

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4598-UZ

Financing Agreement

**(Basic Education Project - Second Phase of the Adaptable Program Lending in
Support of the Education Reform Program)**

between

REPUBLIC OF UZBEKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 15, 2009

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CREDIT NUMBER 4598-UZ

FINANCING AGREEMENT

AGREEMENT dated October 15, 2009, entered into between the REPUBLIC OF UZBEKISTAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eighteen million nine hundred thousand Special Drawing Rights (SDR 18,900,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 15 and November 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the United States Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project through the MPE in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: the Operational Manual or any provision thereof has been assigned, amended, abrogated or waived without a prior approval of the Association.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: the Operational Manual has been revised and adopted by the MPE for the purposes of the Project and is satisfactory to the Association.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister of Finance of the Recipient.

6.02. The Recipient's Address is:

Ministry of Finance
Mustakilik Square 5
Tashkent 100008
Republic of Uzbekistan

Telex:

11 6360 IK BOL

Facsimile:

(998-71) 244-5643
(998-71) 239-1259

6.03. The Association's Address is:

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

Cable:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI)

Facsimile:

1-202-477-6391

AGREED at Tashkent, Republic of Uzbekistan, as of the day and year first above written.

REPUBLIC OF UZBEKISTAN

By /s/ Rustam Azimov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Loup Brefort

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to continue supporting the Recipient's efforts to improve effectiveness of teaching and learning through: (i) targeted interventions in selected general secondary education schools and preschools in rural poor areas; (ii) development of institutional capacity to assess student learning; and (iii) adoption of predictable and transparent school budgets in selected oblasts.

The Project is the second phase of the Adaptable Program Lending in support of the Education Reform Program and it consists of the following parts:

Part A. Providing Learning Materials and Resources for Grades Five through Nine of General Secondary Schools

1. Provision of learning materials, equipment and other resources for grades five through nine of selected general secondary schools.
2. Dissemination of information to school boards, teachers, parents and communities, including through regional exhibition fairs, on learning materials, equipment and other resources available under Part A.1 above.

Part B. Strengthening School-Based Training for Teachers and Directors of Pre-Schools and General Secondary Schools

1. Provision of technical assistance for the development of the school-based teacher training strategy and the development and production of training modules and materials.
2. Provision of school-based teacher Training to methodological groups, teachers and facilitators to promote the use of student-centered active learning, improvement of student assessment methods, cooperation-based work methods, community mobilization and effective use of modern teaching aids.
3. Provision of Training to school and preschool directors to familiarize them with school-based teacher training, student centered and active learning and to strengthen their skills and competencies on school leadership, school- community collaboration, change management and resource management.

Part C. Strengthening School Boards and Providing Competitive Grants to Selected Schools for School Improvement

1. Provision of Training for evaluation of proposals and implementation of school improvement activities to be financed by Competitive Grants.

2. Provision of Competitive Grants to selected schools to finance Sub-projects aimed at school improvement.
3. Dissemination of best practices in school improvement activities.

Part D. Improving Education Financing, Budgeting and Management

1. Provision of technical assistance and Training to support the Recipient's activities on expansion of per capita financing practice to additional selected regions.
2. Provision of technical assistance and Training for: (i) school budget planning, execution and accounting; (ii) establishment of a school financial management and public expenditure monitoring system, including software development and installation of a school financial management and accounting system; and (iii) monitoring and evaluation activities.

Part E. Project Management and Results Management

1. Strengthening of the MPE's and other education institutions' capacity for Project management and implementation, including audit, procurement, disbursement and financial management activities, and for monitoring and evaluation of the impact of the Project through provision of goods, technical assistance, Training and financing of Operating Costs.
2. Provision of technical assistance and goods to carry out standardized national assessments of student learning in grades 4 and 8.
3. Implementation of a follow up survey to the baseline survey carried out during the implementation of the first phase of the Adaptable Program Lending.
4. Design and implementation of on-site assessments and observations of the effectiveness of teachers in using new learning materials and the extent to which their teaching practices have changed towards a more interactive, student-centered approach.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. Without limitation upon the provisions of Section 3.01 of this Agreement the Recipient shall ensure that throughout the Project implementation the sufficient number of the MPE staff with competence, resources and terms of reference satisfactory to the Association are assigned for the purposes of Project management, monitoring and evaluation.
2. The Recipient, through the MPE, shall carry out the Project in accordance with the Operational Manual and Grants Manual and shall not amend, suspend, abrogate, repeal or waive any provision of said Manuals without the prior approval of the Bank.
3. Without limitation upon the provisions of Article IV of the General Conditions the Recipient shall ensure that adequate allocations are included in its annual budget to finance Project related study tours for MPE staff, other government officials, school teachers and school board representatives as a part of training related to school-based teacher training, per capita financing, student assessment, school board activities and Sub-projects preparation, financing and implementation. Project related study tours shall be carried out in accordance with a training plan and a time schedule which shall have been agreed upon between the Recipient and Association.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Sub-projects.

1. The Recipient, through the MPE, shall provide Competitive Grants to Beneficiaries in accordance with eligibility criteria and procedures acceptable to the Association, and set forth in the Grants Manual. The Recipient shall make sure that no works are financed from the proceeds of Competitive Grants.
2. The Recipient, through the MPE, shall make each Competitive Grant under a Grant Agreement with the respective Beneficiary on terms and conditions approved by the Association, which shall include the following:

- (a) The Competitive Grant shall be denominated in the national currency of the Recipient and shall not exceed the amount equivalent to five thousand Dollars (\$5,000).
 - (b) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to: (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Competitive Grant, or obtain a refund of all or any part of the amount of the Competitive Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Grant Agreement; and (ii) require each Beneficiary to: (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of financing proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose of the Sub-project; (C) procure the goods and services to be financed out of the Competitive Grant in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (F) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.
3. The Recipient shall exercise its rights under each Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Grant Agreement or any of its provisions.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. The Recipient, through the MPE, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester (six months), and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months prior to the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Recipient, through the MPE, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient, through the MPE, shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient, through the MPE, shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.
4. The Recipient, through the MPE, shall:
 - (a) have the internal control framework, the operational processes and procedures followed under the Project audited for the first 24 months of Project implementation, in accordance with terms of reference and by independent auditors both acceptable to the Association;
 - (b) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of such period: (i) certified copies of the assessment of the internal control framework, the operational processes and

procedures referred to in paragraph (a) of this Section for such period, as so audited; and (ii) an opinion on such processes and procedures by said auditors, in scope and detail satisfactory to the Association, as to whether they provide the Recipient adequate accounting, internal control and financial reporting as intended for the Project; and

(c) furnish to the Association such other information concerning such internal control framework, operational processes and procedures, and the audit of such internal control framework, operational processes and procedures, and concerning said auditors, as the Association may from time to time reasonably request.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) Shopping
(b) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Least-Cost Selection
(b) Selection Based on Consultant’s Qualifications
(c) Selection of Individual Consultants, including Single-Source Selection

D. Operating Costs

Incremental expenditures included in the Operating Costs category can be procured in accordance with the established Recipient’s administrative procedures acceptable to the Association.

E. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods and consultants’ services, including Training	16,640,000	100% (excluding taxes)
(2) Competitive Grants under Part C.2 of the Project	1,760,000	100%
(3) Operating Costs	500,000	100% (excluding taxes)
TOTAL AMOUNT	<u><u>18,900,000</u></u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; and
 - (b) for payments under Category (2) above until the Grants Manual, satisfactory to the Association, has been adopted by the Recipient.

2. The Closing Date is March 31, 2014.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing November 15, 2019 to and including May 15, 2029	1.25%
commencing November 15, 2029 to and including May 15, 2044	2.5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX**Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiary” means a school selected in accordance with the requirements of the Grants Manual to receive a Competitive Grant under Part C.2 of the Project.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Competitive Grant” means a grant provided or proposed to be provided to a Beneficiary to finance a Sub-project under Part C.2 of the Project.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
7. “Grant Agreement” means a grant agreement executed or proposed to be executed between the Recipient, represented by the MPE, and a Beneficiary pursuant to Part C of Section I of Schedule 2 to this Agreement for the purposes of financing of a Sub-project.
8. “Grants Manual” means a manual adopted by the Recipient pursuant to paragraph 1 (b) of Part B of Section IV of Schedule 2 to this Agreement and which sets forth selection criteria, procedures and other requirements with regard to Sub-projects selection, processing and implementation.
9. “MPE” means the Ministry of Public Education of the Recipient or any successor thereto.
10. “Operating Costs” means incremental operating costs incurred by the MPE on account of Project implementation, management and monitoring, including office equipment maintenance and repair, local travel, communication, translation and interpretation, bank charges, fees for facilitators and mentors, and other miscellaneous costs directly associated with the Project, all based on periodic budgets acceptable to the Association.

11. “Operational Manual” means an operational manual adopted by the Recipient under the first phase of the Program and revised for the purposes of the Project pursuant to Section 5.01 of this Agreement.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 7, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. “Program” or “Education Reform Program” means the program designed to improve teaching conditions in general secondary schools and pre-schools and set forth or referred to in the letter dated September 18, 2006 from the Recipient to the Association.
15. “Sub-project” means school improvement activities selected or proposed to be selected for financing through a Competitive Grant under Part C.2 of the Project.
16. “Training” means expenditures for Project related training courses, seminars, workshops, study tours and other training activities not included under goods or service providers’ contracts, including costs of training materials, space and equipment rental, travel and per diem costs of trainees, trainers and mentors.