

CONFORMED COPY

CREDIT NUMBER 2675 CV

Development Credit Agreement

(Basic Education and Training Project)

between

REPUBLIC OF CAPE VERDE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 24, 1995

CREDIT NUMBER 2675 CV

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 24, 1995, between REPUBLIC OF CAPE VERDE (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;

(B) the Association has received a letter dated December 8, 1995, from the Borrower describing a program of actions, objectives and policies to achieve adjustment of the Borrower's education sector (the Program) and declaring the Borrower's commitment to the execution of the Program; 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 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) "MOES" means Ministerio de Educacao e do Desporto, the Borrower's Ministry of Education and Sports;

(b) "FEE" means the Fundo de Edicao Escolar (the textbook revolving fund) established within MOES under Decreto-Lei No. 3-95;

(c) "IET" means the Instituto do Emprego e Formacao Profissional (the Institute of Employment and Training), an autonomous entity established by Decreto-Lei No. 51/94;

(d) "Implementation Manual" means the Manual adopted by the Borrower for implementation of the Project pursuant to Section 6.01 (e) of this Agreement;

(e) "MEC" means the Ministerio de Coordenacao Economica, the Borrower's Ministry of Economic Coordination;

(f) "MLYSA" means Ministerio do Trabalho, Juventude, e Promocao Social, the Borrower's Ministry of Labor, Youth and Social Affairs;

(g) "NACET" means Conselho Nacional do Emprego e da Formacao, the Borrower's National Advisory Council for Employment and Training, which includes representatives from relevant Ministries, relevant Trade Unions and employers' associations and which assist the Borrower in formulating policies in relation to training and employment;

(h) "PCU" means the Project Coordinating Unit within MEC;

(i) "Pedagogic Institute" means the Instituto Pedagogico of the Borrower within MOES;

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to a letter of agreement and a letter of extension dated December 31, 1992 and June 20, 1994, respectively, between the Borrower and the Association;

(k) "TSF" means Fundo de Promocao do Emprego e da Formacao, the training support fund established within MLYSA by Decreto-Lei No. 52/94;

(l) "TSF Procedural Manual" means the Procedural Manual adopted by the Borrower for operating the TSF pursuant to Section 6.01 (e) of this Agreement; and

(m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seven million eight hundred thousand Special Drawing Rights (SDR 7,800,000).

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 (the Special 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 4 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 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 cancelled; 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 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 semi-annual installments payable on each May 15 and November 15, commencing May 15, 2005 and ending November 15, 2034. Each installment to and including the installment payable on November 15, 2014 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 MEC, MOES and MLYSA, with due diligence and efficiency and in conformity with appropriate administrative, financial, educational and pedagogical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (b) 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 5 to this Agreement and the Implementation Manual.

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. By no later than July 31, 1995, the Borrower shall issue regulations, satisfactory to the Association, under its Law No. 103-111-90 dated December 29, 1990, to implement the Borrower's compulsory education program described in the Program.

Section 3.04. The Borrower, to implement the technical education reform under Part B of the Project shall: (a) prepare by no later than June 30, 1996, a transition plan and timetable, satisfactory to the Association, to develop and introduce: (i) a revised technical education structure, (ii) a new curriculum for all schools nationwide, and (iii) admission standards for secondary schools; and (b) introduce, by no later than October 30, 1996, in accordance with the agreed transition plan and timetable referred to in subparagraph (a) above, all appropriate regulations and measures necessary or desirable for implementation.

Section 3.05. The Borrower shall:

(a) implement the recruitment and deployment of teachers in accordance with the teachers' plan as set forth in the Program;

(b) implement the agreed action plan as set forth in the Implementation Manual, and provide the funds and human resources necessary for its implementation, in a manner satisfactory to the Association; and

(c) ensure that funds received by the FEE from textbook sales shall be used exclusively for financing the reprinting of students' textbooks.

Section 3.06. The Borrower shall: (a) operate, throughout the implementation of the Project, the TSF in accordance with the TSF Procedural Manual, and in a manner satisfactory to the Association; and (b) cause, no later than December 31, 1996, a technical auditor, with qualifications and experience and on terms of reference satisfactory to the Association, to carry out a review of the operation and performance of the TSF.

Section 3.07. Without limitation upon the provisions of Article IX of the General Conditions, 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;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

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 and those of the FEE for each fiscal year and those of the TSF for each six-month period, 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 report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special 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) Decreto-Lei No. 52/94 establishing the TSF has been revoked, suspended or varied in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of Part B (ii) of the Project; and

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

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 (a) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Borrower has: (i) appointed an external auditor acceptable to the Association to conduct semiannual financial and technical audits of the TSF; and (ii) designated members, acceptable to the Association, of the Executive Committee of the TSF;

(b) the Borrower has appointed staff with qualifications and experience satisfactory to the Association, within each relevant Department within MOES, to be responsible for Project implementation and to coordinate project-related activities with the PCU;

(c) MEC has established a financial management and accounting system for the Project and appointed an accountant within the PCU with qualifications and experience and on terms of reference satisfactory to the Association, and such accountant has taken up his post;

(d) the Borrower has appointed the auditors referred to in Section 4.01 (b) of this Agreement under a multi-year contract acceptable to the Association; and

(e) the Borrower has adopted a project implementation manual and a procedural manual for the TSF, satisfactory to the Association, detailing procedures for carrying out activities under the Project and of the TSF, respectively.

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

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
CP 506
Praia
Cabo Verde

Cable address:

Telex:

FINANCAS
Cabo Verde

6056 MFGCV

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 (RCA)
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.

REPUBLIC OF CAPE VERDE

By /s/ Corentino V. Santos

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

Regional Vice President
Africa

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	2,880,000	100%
(2) Goods (including textbooks)	1,270,000	100%
(3) Training	1,070,000	100%

(4) TSF Costs	260,000	100%
(5) Consultants' Services	730,000	100%
(6) Operating Costs	330,000	100%
(7) Incremental Operating Costs	60,000	100% for payments made through December 31, 1996, 65% for payments made through December 31, 1998 and 35% for payments thereafter
(8) Refunding of Project Preparation Advance	330,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(9) Unallocated	870,000	
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TOTAL	7,800,000	=====

2. For the purposes of this Schedule:

(a) the term "Operating Costs" means incremental recurring costs excluding the Borrower's Civil Service salaries and expenditures of IET and the employment centers but including the following:

- (i) staff expenses and overnight allowances;
- (ii) cost of operating vehicles, premises and equipment required for the Project;
- (iii) maintenance of Project equipment, premises, vehicles and office facilities;
- (iv) Project-related transport costs; and
- (v) office administration and communication.

(b) the term "Incremental Operating Costs" means: (i) expenditures incurred by employment centers and by IET for salaries of additional technical staff, and (ii) operating and maintenance costs for items acquired for IET and the employment centers under Category 2 of the table set forth in paragraph 1 of this Schedule; and

(c) the term "TSF Costs" means expenditures incurred in support of training programs, initial expenses, staff expenses, per diems, travel costs, stationery, office and administrative costs incurred for operation of the TSF.

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 under contracts for goods, works and services not exceeding \$20,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

Description of the Project

The objective of the Project is to assist the Borrower in implementing its long-term educational development strategy by: (1) providing a minimum of six years of basic education for all children through the introduction of an integrated basic education cycle; (2) improving the quality, skills and productivity of the work force by enhancing the relevance and quality of the vocational and technical training system; and (3) strengthening institutional capacity within the Borrower's education and training sector.

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: The Integrated Basic Education System

Provision of infrastructure and pedagogic support to the nationwide introduction of universal and compulsory primary education through:

1. Carrying out of a program for the construction and rehabilitation of classrooms, including the construction and furnishing of approximately 300 new classrooms, remodelling of approximately 25 schools, provision of pedagogical equipment and services to support implementation of the Program;
2. upgrading of the Pedagogic Institute and training and deployment of primary school teachers, including: specialist services and training for the assessment of qualifications of existing primary school teachers, implementation of an upgrading program during calendar years 1995 and 1996, adoption of a teachers' deployment plan and the development of core teams of pedagogic advisors to provide continuous on-the-job training to teachers over the Project period; and
3. provision of pedagogic materials (including teachers' guides and textbooks) and establishment of a sustainable textbook supply and distribution system (the FEE).

Part B: Improvement of Technical Education and Training

The introduction of reforms by the Borrower to increase the skill level and productivity of entrants to the education work force through:

1. provision of consultants' and specialist services, support for the national dialogue on technical education reform (through workshops and disseminations), acquisition of educational equipment (including computers), and supply of books and materials to assist the Borrower in implementing reforms to improve secondary education, including, inter alia, development of entrance examinations, revision of teaching curricula, identification of learning and teaching materials and equipment, in-service retraining of teachers and the establishment of advisory committees at the local level;
2. improvement of the quality and relevance of training programs, encouragement of the growth of private sector training institutions and improvement of public training agencies through the establishment of the TSF to provide support to enterprise-based, on-the-job training and demand-driven training programs in public, private and nongovernmental organizations' training centers; and
3. facilitation of school-to-work transition, promotion of the informal sector and strengthening of private sector development by:
 - (a) improving apprenticeship training of at least 900 apprentices,
 - (b) establishing and operating a scholarship program in accordance with eligibility criteria,
 - (c) financing approximately five professional education programs for the benefit of approximately 100 students, and

(d) financing the management and supervision for the training and programs referred to in (a), (b) and (c) above.

Part C: Development of Institutional Capacity

Strengthening the Borrower's existing capacity to formulate policies and implement programs in education, training and the educational work force by:

1. under MOES: reinforcing its planning, implementation and managerial capacity at the central and regional levels, supporting the transfer of technical and administrative responsibilities to regional education offices and strengthening the relationship between schools and communities through the provision of contractual services (including the Component Coordinator) and training;

2. under MLYSA: increasing institutional capacity to monitor training and provide employment services through:

(a) strengthening capacity within IET to undertake surveys and produce and disseminate relevant reports and information including renovation of its facilities, provision of equipment and furniture for IET, the carrying out of labor market and employment studies, provision of training, locally and abroad, for IET staff and provision of specialist consultants' services (including those of senior personnel and the training Component Coordinator);

(b) rehabilitating and equipping the existing employment center in Praia, constructing and equipping a new employment center in Mindelo and equipping the two new employment centers to be constructed in Ponta do Sol and Sao Filipe;

(c) the provision of training for staff of the employment centers and technical assistance for the operation of all of the employment centers referred to in paragraph (b) above; and

(d) creation and operation of NACET to develop national policies towards employment and training; and

3. under MEC: establishing the PCU, providing office equipment and furniture for the PCU, and providing necessary staff (including a Project Coordinator and staff for carrying out accounting and auditing services).

* * *

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

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in

accordance with the provisions of Part E.2 (a) of this Section, the Bank's prior approval will be required for

(i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days, and (ii) any subsequent extension of the bid validity period.

(b) 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 predisclosed 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.

(c) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost the equivalent of \$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 Cape Verde 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 paragraphs 1 through 4 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Items or groups of items for works under contracts estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount equivalent to \$4,834,000 and subject to paragraph 2 below, items or groups of items of goods estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount equivalent to \$960,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$150,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from either at least three suppliers eligible under the Guidelines or through the United Nations Development Programme's Inter-Agency Procurement Service Office, 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 (i) each contract for works or goods estimated to cost the equivalent of \$100,000 or more, and (ii) the first four contracts in respect of the TSF, 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 Account, 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 Account 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 Account, such procedures shall be modified to ensure that the two 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 4 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 are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for the 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 principles and 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). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

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 (a) contracts for the recruitment of consulting firms estimated to cost less than \$75,000 equivalent each, or (b) contracts for the recruitment of individuals estimated to cost less than \$35,000 equivalent, respectively. However, this exception to prior Association review shall not apply (a) to the terms of reference for such contracts or to the employment of individuals, (b) to single-source selection of firms, (c) to assignments of a critical nature as reasonably determined by the Association, or (d) amendments of contracts raising the contract value to above the aforementioned prior review thresholds.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (7) 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 \$250,000 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 \$150,000 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 \$1,000,000.

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 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 and deposit in 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 replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the 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; or

(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 Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit 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.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the Eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

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

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

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

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

SCHEDULE 5

Implementation Program

1. The Borrower shall ensure that the PCU is maintained within MEC throughout the execution of the Project. The PCU shall be headed by a Project Coordinator assisted by an accountant and maintained with sufficient staff to promote inter-agency cooperation. The Project Coordinator shall also liaise with two Component Coordinators within MOES and MLYSA, respectively, each Component Coordinator to coordinate a component of the Project. The Component Coordinators shall have suitable experience and qualifications and be employed on terms of reference satisfactory to the Association and in accordance with the Implementation Manual.

2. In respect of the development of its institutional capacity, the MOES will, inter alia: (a) complete the school map and management information system, (b) provide training for MOE Directorates, regional delegates and school directors, (c) support school-level monitoring and evaluation of student achievement, and (d) improve the effectiveness of school feeding programs.

3. Incentives will be provided to training centers to develop demand-driven training programs through the TSF (headed by an Executive Committee) in MLYSA and assisted by the Component Coordinators and the PCU, to fund eligible public, private and nongovernment organization training centers and support eligible enterprise-based on-the-job training, eligibility being determined in accordance with the TSF Procedural Manual.

4. The Borrower shall:

(a) no later than May 30 of each year (other than 1997, in which year the midterm review referred to in paragraph 5 of this Schedule shall take place) until the completion of the Project, conduct with the Association Project implementation reviews to:

- (i) discuss annual Project and Program evaluations,
- (ii) monitor progress made in achieving Project objectives,
- (iii) exchange information among staff responsible for Project implementation,

(iv) identify implementation issues and propose solutions for any current problems, and

(v) update Project timetables and cost estimates; and

(b) promptly, thereafter, carry out the recommendations arising out of each annual implementation review, as agreed between the Borrower and the Association.

5. (a) The Borrower, through MEC, in collaboration with MOES and MLYSA, shall carry out, jointly with the Association, by no later than November 15, 1997, a midterm review of the progress made in carrying out the Project and the Program.

(b) The terms of reference of the midterm review shall be acceptable to the Association and shall include an assessment of:

(i) all matters set forth in paragraph 4 (a) of this Schedule;

(ii) MLYSA's role in the execution of the Project;

(iii) textbook procurement and distribution, and textbook replenishment under the FEE;

(iv) progress in the execution and management of civil works;

(v) management of the educational facilities constructed or rehabilitated under Part A (i) of the Project;

(vi) progress in the redeployment of teachers in accordance with the Program;

(vii) the training and recruitment of new primary school teachers under Part A (ii) of the Project;

(viii) implementation of training activities and the performance of staff trained under Part B (ii) of the Project; and

(ix) Project management.

In addition, as part of the midterm review, the Borrower shall prepare a program of action, satisfactory to the Association, to deal with deficiencies in Project implementation identified prior to the review.

(c) MEC shall transmit to the Association, at least 10 days prior to the midterm review described in paragraphs (a) and (b) above, a report, in scope and detail satisfactory to the Association, describing the status of the items listed in such paragraphs and of Project and Program implementation generally.

(d) Based on such review, the Borrower shall promptly: (i) prepare an action plan, acceptable to the Association, for the further implementation of the Project and the Program and shall thereafter implement such action plan; and (ii) adopt and thereafter implement a budget, satisfactory to the Association, containing minimum annual allocations of funds to cover recurrent costs required for the education sector (including the Pedagogic Institute and IET) for the remainder of the Project period.

