

Public Disclosure Authorized

CONFIRMED COPY

CREDIT NUMBER 2488 LA

(Education Development Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 24, 1993

Public Disclosure Authorized

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 24, 1993, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the "Borrower") and INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association").

WHEREAS: (A) 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;

WHEREAS: (B) The Borrower intends to contract from the Government of the Swiss Confederation ("Switzerland"), acting through the Swiss Development Cooperation (the "SDC"), a non-reimbursable contribution (the "Swiss Contribution") in the amount of fifteen million Swiss Francs (SwF 15,000,000) to assist in financing the technical assistance and training provided under the Project on the terms and conditions set forth in an agreement (the "Swiss Contribution Agreement") to be entered into between the Borrower and Switzerland;

WHEREAS: (C) Switzerland intends to appoint the Association to administer the Swiss Contribution in accordance with the agreement entered into between Switzerland and the Association for cooperation in the cofinancing of specific projects or programs within the framework of the Ninth IDA Replenishment, dated May 9, 1990 (the "Procedural Arrangements");

WHEREAS: (D) The Borrower intends to contract from the Kingdom of Norway ("Norway"), a non-reimbursable contribution (the "Norwegian Grant") in the amount of twenty-one million Norwegian Kroner (NOK 21,000,000) to assist in financing the printing of new primary and lower secondary education textbooks, training and technical assistance for publishing and distribution of instructional materials, and development of a system for the provision of school supplies under Part A.1 of the Project on the terms and conditions set forth in an agreement (the "Norwegian Grant Agreement") to be entered into between the Borrower and Norway;

WHEREAS: (E) Norway intends to appoint the Association to administer the Norway Grant in accordance with an agreement to be entered into between Norway and the Association (the "Administration Agreement") pursuant to the provisions of the Agreement dated October 2, 1986, among Norway, the International Bank for Reconstruction and Development and the Association providing the framework for cooperation in the financing of development projects by the parties thereto; and

WHEREAS: (F) The Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the "General

Conditions") constitute an integral part of this Agreement.

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

(a) "MOE" means the Borrower's Ministry of Education;

(b) "Association Special Account" and "Swiss Special Account" mean the accounts referred to in Section 2.02 (b) of this Agreement, "Special Accounts" means collectively the Association Special Account and the Swiss Special Account, and "Special Account" means any one of the Special Accounts; and

(c) "Swiss Contribution Account" means the account established by Switzerland for the purpose of the Swiss Contribution.

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 thirteen million seven hundred thousand Special Drawing Rights (SDR 13,700,000).

Section 2.02. (a) The amount of the Credit and the amount of the Swiss Contribution may be withdrawn from the Credit Account and the Swiss Contribution 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 and the Swiss Contribution.

(b) The Borrower shall, for the purposes of the Project, open and maintain two (2) special deposit accounts in dollars and in Swiss Francs, respectively, in the Banque pour le Commerce Extérieur Lao (the "BCEL") on terms and conditions satisfactory to the Association, including appropriate protection against set off, seizure or attachment, such special deposit accounts to be known as the Association Special Account and the Swiss Special Account, respectively. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Except as the Association and Switzerland shall otherwise agree, the allocation and withdrawal of the Swiss Contribution shall be governed mutatis mutandis by the provisions of Article V of the General Conditions.

Section 2.03. The Closing Date shall be June 30, 2000, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to

the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 March 15 and September 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 semi-annual installments payable on each March 15 and September 15, commencing September 15, 2003 and ending March 15, 2033. Each installment to and including the installment payable on March 15, 2013 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 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 administrative, educational, engineering and financial 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 and the Swiss Contribution shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained separate 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 Accounts 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 nine (9) 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 or the Swiss Contribution 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 (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal

from the Credit Account or the Swiss Contribution Account or payment out of the Special Accounts 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. (a) Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that subject to paragraph (b) of this Section, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) 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 Section 5.01 (a) of this Agreement shall occur, subject to the proviso of Section 5.01 (b) of this Agreement.

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) That all conditions precedent to the effectiveness of the Swiss Contribution Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) That all conditions precedent to the effectiveness of the Norwegian Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

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

Section 6.03. In the event that Switzerland or the Association terminate the functions of the Association pursuant to paragraph 9 of the Procedural Arrangements, the Association shall notify the Borrower promptly of the date on which Switzerland shall assume its rights and obligations under this Agreement.

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:

Minister of Finance
Ministry of Finance
P.O. Box 46
Vientiane
Lao People's Democratic Republic

Cable address: Telex:

MINFINANCE 4353 MEPF VTE LS
VIENTIANE

For the Association:

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

Cable address: Telex:

INDEVAS 248423 (RCA),
Washington, D.C. 82987 (FTCC),
 64145 (WUI) or
 197688 (TRT).

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.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Hiem Phommachanh
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji
Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit
and of the Swiss Contribution

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

Category to be Financed	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Swiss Contribution Allocated (Expressed in Swiss Francs)	% of Expenditures Equivalent)	to
(1) Civil works	2,820,000	-----	90%	
(2) Goods:			100% of foreign expenditures,	
(a) Construction materials	3,680,000	-----	100% of local expenditures (ex-factory cost) and 85%	
(b) Furniture	1,150,000	-----	of local expen- ditures for	
(c) Equipment and vehicles	1,440,000	-----	other items procured locally	
(d) Instructional materials	2,160,000	-----		
(3) Technical Assistance and training	-----	14,250,000	100%	
(4) Project Management	1,730,000	-----	100%	
(5) Unallocated	720,000	750,000		
TOTAL	13,700,000 =====	15,000,000 =====		

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; and

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

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to:
(a) improve student and teacher performance in primary and lower secondary education; (b) develop mechanisms for the provision of educational facilities for primary and lower secondary education; (c) promote efficiency in the allocation and use of resources in the education sector; and (d) provide effective delivery of basic education services.

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

Part A: Curriculum Development and Pedagogical Support

1. (a) Curriculum development, and development of instructional materials, including the provision of MOE staff training and technical assistance therefor.

(b) Publishing, printing and distribution of instructional materials, and development of a system for the provision of school supplies, including the provision of MOE staff training and technical assistance therefor.

2. Provision of school teacher training for implementation of the curriculum developed under Part A.1 of the Project.

3. Establishment of a corps of pedagogical advisers for primary education, and of teacher advisers for lower secondary education.

4. Provision of training and educational materials to support the establishment of professional networks of teachers and principals of neighboring primary schools.

5. Carrying out of a study on Lao language teaching and schooling needs for ethnic minority children.

6. Introduction of continuous student progression and evaluation systems in primary schools; review of student assessment and examination systems in primary and secondary education; and organization of multi-grade classes at the primary level.

Part B: School Infrastructure

1. Reconstruction of about three hundred ninety (390) primary schools in Vientiane Prefecture and in the provinces of Saravane, Savannakhet, Vientiane, Xieng Khouang, Luang Prabang and Luang Namtha, and of about thirty-four (34) lower secondary schools country-wide.
2. Strengthening the Borrower's educational administration capacity for construction, rehabilitation and maintenance of education facilities through, inter alia, the: (a) enhancement of the School Construction Service Unit; (b) establishment of Provincial Units for Construction Assistance; and (c) provision of facilities, equipment and technical assistance therefor.

Part C: Planning, Monitoring and Evaluation

1. Development of a data collection and analysis system to enhance planning and management of the education sector, including school database, instructional materials database, school maps, inventory of school facilities, furniture and equipment, and personnel inventory of teaching and administrative staff.
2. Carrying out of studies to assess: (a) educational outcomes, including rates and patterns of student attendance and achievement; (b) factors affecting school and student performance; and (c) cost-effectiveness of specific educational policies.

Part D: Educational Administration and Management

1. Strengthening of MOE capacities in financial and personnel management through provision of staff training and technical assistance.
2. Development of plans to improve the structures and procedures of the Borrower's educational administration, including provision of technical assistance.
3. Carrying out of an institutional assessment of local and school administrations, including staff training and provision of technical assistance.
4. Rehabilitation and construction of about 130 administrative facilities of MOE at the central, provincial and district levels, including provision of furniture and equipment.
5. Development and implementation of a policy for establishing efficient student-teacher ratios in primary and secondary education.

* * * * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures

consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the "Guidelines"). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two pre-disclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

2. To the extent practicable, contracts for equipment, vehicles, construction materials and instructional materials shall be grouped into bid packages each estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Lao People's Democratic Republic may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Civil works estimated to cost the equivalent of seventy thousand dollars (\$70,000) or less per contract, up to an aggregate amount not to exceed one million six hundred thousand dollars (\$1,600,000) equivalent, and furniture estimated to cost the equivalent of eighty thousand dollars (\$80,000) or less per contract, up to an aggregate amount not to exceed two hundred thousand dollars (\$200,000) equivalent, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association; provided, however, that contracts for furniture estimated to cost the equivalent of one thousand five hundred dollars (\$1,500) or less per contract, up to an aggregate amount not to exceed five hundred thousand dollars (\$500,000) equivalent, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three (3) suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Construction materials estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or less per contract, up to an aggregate amount not to exceed one million five hundred thousand dollars (\$1,500,000) equivalent, and equipment and vehicles estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or less per contract, up to an aggregate amount not to exceed four hundred thousand dollars (\$400,000) equivalent, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three (3) suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association; provided, however, that four-wheel motor vehicles estimated to cost in the aggregate four hundred and fifty thousand dollars (\$450,000) equivalent, may be procured through the Inter-Agency Procurement Service Office of the United Nations Development Programme, in accordance with procedures acceptable to the Association.

3. School supplies, and printing and distribution of instructional materials, including proprietary instructional material, estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or less per contract, up to an aggregate amount not to exceed three million two hundred thousand dollars (\$3,200,000) equivalent may be awarded after direct negotiations with suppliers and publishers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to all contracts estimated to cost the equivalent of one hundred thousand dollars (\$100,000) or more, and the first five civil works contracts awarded in accordance with the procedures described in Part A.1 hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Accounts in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for

such contract are to be made out of the Special Accounts, such procedures shall be modified to ensure that the two (2) conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account or the Swiss Contribution Account are to be made on the basis of statements of expenditure.

2. The figure of ten percent (10%) is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with procedures satisfactory to the Association on the basis 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").

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation, reports and contracts shall not apply to contracts estimated to cost less than one hundred thousand dollars (\$100,000) equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to the amendments of contracts raising the contract value to one hundred thousand dollars (\$100,000) equivalent or above.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with work programs and time-tables satisfactory to the Association. For such purposes, on April 15 of each year, commencing on April 15, 1994, the Borrower shall prepare and furnish to the Association, for its approval, a proposed annual work program and time-table for Project implementation during the Borrower's following fiscal year, and thereafter adopt and implement such work program and time-table as so approved.

2. On April 15 of each year, commencing on April 15, 1994, the Borrower shall furnish to the Association, for its review and comments, its proposed budgetary allocations for the education sector in the Borrower's following fiscal year, and thereafter, taking into account the Association's comments, make the required budgetary allocations.

3. The Borrower shall maintain within MOE the Project Support Unit (the "PSU") headed by an experienced and qualified officer, and vest it with such responsibilities, funds and staff as shall be required to enable the PSU to undertake the overall coordination of the Project. For such purposes, the Borrower shall, by December 31, 1993, employ and thereafter assign to the PSU, as a minimum, the following staff: a Project Director, two Project Coordinators, an Office Manager and an Assistant Manager. In addition and pursuant to Section II of Schedule 3 to this Agreement, the Borrower shall, by December 31, 1993 and until the completion of the Project, employ and assign to the PSU a Project Adviser.

4. The Borrower shall maintain within MOE the School Construction Service Unit (the "SCS") headed by an experienced and qualified officer, and vest it with such responsibilities, funds and staff as shall be required to enable the SCS to plan and manage the investment program for the construction of schools and administrative facilities under the Project. For such purposes, the Borrower shall employ and thereafter assign to the SCS, as a minimum, the following staff: (a) by December 31, 1993, an architect or civil works technician, an engineer, a draftsman, a procurement manager, an accountant and a construction supervisor; (b) by October 31, 1995, four additional construction supervisors of whom two shall be employed by July 31, 1994.

5. By December 31, 1993, the Borrower shall vest the Instructional Materials Unit (the "IMU") within MOE with the responsibility for planning and supervision of the production and distribution of the instructional materials provided under the Project. For such purposes, the Borrower shall maintain the IMU headed by an experienced and qualified officer, and provide it with such funds and staff as shall be required to enable the IMU to adequately undertake its aforesaid responsibilities.

6. The Borrower shall, pursuant to a time-table satisfactory to the Association, establish and, thereafter, maintain a Provincial Unit for Construction Assistance (the "PUCA") in each of its administrative provinces of Saravane, Savannakhet, Vientiane, Xieng Khouang, Luang Prabang and Luang Namtha, headed by an experienced and qualified officer, and vest each PUCA with such responsibilities, funds and staff as shall be required to enable each of them to preserve community-based primary school rehabilitation and construction.

7. The Borrower shall, by June 30, 1994, assign three pedagogical advisers to each of the Borrower's District Education

and Sports Service and, by June 30, 1996, assign eight teacher advisers to each of the Borrower's Provincial Education and Sports Service.

8. On April 15 and October 15 of each year, commencing on April 15, 1994, the Borrower shall prepare and furnish to the Association semi-annual reports on progress in Project implementation. In addition, on April 15, 1996, the Borrower shall, in consultation with the Association, carry out a mid-term review of Project implementation.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) The term "Eligible Categories" means Categories 1 through 4 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 or the Swiss Contribution 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: (i) an amount equivalent to one million dollars (\$1,000,000) to be withdrawn from the Credit Account and deposited in the Association Special Account and (ii) an amount equivalent to one million Swiss francs (SwF 1,000,000) to be withdrawn from the Swiss Contribution Account and deposited in the Swiss Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Accounts 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 Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits 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 or the Swiss Contribution Account and deposit in the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposits into the Special Accounts 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 or the Swiss Contribution Account and deposit into the respective 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 such Special Account for Eligible Expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account or the Swiss Contribution 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 Accounts, 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 Accounts:

(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 or the Swiss Contribution Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit or the Swiss Contribution allocated to the Eligible Categories, less the amount of any outstanding special commitment 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 in respect of the respective Special Account.

Thereafter, withdrawal from the Credit Account or the Swiss Contribution Account of the remaining unwithdrawn amount of the Credit or the Swiss Contribution 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 Accounts 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 Accounts: (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 Accounts (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 Accounts 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 Accounts 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 Accounts.

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

