

CONFORMED COPY

CREDIT NUMBER 3014 CE

Development Credit Agreement

(Second General Education Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 15, 1997

CREDIT NUMBER 3014 CE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 15, 1997, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated October 15, 1997, from the Borrower on the National Education System Reform Policy Initiatives, describing a program of actions, objectives and policies designed for the further development of its education sector;

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

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the 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 Association and the Borrower 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 of the United Nations."

- (c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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

- (a) "FC" means the Borrower's Finance Commission;
- (b) "FY" means the fiscal year of the Borrower commencing January 1 and ending December 31;
- (c) "GEP" means the General Education Project (Cr. 2072-CE) financed under a Development Credit Agreement dated February 14, 1990 between Democratic Socialist Republic of Sri Lanka and the Association;
- (d) "MEHE" means the Borrower's Ministry of Education and Higher Education;
- (e) "NEC" means the Borrower's National Education Commission;
- (f) "NIE" means the Borrower's National Institute of Education responsible for curriculum development;
- (g) "PCU" means the Project Coordination Unit established within MEHE for the purpose of implementation of the Project;
- (h) "PEA" means the Provincial Education Authority responsible for administration and education in each of the eight provinces of the Borrower;

(i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(j) "UGC" means the Borrower's University Grants Commission responsible for defining policies and administering funds for higher education.

## 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 fifty-one million four hundred thousand Special Drawing Rights (SDR 51,400,000).

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 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 June 30, 2003 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 May 1, 2008 and ending November 1, 2037. Each installment to and including the installment payable on November 1, 2017 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 MEHE with due diligence and efficiency and in conformity with appropriate administrative financial 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, works 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. The Borrower shall maintain until completion of the Project the PCU with adequate staffing and resources and in accordance with terms of reference satisfactory to the Association, which shall be responsible for the overall implementation of the Project.

Section 3.04. For the purposes of Section 9.07 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 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 six months after the end of each 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;

(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

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that a Memorandum of Understanding, satisfactory to the Association, has been entered into between the Borrower and each of the Borrower's eight provinces for the implementation of the Project in each province.

Section 5.02 The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary, or the Director General, External Resources Department, Ministry and Finance and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance and Planning  
Democratic Socialist Republic of Sri Lanka  
Colombo, Sri Lanka

Cable address:	Telex:
SECMINFIN Colombo	FINMIN 21409 FORAID 21232

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)

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.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Warnasena Rasaputram  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Robert Drysdale  
Acting 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:

Amount of the Credit Allocated	% of
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Category	(Expressed in SDR Equivalent)	Expenditures to be Financed
(1) Civil works	8,920,000	100% of foreign expenditures; 65% of local expenditures
(2) Equipment, furniture and vehicles	18,060,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 85% of local expenditures for other items procured locally
(3) Library books, educational materials/textbooks (printing and production), and surveys/plans (preparation)	9,140,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 90% of local expenditures for other items procured locally
(4) Consultants' services	3,070,000	100%
(5) Training, fellowships and studies	8,850,000	100%
(6) Project management	370,000	50%
(7) Unallocated	2,990,000	
TOTAL	51,400,000	

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;

(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 "Project Management" means expenditures incurred by PCU in respect of the Project and by MEHE in respect of Project activities, such as survey analysis and studies, but not including salaries.

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 training and project management and under contracts for:

(a) goods not exceeding \$100,000 equivalent;

(b) works not exceeding \$300,000 equivalent;

(c) consulting firms not exceeding \$100,000 equivalent; and

(d) individual consultants not exceeding \$50,000 equivalent, all 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 improve the quality, access, management and financing of education programs of the Borrower.

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: Curriculum Development

Preparing a national strategy for and implementing a sequential and cyclical curriculum in all subjects for junior cycle (grades 1-9) and improving management of the curriculum process, through the provision of technical assistance and training.

#### Part B: Textbooks/Education Publications

Improving the quality and content of textbooks to match the curriculum needs by upgrading their physical condition (paper, cover and binding), increasing their life expectancy and allowing the introduction of a re-use policy and multiple textbook option.

#### Part C: School Facilities Rationalization

Increasing equitable and cost-effective allocation of education facilities and libraries through the development of zonal and provincial plans to match the proposed National Education Commission's (NEC) new education system structure of junior (grades 1-9) and senior schools (grades 10-13).

#### Part D: Quality Inputs

Supplying sufficient quantities of educational materials and equipment matching the curriculum and syllabi needs on a per capita basis annually.

#### Part E: Libraries

1. Developing three types of libraries (according to school sizes) and providing them with adequate books, shelves, furniture and trained staff in library management.
2. Establishing the National Institute of Library and Information Science at the Colombo University through the carrying out of civil works and provision of equipment.

#### Part F: Education Management and Planning

Strengthening education management through rationalization of roles and functions exercised by the central and provincial authorities, National Institute of Education and University Grants Commission, and the training of staff in these new roles.

#### Part G: Education Financing

Implementing an equitable norm-based unit cost formula to improve resource allocation and assist with the sustainability of quality inputs and school maintenance, through the provision of technical assistance and staff training.

#### Part H: Studies

Carrying out studies for impact analysis of GEP inputs and to assess the future investment needs in the education sector and monitoring of Project inputs.

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The Project is expected to be completed by December 31, 2002.



### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Good and Works

###### Part A: General

Goods and works 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 and revised in January and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

###### Part B: International Competitive Bidding

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

###### (a) Prequalification

Bidders for works under Parts C and E of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

###### (b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

###### Part C: Other Procurement Procedures

###### 1. National Competitive Bidding

(a) (i) Civil works for the rehabilitation and refurbishing of junior and senior schools estimated to cost \$1,000,000 equivalent or less per contract, up to an aggregate amount not to exceed \$13,600,000 equivalent; (ii) civil works and goods for the establishment of the National Institute of Library and Information Science at the University of Colombo; (iii) vehicles estimated to cost \$100,000 equivalent or less per contract up to an aggregate amount not to exceed \$1,000,000; (iv) furniture for schools estimated to cost the equivalent of \$4,600,000 in the aggregate; (v) equipment estimated to cost \$50,000 equivalent or less per contract up to an aggregate amount not to exceed \$8,500,000; (vi) contracts for writing, publishing, printing and distribution of textbooks; and (vii) contracts for printing and producing education materials estimated to cost the equivalent of \$200,000 in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) To the extent practicable, contracts for civil works for the rehabilitation and refurbishing of junior and senior schools shall be grouped in bid packages estimated to cost the equivalent of \$100,000 equivalent or more each.

###### 2. International and National Shopping

(a) Computers and other items of equipment estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, 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.

(b) Furniture estimated to cost the equivalent of \$1,000,000 in the aggregate and contracts for the printing and production of education materials estimated to cost the equivalent of \$100,000 in the aggregate, may be procured under contracts awarded

on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

### 3. Direct Contracting

(a) Reference and library books and educational materials which are obtainable only from one source and costing \$3,700,000 equivalent or less in the aggregate may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines. In cases where two or more similar items exist, such items may be procured on the basis of comparative bids from at least two suppliers.

(b) Contracts for surveys and plan formulation costing \$400,000 equivalent or less in the aggregate may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

### 4. Force Account

Surveys and plans for quality inputs for curriculum and facilities which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$400,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

## Part D: Review by the Bank of Procurement Decisions

### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 and works 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 all contracts procured through international competitive bidding and procurement through national competitive bidding of the first two contracts for goods and the first two contracts for civil works for each province, and thereafter each contract for civil works estimated to cost the equivalent of \$300,000 or more, and for each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 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.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

### 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.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for 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. Selection Based on Consultants' Qualifications

Services for the Project estimated to cost less than \$100,000 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.

Part D: Review by the Bank 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) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, but less than the equivalent of \$100,000, 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. The Borrower shall carry out the technical assistance and training programs under the Project in accordance with terms of reference and time schedules satisfactory to the Association.

2. The Borrower shall:

(a) by September 30, 1998, carry out a survey of all education physical facilities and resources in the Borrower's territory to determine the adequacy of such

facilities in relation to the new education structure and demographic needs;

(b) by December 1, 1998, develop and furnish zonal facilities plans based on such survey results to the Association for comments; and

(c) by January 1, 1999, commence implementation of such zonal facilities plans, taking into account the Association's comments thereon.

3. By June 1, 1998, the Borrower shall implement the 1997 updated management organizational structures of MEHE, PEAs, NIE and UGC agreed with the Association and shall sustain such structures until completion of the project.

4. The Borrower shall:

(a) commencing on January 1, 1998, apply on a pilot basis the agreed norm-based unit cost mechanism in the Borrower's Northwestern, Central and Southern provinces in accordance with terms of reference satisfactory to the Association; and

(b) commencing on January 1, 1999, apply such mechanism to all the Borrower's provincial education authorities.

5. The Borrower shall promptly prepare and furnish to the Association for its review, and thereafter implement, commencing on the following dates and taking into account the Association's comments:

(a) by January 1, 1999, the national plan for the application of the NEC and sector reforms;

(b) by June 1, 1999, provincial (PEA) plans; and

(c) by March 1, 2000, zonal plans and institutional/school plans.

6. By June 1, 1998, the Borrower shall implement, or cause to be implemented, its updated national curriculum policy, which shall include cyclical and sequential plans, satisfactory to the Association.

7. By June 1, 1998, the Borrower shall finalize its national and school library strategies, satisfactory to the Association, and thereafter beginning January 1, 1999, shall implement, or cause to be implemented, such strategies in accordance with a timetable satisfactory to the Association.

8. The Borrower shall:

(a) maintain the budget of MEHE's Education Publications Department, at the minimum, at the current level; and

(b) increase such Department's contracting threshold by January 1, 1999, and thereafter maintain such threshold, to enable such Department to contract with private sector writers, publishers, printers and distributors in accordance with contracting procedures and thresholds satisfactory to the Association.

9. The Borrower shall ensure that:

(a) all textbook publishing and printing contracts will match the book cycle (of about five years); and

(b) the quality of the paper of all books financed under the Project shall have a minimum grade of 80 grams per square meter.

10. The Borrower shall ensure that the administration of, and budget allocations for, junior (grades 1-9) schools are separately maintained from senior (grades 10-13) schools throughout the Project period.

11. The Borrower shall, starting June 1, 1998:

(a) organize a middle management training program, satisfactory to the Association, for 60 future managers at MEHE and PEA levels; and

(b) recruit and assign managers at the national and provincial levels on the basis of merit, satisfactory to the Association.

12. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 1, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by April 1, 1999, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

13. The Borrower shall, beginning October 1, 1998, prepare and submit annually to the Association a status report covering: (i) the use of the input allocations in the prior year; and (ii) the following year's fund or budget plan for quality input from block grants (given to PEAs by FC) and school maintenance inputs from the capital grant (given to PEAs by MEHE).

14. The Borrower shall:

(a) by January 1, 1999, prepare and furnish to the Association a budget monitoring and evaluation system designed to ensure the application of norm-based unit cost budgeting; and

(b) by June 1, 1999, assign, or caused to be assigned, staff with MEHE to apply monitoring procedures, satisfactory to the Association, for the allocation, use and reporting of: (i) MEHE capital grants; and (ii) FC's provincial recurrent block grant budget.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 6 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 \$5,000,000, 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 \$2,500,000 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 15,000,000.

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.

