

CONFORMED COPY

CREDIT NUMBER 3813 LSO

Development Credit Agreement

(Second Education Sector Development Project (Phase II))

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 27, 2003

CREDIT NUMBER 3813 LSO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 27, 2003 between KINGDOM OF LESOTHO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated April 5, 2003, from the Borrower describing a program of actions, objectives and policies designed to improve the performance of its education sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(B) the Borrower has requested that the Association support its execution of the Program through a series of Credits over a period of twelve years, the proceeds of such Credits to be utilized by the Borrower for implementing the Project;

(C) the Borrower and the Association have entered into a development credit agreement dated May 21, 1999 under which the Association has lent SDR 15,000,000 in support of the first phase of the Program (the First Credit);

(D) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which forms the second phase of the Program, 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 in support of the second phase of the Program upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

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) “Bursaries” means cash payments to be made to primary and secondary schools to offset the cost of education for disadvantaged children;
- (b) “Disadvantaged children” means pupils in primary and secondary education who are orphans or who come from destitute households;
- (c) “ECCD” means Early Childhood Care and Development;
- (d) “ECOL” means the Examinations Council of Lesotho established within MOE;
- (e) “EMIS” means Education Management Information System;
- (f) “Financial Monitoring Report” or “FMR” means each one of the reports prepared in accordance with Section 4.02 of this Agreement;
- (g) “Fiscal Year” or “FY” means the Borrower's fiscal year which runs from April 1 through March 31 of the year next following;
- (h) “HIV/AIDS” means Human Immunodeficiency Virus/Acquired Immuno Deficiency Syndrome;
- (i) “IAPSO” means the Inter-Agency Procurement Services Office of the United Nations;
- (j) “LCE” means the Lesotho College of Education established and operating pursuant to Lesotho College of Education Act No. 2, dated 1998 and operating in accordance with the provisions of Legal Notice No. 141 of 2002;

- (k) “Maloti” means the currency of the Borrower;
- (l) “MOE” means the Borrower’s Ministry of Education;
- (m) “MTEF” means Medium Term Expenditure Framework;
- (n) “NCDC” means the National Curriculum Development Center established within MOE;
- (o) “NFE” means Non-Formal Education;
- (p) “Project Implementation Manual” or “PIM” means the Project Implementation Manual adopted by the Borrower and containing, *inter alia*, guidelines, timetables, procedures and other arrangements for the purpose of implementing the Project; such term includes any schedules and amendments to the PIM as the same may be amended from time to time, in consultation with, and with the consent of the Association;
- (q) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (r) “SSU” means the School Supply Unit established within MOE;
- (s) “TRF” means the Textbook Revolving Fund referred to in Part B 3 (a) of the Project; and
- (t) “TVET” means Technical and Vocational Education and Training.

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 fifteen million three hundred thousand Special Drawing Rights (SDR 15,300,000).

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

works, 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 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 December 31, 2007, 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 October 1 and April 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 semi-annual installments payable on each October 1 and April 1, commencing October 1, 2013 and ending April 1, 2043. Each installment to and including the installment payable on April 1, 2023 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 administrative, financial, and pedagogical 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. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree the Borrower shall:

(a) open an account in Maloti in a commercial bank acceptable to the Association, (the Project Account) and thereafter maintain said Project Account under terms and conditions acceptable to the Association until the completion of the Project;

(b) deposit into the Project Account: (i) an initial amount equivalent to \$750,000; and (ii) thereafter, on a quarterly basis, replenish the Project Account by the amounts required to finance the Borrower's contribution for expenditures under the Project other than those financed from the proceeds of the Credit, as shall be agreed upon between the Borrower and the Association; and

(c) ensure that funds deposited into the Project Account in accordance with paragraph (b) of this Section shall be used exclusively to finance expenditures under the Project other than those financed from the proceeds of the Credit.

Section 3.03. 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 3.04. 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 before 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 to 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 records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts 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 such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year audited, and (B) an opinion on such statements, records and accounts and 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 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, the Borrower shall:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 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 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 (l) of the General Conditions, the following additional event is specified namely that a situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE VI

Termination

Section 6.01. 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 Minister responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance and Development Planning
P.O. Box 395
Maseru, 100
Lesotho

Cable address:

FINMIN

Facsimile:

266 22 310 157

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works	5,600,00	90%
(2) Goods	2,300,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services	1,100,000	90%
(4) Training, workshops and study tours	2,900,000	100%
(5) Bursaries	1,000,000	50%
(6) Incremental operating costs	1,000,000	100% of foreign expenditures and 90% of local expenditures
(7) Unallocated	1,400,000	
TOTAL	<u>15,300,000</u> =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than 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 “incremental operating costs” means expenditures incurred on account of Project implementation, management and monitoring including office consumables (such as communication expenses), tickets and subsistence costs for travel related to the Project, salaries for contractual staff, office rental, office supplies and maintenance, and fuel and maintenance for vehicles and equipment, but excluding salaries of the Borrower’s civil servants.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures made for: (a) civil works and goods not exceeding \$750,000 and \$200,000 equivalent, respectively; (b) for consulting firms under contracts not exceeding \$200,000 equivalent and for individual consultants’ services under contracts not exceeding \$50,000 equivalent; under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in its efforts to reduce poverty through improving the performance and efficiency of its education sector, *inter alia*, by: (i) improving equitable access to and quality of, primary and secondary education; (ii) promoting lifelong learning through capacity building in early childhood, technical and vocational education, higher education and non-formal education; and (iii) strengthening its institutional capacity to deliver quality services in the education sector.

The Project consists of the following parts, subject to such modifications as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Primary Education

1. Improvement and expansion of primary school facilities through construction, furnishing and equipping of about 250 classrooms for primary education.
2. Facilitating access to primary education for disadvantaged children through payment of bursaries.
3. (a) Finalizing the Borrower's methodology for developing, producing, and distributing textbooks with a view to increasing competition to achieve efficient procurement of required textbooks; and (b) acquisition of selected textbooks and distribution of the same to primary schools throughout the Borrower's territory.
4. Development and delivery of: (a) refresher courses for primary school teachers, in selected subjects including mathematics, English and science; (b) upgrading training for primary school inspectors and advisors; and (c) upgrading training for school management authorities including primary school principals, deputy-principals and members of primary school management committees.
5. Design and implementation of a Distance Teacher Education Program aimed at: (a) enhancing the provision of in-service training for teachers; and (b) provision of training under the said program to at least 250 teachers in each year.
6. Enhancement of cooperation between NCDC and ECOL and strengthening of capacity to administer national examinations and certification efficiently within the Borrower's territory.

Part B: Secondary Education

1. Construction, furnishing and equipping of secondary schools in the Thaba-Tseka, Mokhotlong, and Berea Districts.
2. Facilitating access to secondary education for disadvantaged children through payment of bursaries.
3. (a) Strengthening of SSU's accounting and financial management systems designed to foster accountability and transparency in the operations of the TRF; (b) finalizing the Borrower's methodology for developing, producing, and distributing textbooks with a view to increasing competition to achieve efficient procurement of required textbooks; and (c) acquisition of selected textbooks and distribution of the same to all secondary schools within the Borrower's territory.
4. Development and delivery of: (a) refresher courses for secondary school teachers in selected subjects including mathematics, English and science; b) upgrading training for secondary school inspectors and advisors; and (c) upgrading training for secondary school management authorities including secondary school principals, deputy-principals and members of secondary school boards.

Part C: Capacity Building in ECCD, TVET, NFE and Higher Education for Lifelong Learning

1. Formulation and carrying out of a community-based ECCD scheme aimed at providing early childhood development services in the most cost-effective manner in 6 un-served districts within the Borrower's territory.
2. Development and implementation of an in-service training program in ECCD at LCE.
3. (a) Formulation of policies and adoption of a legal and regulatory framework designed to improve the delivery of adequate TVET services in the Borrower's territory; (b) enhancing technical expertise among TVET Board members and MOE's staff responsible for managing TVET programs through the provision of technical advisory services; (c) construction of housing facilities for students at the Thaba-Tseka TVET institute; and (d) design of a pilot financial scheme aimed at encouraging adoption of innovative methods for delivery of demand-driven TVET services through the provision of technical advisory services and carrying out of the said scheme within the Borrower's territory.

4. (a) Formulation of pilot programs aimed at improving delivery of appropriate NFE services within the Borrower's territories; and (b) carrying out of said programs in selected districts of the Borrower.

5. Formulation and carrying out of a policy aimed at improving delivery and productivity of higher education in the Borrower's territory.

Part D: Strengthening of MOE's Institutional Capacity

1. Strengthening of MOE's managerial capacity (including capacity to formulate policies and to plan and monitor their implementation) through provision of technical advisory services;

2. (a) Assessment of training needs for MOE staff; (b) formulation of a training program aimed at enhancing technical expertise for MOE staff; and (c) carrying out of the training program referred to in paragraph (b) above.

3. Acquisition of equipment, vehicles, and materials required for the carrying out of Project activities at the district level.

4. Formulation of policies and activities aimed at combating HIV/AIDS and implementation of the same in the Borrower's education sector.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods 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, September 1997 and January 1999, (the Guidelines), and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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) Grouping of contracts

To the extent practicable, contracts shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each for goods and \$500,000 equivalent or more each for works.

(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) School furniture, science laboratory kits, and printing of manuals, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$750,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Photocopiers, computers and office equipment, estimated to cost less than \$30,000 equivalent, per contract, up to an aggregate amount not to exceed \$300,000 equivalent, 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. International Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not exceeding the equivalent of \$300,000 which are not available locally, 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.

4. Procurement from UN Agencies

Computers, office equipment and vehicles estimated to cost less than \$100,000 equivalent per contract may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an amount not to exceed \$1,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The

award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

6. Community Participation

Works for school construction estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not exceeding the equivalent of \$500,000 may be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and modalities and procedures acceptable to the Association.

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 each contract for goods estimated to cost the equivalent of \$200,000 or more and each contract for works estimated to cost the equivalent of \$750,000 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

1. 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 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines) paragraph 1 of

Appendix 1 thereto, Appendix 2 thereto 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 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. Selection Based on Consultants' Qualifications

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

2. Selection Based on Least Cost

Services for audits and services estimated to cost less than \$75,000 up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks meeting the requirements of Section V of the consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants 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 \$200,000 or more, the procedures set forth in paragraphs 1, 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or less, 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 1 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 implement the Project in accordance with the procedures, guidelines, timetables and criteria set forth in the PIM and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of said PIM if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

2. The Borrower shall 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 6 to this Agreement, the carrying out of the Project.

3. (a) By October 31 of each year, commencing on October 31, 2004 or such later date as the Association may agree, until the completion of the Project, the Borrower and the Association shall carry out an annual review of the Project (hereinafter called the Annual Review); such Annual Review shall cover the progress achieved in the execution of the Project and, *inter alia*, review the information furnished in accordance with paragraph 2 of this Schedule, and work programs to be carried out under the Project during the following FY.

(b) Following such Annual Review the Borrower shall carry out said work programs in accordance with modalities and procedures approved by the Association and in accordance with the PIM, and shall not make any material change to the approved programs without the prior approval of the Association.

4. (a) Not later than September 30, 2005, or such other date as the Borrower and the Association shall agree upon, the Borrower and the Association shall carry out a mid-term review (the Midterm Review); such Midterm Review shall cover the progress achieved in the implementation of the Project.

(b) Not later than one month prior to the Midterm Review, the Borrower shall furnish to the Association for its review and comments, a report, in such detail as the Association shall reasonably request, on the implementation of the Project.

(c) Following such Midterm Review, the Borrower shall act promptly and diligently in order to take any corrective action deemed necessary by the Association to remedy any shortcoming noted in the implementation of the Project and the Program, as the case may be, or to implement such other measures as may have been agreed upon between the Borrower and the Association in furtherance of the objectives of the Project.

5. The Borrower shall:

(a) Not later than November 30 of each year, submit to the Association for its review and comments a draft MTEF report;

(b) take into account the comments and recommendations made by the Association with a view to adjusting budgetary allocations for the education sector to levels acceptable to the Association as required to achieve the performance indicators referred to in Schedule 6 to this Agreement;

(c) (i) formulate the policies referred to under Parts C.3 (a) and C.5 of the Project; and (ii) formulate the pilot program referred to under Part C.4 (a) of the Project; all by not later than June 30, 2005;

(d) submit all policy instruments referred to in paragraph (c) above to the Association by July 31, 2005 for its review and comments;

(e) finalize the said policy instruments or pilot programs by duly taking into account all comments made thereon by the Association; and

(f) implement the same in accordance with modalities and timetables agreed upon with the Association.

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 \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000 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 SDR3,000,000.

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 eligible Categories, and in the 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 for the Special Account, 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.

SCHEDULE 6

Performance Indicators

1. For the purposes of this Schedule:

(i) the term “ECCD coverage rate” means the total number of children registered in ECCD centers countrywide plus the total number of children in home-based ECCD in pilot districts divided by population of age 3 to 5.

(ii) the term “primary completion rate” means the total number of students completing the final year of primary education (in this case, the number of students taking the Borrower’s primary school leaving examination), regardless of age, expressed as a percentage of the population of primary school graduation age in the Borrower’s territory.

(iii) the term “primary net enrollment ratio” means the enrollment of primary education students of official primary school age in the Borrower’s territory, expressed as a percentage of the population of the same age group.

(iv) the term “lower secondary education coverage” means the total enrollment in Form A, B, and C, regardless of age, expressed as a percentage of the official school-age in the Borrower’s territory in a given school year.

2. The Borrower shall implement the Project in accordance with the performance indicators set forth below:

(i) by December 31, 2007 the ECCD coverage rate shall have increased from 31% to 40%;

(ii) by December 31, 2007, the primary completion rate shall have increased from 77% to 83%;

(iii) by December 31, 2007 the primary net enrollment ratio shall have increased from 85% to 90%;

(iv) by December 31, 2007 the lower secondary education coverage rate shall have increased from 43% to 50%;

(v) performance of national achievement test for primary education shall have improved as follows:

-Standard 3 Mathematics mean score improved from 44% to 50% in 2007

-Standard 3 English mean score improved from 31% to 36% in 2007

-Standard 3 Sesotho mean score improved from 71% to 75% in 2007

-Standard 6 Mathematics mean score improved from 49% to 55% in 2007

-Standard 6 English mean score improved from 45% to 50% in 2007

-Standard 6 Sesotho mean score improved from 58% to 65% in 2007

(vi) by December 31, 2007, the share of recurrent expenditures allocated for primary and secondary education services in accordance with the forecasts made through the MTEF shall have increased from 58% to at least 65%; and

(vii) by December 31, 2007, an adequate legal and regulatory framework conducive to delivery of demand-driven TVET services shall have been established.