

CONFORMED COPY

CREDIT NUMBER 4156 MOZ

Development Credit Agreement

(Technical and Vocational Education and Training Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 30, 2006

CREDIT NUMBER 4156 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 30, 2006, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower dated October 18, 2005, describing a program designed to transform the Borrower's system of technical and vocational education and training to respond to labor market needs and to ensure that those receiving such education and training receive market relevant skills that will improve their economic and social development (the Program) and declaring the Borrower's commitment to the execution of the Program;

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

(C) the Borrower intends to obtain from the Government of the Netherlands a grant (the Dutch Grant) in an amount of Seven Million, Five Hundred Thousand United States Dollars (US\$7,500,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the Dutch Grant Agreement) to be entered into between the Borrower and the Association, acting as the administrator of the grant; 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;

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 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement.

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of,

the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "Annual Work Plan and Budget" means an annual work plan to be prepared by the Executive Secretariat, including all projected project costs and activities for the upcoming year;

(b) "Beneficiary" means a public or private training provider, non-governmental organization, civil society organization or trade association who is a recipient of a FUNDEC IDA Grant (as hereinafter defined) selected on the basis of eligibility criteria defined in the Operational Manual (as hereinafter defined) and referred to in Part B of Schedule 4 to this Agreement; and the term Beneficiaries means more than one Beneficiary;

(c) "COREP" means *Comissão Executiva da Reforma da Educação Profissional*, the Borrower's National Commission for TVET (as hereinafter defined) Reform established by the Borrower's Council of Ministers on August 23, 2005;

(d) "COREP Internal Regulations" means regulations approved by COREP on January 27, 2006 describing the functions and procedures of COREP;

(e) "DINET" means the Borrower's *Direção Nacional da Educação Técnico-Profissional e Vocacional*;

(f) "Eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) "Eligible Expenditures" means the expenditures for goods, works and consultants' services referred to in Section 2.02 of this Agreement;

(h) “Environment and Social Management Framework” or “ESMF” means the framework adopted by the Borrower on September 15, 2005, describing the environmental and social planning, review, approval, mitigation, monitoring, training, technical advisory and other services, and institutional measures under the Project referred to in paragraph D of Schedule 4 to this Agreement;

(i) “Executive Secretariat” means the government entity responsible for the day-to-day implementation of this Agreement on behalf of the Borrower, established pursuant to Decree No. 29/2005 dated August 23, 2005, referred to therein as the Implementation Unit, and referred to in Part A.1(b) of Schedule 4 to this Agreement;

(j) “Executive Secretariat Internal Regulations” means regulations approved by COREP on February 6, 2006 describing the functions and procedures of the Executive Secretariat;

(k) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(l) “FUNDEC” means *Fundo para o Desenvolvimento de Competências Profissionais*, the fund established under Part D of the Project in order to promote innovation and initiatives for the improvement of quality and relevance of training in various occupational areas;

(m) “FUNDEC IDA Grant” means a grant made or to be made to a Beneficiary, through FUNDEC, out of the proceeds of the Credit to finance goods, works, and/or services under Part D of the Project;

(n) “FUNDEC Grant Agreement” means an agreement to be entered into between the Executive Secretariat and a Beneficiary (as defined in subparagraph (b) above) for the provision of a Grant in accordance with Part C of Schedule 4 to this Agreement;

(o) “FUNDEC Manual” means the manual to be adopted pursuant to Section 6.01 (a) (ii) of this Agreement and referred to in Part A.2 of Schedule 4 to this Agreement, which shall include the criteria, policies, requirements and procedures for awarding FUNDEC IDA Grants to Beneficiaries;

(p) “INEFP” means the Borrower’s *Instituto Nacional do Emprego e Formação Profissional*, established pursuant to Decree No. 37/92 of October 27, 1992;

(q) “OM” or “Operation Manual” means the manual to be adopted pursuant to Section 6.01 (a) (i) of this Agreement and referred to in Part A.2 of Schedule 4 to this Agreement, which shall include the criteria, policies, requirements and procedures for the implementation of the Project, including provisions related to financial procedures,

procurement procedures, monitoring and evaluation procedures; as such manual may be amended from time to time with the prior agreement of the Association;

(r) “PIREP” means *Programa Integrado de Reforma da Educação Profissional*, the Borrower’s five-year program for the reform of technical and vocational education;

(s) “Procurement Plan” means the Borrower’s procurement plan, dated February 8, 2006 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(t) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(u) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(v) “Target Groups” means populations who will receive TVET courses, including, *inter alia*, the out-of-school (children and adults) population in the rural areas (especially girls and women); and

(w) “TVET” means technical and vocational education and training.

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 this Agreement, an amount in various currencies equivalent to Twenty Million Eight Hundred Thousand Special Drawing Rights (SDR 20,800,000).

Section 2.02. 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, works, and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be October 31, 2011 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 May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing May 15, 2016 and ending November 15, 2045. Each installment to and including the installment payable on November 15, 2025 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the International Bank for Reconstruction and Development (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 repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

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, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the

proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part F of Schedule 4, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not

later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) the establishment of a National Training Authority, under terms and conditions satisfactory to the Association, by December 31, 2010 has failed to occur.

(b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Dutch Grant, made to the Borrower for financing parts of the Project, shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Dutch Grant Agreement;

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by a 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.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has adopted, in form and substance satisfactory to the Association: (i) the Operation Manual, (ii) FUNDEC-Manual, and (iii) the Annual Work Plan and Budget for the first twenty (20) months of Project implementation;

(b) the Borrower has designed and installed a Financial Management System at the Executive Secretariat in form and substance satisfactory to the Association;

(c) the Borrower has prepared a Financial Procedures Manual, in form and substance satisfactory to the Association, describing financial accounting and administrative procedures, including job descriptions of financial management staff;

(d) the Borrower has provided training, in a manner satisfactory to the Association, to the staff of the Executive Secretariat in the use of its computerized systems;

(e) the Borrower has demonstrated its ability to produce Financial Monitoring Reports satisfactory to the Association.

(f) the Dutch Grant Agreement for the Dutch Grant referred to in Recitals (C) of this Agreement has become effective.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Planning and Development 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:

Ministério de Planificação e Desenvolvimento
Av. Ahmed Sekou Touré, No. 21, 4º. andar
Maputo
Republic of Mozambique

Cable address:	Telefone	Facsimile:
MOBANCO	(258) 21 492-268	(258) 21 492-625
Maputo		

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	(202) 477-6391
Washington, D.C.	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 Maputo, Republic of Mozambique, as of the day and year first above written.

REPUBLIC OF MOZAMBIQUE

By

/s/ Aiuba Cuerencia

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Michael Baxter

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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:

<u>Category</u>	Amount of the Credit Allocated (Expressed in <u>SDR Equivalent</u>)	% of Expenditures to be Financed by <u>the Association</u>
(1) Works	8,300,000	100 %
(2) Goods	3,200,000	100 %
(3) Consultants Services including audits and Training and Workshops under Parts A(2), B(1), and C of the Project	4,500,000	100 %
(4) FUNDEC IDA Grants under Part D(1) of the Project	1,400,000	100%
(5) Operating Costs	1,400,000	100 %
(6) Unallocated	2,000,000	
Total	<u>20,800,000</u>	

2. For the purposes of this Schedule:

(a) "Operating Costs" means the incremental expenses incurred on account of implementation of the Project, including Special Account banking charges, vehicle operating expenses and maintenance costs, fuel and insurance costs, real estate insurance costs, internet charges, office supplies, office equipment maintenance, documents duplication/printing, consumables, and travel cost and per diem for Executive Secretariat staff for travel linked to the implementation of the Project, but excluding salaries of officials of the Borrower; and

(b) "Training and Workshops" means educational programs financed under Project activities, including purchase of course fees, training materials, rental of training facilities, health insurance for travel abroad, per diem and related travel costs.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made 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 345,000, may be made in respect of Categories 3 and 5 on account of payments made for expenditures before that date but after October 31, 2005.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods (including those under FUNDEC IDA Grants) costing less than \$250,000 equivalent per contract; (b) works (including those under FUNDEC IDA Grants) costing less than \$1,000,000 equivalent per contract; (c) services of individual consultants (including those under FUNDEC IDA Grants) costing less than \$50,000 equivalent per contract; (d) services of consulting firms (including those under FUNDEC IDA Grants) costing less than \$100,000 equivalent per contract, (e) operating costs, and training and workshops; all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the [six-month period] following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special account, to be managed by the Executive Secretariat, in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount equivalent to \$1,800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$900,000 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 1,300,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the [six-month period] following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's technical and vocational education system to respond more effectively and equitably to labor market needs, using a framework based on occupational standards and being sensitive to gender and HIV/AIDS issues.

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: Development of an Institutional Framework

Assist the Borrower in reforming the governance and management structures for its TVET system, in developing and establishing a new TVET governance and administrative structure (National Training Authority) to oversee a decentralized administration system, and in developing options for the reform of a system of financing in collaboration with the relevant partners, by carrying out the following activities:

1. Establishing the institutional framework for the governance of the TVET system, including capacity building of DINET and INEFP, establishing labor market monitoring mechanisms, and developing legislation for the creation of a National Training Authority;
2. Developing mechanisms for providing a sustainable financing basis for the TVET system, such as conducting analytical work and stakeholder consultations; and
3. Developing legal and regulatory arrangements to delegate greater levels of responsibility to management at the level of individual training institutions in order to decentralize management of TVET institutions; and
4. Conducting studies and other research relating to the transition to a demand-led TVET system, the strategies to articulate the academic and technical modalities in the context of a competency-based scheme, the incorporation of the informal sector into PIREP, and the impact and mitigation of HIV/AIDS on training institutions and workplace issues.

All of the above activities to be supported through the provision of technical advisory services, capacity building through training and workshops, the acquisition of goods, and operating costs.

Part B: Standard-based Qualification and Training System

Support the Borrower in developing and adopting methods and procedures for: (a) standard-setting; (b) curriculum planning and development; and (c) assessment/certification arrangements, including the testing of the system targeting a minimum of 20 occupational areas spread across four economic sectors (tourism, management and administration, industrial maintenance, and agro-industry), through the following activities:

1. Developing occupational competency standards, including the integration of gender and HIV/AIDS specific competences in all occupational standards;
2. Developing modularized training course programs based on these occupational standards; and
3. Developing a standards-based assessment and certification system, including the inclusion of gender and HIV/AIDS specialists in all standards development panels.

All of the above activities to be supported through the provision of technical advisory services, capacity building through training and workshops, the acquisition of goods, and operating costs.

Part C: Quality Improvement in Training Institutions

Support the Borrower in improving the quality of training institutions through the following activities:

1. Providing technical advisory services for developing and piloting training for faculty and management staff, including technical advisory services to mainstream the issues of gender and HIV/AIDS in the development of teacher/trainer programs;
2. Providing relevant goods such as equipment, tools, and learning materials, including learning materials on mainstreaming the issues of gender and HIV/AIDS in the teacher/trainer programs;
3. Planning and providing works for the necessary rehabilitation of the physical infrastructure, including the rehabilitation of infrastructure to ensure proper water and sanitation facilities for students;
4. The provision of technical advisory services for developing and piloting new learning materials;
5. The provision of technical advisory services for developing and piloting student counseling and career path guidance methods, including assistance in facilitating internship arrangements with industry and counselling services to provide information or referrals to young students seeking social and emotional support.

All of the above activities to be supported through the provision of works, technical advisory services, capacity building through training and workshops, and the acquisition of goods.

Part D Skills Development Fund (FUNDEC)

1. Carrying out of the following activities through the use of FUNDEC IDA Grants or other grants:

 (a) institutional capacity building, including staff upgrading, improvement of management, curriculum development, market assessment, and equipment and delivery of new training programs by public providers of formal and informal training;

 (b) institutional capacity building, except for rehabilitation and physical infrastructure by private providers of formal and informal training; and

 (c) relevant and employment-oriented training to underserved populations, in particular girls and women, conducted by public and private providers of formal and informal training.

2. Providing goods for media campaigns and information materials to promote the availability of grants through FUNDEC;

3. Providing technical advisory services to support potential Beneficiaries in grant preparation or supervision;

4. Providing training for institutions and setting up workshops to promote the availability of grants through FUNDEC; and

5. Providing goods for the administration of grants through FUNDEC.

* * *

The Project is expected to be completed by April 30, 2011.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract and works estimated to cost less than \$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

3. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping. Under Part D, works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping, and works estimated to cost more than

\$50,000 equivalent but less than \$60,000 equivalent per contract may be procured under contracts awarded on the basis of five quotations,

4. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

5. Procurement from UN Agencies. Limited quantities of vehicles and office equipment as specified in the Procurement Plan may be procured from the Inter-Agency Procurement Services Organization/IAPSO in accordance with the provisions of paragraph 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract for construction design and supervision and \$100,000 for other types of assignments may be comprised entirely of national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines and which are estimated to cost less than \$100,000 may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services 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, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection and which are estimated to cost less than \$100,000, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for works estimated to cost the equivalent of \$1,000,000 or more procured on the basis of International Competitive Bidding; (b) one contract for works estimated to cost less than \$1,000,000 and more than \$50,000 and procured on the basis of National Competitive Bidding; (c) each contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$250,000 or more procured on the basis International Competitive Bidding; (d) one contract for goods and services (other than consultants' services) estimated to cost less than \$250,000 and more than \$50,000 and procured on the basis of National Competitive Bidding; (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (f) each contract for consultants' service provided by an individual estimated to cost the equivalent of \$50,000 or more as well as the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants for such contracts. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

A. Overall Project Implementation

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) maintain the Executive Secretariat throughout the period of implementation of the Project, with structure, functions and responsibilities, and with competent staff in adequate numbers and qualifications satisfactory to the Association;

(c) maintain in effect Decree No. 29 of August 23, 2005 or a decree or law that, in the reasonable opinion of the Association, is substantially similar in providing for the establishment of an independent entity responsible for TVET and the implementation of the Program.

2. Except as the Association shall otherwise agree, the Borrower shall: (a) apply the criteria, policies, requirements and procedures set out in the Operation Manual, the FUNDEC Manual, the COREP Internal Regulations, and the Executive Secretariat Internal Regulations; and (b) not amend, abrogate or waive, or permit to be amended, abrogated or waived, the OM Manual, the FUNDEC Manual, the COREP Internal Regulations, or the Executive Secretariat Internal Regulations, or any provisions thereof, in a manner which, in the opinion of the Association may materially and adversely affect the implementation of the Project.

3. Without limitation upon the other provisions of this Agreement, the Borrower shall carry out the Project in accordance with the relevant Annual Work Plan and Budget referred to in paragraph E.1 (b) of this Schedule.

4. The Borrower shall submit to the Association and thereafter carryout in a manner satisfactory to the Association:

(a) a transition strategy to convert CIREP/COREP into a National Training Authority, not later than 30 months after Credit effectiveness;

(b) a transition strategy to transform the pilot schools to only offer a competency-based curriculum, not later than 24 months after Credit effectiveness;

(c) a transition strategy to align DINET and INEFP's roles, responsibilities and institutional arrangements, both at the national as well as provincial and districts

levels, to the envisaged decentralization context, not later than 36 months after Credit effectiveness; and

(d) a strategy to ensure the technical, institutional and financial sustainability of project activities by the Closing Date, not later than 36 months after Credit effectiveness.

5. The Borrower shall conduct a study to obtain baseline data for the measurement of progress on the Development Objectives, by October 1, 2006.

B. Eligibility Criteria for FUNDEC IDA Grant and Terms and Conditions for Financing

To be eligible for financing, a FUNDEC IDA Grant under Part D of the Project shall be:

(a) initiated and identified by the relevant Beneficiaries as an activity, acceptable to the Association;

(b) appraised and carried out in accordance with the procedures and conditions set forth in the FUNDEC Manual;

(c) economically, environmentally, socially and technically viable in accordance with the standards specified in the OM and FUNDEC Manual;

(d) in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to TVET implementation and management; and

(e) satisfy any other requirements of eligibility specified in the OM and FUNDEC Manual.

C. FUNDEC Grant Agreements

For carrying out FUNDEC IDA Grants under Part D of the Project, the Executive Secretariat shall conclude an agreement with the appropriate representative of each Beneficiary, whereby the Executive Secretariat shall agree to provide to each Beneficiary goods, works and/or services, as the case may be, from the proceeds of the Credit, on a non-reimbursable basis, and on terms and conditions satisfactory to the Association (the FUNDEC Grant Agreement), including the eligibility criteria set forth in paragraph B of this Schedule and details of disbursement schedules and procurement procedures as set forth in Schedule 3 of this Agreement, details of any further environmental and social safeguards as may be needed, and the following additional terms and conditions:

(a) Require the Executive Secretariat to ensure the execution of the FUNDEC IDA Grant by the Beneficiaries with due diligence and efficiency and in

accordance with sound educational, technical, financial, managerial and environmental standards and practices, and maintain adequate records.

(b) The right of the Borrower to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants included in the relevant FUNDEC IDA Grant, the operations thereof and any relevant records and documents.

(c) Obtain from Beneficiary all such information, as the Association shall reasonably request relating to the implementation of a FUNDEC IDA Grant, and the performance of the Beneficiary executing the FUNDEC IDA Grant.

(d) Suspend or terminate the right of the Beneficiary to benefit from the use of the goods, works or services under the FUNDEC IDA Grant upon failure by such Beneficiary to perform its obligations under the FUNDEC Grant Agreement.

(e) Promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of any FUNDEC IDA Grant under Part D of the Project, or the performance by the relevant Beneficiary of its obligations under the relevant FUNDEC Grant Agreement.

(f) The Borrower shall exercise its rights under the relevant FUNDEC Grant Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the FUNDEC Grant Agreement, or any provision thereof.

(g) The stipulation that in case of conflict between any FUNDEC Grant Agreement and this Agreement, the latter shall prevail.

D. Environmental and Social Management Framework (ESMF)

1. Except as the Association shall otherwise agree, the Borrower shall:

(a) Carry out or cause the Project to be carried out in accordance with the environmental, social and resettlement guidelines, rules and procedures defined in the ESMF (including the preparation and implementation of the appropriate action plans, as the case may be, in accordance with the ESMF, said plans to be in form and substance satisfactory to the Association); and

(b) Not amend or waive, or permit to be amended or waived, the ESMF or any provisions thereof, in a manner which, in the opinion of the Association may materially and adversely affect the implementation of the Project.

2. The Borrower shall ensure that: (a) all measures necessary for the carrying out of the ESMF are taken in a timely manner; and (b) the progress reports referred to in

paragraphs E.1(c) and F.2 of this Schedule shall include adequate information on monitoring the measures defined in the ESMF.

E. Monitoring, Annual Work Plan and Budget, and Reporting

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare an Annual Work Plan and Budget in form and substance satisfactory to the Association, and furnish it to the Association, on or about March 1 of each year, for a 12-month period starting the following January 1;

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 30 of each year, an Annual Report (the Annual Report) integrating the results of the monitoring and evaluation activities performed pursuant to paragraph E.1 (a) of this Schedule, 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

(d) review with the Association, by April of each year, or such later date as the Association shall request, the Annual Report, and thereafter act promptly and diligently in order to take, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed between the Borrower and the Association in furtherance of the objectives of the Project.

F. Midterm Review

1. The Borrower shall carry out, jointly with the Association, not later than 30 months after the date of effectiveness of this Agreement a comprehensive midterm review aimed at: (a) documenting progress toward achieving the Project objectives; (b) identifying and resolving obstacles to Project implementation; (c) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review; and (d) an overall evaluation of the Project against the indicators set forth in Schedule 5 to this Agreement.

2. The Borrower shall not later than four weeks prior to the midterm review referred to in paragraph E.1 above, furnish to the Association a midterm report, in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in the Project implementation.

3. Promptly after completing the midterm review, the Borrower shall take all measures required to fulfill the recommendations arising out of said review for the efficient completion of the Project and the achievement of the objectives thereof, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

SCHEDULE 5

Performance Indicators

The performance indicators for the Project shall include the following:

1. the percentage of surveyed employers who indicate that those of their employees, who are recent graduates of targeted institutions, have market relevant skills, as compared to a control group established in a baseline study to be conducted by October 1, 2006;
2. the labor market earnings of graduates of targeted programs, as compared to a control group established in a baseline study to be conducted by October 1, 2006;
3. the average time (in days) to find a job or become self-employed after graduating from a targeted program compared to a control group graduating from institutions not targeted for PIREP assistance, as compared to a control group established in a baseline study to be conducted by October 1, 2006; and
4. the percentage of graduates of targeted programs who find jobs or create jobs that are directly linked to their field of study, as compared to a control group established in a baseline study to be conducted by October 1, 2006.