

CONFORMED COPY

CREDIT NUMBER 3185 NEP

Development Credit Agreement

(Basic and Primary Education Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 23, 1999

CREDIT NUMBER 3185 NEP

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 23, 1999, between KINGDOM OF NEPAL (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received (a) a letter dated February 5, 1999, from the Borrower enclosing a detailed policy statement approved by the Borrower designed to restructure, reform and develop the Borrower's basic and primary education system (hereinafter the Basic and Primary Education Program (BPEP) or the Program) and (b) the annex to such letter containing the Borrower's Policy Framework for the BPEP (the Policy Framework) and declaring the Borrower's commitment to the execution of the Program and the Policy Framework;

(B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of credits over a period of approximately ten years to be utilized by the Borrower in implementing the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of the Program has requested the Association to assist in the financing of the Project;

(D) the Borrower intends to obtain from the Government of the Kingdom of

Norway (Norway), acting through the Norwegian Agency for Development Cooperation (NORAD) a grant (NORAD Grant) to assist in financing part of the BPEP on the terms and conditions set forth in an agreement (the NORAD Grant Agreement) to be entered into between the Borrower and Norway;

(E) the Borrower has obtained from the Danish International Development Assistance (Danida), acting through the Ministry of Foreign Affairs, a grant (the Danida grant) to assist in financing part of the BPEP on the terms and conditions set forth in an agreement (the Danida Grant Agreement) entered into between the Borrower and Danida;

(F) the Borrower intends to obtain from the European Community (EC), a grant (the EC Grant) to assist in financing part of the BPEP on the terms and conditions set forth in an agreement (the EC Grant Agreement), to be entered into between the Borrower and the EC;

(G) the Borrower intends to obtain from the Government of Finland (Finland) a grant (the Finland Grant) to assist in financing part of the BPEP on the terms and conditions set forth in an agreement (the Finland Grant Agreement) to be entered into between the Borrower and Finland; 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, (as amended through December 2, 1997) 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 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries;" and

(b) Subparagraph (a) of Section 5.01 is modified to read:

"(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."

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) "Core Investment Program" means the first three years of the Borrower's core investment program as set forth in the PIP;

(b) "DOE" or "Department of Education" means the Department of Education within the Borrower's Ministry of Education;

(c) "Donors" means NORAD, Danida, the EC and Finland together and "Donor" means any one of them;

(d) "Eligible Categories" mean Categories (1) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(f) "Fiscal Year" or "FY" mean the Fiscal Year of the Borrower beginning on July 16 of a calendar year and ending on July 15 of the following calendar year;

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

(h) "PIP" means the Borrower's Project Implementation Plan dated February 1999 as the same may be amended from time to time with the consent of the Association and the Donors; and

(i) "Special Account" means the Special Account which the Borrower shall open and maintain pursuant to Part B.1 of Schedule 1 to this Agreement.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to nine million Special Drawing Rights. (SDR 9,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for 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.

Section 2.03. The Closing Date shall be July 15, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 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 March 15 and September 15 commencing September 15, 2009 and ending March 15, 2039. Each installment to or including the installment payable on March 15, 2019 shall be one percent (1%) of such principal amount, and each installment thereafter

shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the 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 educational 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. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

### ARTICLE IV

## Financial Covenants

Section 4.01. (a) The Borrower shall establish and 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 in respect of the Project of the departments or agencies of the Borrower responsible for, and in connection with, the carrying out of the Project or any part thereof.

(b) The Borrower shall:

(i) have the records, accounts and financial statements 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 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 financial statements, records and accounts and a report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof 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 Project Management Reports (PMRs) or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the PMRs 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 shall 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 July 1, 2001, or such later date as the Association shall agree, to prepare trimesterly 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 eight-month period following the period covered by said report, and

- (B) shows separately expenditures financed out of the proceeds of the period covered by said Credit during the eight-month period following the 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 45 days after the end of each calendar trimester 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) An event shall have occurred which shall make it improbable that the Program or the Policy Framework or a significant part of either will be carried out; and

(b) (i) Subject to sub-paragraph (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, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

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

(ii) Paragraph (i) of this Section 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.

(c) The NORAD Grant Agreement and the EC Grant Agreement, or either of them shall have failed to become effective by December 31, 1999, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the 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 events are specified:

(a) any event specified in paragraph (b) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section;

or

(b) any event specified in paragraph (c) of Section 5.01 shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower shall have appointed key staff for the Department of Education.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Secretary, Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance  
His Majesty's Government of Nepal  
Kathmandu, Nepal

Cable address:

ARTHA  
Kathmandu, Nepal

Telex:

2249-NEP

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)

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

KINGDOM OF NEPAL

By /s/ Ram Binod Bhattarai

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Para Suriyaarachchi

Acting Country Director,  
Nepal

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	1,150,000	22.5%
(2) Consultants' services	250,000	22.5%
(3) Community service providers	700,000	22.5%
(4) Goods	1,500,000	22.5%
(5) Local training, grants and scholarships	2,500,000	22.5%
(6) Incremental Salaries and Operating Costs	2,550,000	22.5%
(7) Unallocated	350,000	
TOTAL	9,000,000 =====	

2. For the purposes of this Schedule the term "Incremental Salaries and Operating Costs" means expenditures incurred for operation and maintenance of facilities used for Project implementation, and salaries and allowances for Project staff.

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

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) works under contracts costing no more than \$100,000 equivalent each; (b) for equipment, materials and vehicles under contracts costing no more than \$100,000 equivalent each; (c) services under contracts costing no more than \$50,000 equivalent for employment of consulting firms and \$20,000 equivalent for employment of individuals; (d) local training, grants and scholarships; and (e) Incremental Salaries and Operating Costs, 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 the Nepal Rastra 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 Applicable to Development Credit Agreements. 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 a Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (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:

The term "Authorized Allocation" means an amount equivalent to \$1,200,000 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, said Authorized Allocation shall be limited to an amount equivalent to \$600,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to the Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the respective General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR3,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Special Account's 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 said 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 Special Account's 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 allocated to the Special Account's 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 in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, 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 said 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.

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 a 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 eight-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 SDR1,800,000.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in carrying out the first phase of its Basic and Primary Education Program which aims to strengthen institutional capacity at national, district and school levels to deliver more efficient and better quality 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 objective:

#### Part A: Strengthening of Institutional Capacity

In accordance with the Core Investment Program:

##### 1. At National Level

(a) Provision of staff development programs and training and support to strengthen the technical support functions of MOE, the DOE, the Curriculum Development Center, the Non-Formal Education Center, the Distance Education Center and the National Center for Education Development, including through the provision of equipment and consultants services.

(b) Development of information systems and the professional skills to manage and supervise a decentralized school system through programs of staff development or training or provision of equipment.

(c) Preparation of manuals and formats for development of policy-based implementation plans and budget proposals for use by national and district-level Program -related institutions.

(d) The carrying out of policy research, evaluation and monitoring including periodic national assessments in basic skills at grades 3 and 5.

(e) Initiation and provision of technical support for district planning and investment planning in about 30 districts during the Project implementation; and

(f) Establishment of objective criteria and mechanisms for school improvement planning, provision of technical support to districts for implementation of such criteria and for gradually incorporating these into the district planning process.

##### 2. At District Level

(a) Provision of staff development programs and training to district

education staff in about 30 districts during Project implementation, aimed at:

- (i) strengthening technical and management capacities to implement school based inservice-training;
- (ii) monitoring school performance and to increase participation of village and school management committees; and
- (iii) developing district plans and budgets targeting quality improvement at grades 1 to 3 and increased retention of students to grade 5.

(b) Construction of about 15 district education offices.

3. At Community Level

(a) Provision of technical support and training to head teachers, School Management and Village Education Committees in school improvement planning.

(b) Provision of essential books and materials to schools and additional facilities based on school improvement plans.

(c) Provision of inservice training for teachers in methods appropriate to increasing learning in grades 1 to 3 and in multigrade teaching in small schools.

Part B: Raising Learning Achievement

In accordance with the Core Investment Program:

(a) Improvement of teaching and learning processes through curriculum review in the context of small, multigrade schools as well as single classes grades 1 to 3.

(b) Improvement of the textbook distribution system.

(c) Development of methods and materials for multigrade teaching and developing a continuous assessment system, teaching techniques and materials.

(d) Expansion and improvement of teacher education through regular school-based recurrent training and expansion of the resource center professional support system to an additional 35 districts, piloting a preservice teacher training certificate program, and revising the inservice upgrading certificate course.

(e) Construction of about 200 resource centers.

Part C: Increasing Equitable Access to Education

In accordance with the Core Investment Program:

(a) Expansion of early childhood development (ECD) centers as part of school and village planning in certain areas (especially where there are large numbers of underage children in grade 1).

(b) Provision of: free textbooks to all girls in grades 1 to 5, and all boys at grades 1 to 3 and, in remote districts, all boys in grades 4 and 5, scholarships to needy girls and inclusive schooling programs for children with special needs.

(c) Rehabilitation and construction of classrooms based on approved district education plans, and school plans developed by school management committees and community mobilization programs.

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The Project is expected to be completed by January 15, 2002.

SCHEDULE 3

Procurement and Consultant's Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B, namely

- (a) Preference for domestically manufactured goods.

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

- (b) Notification and Advertising

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) (i) Pre-fabricated steel structures and roofing materials estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent;

(ii) other goods, equipment and vehicles estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent;

(iii) civil works required for Part A (2) (b) of the Project (district education office buildings) and estimated to cost \$30,000 or more; and

(iv) civil works under Part B (e) and Part C (c) of the Project (construction at resources centers) may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of subparagraph (a) of this paragraph 1.

2. Improvement of Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section 1 of the Guidelines:

(a) invitations to bid shall be advertised in at least one widely circulated national daily newspaper, at least 30 days prior to the deadline for the submission of bids;

(b) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;

(c) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by IDA;

(d) bids shall be opened in public, immediately after the deadline for submission of bids;

(e) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;

(f) qualifications criteria (in case pre-qualifications was not carried out) shall be stated in the bidding documents, and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;

(g) contracts shall be awarded to the lowest evaluated bidders;

(h) post bidding negotiations shall not be allowed on evaluated or any other bidders;

(i) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

(j) re-bidding shall not be carried out without the Association's prior concurrence;

(k) contracts shall not be awarded on the basis of nationally negotiated rates;

(l) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;

(m) a bidder's Bid Security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;

(n) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which:

(i) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to next lowest evaluated and qualified bidder; and

(ii) if no evidence of collusion can be confirmed, then fresh bids shall be invited, after receiving concurrence of the Association;

(o) extension of bid validity shall not allowed unless justified by exceptional circumstances; and

(p) there shall not be any restrictions on the means of delivery of the bids.

### 3. International or National Shopping

Goods (including vehicles and equipment) estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$850,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

### 4. Direct Contracting

Goods which are spare parts must be purchased from the original supplier to be compatible with existing equipment or must be procured from a particular supplier as a condition of a performance guarantee and costing \$150,000 equivalent 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.

5. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$250,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

6. Community Participation

Goods and works required for Parts A and B of the Project shall be procured in accordance with procedures acceptable to the Association.

7. Procurement of Small Works

Works estimated to cost less than \$10,000 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.

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) the first three contracts for civil works; (ii) each contract for civil works estimated to cost the equivalent of \$100,000 or more; (iii) the first five contracts using community participation in accordance with Part C paragraph 5 of this Section; (iv) the first contract using small works procurement in accordance with Part C paragraph 6 of this Section; (v) each contract using force account procurement in accordance with Part C, paragraph 4 of this Section; (vi) each contract for pre-fabricated steel structures and roofing materials estimated to cost the equivalent of \$100,000 or more; (vii) each contract for goods estimated to cost the equivalent of \$100,000 or more; and (viii) each contract using direct contracting in accordance with Part C, paragraph 3 of this Section; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract.

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

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following

provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under the Project, 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

Selection Based on Consultants' Qualifications

Consultants' services which are small consultancies, institutional services and individual assignments under the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 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

With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (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. In implementing the Project, the Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association and furnish to the Association and the Donors on March 31 in each year, commencing March 31, 2000, 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 twelve-month period preceding the date of said report;



(c) in each of the reports referred to in paragraph (b) above, also recommend the measures to ensure the efficient completion of the Project and the achievement of the objectives thereof, including, for the succeeding calendar year: (i) an annual work plan; (ii) an investment plan, and the targets to be achieved, all for the implementation of the Project during the twelve-month period succeeding the date of said report; (iii) a budget proposal for the carrying out of the Project; and (iv) a procurement plan.

(d) review with the Association and the Donors by April 30 of each year during the execution of the Project, or such later date as the Association together with the Donors shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the Program and the Policy Framework 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.

2. The Borrower, through MOE, shall implement in a timely fashion the DOE Reorganization Plan in a manner satisfactory to the Association, and thereafter shall ensure that no key staff in national education institutions and core staff within District Education Offices (as the same are defined in the DOE Reorganization Plan) will be transferred.

3. The Borrower, through MOE, shall implement teacher training programs in accordance with the Policy Framework, and shall not change or substitute such teacher training programs without prior consent of the Association, such change or substitution and consent to take place at the annual review referred to in paragraph 1 above.

4. The Borrower shall only establish new primary schools based on criteria for school establishment contained in the Policy Framework and satisfactory to the Association.

5. With regard to school teaching staff, the Borrower, through MOE, shall:

(a) complete teacher redeployment in 12 districts in accordance with the plan, contained in the PIP and satisfactory to the Association, by December 31, 2001;

(b) implement policies and strategies in a manner satisfactory to the Association to increase the total number of female teachers; and

(c) maintain primary teacher staff at the 1998 level for total number of primary teaching positions in the education system.

6. By no later than December 31, 2001, the Borrower shall:

(a) provide to the Association for its review and comment a report on the Borrower's experience with School Improvement Plans;

(b) provide to the Association for its review and comment, reports on the MOE's experience with the experimental pre-service training program and the in-service certification program (focusing in particular on the impact on classroom practice);

(c) review with the Association the Borrower's resource management and resource levels in and for the education sector, as summarized in the PIP;

(d) provide to the Association an evaluation of special focus group programs and girls incentive programs; and

(e) conduct a review of its experience with its textbook provision under current policy and shall provide a revised textbook policy for review by the Association.

7. The Borrower, through MOE, shall carry out: (a) by December 31, 1999; and (b) by end Fiscal Year 2001/2002 grade 3 and grade 5 basic skills learning achievement assessments and provide a copy of each assessment to the Association.



