

**CONFORMED COPY**

**CREDIT NUMBER 3857 BD**

# **Development Credit Agreement**

**(Second Primary Education Development Program)**

**between**

**PEOPLE'S REPUBLIC OF BANGLADESH**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 22, 2004**

**CREDIT NUMBER 3857 BD**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated March 22, 2004, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) The Borrower has prepared a macro plan for developing primary education in its territory, consisting of a policy and reform framework, strategies, activities, and an investment plan for fiscal years 2003–2009, including performance indicators, priorities for investments and capacity building (referred to as the “Second Primary Education Development Program” or the “PEDPII”);

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

(C) by an agreement to be entered into between the Asian Development Bank (ADB) and the Borrower (the ADB Loan Agreement), the ADB will make a loan to the Borrower in a principal amount equivalent to one hundred million dollars (\$100,000,000) (the ADB Loan) to assist in financing, through a common pool, activities on the terms and conditions set forth in the ADB Loan Agreement;

(D) the Borrower intends to contract from the Canadian International Development Agency (CIDA), the United Kingdom Department for International Development (DFID), the European Commission (EC), the Government of the Netherlands (the Dutch Government), the Norwegian Agency for International Cooperation (NORAD), and the Swedish International Development Agency (SIDA) (collectively referred to as the Development Partners), loans or grants in an approximate amount equivalent to four hundred million dollars (\$400,000,000) (the Development Partners' Cofinancing Funds) to assist in financing part of the PEDPII on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Development Partners (the Development Partners' Cofinancing Funds Agreement);

(E) the ADB and the Association have entered into a Memorandum of Understanding (the MOU), on November 20, 2003, making arrangements for the processing of applications for withdrawal of the proceeds of the financing to be provided severally by the Development Partners, the ADB and the Association and regulating certain other matters of common interest in connection with such financing; and

WHEREAS (F) 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) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Annual Operation Plan” or “AOP” means an operation plan for the following fiscal year, as a subprogram of the macro plan referred to in Recital (A) of the Preamble to this Agreement, and prepared and approved in accordance with paragraph 6 of Schedule 4 to this Agreement;

(b) “Common Procedures” means the arrangements, satisfactory to the Association, to be observed by the Association, the ADB and the Development Partners for the processing of applications for withdrawal of the proceeds of the financing, the rules applicable to procurement of the pooled financing and other procedures related to the implementation of the Project;

(c) “Consortium” means the Consortium formed by the Association, the ADB and the Development Partners referred to in Recital (D) of the Preamble to this Agreement;

(d) “DPE” means the Directorate of Primary Education within MOPME (as hereinafter defined), and includes any successor thereto;

(e) “Eligible Categories” means Categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(g) “EMP” means the Environmental Management Plan, including the environmental guidelines, satisfactory to the Association, prepared by and to be carried out by the Borrower;

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

(i) “Gender Action Plan” means the action plan referred to in paragraph 19(b) of Schedule 4 to this Agreement;

(j) “FY” or “fiscal year” means the fiscal year of the Borrower, which commences on July 1 of each calendar year and ends on June 30 of the calendar year thereafter;

(k) “ICB Goods” means the goods to be procured in accordance with the international competitive bidding procedures referred to in Schedule 3, Section I, Part B.1 of this Agreement;

(l) “LGED” means the Local Government Engineering Department of the Local Government Division of the Borrower’s Ministry of Local Government, Rural Development and Cooperatives, and includes any successor thereto;

(m) “MOE” means the Borrower’s Ministry of Education, and includes any successor thereto;

(n) “MOPME” means the Borrower’s Ministry of Primary and Mass Education, and includes any successor thereto;

(o) “NAPE” means the Borrower’s National Academy of Primary Education, and includes any successor thereto;

(p) “NCTB” means the Borrower’s National Curriculum and Textbook Board, and includes any successor thereto;

(q) “PCU” means the Program Coordination Unit, established for the purpose of ensuring coordination between the different activities under the Project and referred to in paragraph 3 of Schedule 4 to this Agreement;

(r) “PSC” means the Program Steering Committee, referred to in paragraph 2 of Schedule 4 to this Agreement;

(s) “PTI” means Primary Teachers’ Training Institute;

(t) “Performance Indicators” means indicators referred to in Schedule 5 to this Agreement;

(u) “PLU” means the PEDPII Liaison Unit, established by ADB with the terms of reference, mandate and operational procedures acceptable to the Association, for the purpose of coordinating and harmonizing the implementation, through Common Procedures, of the PEDPII, on behalf of the Consortium;

(v) “Procurement Regulations” means the Borrower’s Procurement Regulations of October 1, 2003, published in the Borrower’s Gazette, and which is to be observed in the carrying out of the Project;

(w) “PEDPII Implementation Manual” means the manual referred to in paragraph 3(e) of Schedule 1 to this Agreement and to be prepared by the Borrower for the purpose of carrying out specific activities under the Project;

(x) “PEPETC” means the Borrower’s Plan for Expanding Primary Education for Tribal Children, furnished to the Association in August 2003, describing a program of actions, measures and policies designed to address the specific primary education needs of tribal people including increasing enrollment and completion of primary education by tribal children, ensuring quality primary education to tribal children and facilitating their access to primary education by reducing financial barriers, increasing access to primary education facilities, availability of reading materials in tribal language and capacity of tribal institution, and to maximize the benefits accruing to tribal groups and avoid or mitigate potential impacts adversely affecting such groups under the Project;

(y) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(z) “SLIP” means School Learning Improvement Plan, prepared in accordance with paragraph 9 of Schedule 4 to this Agreement;

(aa) “SMC” means School Management Committee, referred to in paragraph 9(c) of Schedule 4 to this Agreement;

(bb) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(cc) “Taka” means the currency of the Borrower;

(dd) “Taka Pool Account” means the account in Taka, to be managed by MOPME, including the funds advanced from the Special Account, for the purpose of the PEDPII, and kept in a common pool of funds originating from the Development Partners and the ADB;

(ee) “Upazila” means an administrative sub-district of the Borrower;

(ff) “UEO” means Upazila Education Officer;

(gg) “UPEP” means Upazila Primary Education Plan, referred to in paragraph 9 of Schedule 4 to this Agreement;

(hh) “URC” means Upazila Resource Center; and

(ii) “Vulnerable Groups Action Plan” means the action plan referred to in paragraph 19 (b) of Schedule 4 to this Agreement.

## 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 one hundred four million two hundred thousand Special Drawing Rights (SDR 104,200,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) 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, or (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made by the Borrower to meet the reasonable cost of goods, works and services required under an AOP.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(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 February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15, commencing August 15, 2014 and ending February 15, 2044. Each installment to and including the installment payable on February 15, 2024, 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 with due diligence and efficiency and in conformity with appropriate educational, technical, administrative, financial and environmental 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 EMP, the relevant provisions of the MOU as applicable, and 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. 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 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 a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year (or other period agreed with the Association) audited, in accordance with auditing standards acceptable to the Association, 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 (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure or reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements), 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 (1) 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 reports and statements of expenditures are included in the audit for each fiscal year (or other period agreed to by the Association) referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 4.01 above, 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 FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) that a situation has arisen which shall make it improbable that the PEDPII, or a significant part thereof, will be carried out;

(b) the Procurement Regulations shall have been amended, suspended, abrogated, repealed or waived, in a manner not satisfactory to the Association; and

(c) The Development Partners' Cofinancing Funds Agreements shall have failed to become effective by December 31, 2005, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the PEDPII are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(d) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the PEDPII shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Program are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur; and

(b) the event specified in paragraph (d)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d)(ii) of that Section.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the ADB Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder have been fulfilled.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

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

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

For the Borrower:

Economic Relations Division  
Ministry of Finance  
Government of the People's Republic  
of Bangladesh  
Sher-e-Bangla Nagar  
Dhaka, Bangladesh

Cable address:	Telex:	Facsimile:
BAHIRSAMPAD	642226 SETU BJ	88028113088

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS 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 Dhaka, People's Republic of Bangladesh, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Mirza Tasadduq Hussain Beg  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christine Wallich  
Country Director  
Bangladesh

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

A: General

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) Eligible Local Expenditures under AOPs	61,410,000	13.3% of eligible expenditures, or any other percentage as the Association may determine for each FY from time to time
(2) ICB Goods	27,160,000	100% of foreign expenditures; 100% of local expenditures ex-factory); and 80% of local expenditures
(3) Unallocated	15,630,000	
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TOTAL	104,200,000	
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2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) payments made for expenditures for goods and services supplied under a contract which any national or international financing institution or agency other than the Association, shall have financed or agreed to finance under any other loan or grant;

(c) payments made for expenditures under any of the Annual Operation Plan for: (i) any overseas training until an agreement has been signed between MOPME, MOE and the Borrower's Ministry of Establishment that those who receive such training shall return to their positions to continue their service upon completion of the training for a period of at least three (3) years; (ii) any construction activities, special needs programs, overseas and national training programs, and the various grant schemes, until the selection criteria for eligibility for such activities shall have been agreed between the Borrower and the Association; (iii) capacity building for DPE, NAPE and NCTB until a time-bound action plan for their restructuring shall have been agreed between the Borrower and the Association and shall have been approved by the relevant ministries;

(d) payments made for expenditures under any Annual Operation Plan, until the annual allocation and disbursement targets for such Annual Operation Plan shall have been agreed during annual reviews; and

(e) payments made for expenditures under any specific grants schemes, unless the Borrower has prepared a PEDPII Implementation Manual, in form and substance satisfactory to the Association, and such expenditures have been incurred in accordance with the terms and conditions and eligibility criteria specified in the PEDPII Implementation Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for works under contracts costing less than \$500,000 equivalent each, goods under contracts costing less than \$200,000 equivalent each, and all services under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in a commercial Bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

7. The Borrower may open and maintain in Taka for the purposes of the Project a Taka Common Pool Account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set off, seizure and attachment. Deposits into, and payments out of, the Taka Common Pool Account shall be made in accordance with the provisions of paragraph 8 of this Part B.

8. (a) The Borrower may withdraw from the Special Account and deposit into the Taka Common Pool Account funds to assist MOPME to pay for goods, works and services required under the Project.

(b) Any payment from the Taka Common Pool Account shall be justified to the Association by documentation and other evidence showing that payment was made exclusively for eligible expenditures.

(c) If the Association or the Borrower shall have determined that any outstanding amount in the Taka Common Pool Account will not be required to cover further payments for eligible expenditures, MOPME shall, upon notice from the

Association or the Borrower, promptly refund such outstanding amount to the Special Account.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$9,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. 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 in the aggregate do not exceed the Authorized Allocation. 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.
  - (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals, as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit 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 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.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
  
2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project, which is an integral part of the PEDPII, is to reduce poverty through universal primary education and to contribute to sustainable socio-economic development and equity as envisaged in the Millennium Development Goals, through the provision of quality primary education to all children in the territory 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: Quality Improvement Through Organizational Development and Capacity Building**

Provision of equipment and technical advisory services and financing of operational expenses and recurrent costs for a series of activities designed to improve organizational capacity at the central levels of the MOPME and DPE, and at the Division, District, Upazila and School levels.

#### **Part B: Quality Improvement In Schools and Classrooms**

Provision of equipment and technical advisory services and financing of operational expenses and recurrent costs for a series of activities designed to improve the quality of education provision for children in primary schools in the country through: (a) improvements to the physical environment for schooling other than those financed under Part C; (b) enhancement of the quality of teaching in primary schools through teacher training and related interventions; and (c) increased community participation and support for primary schools through school development plans.

#### **Part C: Quality Improvement Through Infrastructure Development**

Construction, renovation, and upgrading of infrastructure, including classrooms, Primary Training Institutions, Upazila Resource Centers and office facilities at various levels.

Part D: Improving and Supporting Equitable Access to Quality Schooling

Provision of equipment and technical advisory services, financing of operational expenses and recurrent costs, financing of stipend programs, matching funds and innovation grants for PEDPII activities designed to promote and facilitate quality schooling for children who never attended formal primary schooling or who have dropped out before completing Class 5.

\* \* \*

The Project is expected to be completed by December 31, 2009.

### **SCHEDULE 3**

#### **Procurement**

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

###### Part A: General

Except as the Association shall otherwise agree, procurement of the goods and works to be financed out of the proceeds of this Credit shall be governed by the provisions of this Section I.

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

1. Printing and cartridge paper under the Project shall be procured by NCTB under contracts awarded in accordance with the provisions of Section II 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, September 1997 and January 1999 (the Guidelines), and paragraph 5 of Appendix 1 thereto.

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

(a) Preference for Domestically Manufactured Goods

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.

(b) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

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

1. National Competitive Bidding or National Shopping

All works estimated to cost less than \$500,000 equivalent per contract, and all goods estimated to cost less than \$200,000 equivalent per contract, may be procured under contracts awarded in accordance with the Borrower's Procurement Regulations.

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 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 awarded in accordance with the provision of Part B above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

Notwithstanding the annual procurement audit for contracts financed from the pool account, carried out by ADB in accordance with the provisions of the MOU, on a sample basis (at least 20% of contracts), through hiring independent chartered accounting firm (with international affiliation) with terms of reference acceptable to the Association, the Association may, at its own discretion, carry out post review of any contract awarded in accordance with this Section.

Section II. Employment of Consultants

1. General

All local consultants' services under the Project, estimated to cost less than \$200,000, shall be procured in accordance with the Borrower's Procurement Regulations.

2. Post Review

Notwithstanding the annual procurement audit for contracts financed from the pool account, carried out by ADB in accordance with the provisions of the MOU, on a sample basis (at least 20% of contracts), through hiring independent chartered accounting firm (with international affiliation) with terms of reference acceptable to the Association, the Association may, at its own discretion, carry out post review of any contract awarded in accordance with this Section.



## SCHEDULE 4

### Implementation Program

1. The Borrower shall cause MOPME to provide overall guidance to DPE, which shall be responsible for the day-to-day implementation of the PEDPII.

2. (a) To facilitate inter-ministerial decision-making during implementation, the Borrower shall maintain, until the completion of the PEDPII, the Program Steering Committee (PSC) established by MOPME and consisting of senior-level representatives of MOE, NAPE, Planning Commission, Economic Relations Division, Finance Division, DPE, Ministry of Women and Children Affairs, Ministry of Chittagong Hill Tracts Affairs, Implementation Monitoring and Evaluation Division, Ministry of Establishment, Public Service Commission, Local Government Division, Ministry of Social Welfare as well as representatives of districts and Upazilas. The Secretary of MOPME shall chair the PSC, and the Program Director shall act as its member-secretary.

(b) The PSC shall meet whenever necessary, but in any case not less than once every quarter, to: (i) approve the annual progress report, the annual operation plans, as well as the supporting budgets; (ii) provide overall policy and operational guidance for the implementation of the PEDPII and decide on corrective action if needed; (iii) undertake interministerial coordination essential to achieve the reforms under the PEDPII; and (iv) resolve any other issues and conflicts that may emerge during PEDPII implementation.

3. The Borrower shall:

(a) establish and maintain a Program Coordination Unit (PCU), headed by a PEDPII Coordinator, reporting to the Director General of DPE who shall be the Program Director. The Program Director shall be charged with the execution of the PEDPII and shall be assisted by a full-time joint Program Director and by four Technical Support Teams (TSTs) on (i) organizational development, (ii) quality in schools and classrooms, (iii) infrastructure development, and (iv) access to education, respectively; and

(b) cause the PCU to be responsible for supporting DPE to coordinate and monitor the implementation of the PEDPII activities through DPE's line divisions, including, *inter alia*, (i) preparation of the three-year PEDPII implementation plans; (ii) preparation of the annual operational plans; (iii) coordination of procurement activities; (iv) preparation and maintenance of financial records, accounts and statements; (v) preparation of all consolidated progress reports, including the mid-term review report; (vi) organization of monitoring and evaluation activities; (vii) coordination of the work of the TSTs; (viii) liaising with the PLU on PEDPII implementation matters; and (ix) review of the monitoring and evaluation report prepared by the Monitoring and Evaluation Division of DPE for annual review missions.

4. For the purpose of coordinating external assistance to the primary education sub-sector effectively, the Borrower shall cause the PCU to interact regularly with the PLU on PEDPII implementation and report regularly to the Association, the ADB and the Development Partners.
5. The Borrower shall cause the Division, District, Upazila levels, along with School Management Committees and schools, to be responsible, at the local level, for managing the primary education system at the local level, including: (a) in-service teacher training; (b) preparation of School Improvement Plans; (c) administration of innovation programs; (d) implementation and monitoring of program outcomes; and (e) coordination of program inputs.
6. (a) The Borrower shall, by no later than March 31 each year, furnish to the Association, for review and comment, an AOP for the following year indicating detailed program of activities, including cost, output and performance targets.  
  
(b) Three months prior to the start of each related fiscal year, the Borrower shall cause DPE to prepare and furnish to the Association, for review and approval, the AOP for the following fiscal year. Each such AOP shall: (a) have been prepared in consultation with and based on data collected from the various stakeholders of the PEDPII at various levels; (b) include fully costed proposed PEDPII activities for each output, linked with performance targets of the Project; (c) include a detailed description of how proposed PEDPII activities shall be integrated into the existing structure and with ongoing activities at DPE, division, district, Upazila and school levels; (d) include allocation of adequate resources and counterpart funding in the Borrower's recurrent budget for the PEDPII; and (e) be in line with the three (3) year implementation plan for the PEDPII.
7. The Borrower shall: (a) provide adequate budget allocation to DPE for each fiscal year during the PEDPII implementation to cover all recurrent costs and other counterpart-funding required for the PEDPII, including but not limited to the cost for teachers' salaries as well as the cost for construction maintenance; and (b) ensure such funding through the approved annual development plan allocations and shall, within three (3) months of the close of each related fiscal year, furnish the Association with the actual allocations given to the sub-sector.
8. The Borrower shall take all necessary and appropriate steps to: (a) gradually decentralize planning and management functions of activities under the Project, and of education activities in general, to the districts, Upazilas and schools; (b) identify organizational functions that are to be decentralized, and develop a devolution plan, indicating which changes are needed in terms of authority, responsibility and accountability to make such decentralization and devolution operational; and (c) finalize, by the mid-term review referred to in paragraph 19 of this Schedule, all action needed to make this effective, including (i) a review and modification, where necessary, of official

documents such as the Published Rules of Government and MOPME administrative orders, and (ii) the preparation of new job descriptions at all levels.

9. The Borrower shall cause:

(a) the District Primary Education Offices (DPEOs) to: (i) be responsible for coordinating and supervising PEDPII activities at the district level and with support of the Technical Support Teams (TSTs); and (ii) assist Upazilas and schools with implementation of new authorities, preparation of UPEPs and SLIPs;

(b) Upazila Education Offices to gradually become fully responsible for primary education planning and management as well as monitoring and evaluation of education related activities at Upazila level and cause that by December 31, 2004, UPEPs shall have been prepared and approved for 20% of the Upazilas and by the mid-term review referred to in paragraph 19 of this Schedule, all Upazilas shall have annual operational UPEPs; and

(c) the SLIPs, including plans and records on the use of school support funds, to be prepared jointly by head teachers and SMCs for consolidation into the UPEPs, and cause that by December 31, 2004, SLIPs shall have been prepared and approved for 20% of the schools and by the mid-term review referred to in paragraph 19 of this Schedule, all schools shall have annual operational SLIPs.

10. The Borrower shall:

(a) by no later than June 30, 2004, formulate and distribute widely the common learning outcomes standards for school performance;

(b) through DPE, shall establish a Quality Standards Task Force to monitor Primary School Quality Levels (PSQL), and shall complete the baseline survey which shall include an audit of PSQL components; and

(c) cause MOPME, in consultation with the Ministry of Establishment and the PSC, to prepare and approve a time-bound action plan to fill all professional positions in DPE, NAPE and NCTB.

11. The Borrower shall:

(a) no later than three (3) months after the Effective Date, cause the Borrower's responsible ministries to approve simplified procedures for filling vacancies for DPEO, Assistant DPEO, UEO, Assistant UEO and URC staff at Upazila and district level; and

(b) no later than one (1) year after the Effective Date, implement its policy of less frequent transfers by keeping staff in those positions for at least three (3) years, except when a promotion within the same ministry is involved.

12. The Borrower shall, in conjunction with the Association, the ADB and the Development Partners, jointly review the PEDPII in the first quarter of every year to review the implementation progress. The review shall, *inter alia*, (a) evaluate the effectiveness of the implementation mechanisms and the efficiency of the organizational development; (b) assess the impact of the PEDPII on poverty reduction; (c) assess PEDPII contributions to the improvement of the quality of primary education; (d) assess implementation performance against agreed upon indicators in the program framework and adjust indicators as needed; (e) identify primary education policy issues; (f) assess the effectiveness of PEDPII strategies for promoting greater participation of girls and disadvantaged groups; (g) assess progress on key Program innovations as well as learning outcomes and quality of teaching; and (h) coordination of interventions within the PEDPII and integration of PEDPII set up and activities within DPE's existing set up and activities.

13. The Borrower, no later than nine (9) months after the Effective Date: (a) shall establish a National Assessment Cell (NAC) with a mandate to carry out annual sample-based national assessments of Class 3 and Class 5 students; and (b) based on the outcomes of such national assessments, the NAC and the curriculum wing of NCTB, shall review, every two years, the student curriculum as well as the instructional materials in relation to teacher support.

14. The Borrower shall: (a) no later than three (3) months after the Effective Date, prepare the criteria for selection of new schools and other facilities; and (b) no later than nine (9) months after the Effective Date, agree upon the criteria for selection of (i) participation in special needs program, (ii) participation in overseas and national training programs, and (iii) allocation of funds under various grant schemes, including the innovation grant scheme.

15. The Borrower shall through MOPME: (a) by no later than three (3) months after the Effective Date, and in consultation with the Chittagong Hill Tracts Development Board, Ministry of Chittagong Hill Tracts Affairs, the Development Partners, community leaders and Tribal Councils, and other existing Projects and Programs, develop a strategy and PEPETC to improve quality and access to primary education for children from tribal communities and areas, including Chittagong Hill Tracts, Dinajpur, Mymensingh, Naogaon, and Habiganj;

(b) ensure that the strategy and PEPETC shall be developed in full consultation and collaboration with tribal communities and Hill District Councils and shall be decentralized and devolved to the communities concerned;

(c) no later than one (1) year after the Effective Date, adopt the strategy referred to in (a) above, and the PEPETC; and

(d) no later than the mid-term review referred to in paragraph 19 of this Schedule, implement the strategy and the PEPETC.

16. The Borrower shall: (a) implement the PEPETC in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in the said PEPETC; (b) refrain from taking any action which shall prevent or interfere with the implementation of the PEPETC; (c) take such action as may be necessary to acquire as and when necessary land needed for the carrying out of the PEDPII, without involuntary displacement of people or their livelihood; provided that if private land is donated, appropriate documentation shall be provided; and (d) implement the PEPETC with a focus on increasing enrolment of, and achievement by, tribal children in primary schools.

17. The Borrower shall ensure that: (a) all schools, training centers and other buildings to be constructed under the Program shall be located on land owned by the Borrower and no resettlement of people, including squatters, shall be involved; (b) the design, extension, upgrading, renovation and operations of facilities under the PEDPII shall be consistent with the Borrower's environmental requirements, and the Association's environmental policies and the EMP; and (c) that for all facilities to be constructed or rehabilitated under the PEDPII, particular attention shall be given to the provision and maintenance of safe drinking water, including regular testing of water for arsenic contamination, and adequate sanitation and other facilities for both students and teachers, particularly the needs of girls and female teachers.

18. The Borrower shall cause the DPE to take all necessary and appropriate steps to encourage the participation of communities and SMCs in school and classroom construction, through, *inter alia*, their involvement as formal parties to the certifications of quality construction and final payment; and prior to the commencement of any construction, shall cause LGED to provide each SMC with a copy of the plans and specifications of the work to be undertaken at their school or school site.

19. (a) The Borrower shall:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators set forth in Schedule 5 to this Agreement, the carrying out of the PEDPII and the achievement of the objectives thereof;

(ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (i) above, on the

progress achieved in the carrying out of the PEDPII during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the PEDPII and the achievement of the objectives thereof during the period following such date; and

- (iii) review with the Association, by June 30, 2006, or such later date as the Association shall request, the report referred to in subparagraph (ii) above, and, thereafter, take all measures required to ensure the efficient completion of the PEDPII 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.

(b) The mid-term review referred to in (a) above shall, *inter alia*, cover the (i) Project scope, design and implementation arrangements, and institutional changes; (ii) implementation progress against agreed indicators in the annual operational plans and the three (3) years implementation plan; (iii) procurement performance; (iv) PCU effectiveness; (v) performance of consultants; (vi) fund flows; (vii) the geographical coverage of UPEPs and SLIPs and their operation; (viii) the progress of implementation of the Gender Action Plan, the Vulnerable Groups Action Plan prepared for the PEDPII and the PEPETC; (ix) lessons learned; and (x) any other issue agreed upon between DPE, the Association and other Development Partners.

## **SCHEDULE 5**

### **Performance Indicators**

Unless otherwise agreed between the Borrower and the Association, for purposes of paragraph 19 of Schedule 4 to this Agreement, the indicators set forth below shall be used:

1. Current public expenditure on education increased to at least 2.8% of GNP by 2009.
2. Primary education expenditure per pupil over GNP per head increased from 8.2% in 2002 to 10% in 2009.
3. Increasing number of schools to operate on single shift (750 hours per year for all classes): 25% by mid-term review, 50% by EOP.
4. The Gross Enrollment Ratio (GER) increased from 97.5% in 2002 to about 107% in 2009.
5. The Net Enrollment Ratio (NER) increased from 80% in 2002 to 84% by mid-term review and 88% in 2009.
6. The number of disabled children (to be defined) out of school reduced by 20% by the year 2005, and by 30% by the year 2009.
7. Student absenteeism reduced from (estimated) 40% in 2002 to 20% in 2009, with no discrepancy between boys and girls.
8. Repetition rates for girls and boys in all classes reduced by 20% by mid-term review and 40% by 2009 compared to 2002.
9. Student completion rates for Class 5 boys and girls increased from 68% in 2002 to 80% by 2009.
10. Teacher absence without leave reduced to 10% by EOP.
11. Education achievement of girls (which is below that of boys in 2002) improved to at least equal to that of boys by 2009.
12. The number of students achieving acceptable levels of literacy and numeracy (as measured by the National Assessment) increased by 50% by 2009.

13. The proportion of Class 5 students entering for the Primary Scholarship examination increased from 20% in 2002 to 50% by 2009, and the proportion of students achieving the pass level increased from 5% of students in 2002 to 40% by 2009.

14. The transition rate from Class 5 to Class 6, estimated to be 30% in 2002, increased to 40% with gender parity by 2009.