

CONFORMED COPY

CREDIT NUMBER 2876 IN

Development Credit Agreement

(Second District Primary Education Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 15, 1996

CREDIT NUMBER 2876 IN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 15, 1996, between INDIA, 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 requested the Government of the Netherlands (the Netherlands) for a grant (the Netherlands Grant) in an amount in Dutch Guilders equivalent to \$25,800,000 to be administered by the Association on behalf of the Netherlands for purposes of assisting in financing Project expenditures in the State of Gujarat on terms and conditions to be 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 acting as Administrator of the Netherlands Trust Fund (the Netherlands Grant Agreement);

(C) the Project will be carried out by the Borrower and the States of Assam, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu and Uttar Pradesh (the Project States) with the assistance respectively of the Assam Prathamik Shiksha Achari Parishad (APSAP); Gujarat Council of Primary Education (GCPE); Haryana Prathamik Shiksha Pariyojana Parishad

(HPSPP); Himachal Pradesh Primary Education Society (HPPES); Karnataka Prathamik Shiksha Vikas Yojana (KPSVY); Primary Education Development Society of Kerala (PEDSK); Rajiv Gandhi Prathamik Shiksha Mission of Madhya Pradesh (RGPSM); Maharashtra Prathamik Shiksha Parishad (MPSP); Orissa Primary Education Program Authority (OPEPA); Tamil Nadu State Mission of Education for All (TNE); and Uttar Pradesh Sabhee Ke Liye Shiksha Pariyojana Parishad (UPSKLSPP) (hereinafter referred to collectively as State Implementation Societies) with the assistance of the Borrower and, as part of such assistance, the Borrower will make available to the Project States and the State Implementation Societies 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 the Project States;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, 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 Bank 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."

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) "Assam" means the Borrower's state of Assam, or any successor thereto;

(b) "Assam Society" means Assam Prathamik Shiksha Achari Parishad (APSAP), a registered society under the Borrower's Societies Registration Act;

(c) "block" means the administrative unit of Project States below a district;

(d) "DIET" means District Institute for Education and Training;

(e) "DPEP" or "Program" means the Borrower's District Primary Education Program and "DPEP Guidelines" means the statement adopted by the Government of India in April 1994, defining the Program;

(f) "DPEP Project" means the District Primary Education Project (Credit 2661-IN) described in Schedule 2 to the Development Credit Agreement dated December 22, 1994 for the Project between the Association and the Borrower;

(g) "ECE" means Early Childhood Education;

- (h) "elementary education" means education provided from class one through class eight in schools;
- (i) "Gujarat" means the Borrower's state of Gujarat, or any successor thereto;
- (j) "Gujarat Society" means Gujarat Council of Primary Education;
- (k) "Haryana" means the Borrower's state of Haryana, or any successor thereto;
- (l) "Haryana Society" means Haryana Prathamik Shiksha Pariyojana Parishad (HPSPP), a registered society under the Borrower's Societies Registration Act;
- (m) "Himachal Pradesh" means the Borrower's state of Himachal Pradesh, or any successor thereto;
- (n) "Himachal Pradesh Society" means Himachal Pradesh Primary Education Society;
- (o) "Karnataka" means the Borrower's state of Karnataka, or any successor thereto;
- (p) "Karnataka Society" means Karnataka Prathamik Shiksha Vikas Yojana (KPSVY), a registered society under the Borrower's Societies Registration Act;
- (q) "Kerala" means the Borrower's state of Kerala, or any successor thereto;
- (r) "Kerala Society" means Primary Education Development Society of Kerala (PEDSK), a registered society under the Borrower's Societies Registration Act;
- (s) "Madhya Pradesh" means the Borrower's state of Madhya Pradesh, or any successor thereto;
- (t) "Madhya Pradesh Society" means Rajiv Gandhi Prathanik Shiksha Mission of Madhya Pradesh;
- (u) "Maharashtra" means the Borrower's state of Maharashtra, or any successor thereto;
- (v) "Maharashtra Society" means Maharashtra Prathamik Shiksha Parishad (MPSP);
- (w) "MIS" means management information system;
- (x) "MLL" means minimum levels of learning;
- (y) "NCERT" means the Borrower's National Council of Educational Research and Training;
- (z) "Orissa" means the Borrower's state of Orissa, or any successor thereto;
- (aa) "Orissa Society" means Orissa Primary Education Program Authority;
- (bb) "primary education" means education provided in the lower section of elementary education in schools (classes 1 through 4 or classes 1 through 5, depending upon State norms);
- (cc) "Project Agreement" means the agreement of even date herewith between the Association of the one part and the Project States of the other part, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (dd) "Project Districts" means the districts in Project States proposed by the Borrower and designated as such by the Association

by notice in writing to the Borrower and the concerned Project State;

(ee) "Project States" means Assam, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu and Uttar Pradesh, and "Project State" means each such State;

(ff) "SCERT" means a State Council of Educational Research and Training;

(gg) "SIEMT" means the State Institute for Educational Management and Training of a Project State to be established or strengthened pursuant to the Project;

(hh) "Scheduled Castes" refers to the population groups specified as "Scheduled Castes" pursuant to Article 341 of the Constitution of India;

(ii) "Scheduled Tribes" refers to the population groups specified as "Scheduled Tribes" pursuant to Article 342 of the Constitution of India;

(jj) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(kk) "State" means a State of the Borrower;

(ll) "State Implementation Society" means each of the following: the Assam Society, the Gujarat Society, the Haryana Society, the Himachal Pradesh Society, the Karnataka Society, the Kerala Society, the Madhya Pradesh Society, the Maharashtra Society, the Orissa Society, the Tamil Nadu Society and the Uttar Pradesh Society; and "State Implementation Societies" means all of them collectively;

(mm) "Sub-District" means a level below the district level, consisting of one or more of the following: Sub-division, block, panchayat and village, as well as an area defined as a cluster by a Project State;

(nn) "TSG" means the Technical Support Group of DPEP in the Borrower's Department of Education;

(oo) "Tamil Nadu" means the Borrower's state of Tamil Nadu, or any successor thereto;

(pp) "Tamil Nadu Society" means Tamil Nadu State Mission of Education for All (TNE), registered as a society under the Borrower's Societies Registration Act;

(qq) "Uttar Pradesh" means the Borrower's state of Uttar Pradesh or any successor thereto;

(rr) "Uttar Pradesh Basic Education Project" means the Uttar Pradesh Basic Education Project (Credit 2509-IN), described in Schedule 2 to the Development Credit Agreement dated July 7, 1993 for the Project between the Association and the Borrower; and

(ss) "Uttar Pradesh Society" means Uttar Pradesh Sabhee Ke Liye Shiksha Pariyojana Parishad.

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 two hundred ninety one million seven hundred thousand Special Drawing Rights (SDR 291,700,000).

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 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 in dollars a special deposit account in the Reserve Bank of India on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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 per cent (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 May 15 and November 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 May 15 and November 15 commencing November 15, 2006 and ending May 15, 2031. Each installment to and including the installment payable on May 15, 2016 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, without any limitation or restriction upon any of its other obligations under this Agreement, shall: (i) cause the Project States to perform in accordance with the provisions of the Project Agreement all the respective obligations of the Project States set forth therein, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project States to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; and (ii) carry out or cause to be carried out Parts C and D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and educational practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make part of the proceeds of the Credit available on a grant basis to State Implementation Societies under a memorandum of understanding to be entered into between the Borrower and each State Implementation Society satisfactory to the Association.

(c) Without prejudice to any other provision of this Agreement, the Borrower shall ensure that State Implementation Societies receive Project funds out of the Borrower's resources on a six monthly basis, in a timely manner, for anticipated expenditures under their approved annual work plans.

(d) The Borrower shall cause the Project to be carried out, and shall carry out Parts C and D of the Project, in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. 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 1 to the Project Agreement.

Section 3.03. 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 the Project shall be carried out jointly and severally by the Project States and the State Implementation Societies pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall carry out, or cause to be carried out in Project States, the District Primary Education Program in accordance with the DPEP Guidelines and shall not make any change to the District Primary Education Program or the DPEP Guidelines, including in respect of its financial and administrative procedures, which would, in the reasonable opinion of the Association, materially and adversely affect the ability of the Borrower or any Project State or any SIS to carry out the Project.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of activities related to the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) 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 sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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 was made; and
- (iii) enable the Association's representatives to examine such records.

(c) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section and those for the Special Account 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 nine months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

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 Project State shall have failed to perform any of its respective obligations under the Project Agreement.

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

(c) Any Project State shall have reduced the level of its budgetary expenditure for elementary education (net of Project expenditures) below the level, in constant terms, of such expenditure in the Borrower's financial year 1995-1996.

(d) (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, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing such loan or grant, 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 the concerned Project State; and (b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of said Section 5.01.

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 each Project State respectively and is legally binding upon each of them 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 Section 5.02 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, Additional Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance 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 India
Ministry of Finance
Department of Economic Affairs
New Delhi, India

Cable address:

ECOFAIRS
New Delhi

Telex:

953-3166175

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.

INDIA

By /s/ N. Valluri
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood
Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit
and the Netherlands Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and the Netherlands Grant, the allocation of the amounts of the Credit and the Netherlands Grant 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)	Amount of the Netherlands Grant (Expressed in US Dollars Equivalent)	% of Expenditures to be Financed
(1) Civil Works	68,700,000	4,700,000	90%
(2) Equipment, vehicles, books, furniture and materials	61,300,000	5,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expendi- tures for other items procured locally
(3) Consultants' services	10,400,000	1,600,000	100%

(4) Fellowships and training	33,600,000	3,600,000	100%
(5) Incremental staff salaries, incremental honoraria for volunteers, incremental operation and maintenance costs	95,300,000	8,700,000	90% of local expenditures incurred until September 30, 1998; 85% of local expenditures incurred from October 1, 1998 until September 30, 1999; 80% of local expenditures incurred from October 1, 1999 until September 30, 2000; 65% of local expenditures incurred from October 1, 2000 until September 30, 2001; and 40% of local expenditures thereafter
(6) Unallocated	22,400,000	2,000,000	
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TOTAL	291,700,000	25,800,000	
	=====	=====	

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) (i) the term "incremental operation and maintenance costs" means operation and maintenance costs for the Project pursuant to the DPEP, incurred on or after March 1, 1996;

(ii) "incremental staff salaries" means salaries paid in respect of posts created for the Project pursuant to the Project, including consulting or contractual services, on or after March 1, 1996; and

(iii) "incremental honoraria for volunteers" means honoraria paid for volunteers to carry out activities under the Project.

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

(a) in respect of payments made for expenditures incurred prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,800,000, may be made on account of payments made for expenditures before that date but after March 1, 1996;

(b) in respect of payments incurred in or with respect to the State of Gujarat:

- (i) except out of the proceeds of the Netherlands Grant; and
- (ii) until after the Association has received evidence satisfactory to the Association that the Netherlands Grant Agreement has been duly executed and delivered and is binding upon the parties thereto.

(c) with respect to payments incurred in or with respect to any Project State until the SIS of such State has entered into the Memorandum of Understanding with the Borrower in accordance with Section 3.01 (b) of this Agreement; and

(d) in respect of any expenditures under the Program, financed under Credit 2509-IN (Uttar Pradesh Basic Education Project) or Credit 2661-IN (District Primary Education Project).

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) goods and works under contracts not exceeding \$300,000 equivalent;

(b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants respectively;

(c) training and fellowships;

(d) works procured under force account; and

(e) incremental staff salaries, incremental operational and maintenance costs and incremental honoraria for volunteers, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to build national state, district and sub-district level managerial and professional capacity for the sustainable development of primary education in the Project States, and, with respect to Project States and Project Districts, to decrease dropout rates of children from primary education, increase learning achievement of children receiving primary education, improve access of children to primary education, in particular for female students, scheduled caste and tribal students and children with disabilities, and enhance community participation in primary education.

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: Building and Strengthening State Institutional Capacity for Primary Education

(1) Strengthening State Project Offices in State Implementation Societies through enhancing staff resources and skills, and management capacity, by providing office facilities and establishing a Project Management Information System (PMIS) and Education Management Information System (EMIS) at the State level.

(2) Improving Instructional Materials Development, Production and Distribution Improving the quality and efficiency of the development, production and distribution of instructional materials inter alia by:

(a) the preparation of a new generation of quality instructional materials based on MLL;

(b) field piloting of instructional materials prior to publication;

(c) improvements in instructional materials design, illustration, layout and durability;

(d) improvements in distribution efficiency including computerization of stocks; and

(e) professional training for instructional materials agency staff.

(3) Improved Teaching

Strengthening the capacity of State Councils for Educational Research and Training (SCERTs) or equivalent organizations in Project States to support the development of improved classroom teaching models and teacher in-service training inter alia by:

(a) holding workshops to better illustrate the content of a child-centered pedagogical approach, including its implications for designing of classrooms;

(b) provision of training and technical assistance to DIETs;

(c) adaptation of prototype training and classroom materials in regional languages;

(d) training of master trainers in the area of primary education for in-service training;

(e) adaptation, development, testing and dissemination of early childhood education materials; and

(f) development of learning materials in tribal languages.

(4) Improved Educational Planning and Management

Establishment and strengthening of SIEMTs or equivalent agencies by providing them staff resources, training and necessary facilities, to enable such agencies to provide technical assistance and training to State, district and sub-district level staff in primary education planning and monitoring.

(5) Improved Educational Research and Evaluation

Strengthening and building capacity in SPOs, SCERTs and DIETs for program evaluation and research studies on attainment of Program objectives and the effectiveness of innovative activities under the Program.

Part B: Improving Quality of, Reducing Dropout from, and Expanding Access to Primary Education

(1) Improving Quality of Primary Education

(a) Building District and Sub-District Level Institutional Capacity Establishment of:

(i) District Project Committees in Project Districts with responsibility to supervise Project implementation in the District;

(ii) District Project Offices with responsibility for day-to-day Project implementation in the District;

(iii) Sub-district Project Offices with responsibility for day-to-day Project implementation at the Sub-district level; and

(iv) Village Education Committees (VECs) to monitor and supervise Project implementation at the village level.

(b) DIETs

Establishment and strengthening of DIETs or equivalent institutions

as the principal agency for training; materials development and provision of academic resource support at the District level.

(c) In-Service Teacher Training

Development and implementation of in-service teacher training, consisting of:

- (i) development of teacher in-service training to improve classroom practice for multi-grade teaching and preparation of teaching aids and instructional materials for teaching language and mathematics in early grades inter alia, by development of initial modules and systems based on the results of the pedagogy exercises under Part A (4) (a) of the Project;
- (ii) development of the physical infrastructure needed for in-service training at the block and school cluster level;
- (iii) expansion of training modules and materials to incorporate MLL textbooks, supplementary teaching and learning materials and a variety of effective classroom practices;
- (iv) development of training materials, training of master trainers and resource persons for in-service training;
- (v) establishing adequately staffed Teacher Resource Centers at the block level and cluster training centers serving about 10-15 schools each;
- (vi) the development of training modules; and
- (vii) training of all primary education school teachers in Project Districts for at least 25 days each.

(d) Learning Materials and Teaching Aids

Provision of learning materials and teaching aids to schools and community organizations, including through the provision of grants to schools, community organizations or individual teachers for the purchase of such materials and aids; and the establishment of libraries and school banks for primary education at the local level.

(e) Targeted Interventions

Development and implementation of targeted interventions to enhance delivery of Project benefits to female students as well as scheduled caste and scheduled tribe students.

(f) Early Childhood Education

(1) Expansion or introduction of early childhood education through pilot programs.

(2) Reducing Dropout from and Expanding Access to Primary Education

(a) Strengthening School/Community Organizations

Strengthening school/community organizations including Village Education Committees (VECs), Parent-Teacher Associations and School Management Committees through the provision of training and supervision support, to facilitate operations of schools and non-formal education centers, conduct annual surveys of village children to identify those who have not enrolled and dropouts, encourage parents to send children to school and retain them in school and contribute resources or services to the school.

(b) Construction of New Classrooms and Improvement of Existing Facilities

- (i) construction of schools and classrooms to create

approximately 852,000 new student places and additional teachers required to serve such new student places in accordance with the DPEP Guidelines;

- (ii) repair, rehabilitation and maintenance of existing primary schools, including the installation and maintenance of toilets, water supply and electricity in such schools; and
- (iii) establishment of a School Construction Innovation Fund to facilitate preparation and development of school designs and alternate methods of construction and the construction of prototypes.

(c) Development of Alternate Schooling Modalities

Establishment of non-formal primary classes for out-of-school children who cannot be reached by formal schools and the development and trial of means to improve access to primary schools in rural areas through methods such as residential schools (ashrams), peripatetic teachers and arrangements for escorting students to school.

(d) Awareness Campaigns

Carrying out campaigns to increase awareness about primary education and its benefits to communities and schools, focused particularly on girls, SC and ST students.

(e) District Level Management Information Systems

Establishment of a Project Management Information System (PMIS) and Education Management Information System (EMIS) at the district level.

(f) Special Education

Provision of programs designed to ensure the integration of children with disabilities in the primary schools.

Part C: Distance Education Program

Development of capacity in distance education at the national, State, district and sub-district levels to support ongoing in-service teacher and other training activities under the Program including by preparing training scripts and producing distance education materials; as well as disseminating distance education materials under the Program.

Part D: National Management Structure Support for DPEP

(1) DPEP Bureau

(a) strengthening the DPEP Bureau and the Technical Support Group (TSG) of the Borrower's Department of Education to carry out the Project through provision of staff resources and training as well as required facilities and equipment; and

(b) the development and implementation of a program for decentralization of responsibility for management of DPEP from the national to the State level.

(2) Innovative Activities

Establishment of a facility to support innovative but untested approaches to improve primary education including new cost-effective construction designs.

(3) Program Evaluation and Research

Improving educational research and evaluation capacity of research organizations at the national level and in Gujarat, Madhya Pradesh, Orissa and Uttar Pradesh through provision of staff resources and support staff; organizing international conferences in India and

provision of training pertaining to primary education research and evaluation; conducting or commissioning research studies and evaluations in primary education, including with respect to the relative strengths of supply and demand-type interventions, and the dissemination of the results of such studies.

(4) Technical Assistance and Training Educational Planning and Management

Provision of experts to State level planning and management units and institutions in primary education to develop competencies in the compilation of education statistics district level planning and implementation of State and district schools statistics information systems.

* * *

The Project is expected to be completed by December 31, 2002

SCHEDULE 3

Implementation Program

1. The Borrower shall carry out, and shall cause the Project States and State Implementation Societies to carry out, the District Primary Education Program in accordance with the DPEP Guidelines.

2. The Borrower shall ensure that the DPEP Bureau shall approve innovative activities under Part D (3) of the Project as part of the DPEP Bureau's review of the annual work program of states, consistent with the objectives of the Project.

3. The Borrower shall ensure that:

(a) all Project Districts shall have an average female literacy rate less than the national average female literacy rate (both rates being based on the 1991 census), except that, up to a cumulative 15% of Project Districts under the Project may have average female literacy rates exceeding the national rate if in each such Project District:

(i) the literacy rate is less than the average rate for the Project State in which such Project District is located; and

(ii) the Borrower's Total Literacy Campaign is under implementation in such Project District;

(b) all investment proposals and work plans for Project Districts are approved by the Project State and the DPEP Bureau in accordance with criteria satisfactory to the Association;

(c) the first two appraisals of Project District investment proposals are submitted to the Association for review prior to the financing and investment proposals in such Project State under the Credit; and

(d) without prejudice to the generality of any other provision of this Agreement, the Borrower shall provide the Association a sample of 20% of appraisals approved by the Borrower and the Project States for Project Districts, for review by the Association on an ex-post basis.

4. (a) The Borrower shall maintain the DPEP Bureau and the TSG in its Department of Education, with responsibility to coordinate Project implementation, with adequate staff, resources and facilities; and

(b) The Borrower shall establish and maintain a Distance Education Unit with adequate staff and resources, to be responsible for implementing the distance education program under the Project.

5. The Borrower shall progressively transfer responsibility for supervision of the Project from the DPEP Bureau of the Borrower to SPOs

in accordance with a plan satisfactory to the Association.

6. (a) The Borrower shall carry out a study, with terms of reference satisfactory to the Association containing a description and assessment of the trends of expenditures incurred by Project States on elementary and other levels of education;

(b) The study referred to in paragraph (a) above: (i) shall be carried out twice, once before the first in-depth review referred to in paragraph 7 (d) of this Schedule and once before the third such in-depth review; and (ii) shall be submitted to the Association at least thirty days prior to the date of each such review.

7. Without limitation to the generality of any other provision of this Agreement, the Borrower shall:

(a) review annually with the Association progress in Project implementation and Credit disbursements over the preceding twelve months;

(b) discuss with the Association by March 31 of each year, annual work plans and budgets for the next twelve months;

(c) ensure that assessment studies, with scope and content acceptable to the Association, are carried out in all Project Districts in the third and sixth calendar years following the calendar year in which the Credit becomes effective;

(d) carry out along with the Association and other external financiers of the Program a joint review of the Project on three occasions: first, by December 31, 1997, second, by December 31, 1999, and third by December 31, 2001, except as the Association may otherwise agree, with respect of the dates for such joint review; and

(e) duly take into account the comments offered by the Association during each such joint review in the course of further implementation of the Project.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3, 4 and 5 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 an amount equivalent to \$17,000,000 to be withdrawn from the Credit Account and deposited into the 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 \$8,500,000 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 shall be equal to or exceed the equivalent of SDR 34,000,000.

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

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than \$5,500,000 shall be made exclusively out of the Special Account. The

Association may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the 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, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower 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, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the 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 out of the Special Account, the Borrower 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 the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower 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 shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (c) (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 Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower 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 eligible Categories, 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 the Project, 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 eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. 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 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 the 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 shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the 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 the Special Account shall be made until the Borrower 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 the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the 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.

