

CONFORMED COPY

CREDIT NUMBER 3674-YEM

Development Credit Agreement

(Higher Education Project)

between

REPUBLIC OF YEMEN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 17, 2002

CREDIT NUMBER 3674-YEM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 17, 2002, between REPUBLIC OF YEMEN (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 Association has received a letter dated November 18, 2001, from the Borrower describing the Borrower's higher education program (the Program), setting out certain measures required to carry out the Program and declaring the Borrower's commitment to the execution of the Program; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

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 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 of 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) "CMT" means the Coordination and Management Team referred to in paragraph 2 (d) of Schedule 4 to this Agreement;

(b) "Financial Management Specialist" means the Financial Management Specialist referred to in paragraph 2 (e) of Schedule 4 to this Agreement;

(c) "Financial Monitoring Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(d) "MHESR" means the Borrower's Ministry of Higher Education and Scientific Research referred to in paragraph 2(a) of Schedule 4 to this Agreement;

(e) "Midterm Review" means the Midterm Review referred to in paragraph 4 of Schedule 4 to this Agreement;

(f) "Project Implementation Manual" means the Project Implementation Manual referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(g) "Special Account" means the account referred to in Section 2.02(b) of this

Agreement;

(h) "Steering Committee" means the Steering Committee referred to in paragraph 2 (b) of Schedule 4 to this Agreement; and

(i) "Universities" means the Universities of Sana'a and Aden.

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 four million one hundred thousand Special Drawing Rights (SDR 4,100,000).

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 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 separate special deposit account in its Central 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 December 31, 2006 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of

three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 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 May 1 and November 1 commencing November 1, 2012 and ending May 1, 2042. Each installment to and including the installment payable on May 1, 2022 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 MHESR with due diligence and efficiency and in conformity with appropriate educational, administrative, financial and management 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 and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the continued achievement of the objectives 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 four months after the end of each such year, 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 and 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 report 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; and
- (iii) enable the Association's representatives to examine such records; and 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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 3 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 Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation ; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar semester 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 semester; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

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) the Borrower has established a computer-based accounting and financial management system in form and substance satisfactory to the Association; and
- (b) the Borrower has appointed an auditor acceptable to the Association to audit Project accounts.

Section 6.02. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Planning and Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Planning and Development
P.O. Box 175
Sana'a
Republic of Yemen

Cable address:	Telex:	Facsimile:
ENPLANE Sana'a	2266 ENPLANE YE	(967) 1 250 665

For the Association:

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

Cable address:	Telex:	Facsimile:
IDEAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF YEMEN

By /s/ Abdulwahab Al-Hajjri

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Louis Sarbib

Regional Vice President
Middle East and North Africa

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	480,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(2) Consultants' services	1,240,000	100% of foreign expenditures and 80% of local expenditures
(3) Training	1,700,000	100% of foreign expenditures and 80% of local expenditures
(4) Operating Costs	180,000	100% until December 31, 2003, 75% until December 31, 2004, 50% until December 25, 2005, and 25% thereafter
(5) Unallocated	500,000	
TOTAL	<u>4,100,000</u>	

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;

(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; and

(c) the term "Operating Costs" means expenditures incurred under the Project on account of utility charges, fuel, office supplies, banking charges, communication and translation services, audit costs, local travel costs (including transport and per diem), advertising, mailing and shipping costs and CMT staff salaries, excluding salaries of officials 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 for: (i) goods under contracts costing less than \$100,000 equivalent each; (ii) consultants' services under contracts not exceeding: (a) \$100,000 equivalent each for consulting firms, and (b) \$50,000 equivalent each for individual consultants; (iii) training; and (iv) Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (i) preparing, and carrying out, a higher education reform strategy; and (ii) developing the capacity of the Ministry of Higher Education and Scientific Research (MHESR) to carry out major reforms aimed at the strengthening of post-secondary education.

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: Governance

1. The development of a financially sustainable strategy and medium term development program for higher education based on enhanced governance and improved management, notably the delegation, on the basis of agreed institutional development plans, of spending authority to the Universities.

2. (a) (i) The development of a national strategy for the reform of higher education; (ii) the mentoring of core planning groups in MHESR; and (iii) the development of a broad policy dialogue, culminating in the holding of a national conference to validate national higher education strategy, policies and financing.

(b) Strengthening the capabilities of MHESR, including: (i) on-site professional development of senior MHESR staff in strategic planning and policy-making; (ii) the strengthening of the role of MHESR to proffer advice the Borrower's Higher Council of Higher Education.

(c) Assisting MHESR in the carrying out of its functions, through the provision of technical advisory services and training.

(d) Assisting MHESR in reviewing the policies related to the administration of the higher education system through the provision of technical advisory.

Part B: Finance

1. (a) Carrying out a review of current budget regulations and practice, and the formulation and testing of budget structures, categories and procedures designed to facilitate the delegation of budget management to the institutional level and the promotion of accountability, through the provision of technical advisory services and training.

(b) The design, preparation and testing, in close collaboration with the Borrower's Ministry of Finance and MHESR, of program budgets of the Universities, with regard to funding, program objectives and performance objectives.

(c) The development of a transparent formula for use in the allocation of public sector funding to Universities.

(d) The acquisition and adaptation of a financial management system designed to facilitate (i) the application of the formula referred to in (c) above; and (ii) the transfer and tracking of public sector funding allocated to Universities.

Part C: Quality

1. Improving and upgrading learning opportunities for students, professors and other teaching staff in selected faculties of the Universities by piloting strategic initiatives with regard to: (i) the modernization of program; (ii) staff upgrading; and (iii) self evaluation and accreditation.

2. (a) Facilitating program renewal through the design, development, and piloting of an information, communications and technology (ACT) network linking the central libraries and faculty libraries of the Universities and facilitating faculty and student exchanges.

(b) Developing a pilot accreditation system for a selected private institution, based on rigorous and transparent quality standards.

(c) Provision of technical support to Universities through twinning arrangements satisfactory to the Association.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under BIRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 goods to be procured in accordance with the provisions of paragraph 1 of this Part B.

1. Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

Part C: Other Procurement Procedures

1. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, may be procured in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines under contracts awarded on the basis of: (i) national shopping procedures, if available locally; or (ii) international shopping procedures, if not available locally.

2. Direct Contracting

Goods costing \$5,000 equivalent or less per contract, up to an aggregate amount not to exceed \$10,000 equivalent may, with the Association’s prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association 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

(a) With respect to: (i) each contract for goods estimated to cost the equivalent of \$100,000 or more; and (ii) the first contract for goods estimated to cost the equivalent of less than \$100,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods estimated to cost the equivalent of: (i) \$50,000 or less being goods to be procured through shopping procedures; and (ii) \$5,000 or less being goods to be procured through direct contracting procedures, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of: (a) the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for twinning arrangements under Part C.2 (c) of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services of auditors may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Single Source Selection

On an exceptional basis, services of consulting firms and individual consultants, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply with respect to:

(i) each contract for the employment of: (A) consulting firms estimated to cost the equivalent of \$100,000 or more, and (B) individual consultants estimated to cost the equivalent of \$50,000 or more;

(ii) the first of the contracts for the employment of: (A) consulting firms estimated to cost the equivalent of less than \$100,000, (B) individual consultants estimated to cost the equivalent of less than \$50,000; and

(iii) the terms of reference of every contract, regardless of the amount of contract.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. (a) The Borrower shall, for the purposes of the Project maintain a Project Implementation Manual in form and substance satisfactory to the Association, setting out details of all procedures, guidelines, timetables and criteria required for the Project, including the financial, administrative and operational arrangements relating to the carrying out of the Project.

(b) The Borrower shall carry out the Project in accordance with the Project Implementation Manual and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the Project Implementation Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. (a) The Borrower shall maintain MHESR in a form and with functions, staffing and resources satisfactory to the Association. MHESR shall have overall responsibility for the implementation of the Project.

(b) The Borrower shall maintain in MHESR, a Steering Committee in a form and with functions, staffing and resources satisfactory to the Association. The Steering Committee shall be responsible for: (i) oversight and policy matters under the Project; (ii) overseeing the work of the Coordination and Management Team (CMT); (iii) review and approval of annual activity plans and budgets, progress reports; and (iv) review and signing off on the annual audits prepared under the Project.

(c) The Steering Committee's membership shall include: (i) the Minister of Higher Education (as chairman); (ii) the Vice Minister of Higher Education; (iii) the deputy ministers and representatives of the Ministries responsible for Planning and Development and Finance; and (iv) a representative from each of the Universities.

(d) The Borrower shall maintain in MHESR a Coordination and Management Team (CMT) in a form and with functions, staffing and resources satisfactory to the Association.

CMT's responsibilities shall include:

- (i) financial management of the Project to ensure the efficient and transparent use of the financial resources according to sound financial practices; and the coordination and control of the flow of Project funds;
- (ii) establishment of an appropriate accounting system for MHESR; maintenance of accurate and timely accounting records and related supporting records;
- (iii) ensuring that all payments are: (A) in line with the budget, (B) properly authorized, and (C) conform in all respects with the financial and procurement procedures and regulations required under this Agreement;

(iv) preparation and submission to MHESR and the Association of semi-annual financial monitoring reports required under the Project; and

(v) ensuring that the annual financial statements required under the Project are audited regularly, in a timely manner and in conformity with the requirements of this Agreement.

(e) The financial management specialist, procurement specialist and technical coordinator assigned to MHESR shall have qualifications and experience, and be appointed on terms and conditions, satisfactory to the Association.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, within 45 days after the end of each calendar semester, reports, in form and substance satisfactory to the Association: (i) showing the progress achieved during the six months period immediately preceding each such date in the carrying out of the Project including progress made in (A) the financial and physical implementation of the Project, and (B) the performance of the indicators set forth in Schedule 6 to this Agreement; and (ii) setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof.

4. The Borrower shall no later than December 31, 2004, carry out jointly with the Association a Midterm Review of the progress made in carrying out the Project. The Midterm Review shall cover: (i) an assessment of: (A) progress made in carrying out work programs prepared for the Project, (B) training provided under the Project, (C) procurement under the Project, (D) the extent to which actions described in the indicators set out in Schedule 6 to this Agreement have been carried out, and (E) plans made or proposed for updating said indicators; and (ii) and such other matters relating to the carrying out of the Project as the Borrower or the Association shall reasonably request.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (4) 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 \$500,000 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 \$200,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 1,500,000.

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, 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.

SCHEDULE 6

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Borrower and the Association:

A. Sector Indicators

1. Higher education strategy prepared.
2. Financial and operational indicators prepared.

B. Outcome/Impact Indicators

1. Approval of a strategic plan and multi-year development program for higher education, building on the measures piloted under the Project.
2. Development plans and linked program budgets for the Universities for 2004 prepared.
3. Implementation of a budget program.

C. Output Indicators

1. Quality of technical work assessed by external reviewers; Midterm Review and end of Project review completed.
 2. (a) Allocations, income and expenditures are transparent, reflect agreed systems and procedures and standards of accountability.
(b) Annual budget implementation results available.
 3. (a) Student and faculty feedback available.
(b) Cost effectiveness of training assessed.
(c) Network development plan completed by December 31, 2003.
 4. Result of pilot self evaluations and accreditation reviews available.
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