

Public Disclosure Authorized

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CREDIT NUMBER 4155 MD

GRANT NUMBER H208 MD

Development Financing Agreement

(Quality Education in the Rural Areas of Moldova Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 5, 2006

Public Disclosure Authorized



CREDIT NUMBER 4155 MD
GRANT NUMBER H208 MD

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated April 5, 2006, between the REPUBLIC OF MOLDOVA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Financing 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 in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

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

(b) “Grant for the Optimization of School Networks” means a grant to be provided on a pilot basis in the form of financial assistance by the MEYS to raions and schools from the proceeds of the Financing under Part C.1 (c) of the Project, in accordance with the Project Operations Manual;

(c) “Grants Manual” means the manual setting forth the eligibility criteria, selection process and implementation for the purposes of carrying out Part B.1 of the Project and included in the Project Operations Manual (as defined hereinafter);

(d) “MEYS” means the Borrower’s Ministry of Education, Youth and Sports;

(e) “MOF” means the Borrower’s Ministry of Finance;

(f) “MSIF” means the Moldova’s Social Investment Fund, or any successor thereto, established under the Borrower’s decision No. 468, dated May 19, 1997;

(g) “Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(h) “NGRAC” means the Borrower’s grant review and approval committee to be established at the national level pursuant to a decision of the Government to approve the selection, review and approval process of Rural School Quality Grants by the RGRAC and referred to in paragraph 2 (a) of Part B of Schedule 4 to this Agreement

(i) “PSC” means the Project Steering Committee in charge of the overall supervision and major policy guidance relating to the implementation of the Project to be established, in accordance with paragraph 3 of Part A of Schedule 4 to this Agreement;

(j) “Procurement Plan” means the Borrower’s procurement plan, dated December 16, 2005 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;

(k) “Project Implementation Memorandum” means the agreement to be entered in accordance with paragraph 2 of Part A of Schedule 4 to this Agreement;

(l) “Project Operations Manual” means the manual, satisfactory to the Association, setting forth the operational and administrative procedures for the implementation of the Project and referred to in paragraph 5 of Part A of Schedule 4 to this Agreement;

(n) “RGRAC(s)” means the Borrower’s grant review and approval committee(s) to be established pursuant to the MEYS decisions to carry out the selection, review and approval process of Rural School Quality Grants (as defined hereinafter) for eligible rural schools at the local level and referred to in paragraph 2(b) of Part B of Schedule 4 to this Agreement;

(m) “Raion” means a territorial division of the Borrower at the district level;

(o) “Rural School Equity Grant” or “RSE Grant” means a grant to be provided in the form of goods by the MEYS to RSE Grant Beneficiaries (as defined hereinafter) from the proceeds of the Financing for the purposes of carrying out activities under Part B.1 (a) of the Project, all in accordance with the Grants Manual;

(p) “Rural School Equity Grant Beneficiary(ies)” or “RSE Grant Beneficiary(ies)” means the individual rural schools, legally established in the Borrower’s territory and meeting the eligibility criteria set forth in the Grants Manual for assistance under Part B.1 (a) of the Project;

(q) “Rural School Quality Grant” or “RSQ Grant” means a grant to be provided in the form of goods on a competitive basis by upon selection and approval of the NRGAC and RGRAC to RSQ Grant Beneficiaries (as defined hereinafter) from the proceeds of the Financing for the purposes of carrying out activities under Part B.1 (b) of the Project, all in accordance with the Grant Manual;

(r) “Rural School Quality Grant Beneficiary(ies)” or “RSQ Grant Beneficiary/ies” means the collective or individual rural schools, legally established in the Borrower’s territory and meeting the eligibility criteria set forth in the Grants Manual (hereinafter defined) for assistance under Part B.1 (b) of the Project;

(s) “RSQ Grant Agreement” means an agreement for the provision of a Rural School Quality Grant to be entered into between an RSQ Grant Beneficiary and the MEYS, the content and terms and conditions of which are set forth in the Grants Manual, as the same may be amended from time to time, pursuant to paragraph 2 (c) of Part B to Schedule 4 of this Agreement; and

(t) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to three million and six hundred thousand Special Drawing Rights (SDR 3,600,000) (the Credit); and

(b) an amount in various currencies equivalent to three million and six hundred thousand Special Drawing Rights (SDR 3,600,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant 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, services, training and grants required for the Project and to be financed out of the proceeds of the Financing.

(b) The Borrower may, for the purposes of the Credit and Grant for the Project, open and maintain in Dollars a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be May 31, 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; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate 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 February 1 and August 1 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 February 1 and August 1 commencing August 1, 2016 and ending February 1, 2046. Each installment to and including the installment payable on February 1, 2026 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 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 through the MEYS with due diligence and efficiency and in conformity with appropriate administrative and financial 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 and services required for the Project and to be financed out of the proceeds of the Financing 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 designed to ensure the sustainability of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain 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 Financing Accounts were made 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 Financing Accounts 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 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 paragraph (a) of Part C.1 of Schedule 4 to this Agreement, 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 Financing, 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

Effectiveness; Termination

Section 5.01. The following event is specified as conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Project Operations Manual has been adopted by the Borrower under terms satisfactory to the Association.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
7, Cosmonautilor Street
Chisinau 2005
Republic of Moldova

Facsimile:

(37322) 213508

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 Chisinau, Republic of Moldova, as of the day and year first above written.

REPUBLIC OF MOLDOVA

By /s/ Mihail Pop

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Paul Bermingham

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant 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>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, Consultants' services, training and grants other than RSQ Grants under Part B.1 (b) of the Project	3,000,000	3,000,000	100%
(2) RSQ Grants under Part B.1 (b) of the Project	600,000	600,000	90%
	<hr/>	<hr/>	
TOTAL	<u>3,600,000</u>	<u>3,600,000</u>	

2. 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.

3. The Association may require withdrawals from the Financing Accounts to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) services of individual consultants costing less than \$25,000 equivalent per contract; (c) services of consulting firms under contracts costing less than \$50,000 equivalent per contract; (d) grants; and (e) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

4. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Borrower

shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in improving the quality of education in the rural areas in Moldova.

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

Part A: Improving Teaching and Learning in Rural Schools

1. Improving the quality and relevance of teaching and learning in rural schools and strengthening the MEYS' pedagogical systems, in particular for the upper grades of the secondary education level (grades 10-12), through:

(a) upgrading and modernizing the curriculum, and providing new educational materials and textbooks;

(b) carrying out the professional development for teachers and staff; and

(c) carrying out of objective, professional, and efficient evaluation, monitoring, and student assessment including the establishment under the MEYS of a national center for examinations and quality assurance.

Part B: Increasing Access and Equity in Rural Schools

1. Providing eligible poor rural schools and communities with additional resources to improve quality of and access to adequate education services through:

(a) the provision at the nationwide level, on the basis of a school mapping exercise carried out by the MEYS, of Rural Schools Equity Grants for learning materials and equipments to eligible rural schools in line with the needs identified by said schools in their respective assessment of needs survey carried out by the MEYS; all in accordance with the criteria and procedures set forth in the Grants Manual; and

(b) the provision on a competitive basis of Rural Schools Quality Grants for learning materials and equipment, as well as other education related goods to eligible and selected rural schools based on the proposals presented by said schools as reviewed and approved by the RGRAC at the local level and the NGRAC, all in accordance with the criteria and procedures set forth in the Grants Manual.

2. Strengthening the capacity of poor rural schools to manage priorities, resources, and educational outcomes.

Part C: Increasing Efficiency in the Use of Resources

1. Improving the efficiency of the system for allocating public funds to schools and of the use of resources within schools, through:

(a) improving and increasing the role of the MEYS in preparation of detailed, analysis-based budgets and MTEF projections for the education sector;

(b) piloting a school autonomous funding mechanism and governance system in selected Raions to improve efficiency; and

(c) provision of Grants for the Optimization of School Networks in selected Raions.

Part D: Strengthening Education Planning and Monitoring

1. Strengthening the MEYS' capacity to promote and monitor policies and programs through: (a) the development of the human resources of the education sector in policy and monitoring at the ministerial level; and (b) improvement in the education management and administration at the Raion level.

* * *

The Project is expected to be completed by November 30, 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 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.

B. Other Procurement Procedures

1. Limited International Bidding. Goods estimated to cost less than \$300,000 equivalent per contract 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 \$100,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the additional provisions set forth in a supplemental of even date herewith.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

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

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 \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. 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.

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.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 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.

4. 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.

5. 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 goods and services (other than consultants' services) procured on the basis of International Competitive Bidding, Limited International Bidding or Direct Contracting, and the first two contracts procured on the basis of National Competitive basis and Shopping; and (b) each contract for consultants' services provided by a firm procured on the basis of Quality- and Cost-based Selection and each contract for consultants' services provided by a firm or individual procured on the basis Single Source and the first two contracts procured on the basis of Selection Under a Fixed Budget, Least Cost Selection, Consultant Qualification, and Individual Consultants. All other contracts shall be subject to Post Review by the Association. All terms of reference shall be subject to prior review by the Association.

SCHEDULE 4

Implementation Program

Part A: Project Implementation

1. For the purposes of the Project, the MEYS shall, among others, be responsible for the overall implementation of the Project. The Borrower, through the MEYS, shall ensure that the appropriate departments in the MEYS and other public entities under the Borrower's government carry out the Project implementation with due diligence and efficiency.

2. (a) The Borrower, through the MEYS, shall enter by not later than September 15, 2006 into a Project Implementation Memorandum with the MSIF for the implementation of Part B.1 (b) of the Project to ensure the coordination, cooperation and respective responsibilities of all entities involved in the implementation of the Project, under terms and conditions which shall have been agreed by the Association.

(b) The Borrower, through the MEYS, shall exercise its rights under the Project Implementation Memorandum in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Project, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Project Implementation Memorandum or any provision thereof.

3. The Borrower shall establish not later than three (3) months after effectiveness of the Project and thereafter maintain until completion of the Project, with composition and under terms of reference satisfactory to the Association, the PSC, consisting of high level representatives from the key ministries and governmental bodies and representatives of the education community, and other representatives as determined by the Borrower's government. The PSC shall be responsible for reviewing the progress of the Project activities, overseeing the operations of the MEYS and advising on any major policy issues related to the implementation of the Project.

4. The Borrower shall designate and maintain until completion of the Project a general project director and an executive project director within the MEYS, under terms satisfactory to the Association, and ensure that sufficient staff and resources are available within the MEYS for the purposes of ensuring the implementation of the Project, with terms of reference satisfactory to the Association and in accordance with the Project Operations Manual and shall assign to such staff the responsibility for overall daily management of the Project, including:

(a) financial management and disbursement, including preparation of withdrawal applications under the Financing;

(b) management of the Special Account referred to in Section 2.02 (b) of this Agreement;

(c) maintenance of records and accounts related to the Project and arranging for the audit thereof;

(d) administration of procurement procedures and contracts for the Project;

(e) preparation of quarterly progress reports and submission thereof to the Borrower and the Association not later than forty-five (45) days after the end of each quarter, in accordance with Section 4.01 of this Agreement; and

(f) preparation of FMRs for the Project as referred to in Section 4.02 of this Agreement.

5. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the Project Operations Manual and this Agreement and shall not amend, abrogate or waive any provision of the Project Operations Manual without prior approval of the Association.

Part B: Rural School Equity and Quality Grants

1. For the purposes of implementing Part B.1 (a) of the Project, the Borrower, through the MEYS, shall:

(a) carry out and complete a school mapping exercise;

(b) carry out a survey at the nationwide level to assess the learning materials and equipment needs of rural schools individually; and

(c) thereafter select poor rural schools to benefit from the Rural School Equity Grants in line with the needs identified under paragraph (ii) above (the RSE Grant Beneficiary), in accordance with the eligibility criteria set forth in the Grants Manual, all under terms and conditions satisfactory to the Association and under the supervision of the MEYS.

2. For the purposes of implementing Part B.1 (b) of the Project, the Borrower shall:

(a) establish a NGRAC at the national level under terms satisfactory to the Association;

(b) establish at the local level a RGRAC under terms satisfactory to the Association;

(c) thereafter select and review, through the respective RGRAC, the Rural School Quality Grant proposals presented on a competitive basis by eligible rural schools individually or collectively, in accordance with the eligibility and selection criteria set forth in the Grants Manual. Each RGRAC shall select Rural School Quality Grant proposals on the basis of the proposals received, the number of eligible schools and their student population in the Raion, all under terms and conditions satisfactory to the Association and under the supervision of the MEYS; and

(d) subsequently, the MEYS shall enter into an agreement with the rural school selected under paragraph (ii) above (the RSQ Grant Beneficiary) pursuant to a standard agreement, in a format and substance acceptable to the Borrower and the Association (the RSQ Grant Agreement) and in accordance with the Grants Manual.

Part C: Monitoring and Evaluation

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 15, 2008, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 30, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term “Authorized Allocation” means an amount equivalent to US\$1,000,000 to be withdrawn from the Credit Account and the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit

Account or the Grant Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account and Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account and Grant Account of the remaining unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such

further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

SCHEDULE 6

Modifications to the General Conditions

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

1. Section 1.01 is modified to read:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

“12. “Grant” means the development grant provided for in the Development Financing Agreement.”

“13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“14. “Financing” means, collectively, the Credit and the Grant.”

“15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01 (3), 2.01 (12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01 (d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”: Section 2.01 (6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

(a) Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02 (c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(b) Section 4.06 (b) is modified to read as follows:

“(b) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.”

8 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 Financing Agreement, the proceeds of the Financing 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 Financing, or on their importation, manufacture, procurement or supply. The 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 and grants. 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 Financing 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 Financing Agreement as required to be consistent with such policy of the Association.”

9. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a) (ii) and (c) (i) of Section 6.02 is replaced with the words “credit, grant or financing”.

(b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

10. Section 7.01 is modified to read as follows:

(a) The words “principal or interest or any other amount” in paragraph (b) are modified to read “any amount”.

(b) The word “credit” in paragraph (b) (i) is replaced with the words “credit, grant or financing”.

11. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Borrower.”