

CONFORMED COPY

CREDIT NUMBER 2881 CE

Development Credit Agreement

(Teacher Education and Teacher Deployment Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 3, 1996

CREDIT NUMBER 2881 CE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 3, 1996, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated April 24, 1996 from the Borrower on the Teacher Education Policy Statement, describing a program of actions, objectives and policies designed for the further development of its education sector (hereinafter called the Program);

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

(C) by agreement dated September 23, 1993 (the ADB Loan Agreement), the Asian Development Bank (ADB) has agreed to make a loan (the ADB Loan) in an amount equivalent to \$4,900,000 to assist in financing part of the Project on the terms and conditions set forth in the ADB Loan Agreement (ADB Loan No. 1247-SRI); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (a) the last sentence of Section 3.02 is deleted; 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 member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "MEHE" means the Ministry of Education and Higher Education of the Borrower;
- (b) "Ready Reckoner Formula" means a mechanism agreed with the Association and used by the Borrower to allocate teachers to provinces and schools, which takes into account the actual needs for teachers at each school, based on student enrollments, programs offered and teacher' cadre;
- (c) "Cadre Committee" means a central authority of the Borrower with representatives from several ministries or entities of the Borrower, which is responsible for the review of the annual provincial authorities proposals for teacher allocation and for ensuring the most equitable and cost effective application of the Ready Reckoner Formula;
- (d) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (e) "FY" means the fiscal year of the Borrower commencing January 1 and ending December 31;
- (f) "PCU" means the Project Coordination Unit established within MEHE for the purpose of implementation of the Project;
- (g) "NATE" means the National Authority on Teacher Education; and
- (h) "NCOEs" means National Colleges of Education.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to forty-four million Special Drawing Rights (SDR 44,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this

Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. 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, 2001 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2006 and ending May 15, 2036. Each installment to and including the installment payable on May 15, 2016 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 objective 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 education practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall maintain until completion of the Project the PCU with terms of reference satisfactory to the Association, which shall be responsible for the overall implementation of the Project.

Section 3.04. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by July 31, 1998 (i) a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and (ii) a specific report detailing the application by the Borrower of (A) the Ready Reckoner Formula in the recruitment of teachers in accordance with paragraph 4 of Schedule 4 to this Agreement; and (B) other implementation benchmarks agreed with the Association including, inter alia, whether the Cadre Committee is operating in a manner satisfactory to the Association, and the teacher transfer policy established in 1995 is being implemented, and whether the allocation of funds in each province for quality inputs and school maintenance has reached the targets specified in paragraph 2 of Schedule 4 to this Agreement; and

(c) review with the Association, by September 30, 1998 or such later date as the Association shall request, the reports referred to in paragraph (b) of this Section, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter.

Section 3.05. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, of such scope and in such detail as the Association shall reasonably request, for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

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

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

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

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

Section 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 Planning
Democratic Socialist Republic of Sri Lanka
Colombo, Sri Lanka

Cable address:

SECMINFIN
Colombo

Telex:

FINMIN 21409
FORAID 21232

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Jayantha Dhanapala
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood
Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works	21,900,000	100% of foreign expenditures and 80% of local expenditures
(2) Equipment, furniture and vehicles	5,350,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Books, educational materials and local printing expenditures	2,610,000	100% of foreign expenditures and 90% of local

		expenditures
(4)	Consultants' services (including architectural services and studies)	5,290,000 100%
(5)	Fellowships and training	5,830,000 100%
(6)	Project management	70,000 90% in FY96 and FY97, 60% in FY98 and FY99, and 30% thereafter
(7)	Unallocated	2,950,000
	TOTAL	44,000,000 =====

2. For the purposes of this Schedule:

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

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

(c) the term "Project management" means expenditures in respect of the Project incurred by PCU and NATE.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 550,000, may be made in respect of Categories 1 through 6 on account of payments made for expenditures before that date but after December 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure under contracts for:

- (a) goods not exceeding \$50,000 equivalent;
- (b) works not exceeding \$300,000 equivalent;
- (c) consulting firms not exceeding \$100,000 equivalent; and
- (d) individual consultants not exceeding \$50,000 equivalent, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the quality and coverage of education in the Borrower's territory.

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 objective:

Part A

Rationalizing teacher deployment policies through: (i) adjustment of the Ready Reckoner Formula for staff allocations; (ii)

establishment of annual monitoring of teacher allocations through the Cadre Committee; and (iii) implementation of work standards and incentive mechanisms to facilitate teacher assignment in less favorable areas, through the provision of technical assistance, educational materials and equipment therefor.

Part B

Improving the coordination and quality of teacher education programs by establishing NATE and strengthening the office of the Chief Commissioner for Teacher Education through the provision of staff, equipment and vehicles for these institutions.

Part C

Improving effectiveness of teacher training by restructuring programs, reducing duplication, revising curricula, updating teacher materials, and adjusting initial and continuing teacher education programs through provision of technical assistance, educational materials and equipment therefor.

Part D

Strengthening staff development and management capacity at teacher education institutions through the provision of staff, technical assistance and pre-service and in-service training of teachers and upgrading of teacher educators and managers.

Part E

Rationalizing and consolidating the teacher training system to consist of the National Institute of Education (NIE), four universities (Colombo, Jaffna, Open University and Peradeniya), 14 NCOEs, including 5 new NCOEs to be constructed, and about 80 Teacher Centers (TCs) through the rehabilitation and upgrading of existing facilities and provision of furniture, educational materials, equipment and vehicles.

Part F

Strengthening teacher education management through the provision of technical assistance for monitoring and evaluation activities.

Part G

Carrying out of studies for monitoring the impact of the Project and for the preparation of future projects in the education sector.

* * *

The Project is expected to be completed by June 30, 2001.

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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance

with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods and domestic contractors

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(i) Civil works for the rehabilitation of about 80 Teacher Centers and NCOEs and renovation of the Faculties of Education at the University of Colombo and Jaffna estimated to cost \$300,000 equivalent or less per contract, up to an aggregate amount not to exceed \$7,000,000 equivalent; (ii) vehicles estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$700,000 equivalent; and (iii) furniture estimated to cost the equivalent of not more than \$3,100,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Computers and other items of equipment estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Reference and library books and educational materials which are obtainable only from one source may be procured directly from the publishers of such books or materials. In cases where two or more similar items exist, such items may be procured on the basis of comparative bids from at least two suppliers.

4. Procurement of Printing Contracts

Printing for the curriculum materials up to an amount not to exceed \$1,300,000 equivalent, may be procured under contracts awarded on the basis of quotations obtained from three (3) qualified domestic printers in response to a written invitation.

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

With respect to each contract for civil works estimated to cost the equivalent of \$300,000 or more and for each contract for goods estimated to cost the equivalent of \$50,000 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Borrower shall gradually increase the overall student: teacher ratio so as to ensure that by January 1, 2001 said ratio has reached 26:1 for primary schools and 22:1 for secondary schools.

2. The Borrower undertakes to earmark, on or about January 1, 1997: (i) 3 percent of the annual recurrent block grant budget allocation in each province for education for quality inputs (such as textbooks, audiovisual equipment, and educational materials), and thereafter increase such percentage at the rate of 1 percent per annum so as to reach a minimum of 6 percent for each province by January 1, 2001; and (ii) 1 percent of the education capital budget allocation to each province for maintenance of schools. The Borrower shall evaluate this percentage during FY97 and FY98 to: (a) determine, in consultation with the Association, actual maintenance needs, and (b) prepare, based on such evaluation, a long-term maintenance plan for educational facilities, satisfactory to the Association.

3. The Borrower shall:

(a) establish, by November 1, 1996 or such later date as the Association shall agree (i) the Teacher Cadre Committee, and (ii) NATE, both with membership, powers and responsibilities

satisfactory to the Association; and

(b) thereafter maintain and operate the Cadre Committee and NATE.

4. The Borrower undertakes that, commencing in January 1, 1997:

(a) it will recruit and assign teachers only in accordance with the Ready Reckoner Formula and the Cadre Committee allocations directly linked to the annual budget, and that special or emergency appointments of teachers will follow only the application of said formula; and

(b) the application of the Ready Reckoner Formula will be monitored annually by the Borrower and any deviation therefrom promptly corrected and notice thereof given to the Association.

5. The Borrower shall not later than January 1, 1998, commence the application of a teacher support and incentive system satisfactory to the Association to facilitate teacher assignments in less favorable areas through the Teacher Transfer Boards.

6. The Borrower shall carry out, until the completion of the Project, a staff development plan for teacher educators satisfactory to the Association, in accordance with criteria satisfactory to the Association for selection of participants, bonding and assignment and reassignment of trainees.

7. The Borrower shall carry out the technical assistance and training program under Parts D and E of the Project in accordance with terms of reference and time schedules satisfactory to the Association.

8. The Borrower shall:

(a) by January 1, 1998 formulate and furnish to the Association for its concurrence, a system of unit cost budgetary allocation for teacher training institutions; and

(b) by January 1, 1999 commence the implementation of such system.

9. The Borrower shall by January 31, 1997 and every six months thereafter, throughout the Project execution period, update and furnish to the Association for its review and approval the implementation plan and the key indicators for the Project.

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 \$2,500,000 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 \$1,500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal

to or exceed the equivalent of SDR 15,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

