICT), the Provinces, AJK and FATA, inter alia, for the purposes of monitoring and evaluating progress in implementing SAP to the extent that SAP, including the relevant Subprograms, is to be carried out by the Borrower (on its own account and on behalf of NA and ICT), the Provinces, AJK and FATA, respectively; and "SAP Cell" means each and any of the SAP Cells individually;

(x) "Sindh" means the Province of Sindh, a political subdivision of the Borrower, or any successor thereto;

(y) "Social Action Program" or "SAP" means the Social Action Program of the Borrower which was commenced in 1992, including also, inter alia, such Program for each Province, AJK, FATA, NA and ICT, satisfactory to the Association, with the objective of expanding and improving the coverage and delivery of services in the Project Sectors; and

(z) "Subprogram" means individually the subprogram of the Borrower, each Province, AJK, FATA, NA or ICT, as the case may be, in respect of each relevant Project Sector, which has been, or shall be, as the case may be, formulated within the framework of the Social Action Program and which reflects the medium-term sector strategy for such Project Sector; and "Subprograms" mean all such subprograms collectively.

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 one hundred eighty-four million five hundred thousand Special Drawing Rights (SDR 184,500,000).

Section 2.02. The amounts of the Credit and the Bilateral Grants may be withdrawn from the Credit Account and from the respective Bilateral Grant Accounts all in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A, B, D and E of the Project and to be financed out of the proceeds of the Credit and the Bilateral Grants; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower or a Province or AJK or FATA, as the case may be, on account of withdrawals made by the relevant beneficiary under a Grant to meet the reasonable cost of goods and services required for the Grant activities in respect of which the withdrawals from the Credit Account and the Bilateral Grant Accounts are requested.

Section 2.03. The Closing Date shall be June 30, 2003 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) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2008 and ending March 15, 2033. Each installment to and including the installment payable on March 15, 2018 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years 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 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. If so requested by the Borrower, the Association may revise such modification 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 above-mentioned repayment modification.

(c) 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.

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 Parts A(i), B, C(i), (iii), (iv), D.1(a), D.2(a), D.3, D.4(a) and E(i) of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, education, health, population welfare and rural water supply and sanitation practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Provinces, AJK and FATA to perform in accordance with the provisions of the Project Agreement all of the obligations of the Provinces, AJK and FATA 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 the Provinces, AJK and FATA to perform such obligations, and shall not take or

with such permit to be taken any action which would prevent or interfere performance.

(b) The Borrower shall make available to the Provinces, AJK and FATA the proceeds of the Credit allocated from time to time to Categories (1)(a), (b), (c), (d), (e) and (f), and the proceeds of the Credit required to be withdrawn by them from time to time from Categories (2), (3), (4), (5) and (6), all of the table set forth in paragraph 1 of Schedule 1 to this Agreement, in accordance with its standard budgetary procedures, for purposes of the activities to be carried out by the Provinces, AJK and FATA, respectively, 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 under Parts A(i), B, C(i), (iii), (iv), D.1(a), (b), D.2(a), D.3, D.4(a) and E(i) of the Project in accordance with the Implementation Program set forth in Schedule 6 to this Agreement.

Section 3.02. The Borrower shall make Grants under Part C(i) of the Project on the terms and conditions and according to the procedures set forth or referred to in Schedule 5 to this Agreement.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A(i), B, C(i), (iii), (iv), D.1(a), (b), D.2(a), D.3, D.4(a) and E(i) of 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. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall, with the participation of the Provinces, AJK and FATA:

(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 designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower, the Provinces, AJK and FATA on said plan. Section 3.05. 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 Parts A(ii), (iii) and (iv), C (ii), (iii), (iv), D.1(b) (to the extent relevant), D.2(b), (c), (d), D.4(b), (c), (d), and E(ii), (iii), (iv) of the Project shall be carried out by the Provinces, AJK and FATA pursuant to Section 2.03 of the Project Agreement.

Section 3.06. Except as the Association shall otherwise agree, the allocation and withdrawal of the Bilateral Grants shall be governed, mutatis mutandis, by the provisions of Article V of the General Conditions of the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project, or any part thereof.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles acceptable to the Association, 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 copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, records and accounts and a 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 and accounts and the audit thereof, and concerning said auditors, as the Association shall from time to time reasonably request; and

(c) For all expenditures with respect to which withdrawals from the Credit Account or the Bilateral Grant Accounts 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 separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or the Bilateral Grant 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) Any Province, AJK or FATA, as the case may be, 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 any Province, AJK or FATA, as the case may be, will be able to perform its obligations under the Project Agreement.

(c) The Borrower or AJK or FATA or the Provinces, as the case may be, shall have failed to carry out or cause to be carried out during any Fiscal Year of Project implementation: the activities under more than one out of the three Federal Subprograms, or more than two out of the twelve Federal Area Subprograms or more than two out of the twelve Provincial Subprograms, all as approved by the Association for such Fiscal Year in accordance with the provisions of paragraph 4 of Schedule 6 to this Agreement and paragraph 2 of Schedule 2 to the Project Agreement.

(d) The Netherlands Grant Agreement, the DFID Grant Agreement and the EC Grant Agreement shall have each failed to become effective by December 31, 1998 or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of

the Association that adequate funds are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (e) (i) Subject to subparagraph (ii) of this paragraph:
- (A) The right of the Borrower to withdraw the proceeds of any loan or grant Project shall have been whole or in part, pursuant to the made to the Borrower for the financing of the suspended, canceled or terminated in terms thereof; or
- (B) any such loan shall have become due and payable prior to the 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 obligations under by the failure of the Borrower to perform any of its such agreement; and
- (B) adequate funds for the Project are available to the Borrower from other obligations of the sources on terms and conditions consistent with 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) any of the events specified in paragraphs (a) or (c) 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;

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

ARTICLE VI

Effective Date; Termination

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 the Provinces, AJK and FATA, and is legally binding upon the Provinces, AJK and FATA 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.

Section 6.03. The provisions of paragraph (a) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative 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 the Economic Affairs 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:

248423 (MCI) or
64145 (MCI)

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Zaheer Sajjad

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Sadiq Ahmed

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:

(PLEASE SEE ORIGINAL FOR TABLE, IT WAS DONE LANDSCAPE FORMAT)

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; and

(c) the term "Operating Costs" appearing in Category 5 of the table in paragraph 1 of this Schedule means the office and training costs of staff appointed by

the Borrower, the Provinces, AJK or FATA, as the case may be, after July 1, 1996 in the Federal SAP Secretariat or the SAP Cells, as the case may be, the salaries, allowances and office costs of staff appointed by the Borrower after the date of this Agreement for the purposes of the PIHS to be carried out under Part D.3 of the Project, and the costs of third party review carried out by the Auditor General of Pakistan under Part D.4 of 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 4 of Schedule 6 to this Agreement or paragraph 2 of Schedule 2 to the Project Agreement, as the case may be;

(b) in respect of payments made for expenditures to be financed out of the proceeds of the Netherlands Grant allocated to Categories (1)(a), (b), (c), (d), (e), (f), (h) and (i), unless such expenditures are for Subprograms in the education sector;

(c) in respect of payments made for expenditures to be financed out of the proceeds of the Netherlands Grant allocated to Category (1)(g), unless such expenditures are for Subprograms in the education sector or the population welfare sector;

(d) in respect of payments made for expenditures to be financed out of the proceeds of the EC Grant allocated to Categories (1)(a), (b), (c), (d), (e), (f), (g), (h) and (i), unless such expenditures are for Subprograms in the education sector;

(e) 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 5 to this Agreement or Schedule 1 to the Project Agreement, as the case may be;

(f) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 33,000,000 may be made out of the proceeds of the Credit in respect of Categories 1, 2, 3, 4 and 5 on account of payments made for expenditures before that date but after January 1, 1997; and

(g) 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 shall have financed or agreed to finance, or which the Association shall have financed or agreed to finance under any other credit.

4. The Association may require withdrawals from the Credit Account and from the Bilateral Grant Accounts to be made on the basis of statements of expenditure for expenditures under contracts for goods costing less than \$200,000 equivalent, under contracts for works costing less than \$200,000 equivalent, under contracts for consultants' services costing less than \$100,000 equivalent, in the case of firms, and \$50,000 equivalent, in the case of individuals, for training, and for operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any amounts of the Credit and the Bilateral Grants outstanding in any Category will not be required to cover further payments for expenditures to be financed from that Category, the Association may, by notice to the Borrower, reallocate such amounts to Category 7.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower, the Provinces, AJK, and FATA to continue implementation of the Social Action Program for the improvement in the quality of, and expansion of access to, the delivery of basic services in the social sectors by: (i) building government capacity for planning, monitoring and implementation of social service programs; (ii) increasing transparency and improving

governance; (iii) increasing government expenditure as well as the allocation of administrative and human resources; (iv) encouraging NGO and private sector participation in the delivery of social services; (v) promoting beneficiary participation in the design, implementation, and operation of social service programs; and (vi) promoting sustainability of the program.

The Project, which is a five and one-half year time-slice of the Social Action Program, consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree from time to time to achieve such objectives:

Part A: Subprograms

Carrying out of Subprograms of (i) the Borrower (including those to be carried out on behalf of NA and ICT), (ii) the Provinces, (iii) AJK, and (iv) FATA.

Part B: Provision of Health and Medical Supplies

Provision of vaccines, medicines, contraceptives, and other supplies needed for control of communicable diseases and for delivery of family planning services.

Part C: Participatory Development Program

Financing of Grants made by (i) the Borrower (including those made on behalf of NA and ICT), (ii) the Provinces, (iii) AJK, and (iv) FATA.

Part D: Coordination, Monitoring and Evaluation

1. Strengthening of (a) the Federal SAP Secretariat, (b) the Provincial SAP Secretariats, and (c) the SAP Cells, all through the provision of assistance for operating costs and equipment.

2. Strengthening of monitoring and evaluation capacity of agencies responsible for carrying out the Subprograms of (a) the Borrower (including those to be carried out on behalf of NA and ICT), (b) the Provinces, (c) AJK, and (d) FATA, all through the provision of technical assistance and equipment.

3. Design and implementation of the Pakistan Integrated Household Survey (PIHS) to monitor the progress and impact of the Social Action Program, including the Project.

4. Design and implementation of a system of independent third party review of such issues as staff recruitment, site selection, staff absenteeism, and procurement under the Subprograms of (a) the Borrower (including those to be carried out on behalf of NA and ICT), (b) the Provinces, (c) AJK, and (d) FATA.

Part E: Technical Assistance

Provision of technical assistance to assist in the development of institutional and service delivery capacity, to provide training, and to conduct studies and surveys, and to prepare future projects all relating to the Project Sectors of (i) the Borrower (including NA and ICT), (ii) the Provinces, (iii) AJK, and (iv) FATA.

* * *

The Project is expected to be completed by June 30, 2002.

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 and September 1997 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Notification and Advertising

The bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Except as otherwise provided in paragraph 2(a) of this Part C, works other than those to be carried out in NA and FATA may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods to be financed under approved Subprograms under Part A of the Project estimated to cost less than \$200,000 equivalent but \$25,000 equivalent or more per contract, up to an aggregate amount not to exceed \$8,000,000 equivalent per Subprogram, and equipment to be financed under Part D of the Project and estimated to cost less than \$200,000 equivalent but \$25,000 equivalent or more per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works and National Shopping

(a) Works to be estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent per Subprogram, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

(b) Goods to be financed under approved Subprograms under Part A of the Project and estimated to cost less than \$25,000 equivalent per contract up to an aggregate amount not to exceed \$3,000,000 equivalent per Subprogram; and

(c) Equipment to be financed under Part D of the Project and estimated to cost less than \$25,000 per contract, up to an aggregate amount not to exceed \$500,000 equivalent, 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.

3. Procurement of Small Contracts

Goods and services to be financed out of the proceeds of the Grants made under Part C of the Project shall be purchased at a reasonable price, account being taken also of other relevant factors, such as, time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts

therefor, and in the case of services, of their quality and the competence of the parties rendering them.

4. Force Account

Works to be carried out in NA and FATA and which meet the requirements of paragraph 3.8 of the Guidelines, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Procurement from UN Agencies

Except as the Association shall otherwise agree, vaccines, medicines and supplies to be financed out of the proceeds of the Credit under Part B of the Project shall be procured from the United Nations International Children's Fund (UNICEF), and contraceptives for the health and population welfare sector Subprograms of the Borrower to be financed out of the proceeds of the Credit under Part B of the Project may be procured from the United Nations Population Fund (UNFPA), up to an aggregate amount not to exceed \$2,000,000 equivalent, all in accordance with the provisions of paragraph 3.9 of the Guidelines.

6. Community Participation

Materials for maintenance and repair and supplies under approved Subprograms under Part A of the Project and estimated to cost less than \$500 equivalent per contract, up to an aggregate amount not to exceed \$8,000,000 equivalent per Subprogram, may be procured in accordance with procedures acceptable to the Association and with the provisions of paragraph 3.15 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 under any Subprogram or under Parts A, B, D of the Project, as the case may be, the proposed procurement plan for such Subprogram or such Parts of the Project, as the case may be, 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

With respect to each contract awarded under Part B hereof, and each contract for goods, works, equipment, vaccines, medicines, supplies and contraceptives 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.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, other than a contract on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure, 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 for Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 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.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for management, accounting, financial system development, management information systems, social sector planning, developing and providing training, conducting social surveys and focus groups, social sector facility mapping, program monitoring and evaluation support, information, education and communication strategy development and implementation, project development, architectural planning and design, procurement, SAP sector service provision under Parts D and E of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for management, accounting, management information systems, planning, developing and providing training, conducting social surveys and focus groups, social sector facility mapping, program monitoring and evaluation support, information, education and communication strategy development, project development, architectural planning and design, procurement under Parts D and E of the Project estimated to cost less than \$100,000 equivalent per contract 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 under Parts D and E of the Project which are estimated to cost less than \$100,000 equivalent per contract, 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, accounting, management information systems, planning, developing and providing training, conducting social surveys and focus groups, social sector facility mapping, program monitoring and evaluation support, information, education and communication strategy development, project development, architectural planning and design, procurement under Parts D and E 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 shall 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 and (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 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

Modifications of the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. The last sentence of Section 3.02 is deleted.
2. The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower 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."

3. 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 Development Credit shall remain unwithdrawn from the Credit Account, or (f) by the date specified in subparagraph 3 (b) of Schedule 5 to the Development Credit Agreement or subparagraph 3 (b) of Schedule 1 to the Project Agreement, the Association shall, in respect of any portion of the Credit: (i) have received no applications permitted under subparagraph (a) of said paragraph; or (ii) have denied any such applications, the Association may, by notice to the Borrower, terminate the right to submit such applications or to make withdrawals from the Credit Account, as the case may be, with respect to such amount or portion of the Credit. Upon the giving of such notice, such amount or portion of the Credit shall be canceled."

SCHEDULE 5

Procedures and Terms and Conditions of Grants

1. Grants under Part C (i) of the Project shall satisfy the following criteria:

(a) grants may be made to develop and test with respect to social services: (i) innovative approaches to improving their quality; (ii) effective mechanisms for their delivery; (iii) practical strategies for expansion of their coverage; and (iv) modern methods of mobilizing communities so as to improve beneficiary participation in their design and implementation that reflect potential for replicability (the "Grant activities");

(b) grants may be made to government agencies, non-governmental organizations (NGOs), academic and research institutions, foundations, community organizations and private institutions (the "beneficiaries") selected based on the following, among other, criteria: (i) demonstrated effectiveness in organizing and delivering community-based services; (ii) need for, and ability to make effective use of, additional funding; (iii) capacity for working in partnership with government social sector institutions; and (iv) willingness to test and analyze the effectiveness of different innovations;

(c) grants may be made to beneficiaries which:

(i) have been registered or incorporated for at least the previous 3 years or such other period as the Association shall otherwise agree in an individual case on an exceptional basis;

(ii) have a satisfactory performance record in the particular field of endeavor that is being funded;

(iii) have prior experience in the geographic area to be served (e.g., a District or Tehsil) or such other geographic areas as the Association shall otherwise agree in an individual case on an exceptional basis;

(iv) can produce evidence that their past performance has been satisfactory from the perception of the community;

(v) have sound accounting procedures and financial record keeping; and

(vi) can produce evidence of their capacity to take on the scope of the work required by the grant;

(d) the cost of a Grant activity shall not be less than the equivalent of \$50,000; and

(e) proposals for such grants shall have technical merits, and the activities to be financed out of such grants shall have a geographic coverage, all satisfactory to the Borrower and the Association.

2. No expenditures for goods or services required for a Grant activity shall be eligible for financing unless the Grant for such Grant activity shall have been approved by the Association and such expenditures shall have been approved by the Association and shall have been made not earlier than ninety days prior to the date on which the Association shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such activity.

3. (a) When presenting a Grant to the Association for approval, the Borrower shall furnish to the Association an application, in form satisfactory to the Association, together with (i) a description and appraisal of the Grant activity, including a description of the expenditures proposed to be financed; and (ii) such other information as the Association shall reasonably request.

(b) Applications made pursuant to the provisions of subparagraph (a) of this paragraph shall be presented to the Association on or before December 31, 2001.

4. Grants shall be made on terms whereby the Borrower shall obtain, by written contract with the beneficiaries or by other appropriate legal means, rights adequate to protect the interests of the Association and the Borrower, including the right to:

(a) require the beneficiary to carry out and operate the grant activity with

due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be purchased in accordance with the provisions of Part C.3 of Section I of Schedule 3 to this Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the grant activity;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the grant activity, the operation thereof, and any relevant records and documents;

(d) require that: (i) the beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the beneficiary to replace or repair such goods;

(e) obtain all such information as the Association or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the beneficiary and to the benefits to be derived from the grant activity; and

(f) suspend or terminate the right of the beneficiary to the use of the proceeds of the Credit upon failure by such beneficiary to perform its obligations under the contract with the Borrower.

SCHEDULE 6

Implementation Program

1. (a) The Borrower shall take all such measures as may be necessary or required, satisfactory to the Association, for the purposes of increasing the overall level of expenditures for the SAP in each fiscal year during the implementation of the Project to such target levels which shall not fall below 2.3% of the Borrower's Gross Domestic Product in FY98, 2.4% in FY99, 2.4% in FY2000, 2.4% in FY01, and 2.5% in FY02.

(b) In achieving such expenditure increases, the Borrower shall ensure that the financing of the SAP in each fiscal year during the implementation of the Project from its own resources increases to meet the levels of its target which shall not fall below 1.8% of the Borrower's Gross Domestic Product in FY98, 1.875% in FY99, 1.9% in FY2000, 1.925% in FY01, and 1.95% in FY02; and that at no time the share of the total SAP to be financed by the Borrower falls below 75%.

2. The Borrower shall ensure that, beginning with FY99, its Public Sector Development Plan and Annual Development Plan, as appropriate, will include estimates for the levels of financing available under donor-aided projects for the social sectors.

3. The Borrower shall not make any material changes to its medium-term sector strategies or the underlying policies therefor, except with the prior concurrence of the Association.

4. (a) The Borrower shall:

(i) not later than March 31 of each Fiscal Year of Project implementation or such later date as the Association may agree, furnish or cause to be furnished to the Association, for its assessment and review, each proposal for activities to be carried out by the Borrower under a Federal Subprogram or a Federal Area Subprogram, as the case may be, in the next following Fiscal Year, supported by an operational plan, setting forth details of such activities, including the policy reforms and other measures to be implemented, the expenditures to be incurred and the procurement plan to be followed;

(ii) not later than June 30 of such Fiscal Year or such later date as the Association may agree, furnish or cause to be furnished to the Association, for its approval, each such proposal modified in a manner satisfactory to the Association, taking into account its comments and recommendations;

(iii) carry out or cause to be carried out each such proposal in form and substance as approved by the Association and in a manner satisfactory to the Association; and

(iv) not make any material changes to any such proposal, whether consequent upon the modification of the relevant medium-term strategy or otherwise, except with the prior concurrence of the Association.

(b) Except as the Borrower and the Association shall otherwise agree, the Association shall not approve any proposal furnished to it under subparagraph (a) above, unless and until:

(i) the Association shall have been satisfied with the progress made to-date in the carrying out of the current activities under the Subprogram to which the proposal relates, and with the implementation of the SAP and the Project, all on the basis of the indicators referred to in paragraph 13 (a) of this Schedule; and

(ii) the Borrower shall have prepared and furnished to the Association the expenditure program and the financing plan for the SAP for the following Fiscal Year and the Borrower's contribution relating thereto, all satisfactory to the Association.

5. The Borrower shall, with respect to each Subprogram for which it is responsible:

(a) (i) select sites for new, expanded and/or upgraded facilities, and (ii) recruit, post and transfer staff, all in accordance with merit-based criteria satisfactory to the Association; and

(b) for each calendar year of Project implementation:

(i) have a review carried out by an independent third party acceptable to the Association under terms of reference satisfactory to the Association, of the activities referred to in subparagraph (a) above and carried out during such calendar year; and

(ii) furnish to the Association as soon as available, but in any case not later than March 31 of each year, a copy of the report of such review, of such scope and in such detail as the Association shall have reasonably requested.

6. The Borrower shall, with respect to each Subprogram for which it is responsible:

(a) by June 30, 1998 develop and implement procedures, satisfactory to the Association, for monitoring staff absenteeism at service delivery facilities and for taking remedial actions consistent with the terms and conditions of employment of such staff; and

(b) for each calendar year of Project implementation:

(i) have a review carried out by an independent third party acceptable to the Association under terms of reference satisfactory to the Association, of the staff absenteeism referred to in subparagraph (a) above and occurring during such calendar year; and

(ii) furnish to the Association as soon as available, but in any case not later than March 31 of each year, a copy of the report of such review, of such scope and in such detail as the Association shall have reasonably requested.

7. The Borrower shall ensure that sufficient funds will be released in a timely manner, but in any case not later than the fifteenth day of the beginning of each quarter, for the purposes of implementing such activities under each approved Federal Subprogram and each approved Federal Area Subprogram for which the Borrower is responsible as are to be carried out in such quarter, consistently with the procurement and utilization plans for the non-salary recurrent budget, new recruitment and the development budget for such Federal Subprogram or Federal Area Subprogram, as the case may be.

8. The Borrower shall, with respect to each Federal Subprogram and each Federal Area Subprogram for which it is responsible, make arrangements, satisfactory to the Association, for the continuous random review of all procurement, and all procurement procedures and processes, by an independent third party acceptable to the Association under terms of reference satisfactory to the Association.

9. The Borrower shall, through the Federal SAP Secretariat or the relevant SAP Cell and not later than 45 days after the end of each quarter of each Fiscal Year of Project implementation, furnish to the Association, in form and substance satisfactory to the Association, a progress report on the implementation of each Federal Subprogram and each Federal Area Subprogram for which the Borrower is responsible, during such quarter.

10. The Borrower shall ensure that an adequate number of qualified service delivery staff are available to assist in the implementation of each Subprogram and shall not take any action to restrict or prohibit the recruitment of such staff.

11. The Borrower shall, during the Project period, carry out the PIHS at least every other year beginning calendar year 1998, and shall, to that end, take appropriate measures satisfactory to the Association, for strengthening the institutions responsible for the PIHS, through the provision of technical assistance, increased budget and enhanced administrative autonomy.

12. The Borrower and the provinces shall advertise twice yearly for proposals and will subsequently award grants to eligible entities whose proposals meet agreed criteria for the Participating Development Program under Part C of the Project.

13. The Borrower shall, with the participation of the Provinces, AJK and FATA:

(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 June 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.

