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CONFORMED

CREDIT NUMBER 4081-TON

Development Credit Agreement

(Tonga Education Support Project)

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 5, 2005



CREDIT NUMBER 4081-TON

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 5, 2005, between the KINGDOM OF TONGA (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 Part A (except Part A. 3(a)) of the Project;

(B) by an agreement of even date herewith between the Borrower and the Association as administrator of grant funds provided by the New Zealand Agency for International Development (NZ Aid), to make a grant in an amount not exceeding three million eight hundred eighteen thousand Dollars (\$3,818,000) (the NZ Aid Grant) to assist in financing of Parts A.3(a) and B of the Project, on the terms and conditions set forth in the Co-Financing Grant 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;

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:

"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 and the following additional terms have the following meanings:

(a) "Education Sector Committee" means the committee referred to in paragraph 1 of Schedule 4 to this Agreement.

(b) “Eligible Categories” means Category 1 set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(c) “Eligible Expenditures” means the expenditures for consultants’ services referred to in Section 2.02 of this Agreement.

(d) “Environmental Management Framework” means the framework, dated May 9, 2005, setting forth procedures and standards to ensure that environmental impacts under Part B.2 of the Project are addressed during Project implementation, in a manner and substance satisfactory to the Association, as such framework may be amended from time to time with the prior agreement of the Association.

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

(f) “Fiscal Year” means the twelve (12) month period corresponding to any of the Borrower’s fiscal years, which period commences on July 1 and ends on June 30 in each calendar year.

(g) “Ministry of Education” or its acronym “MOE” means the Borrower’s Ministry of Education, and any successor thereto.

(h) “MSS” means the national minimum service standards for all primary and secondary schools prescribed by the Borrower’s Ministry of Education.

(i) “National Reserve Bank of Tonga” means the Borrower’s central bank, and any successor thereto.

(j) “Procurement Plan” means the Borrower’s procurement plan, dated May 11, 2005, covering the initial eighteen (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 eighteen (18) month periods (or longer) of Project implementation.

(k) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.2 of Schedule 1 to this Agreement;

(l) “School Grant” means a grant made, or proposed to be made, by the Borrower, out of the proceeds of the NZAID Grant, to a School Grant Beneficiary for the purposes of carrying out a School Grant Sub-project, and the term “School Grants” means, collectively, the plural thereof.

(m) “School Grant Beneficiary” means a government or non-government primary or secondary school selected to participate in Parts A. 3(a) and B of the Project,

to whom, and for whose benefit, a School Grant is made or proposed to be made, and the term "School Grant Beneficiaries" means, collectively, the plural thereof.

(n) "School Grant Operations Manual" means the manual setting forth, *inter alia*, eligibility criteria, procedures and guidelines for the selection, approval, administration and supervision of a School Grant Sub-project and to be adopted by the Borrower pursuant to paragraph 3 of Schedule 4 to this Agreement, as the same may be amended from time to time with the prior agreement of the Association, and such term includes any schedules to the School Grant Operations Manual.

(o) "School Grants Program" means the program referred to in Part B of the Project.

(p) "School Grant Sub-project" means a specific school improvement project that meets the eligibility criteria set forth in the School Grant Operations Manual, to be carried out by a School Grant Beneficiary utilizing the proceeds of a School Grant; and the term "School Grant Sub-projects" means, collectively, the plural thereof.

(q) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

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 six hundred sixty two thousand Special Drawing Rights (SDR 662,000).

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 consultants' services required for Part A (except for Part A.3 (a)) of the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2010, 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 (60) 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 June 15 and December 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 June 15 and December 15 commencing December 15, 2015, and ending June 15, 2045. Each installment to and including the installment payable on June 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 (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the 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 (6) 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 (5) 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 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 through the Ministry of Education with due diligence and efficiency and in conformity with appropriate administrative, management, financial, and education practices, and sound social and environmental standards acceptable to the Association, 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 and the NZAID Grant 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 twelve (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 to ensure the continued achievement of the Project objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain 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 (6) 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.2 of Schedule 1 to this Agreement (Report-based Disbursements), the Borrower shall:

- (i) retain, until at least one (1) 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 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 paragraph 14 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 financial monitoring report shall be furnished to the Association not later than forty-five (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 financial monitoring report shall be furnished to the Association not later than forty-five (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 event is specified:

- (a) (i) Subject to sub-paragraph (ii) of this paragraph: the right of the Borrower to withdraw the proceeds of the NZAID Grant made to the Borrower for the financing of Parts A.3(a) and B of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Co-financing Grant Agreement providing therefor; or
- (ii) Sub-paragraph (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 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.

ARTICLE VI

Effective Date; 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) Co-Financing Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled; and
- (b) the Borrower, through the Ministry of Education, has engaged a procurement advisor, with qualifications and terms of reference, acceptable to the Association, pursuant to paragraph 6 of Schedule 4 to this Agreement.

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 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:

Ministry of Finance
Vuna Road, Nuku 'alofa
Kingdom of Tonga

Facsimile:

676-26-011

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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.

KINGDOM OF TONGA

By /s/ Siosiu T. T. 'Utokamanu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jemal ud-din Kassum

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>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services under Part A (except Part A.3(a)) of the Project	662,000	90% for individual consultants and 100% for consulting firms

TOTAL	<u>662,000</u>	

2. 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 financial monitoring report 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 deposit account in the National Reserve Bank of Tonga, on terms and conditions satisfactory to the Association.

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 in accordance with the provisions of Annex A 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.2 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.

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 sub-paragraph (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
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.2 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 assist the Borrower in establishing a consistent and equitable mechanism that will empower schools and communities to improve the quality of schooling at primary and secondary schools levels, and to produce an upward trend in educational outcomes.

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: Institutional Strengthening and Capacity Building

1. Strengthening the capacity of MOE, specifically with respect to the School Grants Program, to: (a) develop, analyze and review education policies; (b) establish investment priorities, (c) develop specific rolling plans based on the sector priorities; (d) efficiently allocate resources; and (e) conduct consultative policy dialogues with relevant stakeholders.
2. Strengthening the capacity of MOE to: (a) develop and annually review three (3) year rolling plans detailing the Project investments and the performance indicators at both the national and school levels; and (b) monitor the Project implementation and collect baseline information for the Project.
3. Strengthening the capacity of the schools participating in the Project, including: (a) provision of School Grants for managing their resources and planning their three (3) years rolling development plans; and (b) provision of training to head teachers, teachers and community members.

Part B: School Grants Program

1. Designing, managing, and monitoring the School Grants Program, including:
 - (a) providing technical assistance to design and manage the School Grants Program, and to develop the operations guidelines for said Program;
 - (b) conducting public awareness campaigns for the School Grants Program;
 - (c) providing training to schools participating in the School Grants Program on the processes and procedures of the School Grants Program; and
 - (d) supporting the annual review of the performance of the participating schools in the School Grants Program.

2. Providing School Grants to selected primary or secondary schools to finance the schools' overall development needs detailed in their three (3) year rolling plans.

* * *

The Project is expected to be completed by December 31, 2009.

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)

1. Community Participation. Goods, works and services required for Part B.2 of the Project may be procured on the basis of community participation in accordance with the procedures specified in the Procurement Plan.

Section III. Particular Methods of Procurement of Consultants' Services

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. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines 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.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, 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.

4. 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 with the prior approval of the Association.

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 consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; and
- (b) each contract for consultant services provided by a firm or an individual consultant to be selected on single source or sole source basis pursuant to paragraphs 3 and 4 of Section III of this Schedule, regardless of its contract value.

All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall establish by September 30, 2005, and maintain the Education Sector Committee, with terms of reference, composition, and resources, acceptable to the Association, to be responsible for making policy recommendations to the Minister of the Ministry of Education based on its review of the financial, technical, and progress reports of the Project.
2. The Borrower shall maintain, throughout the period of implementation of the Project, with terms of reference, staffing, and other resources acceptable to the Association, the Procurement Unit within MOE, to be responsible for the procurement activities under the Project.

Project Implementation

3. The Borrower, through MOE, shall:
 - (a) adopt and thereafter implement the School Grants Operations Manual, in a manner and substance satisfactory to the Association, which shall include the description of: (i) eligibility criteria, procedures and guidelines for the selection, approval, administration and supervision of School Grant Sub-projects; (ii) selection criteria for School Grant Beneficiaries; (iii) procurement procedures; (iv) financial management and disbursement procedures; (v) monitoring and evaluation procedures; (vi) the intended purpose of provision of the School Grants; and (vii) a negative list of items that shall not be financed by the School Grants; and
 - (b) not assign, amend, abrogate, suspend, or waive any provision of said School Grants Operations Manual, without the prior concurrence of the Association.
4. Borrower shall:
 - (a) conduct an annual joint review, in accordance with terms of reference satisfactory to the Association, in December of each Fiscal Year, beginning from December 31, 2005, and furnish to the Association by June 30 in each Fiscal Year, for review and approval, a proposed action plan for the carrying out of the Project during the following Fiscal Year, together with a budget and a financing plan therefor; and
 - (b) thereafter, carry out the Project in accordance with such action plan as shall have been approved by the Association.

5. The Borrower shall, no later than December 31, 2006, conduct a public awareness campaign to promote MSS and the School Grants Program to the relevant stakeholders, in manner, satisfactory to the Association.

6. The Borrower shall engage a procurement advisor, with qualifications and terms of reference, satisfactory to the Association. The Borrower further undertakes to maintain said procurement advisor on a full-time basis for at least twelve (12) months to assist the procurement activities under the Project.

7. The Borrower, through the Ministry of Education, shall:

(a) not later than October 31, 2005, engage a firm to be responsible for monitoring and evaluation of the Project implementation, with qualifications and terms of reference, acceptable to the Association; and

(b) not later than December 31, 2006, establish the Project's school-level baseline data for the purpose of monitoring and evaluation of the Project's progress, in a manner, satisfactory to the Association.

8. The Borrower shall ensure that MOE fills: (a) its priority vacant posts to be identified during its restructuring not later than February 28, 2006; and (b) its non-priority posts to be identified through its restructuring not later than August 30, 2006, in a manner, satisfactory to the Association.

School Grants and School Grants Sub-projects

9. The Borrower shall ensure that: (a) School Grants Sub-projects shall be selected, approved, and monitored in accordance with the provisions of the School Grant Operations Manual, acceptable to the Association; and (b) School Grants shall be made in accordance with procedures and on conditions satisfactory to the Association.

10. The Borrower shall ensure that each School Grant for a School Grant Sub-project shall be made to a beneficiary, who meets the eligibility criteria set forth in the School Grant Operations Manual.

11. The Borrower shall ensure that each School Grant should be governed by a funding formula, acceptable to the Borrower and the Association, which is determined by the following: (a) the record of the students' enrollment; (b) the extent to which the school meets or exceeds MSS; (c) the Borrower's assessment of the school's service delivery capacity; and (d) the actual needs detailed in the School's three year (3) rolling plan.

12. The Borrower shall not provide a School Grant to a School Grant Beneficiary during the subsequent years, until said beneficiary has submitted a report to the Borrower and the Association with account information of the use of the previous year's School Grant and statements of performance measured by the indicators agreed between the

Borrower and the School Grant Beneficiary; and the Borrower and Association have found such report acceptable.

13. The Borrower shall obtain through a written contract with each of the School Grant Beneficiaries, or by other appropriate legal means, rights adequate to protect the interests of the Borrower and the Association, including that each School Grant Beneficiary shall undertake to:

(a) require that the eligible School Grant Beneficiary: (i) carry out the School Grant Sub-project with due diligence and efficiency and in accordance with appropriate administrative, financial, technical, managerial and educational practices and sound environmental and social standards; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the School Grant Sub-project; (iii) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the School Grant Sub-project; and (iv) carry out the School Grant Sub-project in accordance with the Environmental Management Framework, in a manner, satisfactory to the Association.

(b) require that the works to be financed from the proceeds of the School Grant shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) be used exclusively in the carrying out of the School Grant Sub-project or Sub-projects; and

(c) reserve for the Borrower the right to:

(i) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the School Grant Sub-project or Sub-projects, the operations thereof and any relevant records and documents;

(ii) obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operation and financial conditions of the School Grant Beneficiary; and

(iii) suspend or terminate the right of the eligible School Grant Beneficiary to use the proceeds of the School Grant upon the failure by the eligible School Grant Beneficiary to perform any of its obligations under contract entered into between MOE and the concerned School Grant Beneficiary.

Monitoring and Reporting

14. The Borrower shall:

(a) maintain policies and procedures, adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare under terms of reference satisfactory to the Association, and furnish to the Association, the following reports:

(i) semi-annual reports, not later than May 31 and November 30 in each Fiscal Year, beginning on November 30, 2005: (A) integrating the results of the monitoring and evaluation activities, performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project by the Borrower, during the six-month period preceding the date of said report; and (B) 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

(ii) a mid-term report, not later than November 30, 2007, or such later date as the Association may have agreed, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraphs (a) and (b)(i) of this paragraph, 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; and

(c) after furnishing:

(i) each report referred to in sub-paragraph (b)(i) of this paragraph, review said report with the Association, and promptly take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter; and

- (ii) the report referred to in sub-paragraph (b)(ii) of this paragraph, review said report with the Association, by December 31, 2007, or such later date as the Association shall request, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Project Performance Indicators

1. Policies and mechanisms are adopted that provide all schools with access to School Grants. A school financing policy framework is developed, to include policy and guidelines on School Grants, school-level multi-year planning and budgeting, and funding formulas that provide access to funds adequate to equalize services across schools (primary and secondary).
2. Management capacity is strengthened at the MOE and school levels to: (a) assess schools' needs; (b) determine and prioritize policies and allocate budget therefor; and (c) implement and assess the progress under the Project and communicate with stakeholders.
3. Quality assessment systems are established. The MSS is established and applied at primary and secondary schools. The procedures and capacities for assessing compliance with MSS are developed.
4. The resources are allocated more equitably. MOE's capacity is strengthened in public expenditure management, policy making, and monitoring and evaluation.
5. Performance based programming is established. Schools manage resources effectively to meet MSS.
6. An upward trend in educational outcomes, both academic and non-academic is established for students in schools. The upward trend is monitored by indicators, such as net enrollment rates, repetition, dropout, and transition rates, and student test performances.