

CONFORMED COPY

CREDIT NUMBER 2822 BD

Development Credit Agreement

(Nonformal Education Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 5, 1996

CREDIT NUMBER 2822 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 5, 1996, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from the Asian Development Bank (ADB) a loan (the ADB Loan) in an amount of seventeen million five hundred ninety two thousand Special Drawing Rights (SDR 17,592,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the ADB Loan Agreement) to be entered into between the Borrower and ADB;

(C) the Borrower intends to obtain from the Government of Switzerland acting through the Swiss Development Cooperation (SDC) a grant in an amount equivalent to three million seven hundred sixty-eight thousand five hundred dollars (\$3,768,500) (the Swiss Grant) to assist in financing part of the Project on terms and conditions set forth in an agreement (the Swiss Grant Agreement) to be entered into between the Borrower and SDC; 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, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) the last sentence of Section 3.02 is deleted;
- (b) the second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter to the United Nations."

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

- (a) "DNFE" means the Directorate of Nonformal Education within the Primary and Mass Education Division of the Borrower, and includes any successor thereto;
- (b) "FY" or "fiscal year" means the fiscal year of the Borrower, commencing July 1 and ending June 30 of each year;
- (c) "NFE" or "Nonformal Education" means any organized educational activity outside the established formal system, operating as an important part of some broader community development activity or independently thereof, that is intended to serve identifiable learning clienteles and learning objectives;
- (d) "NGO" or "NGOs" means non-governmental organization(s) selected in accordance with paragraphs 9 and 10 of Schedule 4 to this Agreement;
- (e) "Pilot Programs" means the Borrower's programs to develop alternative NFE models and approaches to meet special needs and to assist in ongoing efforts to upgrade the overall quality of NFE programs;
- (f) "PMED" means the Primary and Mass Education Division within the Borrower, and includes any successor thereto;
- (g) "Project Area" means, except as the Borrower and the Association may otherwise agree, (i) for the purposes of Part B (1) of the Project about 30 districts in the Borrower's six existing divisions selected in accordance with criteria satisfactory to the Association, including low literacy rates, community demand, accessibility, and availability of NGOs which can deliver NFE programs to young adults; (ii) for the purposes of Part B (3) of the Project, two initial districts selected in accordance with criteria satisfactory to the Association and such other districts as may be acceptable to the Association;
- (h) "Project facilities" means the facilities to be provided under the Project;
- (i) "Subproject" means a subproject approved for financing out of the proceeds of the Credit for NFE delivery under Part B (1) of the Project or for Pilot Programs under Part B (3) of the Project;
- (j) "thana" means an administrative sub-district of the Borrower;
- (k) "TLM" means the Total Literacy Movement developed by the Borrower as an alternate channel of delivery for non-formal education with mass participation in a given area;
- (l) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(m) "Bangladesh Bank" means the Central Bank of Bangladesh established under Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) as amended.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seven million one hundred thousand Special Drawing Rights (SDR 7,100,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bangladesh Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing April 1, 2006 and ending October 1, 2035. Each installment to and including the installment payable on October 1, 2015 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such

installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and education 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. Except as the Association shall otherwise agree, procurement of the goods 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.

Section 3.03. For purposes of Section 9.07 of the General Conditions and without limitations thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six 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 maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for 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;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. (a) Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that subject to paragraph (b) of this Section:

- (i) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
- (ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that:

- (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
- (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) of that Section.

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) all conditions precedent to the effectiveness of the ADB Loan Agreement and the Swiss Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement;

(b) the National Council for Primary and Mass Education, referred to in Part A (1) of the Project, has been established with members representing the Borrower, social and other groups, private providers, NGOs and other voluntary organizations, and having the following functions: (i) serve as adviser to the Borrower concerning

policies for primary education and NFE; and (ii) provide guidance regarding the Borrower's NFE goals and objectives and a strategy for mobilization.

(c) the Project Proforma for the carrying out of the Project has been approved by the Borrower.

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

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, or the Additional Secretary, or any Joint Secretary, Deputy Secretary, Senior Assistant Secretary or Assistant Secretary of the Economic Relations Division of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Economic Relations Division
Ministry of Finance
Government of the People's
Republic of Bangladesh
Dhaka, Bangladesh

Cable address:

BAHIRSAMPAD
Dhaka

Telex:

642226 SETU BJ
672796 SETU BJ

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Humayun Kabir

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood

Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Vehicles	570,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of expendi- tures for other items procured locally
(2) Services for delivering NFE courses under Part B (1) of the Project	4,800,000	100%
(3) Services for delivering alternate NFE and TLM courses under Part B.3 of the Project	340,000	100%
(4) Unallocated	1,390,000	
TOTAL	7,100,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for vehicles not exceeding \$50,000 equivalent and for all other expenditures under contracts not exceeding \$120,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to achieve Education for All (EFA) by improving and expanding the Borrower's NFE program, which is designed for illiterate young adults between the ages of 15 to 24 years, particularly females.

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 Development

1. Establishment and operation of the National Council for Primary and Mass Education to act as an advisory and guiding forum for policy, planning and other matters related to primary education and NFE.

2. Strengthening the development of DNFE's four operational units, each headed by a director: (i) Planning, Programming, Monitoring and Evaluation, (ii) Operations, (iii) Technical Support Service, and (iv) Finance and Administration, such strengthening to be carried out through development of appropriate systems and expertise in DNFE in planning, monitoring and evaluating NFE programs, construction and equipping of a NFE Headquarters building, including provisions for ancillary facilities.

3. Development of DNFE staff through the provision of consulting services, local training, local and external fellowships and regional study tours.

Part B: Expansion and Improvement of NFE

1. Delivering NFE to young adults through subprojects each consisting of NFE courses and subsequent post-literacy courses delivered by NGOs.

2. Improving the quality of NFE by revising NFE training programs, curriculum and materials, developing post-literacy materials as required, developing materials for other TLM and voluntary programs, initiating social mobilization activities to create demand for NFE, carrying out special research projects and evaluating efficiency of NFE programs.

3. Carrying out Pilot Subprojects to: (a) test alternative NFE courses, materials and delivery mechanisms to meet special NFE needs, and (b) test Total Literacy Movement (TLM) in selected districts.

* * *

The project is expected to be completed by December 31, 2000.

SCHEDULE 3

Procurement

Schedule I. Procurement of Goods

Part A: General

Vehicles shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, vehicles shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to vehicles to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. International Shopping

Vehicles estimated to cost the equivalent of \$50,000 or less per contract and \$200,000 or less in the aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Community Participation

Procurement of services of NGOs for program delivery shall follow procedures

acceptable to the Association.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for vehicles estimated to cost the equivalent of \$50,000 or more, and all other contracts each costing the equivalent of \$120,000 or more, the procedures set forth in paragraph 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall ensure that DNFE shall bear overall responsibility for planning, organizing, managing, supervising, coordinating and monitoring the Project. The Director-General of DNFE shall be the Project Coordinator responsible for overall Project implementation.

2. The Borrower shall maintain the National Council for Primary and Mass Education (the Council) in accordance with composition and functions referred to in Section 6.01 (b) of this Agreement.

3. The Borrower shall by December 31, 1996, appoint an additional 11 DNFE professional staff to work at DNFE headquarters to enhance Project implementation and overall institutional capacity for the total NFE program between 1996-2000, as well as assist in the development of appropriate systems and expertise for the management of the expansion in NFE delivery.

4. The Borrower shall ensure that by June 30, 1996, the Project Implementation Management Unit (PIMU) is adequately staffed with key support and operational personnel having experience and qualifications satisfactory to the Association. Throughout Project implementation, the PIMU shall be assisted by the organizational units within DNFE, in particular the Operations Unit, which shall be responsible for program implementation and field operations at the district and thana levels.

5. The Borrower shall by June 30, 1996, constitute a Project Coordination Committee (PCC) within PMED to be responsible for (i) coordinating Project activities among PMED, other departments and agencies of the Borrower, NGOs and other Project related organizations, (ii) reviewing and approving sector policy adjustments, (iii) monitoring the general progress of the Project, and (iv) reviewing and approving annual NFE operations and financing plans. The Secretary of PMED shall chair the PCC, which shall consist of senior staff designated by PMED, DNFE, the Borrower's Ministry of Planning and Ministry of Finance, a representative of the national organization of NGOs active in NFE and the Project Director of PIMU.

6. Without limiting the generality of the provisions of Section 3.01 of this Agreement, the Borrower shall: (i) by September 30, 1996, furnish the Association with a copy of a detailed, costed program and plan, acceptable to the Association, for NFE and DNFE for the period from 1996 to 2000; (ii) furnish to the Association for comments by March 31 of each year during the implementation of the Project, commencing in FY96, a draft annual NFE operations and financing plan, including Subprojects to be carried out under the Project in the following Fiscal Year; and (iii) transfer DNFE's costs of operation of the Project from the development budget to the revenue budget upon completion of the Project.

7. The Borrower shall ensure that NGOs and Subprojects for the purposes of Parts B

(1) and B (3) of the Project are appraised and selected on the basis of criteria agreed upon by the Borrower and the Association, including, inter alia, (a) in the case of NGOs: (i) number of years in existence; (ii) experience in delivering NFE; (iii) registration status; (iv) management capability; and (v) ability to bear overhead costs; and (b) in the case of Subprojects: (i) location and profile of target population with particular reference to gender, literacy and poverty; (ii) curriculum and materials; (iii) instruction methods; (iv) supervision, evaluation and monitoring plans; and (v) cost estimates.

8. To ensure an appropriate level of quality in NFE programs, learner achievement and cost-effectiveness, the Borrower shall implement the Project using a phased approach in selected districts so as to enable DNFE and any NGOs participating in the Project to strengthen their institutional capacity; districts shall be selected on the basis of literacy rates below 45 percent, community demand and availability of NGOs which can deliver NFE programs to young adults.

9. The Borrower shall ensure that DNFE's Subvention Committee approves each NGO implementing each such subproject based on the NGOs' capacity to manage effectively all subproject field activities, including carrying out baseline surveys, providing a profile of the target population, maintaining records of student intake, providing delivery services, conducting output evaluations, maintaining financial and accounting records and continuing with outreach programs.

10. The Borrower shall continue to use existing mechanisms to contract for NFE delivery through NGOs, including advertisements to invite proposals from NGOs, selecting NGOs according to criteria referred to in paragraph 7 hereof and collecting names of master trainers, supervisors and teachers to receive training. The Borrower shall ensure that all financial assistance provided to NGOs under the Project is based on fixed unit costs per student calculated in accordance with methodology satisfactory to the Association.

11. To develop alternative NFE models and approaches for meeting special needs and to assist the ongoing upgrading of overall program quality, the Borrower shall cause each NGO participating in the Project to submit costed proposals for review and selection.

12. Prior to implementing TLM in selected districts, the Borrower shall furnish to the Association for concurrence, proposals identifying the number, location, and profile of the target population, established demand, mechanism for delivery, implementation arrangements and itemized cost estimates.

13. (a) The Borrower shall take all necessary steps to encourage women living in the Project Area to participate in subproject planning and implementation and to promote to the extent feasible the (i) location of NFE centers within the community of the target population, (ii) hiring of female teachers for female groups, (iii) provision of instruction to participants free of charge, and (iv) design of a gender responsive MIS system.

(b) The Borrower shall ensure that at least 50 percent of NFE learners are females.

14. The Borrower shall promote community participation in designing, operating and maintaining subprojects. Such participation shall include identifying learners, providing shelters for learners, recruiting teachers from the local community, establishing management committees, revising curriculum and materials as well as developing post-literacy and continuing education materials.

15. Not later than June 30, 1998, the Borrower and representatives of other entities invited by the Borrower shall jointly with the Association undertake a midterm review (MTR) of the Project to evaluate issues related to scope, design, implementation arrangements, and institutional and financial capacity. The Borrower shall ensure that a midterm evaluation report is prepared prior to the convening of the MTR. The Borrower shall ensure that the midterm evaluation report identifies changes needed in Project implementation, assesses the potential impact of future Project implementation as well as the sustainability of the Project, evaluates Project implementation performance against Project performance indicators satisfactory to the Association, reviews compliance with Project covenants, and identifies problems and constraints. During the MTR, representatives of the Borrower and the Association shall discuss the midterm evaluation report and based on such discussion the Borrower shall take action as necessary to ensure the effective implementation of the Project implementation.

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 3 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$700,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 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 2,500,000.

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 deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (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 the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

