CREDIT NUMBER 3956-NEP

Development Credit Agreement

(Education for All Project)

between

KINGDOM OF NEPAL

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 12, 2004

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 12, 2004, between the KINGDOM OF NEPAL (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received the following documents: (i) the Borrower's Education for All 2004-2009 Core Document, dated November 17, 2003; and (ii) the Borrower's Poverty Reduction Strategy (PRS), which articulates the Borrower's objectives, policies and programs for the basic and primary education sub-sector to be supported through the Education for All Program (the two documents are collectively referred to hereinafter as the "EFA Program") and declaring the Borrower's commitment to the execution of the EFA Program;

- (B) the Borrower, having satisfied itself as to the feasibility and priority of the EFA Program as described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project;
- (C) the Borrower intends to enter into agreements with: (i) the Ministry for Foreign Affairs of Finland ("Finland"); (ii) the United Kingdom of Great Britain and Northern Ireland, represented by the Department for International Development ("DfID"); (iii) the Ministry of Foreign Affairs of the Kingdom of Denmark ("Denmark"); and (iv) the Royal Ministry of Foreign Affairs of the Kingdom of Norway ("Norway"); (collectively referred to as the "Pooling Donors"), for grants in an approximate amount equivalent to one hundred million dollars (\$100,000,000) (the Pooling Donors' Cofinancing Funds) to assist in financing part of the EFA Program on the terms and conditions set forth in an agreement to be entered into between the Borrower and each of the Pooling Donors (the Pooling Donors' Cofinancing Agreements);
- (D) the Borrower, the Association and the Pooling Donors have agreed to enter into a Joint Financing Arrangement (the "JFA"), making arrangements for the processing of applications for withdrawal of the proceeds of the financing to be provided severally by the Pooling Donors and the Association and providing for common procedures on procurement, disbursement, cooperation and exchange of information; and

WHEREAS, on the basis of the foregoing, the Association has agreed 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 May 1, 2004) (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 and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:
- (a) "AWPB" means an Annual Work Plan and Budget, an operational plan prepared every Fiscal Year (as this term is hereinafter defined), under the EFA Program referred to in Recital (A) of this Agreement, and prepared and approved in accordance with Section II of Schedule 4 to this Agreement;
- (b) "Basic Grants" means grants made by MOES (as this term is hereinafter defined) under Part E.1 of the Project to unaccredited schools;
- (c) "DEO" means the District Education Office of the Borrower within MOES;
- (d) "DOE" means the Department of Education of the Borrower within MOES:
- (e) "EFA Procurement Manual" means the Borrower's education for all procurement manual, based on the Borrower's FAR (as this term is hereinafter defined), including *inter alia*, operational guidelines to staff responsible for procurement at the school, district and department levels;
- (f) "Environmental Assessment" means the Borrower's environmental assessment, furnished to the Association in April 2004, including, *inter alia*: (i) the identification and assessment of the potential environmental impact of activities to be carried out under the Project; (ii) an evaluation of alternative measures; and (iii) the EMP (as this term is hereinafter defined) detailing the appropriate mitigation, monitoring, institutional and management measures required for the design and construction of classrooms;
- (g) "EMP" means the Borrower's Environmental Management Plan which sets out, *inter alia:* (i) key principles for environmental management of the Project; (ii) procedures to screen and process school construction for significant environmental impacts, and to assist its mitigating impacts; and (iii) procedures to ensure that these principles and procedures are properly applied;
- (h) "FAR" means the Borrower's procurement regulations called the Financial Administration Regulations, 1999, as amended;

- (i) "FCGO" means the Borrower's Office of the Financial Comptroller General;
- (j) "FE Account" means the account referred to in Section 2.02(b) of this Agreement;
- (k) "Fiscal Year" or "FY" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences and ends in mid July of each calendar year;
- (1) "Financial Monitoring Report" means each Financial Monitoring Report prepared in accordance with Section 4.02 of this Agreement;
- (m) "Incentive Grants" means grants made by MOES (as this term is hereinafter defined) under Part E.4 of the Project to community-managed schools;
- (n) "JFA" or "Joint Financing Arrangement" means the joint financing arrangement to be entered into between the Pooling Donors and the Borrower, providing for common procedures on monitoring, procurement, financial management, disbursement, auditing and reporting;
- (o) "Level I Grants" means grants made by MOES (as this term is hereinafter defined) under Part E.2 of the Project;
- (p) "Level II Grants" means grants made by MOES under Part E.2 of the Project;
- (q) "MOES" means the Borrower's Ministry of Education and Sports or any successor thereto;
- (r) "Nepal Rastra Bank" means the central bank of the Borrower established and operating pursuant to the provisions of the Borrower's Nepal Rastra Bank Act, 2058 (2001);
- (s) "Nepalese Rupee" and the sign "NRs" mean the currency of the Borrower;
- (t) "Operational Manual" means the operational manual to be prepared by MOES and to be submitted to the Association pursuant to the provisions of paragraph 3 (c) of Schedule 1 to this Agreement, which sets forth guidelines for administering School Grants (as this term is hereinafter defined) including the reporting, monitoring and accounting procedures, as the same may be amended from time to time in agreement with the Association;
- (u) "PMC" means the committee to be established pursuant to paragraph 3 of Section I of Schedule 4 to this Agreement;
 - (v) "Pooled Funds" means the Pooling Donors' credits and/or grants;

- (w) "Procurement Plan" means the Borrower's procurement plan, furnished to the Association on April 19, 2004 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;
- (x) "Report Based Disbursements" means withdrawal of funds from the Credit Account using the method referred to in Part A.4 of Schedule 1 to this Agreement;
- (y) "School Improvement Plan" means the plan referred to in Part F.1 of the Project;
- (z) "School Grants" means, collectively, Basic, Level I, Level II and Incentive Grants made out of the proceeds of the Pooled Funds;
 - (aa) "SMC" means a School Management Committee; and
- (bb) "VCDP" means Vulnerable Communities Development Plan furnished by the Borrower to the Association in April 2004, prepared by the Borrower in consultation with the local communities in the Borrower's territory and describing a program of actions, measures and policies designed to maximize the benefits accruing to *dalits*, disadvantaged *janajati* (indigenous people) and other disadvantaged groups under the Project.

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 thirty four million five hundred thousand Special Drawing Rights (SDR 34,500,000).
- 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: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit; or (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made by the Borrower to meet the reasonable cost of goods, works and services required to meet the Association's share, as determined from time to time, under an AWPB; or (iii) amounts paid (or, if the Association shall so agree, amounts to be paid) under School Grants 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 foreign exchange account in the name of FCGO (the FE Account) in Nepal Rastra Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the FE Account shall be made in accordance with the provisions of Part B of Schedule 1 to this Agreement.

- Section 2.03. The Closing Date shall be January 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.
- Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.
- (b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.
- (c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.
- Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.
- Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 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 June 15 and December 15 commencing December 15, 2014 and ending June 15, 2044. Each installment to and including the installment payable on June 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.
- (b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.
- (c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.
- (d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.
- Section 2.08. The currency of the United States 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 MOES with due diligence and efficiency and in conformity with appropriate educational, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.
- (b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the relevant provisions of the JFA as applicable, the Operational Manual, the EMP, the VCDP, the EFA Procurement Manual and the Implementation Program set forth in Schedule 4 to this Agreement.
- Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

- (b) The Borrower shall update the Procurement Plan in accordance with terms of reference acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.
- Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:
- (a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and
- (b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial

statements, and concerning said auditors, as the Association may from time to time reasonably request.

- (c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements), the Borrower shall:
 - (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
 - (ii) retain, until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account 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 reports and statements of expenditures are included in the audit for each fiscal year (or other period agreed to by the Association) referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 4.01 above, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.
- (b) The first Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after the end of the first fiscal trimester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first fiscal trimester; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than

forty-five (45) days after each subsequent fiscal trimester, and shall cover such fiscal trimester.

ARTICLE V

Remedies of the Association

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

- (a) that a situation has arisen which shall make it improbable that the EFA Program, or a significant part thereof, will be carried out;
- (b) the FAR shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the carrying out of the EFA Program or the accomplishment of the objectives thereof; and
- (c) The Pooling Donors' Cofinancing Agreements shall have failed to become effective by September 30, 2004, 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 EFA Program are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
 - (d) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of any grant or credit made to the Borrower for the financing of the EFA Program 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 credit shall have become due and payable prior to the agreed maturity thereof.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
 - (B) adequate funds for the EFA Program 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(h) of the General Conditions, the following additional events are specified:

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

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary, Ministry of Finance of the Borrower, is designated as the 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 Singha Durbar Kathmandu Nepal

Facsimile:

(977-1) 4259-891

For the Association:

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

Cable address: Telex: Facsimile: INDEVAS 248423 (MCI) or (202) 477-6391

Washington, D.C. 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, Kingdom of Nepal, as of the day and year first above written.

KINGDOM OF NEPAL

By /s/ Krishna Babu Tiwari

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Country Director, Nepal South Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

	<u>Category</u>	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1)	Eligible Expenditures under AWPBs	34,500,000	Such percentage of Eligible Expenditures as the Association may determine for any Fiscal Year
	TOTAL	34,500,000	

- 2. For the purposes of this Schedule the term "Eligible Expenditures" means School Grants made, and goods, works and services provided, under the Project, including recurrent expenditures covered by the EFA Program.
- 3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:
- (a) payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,000,000 may be made on account of payments made for expenditures before that date but after July 15, 2004;
- (b) payments made for expenditures under any AWPB, until the annual allocation and disbursement targets for such AWPB shall have been agreed during annual reviews;
- (c) payments made for expenditures under the Project, unless the Borrower has prepared an Operational Manual, in form and substance satisfactory to the Association;
- (d) payments made for expenditures which have not been incurred in accordance with the terms and conditions and eligibility criteria specified in the Operational Manual; and

- (e) payments made for expenditures for goods, works or services supplied under a contract which the Association or any national or international financing institution or agency, other than the Pooling Donors, shall have financed or agreed to finance under any other credit or grant.
- 4. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports specified in Part B.2 of this Schedule to be submitted to the Association, in form and substance satisfactory to the Association, in accordance with the provisions of Part B of this Schedule (Report Based Disbursements).

B. <u>FE Account</u>

- 1. After the Association has received evidence satisfactory to it that the FE Account has been opened in accordance with Section 2.02 (b) of this Agreement, withdrawals from the Credit Account under Category (1) set forth in the table in paragraph 1 of this Schedule shall be deposited by the Association into the FE Account in accordance with the provisions of this Part B.
- 2. Each request for withdrawal from the Credit Account shall be made on the basis of the reports referred to in Part A.4 of this Schedule, such reports to include the Financial Monitoring Report and other information as the Association shall specify by notice to the Borrower; provided, however, that in the case of the first request for withdrawal submitted to the Association, before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected applications of funds for the Project for the eight-month period following the date of such request.
- 3. Upon receipt of each request 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 FE Account an amount equal to the lesser of: (a) the amount so requested; or (b) the amount which the Association has determined, based on the reports referred to in Part B.2 of this Schedule applicable to such withdrawal request, is required to be deposited in order to finance Eligible Expenditures during the eight-month period following the date of such reports.
- 4. Amounts deposited by the Association into the FE Account shall be used exclusively to make payments for Eligible Expenditures. For each payment made by the Borrower out of the FE Account using Credit proceeds, 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 Part B.1 of this Schedule, the Association shall not be required to make further deposits into the FE Account:
- (a) if the Association, at any time, is not satisfied that the reports referred to in Part B.2 of this Schedule adequately provide the information required for Report Based Disbursements;

- (b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures 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 FE Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Report Based Disbursements.
- 6. The Association shall not be required to make further deposits into the FE Account in accordance with the provisions of Part B.1 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the FE Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.
- 7. (a) If the Association determines at any time that any payment out of the FE Account using Credit proceeds 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 FE 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 FE 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 Credit proceeds on deposit in the FE Account will not be required to cover payments for Eligible Expenditures during the six (6) month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such proceeds.
- (c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the Credit proceeds on deposit in the FE Account.
- (d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 7 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) ensure access and equity in primary education; (ii) improve efficiency and institutional capacity; and (iii) contribute to sustainable socio-economic development and equity, through the enhancement of quality and relevance of basic and primary education to children and illiterate adults in the territory of the Borrower.

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: Expanding and Improving Early Childhood Development

Provision of goods and services, for a series of activities designed to establish about eleven thousand (11,000) new Early Childhood Development centers and operating about five thousand seven hundred (5,700) existing Early Childhood Development Centers.

Part B: Ensuring Access to Education for all Children

The carrying out of works and provision of goods and services for a series of activities designed to improve the access to education for children in primary schools through:

- 1. Development of village education plans to promote social inclusion through partnerships with local organizations, and provision of School Grants.
- 2. Construction and furnishing of about eight thousand (8,000) new classrooms, rehabilitation of about six thousand (6,000) classrooms, and improving site services in about five thousand (5,000) schools with special focus on drinking water facilities and school girls' sanitation facilities.
 - 3. Construction of about one thousand (1,000) temporary classrooms.
- 4. Construction of about eleven (11) DEO buildings and two hundred fifty (250) Resource Center buildings.
- 5. Supporting alternative schooling for children aged from five to seven years in very small or remote hamlets through the provision of about one thousand (1,000) school outreach programs; and provision of about eight hundred (800) flexible schooling programs for children aged from seven to thirteen years.
- 6. Design and establishment of a conflict and disaster fund to support needy school children.

Part C: Meeting Learning Needs

Provision of goods and services for a series of activities designed to develop and implement:

- 1. a pilot program to facilitate home-to-school transition in about fifty (50) schools serving predominantly non-Nepali speaking populations in five (5) districts and subsequent upscaling of the pilot program across the country;
- 2. a communication campaign for the EFA Program's objectives and strategies;
- 3. a primary education promotion strategy; and
- 4. a curriculum update.

Part D: Improvement of Adult Literacy

Provision of goods and services to support the ongoing women's literacy program and national literacy campaign through schools, local bodies and community groups and about two hundred five (205) community learning centers catering to newly literate adults.

Part E: Eliminating Gender Disparity

- 1. The carrying out of a program for the provision by MOES of Basic Grants to unaccredited schools.
- 2. The carrying out a program for the provision by MOES of Level I Grants and Level II Grants to Eligible Schools.
- 3. Development and implementation of a framework to prevent discrimination against students from *dalit*, disadvantaged *janajati* and other disadvantaged groups.
- 4. Provision of Incentive Scholarships to about one hundred (100) preservice female teacher trainees, *dalit*, disadvantaged *janajati* and other disadvantaged groups.

Part F: Improving Education Quality

- 1. Provision of services to support the development and carrying out of a School Improvement Plan (SIP).
- 2. Purchase of materials for book corners in classrooms and the provision of services for research and development activities, including school-based action research, and piloting of computer education.

- 3. Provision of services and in-country training for capacity building of SMC members, including head teachers and community organizations.
- 4. Strengthening and streamlining the education management information system through the provision of services.
 - 5. Provision by MOES of Incentive Grants to community-managed schools.
- 6. The Carrying out of assessments and/or studies on the effectiveness of initiatives supported under the EFA Program, including, *inter alia*: (i) scholarships for girls, *dalits*, disadvantaged *janajati* and other disadvantaged groups; (ii) language transition for non-Nepali speaking children; (iii) alternative education; and (iv) adult literacy programs.

* * *

The Project is expected to be completed by July 15, 2009.

SCHEDULE 3

Procurement

Section I. General

Except as the Association shall otherwise agree all goods, works and services (including consultants' services) shall be procured in accordance with the provisions of FAR and the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods

A. International Competitive Bidding.

Goods such as fabricated steel structures and corrugated galvanized roofing materials estimated to cost the equivalent of \$500,000 or more per contract and vehicles estimated to cost the equivalent of \$200,000 or more per contract shall be awarded on the basis of International Competitive Bidding in accordance with the provisions of Section II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (Procurement Guidelines).

B. Other Procurement Procedures

National Competitive Bidding

Goods such as fabricated steel structures and corrugated galvanized roofing materials estimated to cost less than \$500,000 equivalent per contract and vehicles estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of FAR and the following additional provisions:

Additional Provisions

- 1. Bid opening shall be at one place only; and immediately after the deadline for the submission of bids, bid opening shall not be mandatory but provided as an option only.
- 2. Bidders for a works contract to be procured through International Competitive Bidding must work in a joint venture with a Nepali construction company or a firm working in the Borrower's territory.
- 3. Institutions in which the Borrower owns 50% of more of the capital shall be exempt from furnishing bid and performance securities.
- 4. Local bidders competing with foreign bidders under national competitive bidding procedures shall be granted preference in accordance with the provisions of FAR.
- 5. Bidders qualification criteria shall be determined in accordance with the provisions of FAR.

Section III. Review by the Association of Procurement Decisions

A. Prior Review

Except as the Association shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods and Works

The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods, and works estimated to cost the equivalent of \$500,000 or more.

2. Consultants' Services

The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, shall apply to (i) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more; and (ii) each contract for consultants' services provided by a individuals estimated to cost the equivalent of \$20,000 or more.

B. Post Review.

- 1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Procurement Guidelines shall apply.
- 2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Section I. Overall Project Implementation and Coordination

- 1. The Borrower shall vest responsibility for the implementation of the Project in MOES.
- 2. Without limitation upon the provisions of paragraph 1 of this Section, DOE shall be responsible, at the central level, for the overall coordination, monitoring, evaluation and reporting on the Project, including, *inter alia*, overseeing the EFA Program, reviewing, approving, and coordinating, in consultation with the Pooling Donors, the implementation of the AWPB and the provision of the School Grants.
- 3. The Borrower shall establish, not later than August 31, 2004 and thereafter maintain, a Program Management Committee (PMC) whose responsibilities shall include facilitating inter-ministerial coordination and overseeing preparation of the Annual Strategic Implementation Plan and the AWPB during Project implementation.
- 4. The PMC shall be chaired by the Joint Secretary, MOES and shall consist of: (i) the Director General, DOE; (ii) the Director General, Curriculum Development Center; (iii) the Director, Planning and Administration, DOE; (iv) the Executive Director, National Center for Education Development; (v) the Director, Non-formal Education Center; (vi) the Joint Secretary, Ministry of Local Development; (vii) the Director, School Education Division, DOE; (viii) the Joint Financial Comptroller General, FCGO; and (ix) the Under Secretary, Ministry of Finance.
- 5. The Borrower shall cause DOE to: (i) implement the Project in accordance with the arrangements and procedures set out in the Joint Financing Arrangement and the Operational Manual; and (ii) except as the Association shall otherwise agree, not amend, abrogate or waive any provision thereof which may, in the opinion of the Association, materially and adversely affect the implementation of the Project.
- 6. The Borrower shall cause the DEO to prepare annual District Education Plans, review school improvement plans, disburse School Grants, monitor school performance, and report semi-annually on Project's key outcome indicators and three (3) times annually on key output indicators.
- 7. The Borrower shall, not later than October 15, 2005 cause schools receiving School Grants to have adequate records reflecting School Grant expenditures, and shall cause communities benefiting from School Grants to undertake annual social audits.
- 8. The Borrower shall, not later than September 30, 2004, or such later date as the Association may agree: (i) maintain an adequate number of suitable staff; and (ii) hire the required consultants with qualifications and experience satisfactory to the Association, in the Educational Materials Section of the DOE to manage the action plan for textbooks development, production and distribution to the private sector.

- 9. The Borrower shall, not later than December 31, 2004, or such later date as the Association may agree, produce a list of pre-qualified NGOs/support organizations to deliver services to schools.
- 10. The Borrower shall maintain, in form and substance satisfactory to the Association, the VCDP, and implement it in accordance with the objectives, policies, procedures, time schedules and other provisions set forth therein, to ensure that *dali*, disadvantaged *janajati* and other disadvantaged groups in the Borrower's territory shall benefit fully from the activities financed under the Project.
- 11. The Borrower shall ensure that all work activities under the Project shall be carried out in accordance with the provisions of the EMP and not assign, amend, abrogate or waive the EMP or any provisions thereof if, such assignment, amendment, abrogation, or waiver will materially and adversely affect the implementation of the Project.

Section II. Annual Work Plan and Budget (AWPB)

- 1. The Borrower shall, by no later than July 31, 2004, furnish to the Association, for review and comment, the first AWPB indicating detailed EFA Program of activities, including cost, output and performance targets. Thereafter, no later than three (3) months prior to the start of each Fiscal Year, the Borrower shall cause MOES to prepare and furnish to the Association, for review, the proposed AWPB for the following Fiscal Year. Each such AWPB shall: (i) have been prepared in consultation with and based on data collected from the various stakeholders of the EFA Program at various levels; (ii) include fully costed proposed AWPB activities for each output, linked with performance targets of the Project; (iii) include a detailed description of how proposed EFA Program activities shall be integrated into the existing structure and with ongoing activities at DOE, district, and school levels; and (iv) include allocation of adequate resources for the EFA Program.
- 2. The Borrower shall, in conjunction with the Association and the Pooling Donors, jointly review the EFA Program implementation progress semiannually. The review shall, *inter alia*: (i) evaluate the effectiveness of the implementation mechanisms and the efficiency of the organizational development; (ii) assess EFA Program contributions to the improvement of the quality of primary education; (iii) assess implementation performance against agreed upon indicators in the program framework and adjust indicators as needed; (iv) identify primary education policy issues; (v) assess the effectiveness of EFA Program strategies for promoting greater participation of girls and disadvantaged groups; (vi) review the finding of the assessment studies referred to in Part F.6 of the Project; and (vii) assess progress on key EFA Program innovations as well as learning outcomes and quality of teaching.

Section III. School Grants

1. General

(a) Without limitation upon the provisions of Section I of this Schedule, the Borrower shall cause DOE to administer School Grants, in accordance with the

provisions and procedures set forth in this Section III and in more detail in the Operational Manual.

(b) The Schools accreditation system shall be based on a set of criteria agreed upon with the Association which include, *inter alia*, ascending benchmarks for the following indicators: (i) adequacy of physical facilities; (ii) teachers competence; (iii) accountability and transparency; (iv) school operation processes; (v) learning outcomes; and (vi) other outcomes.

2. Procedures

- (a) For the purpose of providing Level I Grants, a School should meet Grade-One benchmarks, as agreed upon with the Association and set forth in the Operational Manual. An additional bonus grant may be awarded upon meeting additional benchmarks.
- (b) For the purpose of providing Level II Grants, a School should meet Grade-Two benchmarks, as agreed upon with the Association and set forth in the Operational Manual. An additional bonus grant may be awarded upon meeting additional benchmarks.

3. Terms and Conditions

- (a) Each Basic Grant under Part E.1 of the Project shall be made by MOES to an unaccredited school to support non-salary recurrent expenditures including, *inter alia*, teaching materials, book corners, school office and cleaning supplies, basic maintenance of physical facilities and shall be approximately NRs 70 per student per year.
- (b) Each Level I Grant under Part E.1 of the Project shall be made by MOES to support expenditures of a Grade-One School so long as its accreditation is maintained. Bonus Grants shall be approximately NRs 100 per student per year.
- (c) Eligible Grade-One Schools shall be awarded a Bonus Grant of approximately NRs 100 per student per year.
- (d) Each Level II Grant under Part E.1 of the Project shall be made by MOES to support non-salary recurrent expenditures of Grade-Two Schools so long as such accreditation is maintained.
- (e) Eligible Grade-Two Schools shall be awarded a bonus grant of approximately NRs 150 per student per year.
- (f) Incentive Scholarships shall be provided to about a hundred (100) pre-service teacher trainees for undertaking a ten-month teacher's training course.

Section IV. Progress Reports and Mid-Term Review

The Borrower shall:

- 1. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators agreed with the Association, the carrying out of the Project and the achievement of the objectives thereof;
- 2. prepare, under terms of reference satisfactory to the Association, and furnish to the Association: (i) on an annual basis, commencing on or about March 31, 2005, reports on the progress achieved in the implementation of the Project and the achievement of the objectives thereof; and (ii) on or about March 1, 2007 a report, to constitute the basis upon which the mid-term review shall take place, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (i) of this paragraph and consolidating the results of the reports referred to under sub-paragraph (ii) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
- 3. review with the Association, not later than April 15, 2007, or such later date as the Association shall reasonably request, the report referred to in paragraph 2 of this Section III, and, thereafter, take all measures required to ensure the efficient completion of the Project 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.