

CONFORMED COPY

CREDIT NUMBER 1964 VA

Development Credit Agreement

(Primary and Secondary Education Project)

between

REPUBLIC OF VANUATU

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 27, 1989

CREDIT NUMBER 1964 VA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 27, 1989, between REPUBLIC OF VANUATU (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 Borrower intends to obtain from the Government of Australia, acting through its Australian International Development Assistance Bureau (AIDAB) a grant (the AIDAB Grant) in an aggregate amount of Australian dollars 10,800,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and AIDAB; 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional term has the following meaning, namely, "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 six million three hundred thousand Special Drawing Rights (SDR 6,300,000).

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 (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be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 shall, for the purposes of the Project, open and maintain in United States dollars a special account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1997 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 a date sixty days (60) 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 as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 1 and September 1 commencing March 1, 1999, and ending September 1, 2028. Each installment to and including the installment payable on September 1, 2008 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 amount 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 with due diligence and efficiency and in conformity with appropriate administrative, educational 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 an implementation program satisfactory to the Association. Such program shall be reviewed and revised, if necessary by October 31 of each Year, beginning October 31, 1989.

Section 3.02. (a) 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.

(b) Without limitation on the foregoing and with respect to facilities to be constructed under the Project, the Borrower shall: (i) permit contractors to import building materials directly; and (ii) provide to contractors the work permits for importation of skilled labor unavailable in the Borrower's territory.

Section 3.03. Not later than one year prior to the estimated opening of the facilities set out in Part A of the Project, the Borrower shall furnish to the Association for comment a staffing plan (including identification of sources of finance for such staff) for each such facility and shall thereafter carry out such plan in accordance with a time schedule satisfactory to the Association.

Section 3.04. The Borrower shall furnish to the Association for comment: (a) the draft program referred to in Part C(2)(a) of the Project by December 31, 1989; (b) the study referred to in Part C(2)(b) of the Project, by December 31, 1990; and (c) the study referred to in Part C(2)(c) of the Project, by December 31, 1991, and after the respective dates, shall carry out said program and recommendations of the studies satisfactory to the Borrower and the Association in accordance with a time schedule satisfactory to the Association.

Section 3.05. The Borrower shall have recruited for the Planning and Implementation Unit by June 30, 1990; a Senior Education Officer, Planning; an Education Officer, Operations; and an Advisor, Implementation.

### ARTICLE IV

#### Financial Covenants

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

thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine 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 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 expenditures 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) (i) that the subject to subparagraph (ii) of this paragraph:

- (1) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing there for, or
  - (2) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
- (1) 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
  - (2) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) unless the Association shall otherwise agree, the Borrower shall have amended, repealed, abrogated or waived the plan for consolidating the lower secondary school expansion program referred to in paragraph 3 (b) of Schedule 1 to this Agreement or any part thereof.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) that any event specified in paragraph (i)(2) of Section 5.01 of this Agreement shall occur, subject to the proviso of subparagraph (ii) of that paragraph; and

(b) that the event specified in paragraph (b) 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 Planning and Implementation Unit referred to in Part C.1 of Schedule 2 hereto shall have been established and the following staff shall have been appointed, all in a manner satisfactory to the Association:

Principal Education Officer, Planning and Implementation;

Senior Education Officer, Implementation; and

Education Officer, Statistics; and

(b) all conditions precedent to the effectiveness of the AIDAB Grant (other than those related to the

effectiveness of this Agreement) have been fulfilled.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

Minister of Finance and Housing  
Private Mail Bag  
Port Vila  
Republic of Vanuatu

Telex:

1040 VANGOV NH

For the Association:

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

Cable address:

Telex:

INDEVAS	440098 (ITT)
Washington, D.C.	248423 (RCA) or
	64145 (WUI)

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

REPUBLIC OF VANUATU

By /s/ Iolu J. Abbil  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ N. C. Hope  
Authorized Representative  
Asia

#### SCHEDULE 1

##### Withdrawals 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 (and related professional services):		95%
(a) Part A.1 of the Project	3,020,000	
(b) Parts B.3(B) and C.1	270,000	
(2) Goods	610,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(a) Part A.1 of the Project		
(b) Other than Part A.1 of the Project		
(3) Consultants' services	630,000	100%
(4) Incremental recurrent	200,000	50% of amounts incurred in 1988, costs 1989 and 1990; 40% of amounts incurred in 1991; 30% of amounts incurred in 1992; 20% of amounts incurred in 1993; 10% of amounts incurred in 1994; 5% of amounts incurred in 1995
(5) Unallocated	1,570,000	
TOTAL	6,300,000	

2. For the purposes of this Schedule:

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

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

(c) "incremental recurrent costs" means expenditures for salaries for new staff under Parts B.1(b), B.2(c) and C.1 of the Project; internal travel under Parts B.1(b) and B.3(b) of the Project; local training under Part B.3 (a) of the Project; and



distribution of materials under Part B.1(d) of the Project.

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 SDR 190,000, may be made on account of payments made for expenditures before that date but after September 1, 1988; and (b) Categories (1)(a) and (2)(a) on account of payments made for expenditures with respect to Part A.1 of the Project until a plan, satisfactory to the Association, for consolidating the lower secondary school expansion program shall be implemented in a manner satisfactory to the Association.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to provide greater and more equitable access to secondary education in order to expand the output of trained manpower, improve the quality of education at all levels and increase educational management efficiency.

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:

1. Construction, furnishing and equipping of two lower secondary schools in the regions of Malakula and Tafea with a capacity of about 560 students, which schools will be dual-lingual with two four-year streams each and shall be designed for academic and administrative facilities, full boarding facilities for students and accommodations for teachers.

2. Construction, furnishing and equipping of facilities, and provision of staff for, two three-year upper secondary streams (attached to the existing lower secondary school at Matevulu) with a capacity of about 200 student places, which facilities shall include additional academic and administrative facilities and accommodation for students, teachers and ancillary staff.

#### Part B:

1. (a) Construction, furnishing and equipping of facilities for a new Development Center on an existing site near the Vanuatu Institute of Education campus.

(b) Strengthening and expansion of the staff of the Curriculum Development Center. and Provision of funds for internal travel of such staff.

(c) Provision of educational materials in English and French for Primary and lower secondary schools.

(d) Distribution of, and provision of storage facilities for, the materials in (c) above.

2. (a) Improvement, development and delivery of programs leading to Certificates of Teaching.

(b) Training about 50 teachers for lower secondary schools.

(c) Improvement of the Teacher Education Center

including provision of equipment and strengthening and expansion of the staff.

3. (a) Establishing and carrying out a program of in-service training for primary teachers.

(b) Construction of office space for Regional Education Officers' in Efate, Santo and Ambae; provision of equipment for all five Regional Education offices; provision of vehicles; and provision of funds for internal travel for Regional Education Officers and Pedagogical Advisors.

Part C:

1. Improving management efficiency of the Ministry of Education by establishing and staffing a Planning and Implementation Unit.

2. Studies, to be carried out by the Planning and Implementation Unit, on: (a) a draft program for the reduction, rationalization and redeployment of primary teaching posts covering the period 1990-95; (b) financing of education including budgeting criteria and ways to mobilize non-budget sources of finance; (c) teacher incentives, with a view to preparing the elements of a teaching service statute; and (d) preparation for future investments in the education sector.

Part D:

To assist in carrying out Parts A through C above, provision of specialist services and overseas fellowships.

\* \* \*

The Project is expected to be completed by December 31, 1996.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

1. Except as provided in Part C 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 1985 (the Guidelines).

2. Contracts for the two lower secondary schools shall be grouped in one bid package.

###### 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 Vanuatu 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: Other Procurement Procedures

1. Civil works contracts for the Regional Education Officer offices may be awarded on the basis of competitive bidding, advertised locally. in accordance

with procedures satisfactory to the Association.

2. Equipment and furniture may be procured under contracts awarded on the basis of competitive bidding advertised locally, in accordance with procedures satisfactory to the Association; provided that equipment and furniture in packages estimated to cost less than \$25,000 equivalent per contract, up to an aggregate not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to the contract for the two lower secondary schools and each contract for vehicles, 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

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.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule (1) to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit 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 \$400,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) 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

(ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account.

