

CONFORMED COPY

CREDIT NUMBER 3474 GE

Development Credit Agreement

(Education System Realignment and Strengthening Credit)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 17, 2001

CREDIT NUMBER 3474 GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 17, 2001, between GEORGIA (the Borrower) and INTER/NATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association, has received a letter dated February 8, 2001 from the Borrower describing a program of policies and actions (the Program) designed to undertake a system reform of its education sector and declaring the Borrower's commitment to the implementation of the Program;

(B) the Borrower has requested the Association to support the execution of the Program through extension to the Borrower of loans up to the equivalent of forty-six million Special Drawing Rights (SDR 46,000,000) over a period of twelve (12) years;

(C) the Borrower having satisfied itself as to the feasibility and priority of the project described in Schedule 2 of this Agreement (the Project), has requested the Association to assist in the financing of the Project, which constitutes the first phase of the Program; 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 first 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 modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

"(c) 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, 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) "AWP" means Annual Work Program referred to in paragraph 7 of Schedule 4 of this Agreement;

(b) "Education Management Information System" means a system which provides reliable and systematic information on inputs processes, outputs, and outcomes of the education system to inform decision makers at all levels of the education sector;

(c) "Eligible Categories" means categories (1), (2), (3), (4), (5), (6), (7), and (8) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

- (d) "Eligible Expenditures" means the expenditures for works, goods, and services referred to in Section 2.02 (a) of this Agreement;
- (e) "Lari" means the lawful currency of the Borrower;
- (f) "MoE" means the Borrower's Ministry of Education;
- (g) "NAEC" means the Borrower's National Assessment and Examination Center established by the Borrower's MoE as a public legal entity;
- (h) "NAEC Agreement" means the agreement to be concluded between the Borrower and NAEC pursuant to the provision of paragraph 3 of Schedule 4 of this Agreement;
- (i) "Project Account" means the account to be opened by the Borrower, for purposes of making available its counterpart contribution to the financing of the Project, in accordance with the provisions of Section 6.01 (b) of this Agreement;
- (j) "PCU" means the Project Coordination Unit established under Presidential Decree No. 547 for purposes of Project management and referred to in paragraph 4 of Schedule 4 of this Agreement;
- (k) "PIP" means the Project Implementation Plan for the carrying out of the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association and the plan referred to in paragraph 8 of Schedule 4 of this Agreement;
- (l) "Project Management Committee" means the Borrowers' Project Management Committee established pursuant to Ministerial Decree No. 632 by the Borrower to provide policy guidance and oversight of Project implementation and referred to in paragraph 5 of Schedule 4 of this Agreement;
- (m) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;
- (n) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on July 12, 2000 and on behalf of the Borrower on the same date;
- (o) "Resource Centers" means resource centers to be established within selected schools to assist teaching staff in the carrying out of their duties;
- (p) "School Grant" means the grant for school learning improvement to be made in accordance with the requirements and eligibility criteria set forth in the School Grants Manual (as defined hereinafter);
- (q) "School Grants Manual" means the manual referred to in paragraph 9 of Schedule 4 of this Agreement which provides for the terms and conditions for the awarding of learning improvement grants, the eligibility criteria of the schools that may benefit from such grants, and model contracts;
- (r) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and
- (s) "Supplemental Letter" means the letter of even date herewith from the Borrower to the Association which sets forth in the monitoring and evaluation indicators for the Project and the Program referred to in paragraph 1 (a) of Schedule 4 of 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 nineteen million nine hundred thousand Special Drawing Rights (SDR 19,900,000).

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 and to be financed out of the proceeds of the Credit; and

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2005 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 (60) 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 April 15 and October 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 April 15 and October 15 commencing April 15, 2011 and ending October 15, 2040. Each installment to and including the installment payable on October 15, 2020 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 (3) 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 (6) 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 (5) 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 is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MoE with due diligence and efficiency and in conformity with appropriate financial, administrative, educational 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, through MoE, shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of 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 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 the Association a reasonable opportunity to exchange views with

the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through MoE, shall cause the PCU to 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 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: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so 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 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 Project Management Reports or statements of expenditure, the Borrower, through MoE shall cause PCU to:

(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 Project Management Reports or 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 provisions of Section 4.01 of this Agreement, the Borrower, through MoE, shall cause PCU to carry out a time-bound

action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than June 30, 2002, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

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) a situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and

(b) the PIP shall have been amended, suspended, abrogated or waived without the prior consent of the Association.

Section 5.02. Pursuant of Section 7.01 (h) of the general conditions, the following additional event is specified, namely, that the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has contracted the auditors referred to in Section 4.01 of this Agreement in a manner satisfactory to the Association;

(b) the Borrower has provided evidence satisfactory to the Association that the Borrower has opened in Lari the Project Account in a commercial bank on terms and

conditions satisfactory to the Association and deposited an initial amount of \$100,000 equivalent in counterpart funds, and

(c) the Borrower provided evidence satisfactory to the Association that NAEC has been established.

Section 6.02. The date of 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 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:

Ministry of Finance
70 Irakli Abashidze Str.
380062 Tbilisi
Georgia

Telex:

212-348-MOFIN

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

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

GEORGIA

By /s/ Tedo Japaridze

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	870,000	84%
(2) Goods other than textbooks	6,160,000	100% of foreign expenditures and 100% (ex-factory cost) of local expenditures and 80% of local expenditures for other items procured locally
(3) Consultants' services	4,840,000	80%
(4) Training	2,630,000	100%
(5) Textbooks	200,000	100%
(6) School Grants	645,000	100%
(7) Operating costs of NAEC	840,000	95% until December 31, 2002 80% until December 31, 2003 65% until December 31, 2004 and 50% for the remaining part of Project implementation
(8) Incremental operating costs of the PCU	430,000	85%
(9) Refunding of Project Preparation Advance	885,000	Amount due pursuant to Section 2.02 of this Agreement
(10) Unallocated	2,400,000	
TOTAL	19,900,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the

territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "training" means expenditures incurred by the Borrower in connection with carrying out training activities under the Project, including travel costs and per diem for local trainees and trainers, study tours, workshops, conferences, and non-degree fellowships; rental of facilities and equipment; and training materials and related supplies;

(d) the term "operating costs of NAEC" means expenditures incurred by NAEC on account of Project implementation in connection with carrying out the National Assessment and Examination System, including: non-governmental staff salaries, utilities, communication costs, banking fees, in-country transportation and travel costs, minor office equipment and supplies, office security systems, equipment maintenance, advertisement costs, audit fees, printing and dissemination of the assessment tests and exams;

(e) the term "incremental operating costs of the PCU" means expenditures incurred by the PCU on account of management of Project implementation in connection with carrying out the implementation of the Project including: communication costs, banking fees, transportation costs, minor office equipment and supplies, office security systems, equipment maintenance, preparation of tender and other advertisements, administrative non-governmental PCU staff salaries, in-country travel of the non-governmental PCU staff, and audit fees.

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) expenditures under category (6) until the Borrower has issued the School Grant Manual; and (c) expenditures under category (7) until the NAEC Agreement has been issued and has entered into force.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) works under contracts costing less than \$300,000 equivalent each; (c) services of consulting firms under contracts costing less than \$50,000 equivalent each; (d) services of individual consultants under contracts costing less than \$20,000 equivalent each; and (e) training and grants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in a bank, 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) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further 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 determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals 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 made on the basis of Project Management Reports.

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 sub-paragraphs (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 Development Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) The term "Authorized Allocation" means an amount equivalent to \$800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 2,000,000.

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 Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all 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 Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. 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

Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$2,500,000.

SCHEDULE 2

Description of the Project

The Project constitutes the first phase of the Program which has the objective of improving the quality and relevance of primary and secondary schools learning outcomes to better prepare the students to meet the demands of a market economy and a participatory society through: (i) developing the policy and institutional framework required for an effective realignment of the primary and general secondary system; (ii) developing the Borrower's capacity to meet those new objectives and manage its physical, financial and human resources equitably, efficiently and effectively; and (iii) supporting project implementation.

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: Realignment of the Primary and General Secondary System

1. (a) Provision of technical assistance, goods, and training for the development of a national curriculum and related attainment targets for primary and general secondary education; and (b) publication and dissemination of national curriculum to teachers and education stakeholders.

2. (a) Provision of technical assistance, goods, and training to establish NAEC and develop its capacity to run a national assessment and examination system; (b) publication and dissemination of the results of the assessment; and (c) carrying out of minor repairs of NAEC installations and coverage of operating costs of NAEC.

3. (a) Provision of technical assistance, goods, and training for the design and implementation of training strategies and development of training materials for teachers, methodologists and principals; (b) publication and dissemination of these training materials; (c) provision of training and of equipment, and carrying out of minor rehabilitation works in schools where Resource Centers are located; and (d) provision of school learning improvement grants.

4. (a) Provision of technical assistance, goods and training to improve textbook quality and carrying out on a pilot basis a textbook rental and monitoring system; (b) publication and dissemination of guidelines and manuals related to textbook writing and textbook competition rules and procedures; (c) provision of sets of selected textbooks for rental and supplementary learning materials.

Part B: Strengthening Capacity for Policy and Management at central and local level

1. Provision of technical assistance, goods, and training to staff in the education sector to develop and implement education policies to improve efficiency and transparency in the use of financial, human, and physical resources and quality learning.

2. Provision of technical assistance, goods, and training for the design and implementation of an Educational Management Information System as well as hardware and software equipment to install said system; publication and dissemination of annual education statistical yearbooks; and carrying out of minor rehabilitation works in selected regional and local-level offices where the Educational Management Information

System will be located.

Part C: Project Management Support

1. Provision of technical assistance, goods and training for PCU, MoE and their staff for the purposes of Project implementation; financing of the operating costs of the PCU; and carrying out of rehabilitation works of MoE's main building (the "Education Center").
2. Provision of technical assistance, goods and training for the design of and carrying out of a long-term public awareness campaign on education reform.

* * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) 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.
2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section: (a) works estimated to cost more than \$300,000 equivalent per contract, and (b) goods estimated to cost more than \$100,000 equivalent per contract 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 works and goods 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 for goods such as information technology-related and other office equipment, printing and dissemination costs, vehicles, office furniture, educational literature and supplemental learning materials shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(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) Works estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines; and

(b) Goods such as publication, dissemination, and textbooks selected by MoE in consultation with the Association estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,490,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

(a) International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract and supplemental learning materials, up to an aggregate amount not to exceed \$4,170,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures; all in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) National Shopping

Goods, including textbooks selected by MoE in consultation with the Association, office equipment and furniture, estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$435,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures; all in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

(a) Textbooks and educational reference literature and media time and space selected by MoE in consultation with the Association, and

(b) supplemental learning materials selected by MoE on the basis of schools' requests and in consultation with the Association under contracts estimated to cost \$3,010,000 or less in the aggregate may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) 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.

5. Community Participation

Goods and works required for Part A.3 of the Project shall be procured in

accordance with procedures acceptable to the Association.

6. Procurement from UN Agencies

Vehicles, information technology, and office and audio visual equipment may in lieu of shopping procedures be procured from Inter-Agency Procurement Services Offices (IAPSO) of the United Nations Development Program (UNDP) in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) all contracts for works procured in accordance with Part B.1 above; (ii) all contract for goods procured in accordance with Part B.1 above; (iii) the first contract for works procured in accordance with Part C.1 above; (iv) the first two contracts for goods procured in accordance with Part C.1 above; (v) all contracts for goods and textbooks procured in accordance with Part C.3 above; and (vi) the first two contract for goods procured in accordance with Part C.2 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the contracts procured in accordance with the provisions of Part C.2 above; estimated to cost the equivalent of \$30,000 or more, the following procedures shall apply:

(i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set

forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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 \$200,000 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. Least-cost Selection

Services for financial and procurement audits estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Part A.2, Part A.4, Part B, and Part C of the Project estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount of \$836,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for training, including workshops, conferences, study tours and fellowships which are estimated to cost less than \$50,000 equivalent per contract up to an aggregate amount of \$3,600,000, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

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

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants'

services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than \$50,000, the short list of consulting firms and the terms of employment 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.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than \$20,000, the terms of reference of the 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.

(e) With respect to each contract procured in accordance to Part C.3 above, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower, through MoE, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators agreed with the Association set forth in the Supplemental Letter, the carrying out of the Project and of measures included in the Program and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 30, 2002, or such later date as the Association shall request, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, by December 1, 2002 or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient

completion of the Project and the Program 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;

(d) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 30, 2003, or such later date as the Association shall request, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and of measures included in the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date;

(e) review with the Association, by December 1, 2003 or such later date as the Association shall request, the report referred to in paragraph (d) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project, Program 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; and

(f) as part of the mid-term review mentioned in paragraph (d) above, the Association may require the Borrower to prepare an action plan satisfactory to the Association, with the adjustments necessary for the efficient carrying out of the Project, the Program and the achievement of the objectives thereof during the period following such date. In such event, the Borrower shall not later than thirty (30) days after the conclusion of each such review, or such later date as the Association shall request, furnish to the Association said action plan, and shall thereafter carry out or cause to be carried out, such action plan in accordance with its terms.

2. (a) Except as the Borrower and the Association shall otherwise agree, the Borrower shall provide, through MoE, evidence satisfactory to the Association, by no later than thirty (30) days after the annual budget has been approved by the Borrower's Parliament of each year during Project implementation, starting as of 2002, that sufficient resources have been allocated in the Borrower's annual budget to cover all the counterpart funding requirements under this Project for the year in question, including counterpart funding requirements for NAEC and PCU;

(b) without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall: (a) maintain throughout the course of Project implementation the Project Account referred to in Section 6.01 (b) of this Agreement, and shall replenish said account promptly before each quarter with sufficient funds to enable the Borrower to meet its obligations under Section 3.01 of this Agreement for such period; and (b) use the amount in said Project Account for financing the Borrower's contribution to Project expenditures.

3. (a) For the purposes of carrying out Part A.2 of the Project, the Borrower, through MoE, shall enter into an agreement with NAEC (the NAEC Agreement), under terms and conditions satisfactory to the Association, providing, inter alia, (i) the transfer of a portion of the Credit proceeds and non-Credit proceeds counterpart funds to NAEC on a grant basis and the provision of facilities, services and other resources to NAEC, required to enable NAEC carry out Part A.2 of the Project; and (ii) the obligation of NAEC to assist MoE in the carrying out of Part A.2 of the Project in accordance with the terms and conditions set forth in this Agreement and in the PIP, including the obligation to keep separate records and accounts of operations, services, and expenditures related to Part A.2 of the Project and to provide to the Borrower the information necessary to enable the Borrower to comply with its obligations under Sections 4.01 and 4.02 of this Agreement.

(b) The Borrower, through MoE, shall exercise its rights and carry out its obligations under the NAEC Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce the NAEC Agreement or any

provision thereof.

4. The Borrower, through MoE, shall maintain, during the course of Project implementation, the PCU with the responsibility to assist MoE in the management, coordination, and monitoring of the Project, with a structure and functions agreed with the Association, and sufficient staff with qualifications, experience, and terms of reference agreed with the Association.

5. The Borrower, through MoE shall maintain, during the course of Project implementation, the Project Management Committee within MoE, to monitor, supervise, and evaluate the progress of Project implementation, such committee to have a structure, functions, and membership agreed with the Association.

6. For the purpose of carrying out Part A.3 of the Project, the Borrower, through MoE, shall by not later than September 30, 2001 establish and thereafter maintain, during the course of Project implementation Resource Centers.

7. The Borrower, through MoE, shall: (a) prepare by not later than November 5 of each year throughout the course of Project implementation, an annual working program (AWP) satisfactory to the Association, setting forth the annual work program for the implementation of the Project for the following calendar year, which is revised annually and incorporated into the PIP; and (b) thereafter carry out, or cause to be carried out, said plan in accordance with its terms.

8. The Borrower, through MoE, shall carry out the Project, or shall cause the Project to be carried out, in accordance with a Project implementation plan (PIP) agreed with the Association, said plan to provide key instruments for the execution and coordination of the Project, including: (a) procurement and financial management procedures; (b) the School Grant Manual; and (c) the AWP.

9. The Borrower, through MoE, shall carry out Part A.3 of the Project under terms and conditions satisfactory to the Association and shall award school learning improvement grants to schools in accordance with a School Grant Manual, such manual to provide for the terms and conditions for the awarding of learning improvement grants, the eligibility criteria of the schools that may benefit from such grants, and model contracts.

10. For the purpose of carrying out Part A.1 of the Project, the Borrower, through MoE, shall establish by no later than August 31, 2001 a statement of goals for general education and time allocation by subject and schooling grade, satisfactory to the Association.

