

CONFORMED COPY

CREDIT NUMBER 3781 - CE

Development Credit Agreement

(Improving Relevance and Quality of Undergraduate Education Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 24, 2003

CREDIT NUMBER 3781 - CE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 24, 2003, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (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 (the Project), has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto, hereby, agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (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:

(a) “Beneficiary” means: (i) an entity or institution which receives an institutional block grant for capacity building; (ii) an entity or institution that organizes a study program for which QEF Block Grants are made; and (iii) unemployed graduates who receive stipends and vouchers under the Tharuna Aruna-II Program;

(b) “Board for Quality Assurance” means the Board for Quality Assurance in tertiary education to be established under Part A of the Project (as described in Schedule 2 to this Agreement);

(c) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(d) “Institutional Block Grants” means block grants awarded under Part A of the Project (as described in Schedule 2 to this Agreement) to strengthen capacity in Sri

Lanka's public universities in: (i) planning and managing capacity; (ii) information technology skills; (iii) English competency; (iv) learning facilities; and (v) social harmony;

(e) "Local Technical Secretariats" means the units established or to be established in each eligible public or private tertiary education institution that receives a QEF Block Grant under the Project to carry out the activities supported by the Credit;

(f) "Ministry of Employment and Labour" means the Borrower's Ministry of Employment and Labour, or any successor entity thereto;

(g) "Ministry of Tertiary Education" means the Borrower's Ministry of Tertiary Education and Training, or any successor entity thereto;

(h) "Planning and Development Unit" means the Policy Planning and Development Unit within the Borrower's Ministry of Tertiary Education that is primarily responsible for supervising implementation of all components of the Project, other than Part B.2 relating to the Tharuna Aruna-II Program;

(i) "Project Implementation Plan" means the Borrower's Project Implementation Plan, satisfactory and acceptable to the Association, including any amendments made to such plan, from time to time, with the Association's approval, that sets forth various procedures and information necessary for carrying out the Project; performance indicators and monitoring and evaluation guidelines; administrative, accounting and financial procedures; procurement and disbursement guidelines; and environmental matters, provided, however, that if there is a conflict between this Agreement and the Project Implementation Plan, the provisions of this Agreement shall prevail;

(j) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement dated December 12, 2001, (including any subsequent amendments thereto) between the Association and the Borrower;

(k) "QEF Block Grants" means financial support through block grants made available through a competitive process by the Quality Enhancement Fund to undergraduate degree programs in eligible public and private tertiary education institutions in Sri Lanka, including block grants made available to certain categories of private tertiary education institutions, described in the Project Implementation Plan, under terms and conditions that require these institutions to repay the block grants;

(l) "QEF Guidelines" means the guidelines for preparing, appraising and evaluating block grant proposals under the Quality Enhancement Fund, the eligibility criteria for undergraduate programs and institutions to qualify for a QEF Block Grant, the types of expenditures that can be incurred using the proceeds of a QEF Block Grant, and

financial management and procurement arrangements governing the utilization of a QEF Block Grant;

(m) “Quality Enhancement Fund” means a fund established by the Borrower under Part B of the Project (as described in Schedule 2 to this Agreement) to provide financial support, through QEF Block Grants, for undergraduate degree programs in eligible public and private tertiary education institutions;

(n) “Quality Enhancement and Technical Team” means a unit established under the Ministry of Tertiary Education within the Planning and Development Unit to assist with carrying out the Project;

(o) “University Grants Commission” means the University Grants Commission, established and operating under the Universities Act (No. 16 of 1978) (as amended from time to time);

(p) “Special Accounts” means the accounts referred to in Section 2.02(b) of to this Agreement;

(q) “Tharuna Aruna Board” means the board of the Tharuna Aruna Institute;

(r) “Tharuna Aruna MOU” means the memorandum of understanding between the Ministry of Employment and Labour and the Tharuna Aruna Institute, satisfactory and acceptable to the Association, regarding the organization and implementation of the Tharuna Aruna-II Program, including, among other things, a code of conduct setting forth the roles and responsibilities of various implementing agencies (including the Ministry of Employment and Labour, the Tharuna Aruna Board, the Tharuna Aruna Institute, the work experience providers, the training providers, and the Beneficiaries);

(s) “Tharuna Aruna Network” means the network comprising of the Tharuna Aruna Institute and the regional offices to be established pursuant to Schedule 4 of this Agreement for coordinating implementation of the Tharuna Aruna-II Program, facilitating the exchange of information relating to the program, and such other matters as may be agreed upon between the Association and the Borrower; and

(t) “Tharuna Aruna-II Program” means a program of Sri Lanka consisting of various training initiatives for unemployed graduates to be supported under Part B.2 of the Project (as described in Schedule 2 to this Agreement) by proceeds of the Credit.

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 twenty nine million six hundred thousand Special Drawing Rights (SDR 29,600,000).

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, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) Upon receipt of notification from the Association allowing the establishment of the Special Accounts, the Borrower may, for the purposes of: (i) Part B.2 of the Project (financing for the Tharuna Aruna-II Program), and (ii) the other components of the Project, open and maintain in United States Dollars a separate special deposit account in the Central Bank of Sri Lanka on terms and conditions satisfactory to the Association. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 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 canceled.

Section 2.03. The Closing Date shall be December 31, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($\frac{3}{4}$ 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 January 1 and July 1 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 January 1 and July 1 commencing July 1, 2013, and ending January 1, 2043. Each installment to and including the installment payable on January 1, 2023, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

Section 2.09. The Secretary, Ministry of Finance, or the Director General, External Resources Department, Ministry of Policy Development and Implementation, of the Borrower, (or any other person whom they shall designate in writing), are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, or shall cause its line ministries, departments, agencies, provincial and local authorities, and the Tharuna Aruna Institute to carry out, the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, financial and legal 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, and shall cause the Tharuna Aruna Institute to, carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 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 for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants.

Section 4.01. (a) (i) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project (other than Part B.2 of the Project).

(ii) The Borrower shall cause the Tharuna Aruna Institute to establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part B.2 of the Project.

(b) The Borrower shall, or shall cause the Tharuna Aruna Institute to:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, 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 statements of expenditure, the Borrower shall, and shall cause the Tharuna Aruna Institute to:

- (i) maintain in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4, the Borrower shall prepare, and shall cause the Tharuna Aruna Institute to 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 45 days after the end of the first calendar quarter 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 calendar quarter; thereafter, each financial monitoring report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary, Ministry of Finance, or the Director General, External Resources Department, Ministry of Policy Development and Implementation, of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
The Secretariat
Colombo 1, Sri Lanka

Cable address:

SECMINFIN

Telex:

FINMIN 21409
FORAID 21232

Facsimile:

94-1-449823
94-1-447633

For the Association:

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

Cable address:

Telex:

Facsimile:

6391

INDEVAS

248423 (MCI) or

(202) 477-

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 Colombo, Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Jayampathy Charitha Ratwatte

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter C. Harrold

Country Director
Sri Lanka

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works		80%
(a) For Part B.2 of the Project	10,000	
(b) For other parts of the Project	50,000	
(2) Goods		100% of foreign expenditures and 80% of local expenditures for items procured locally
(a) For Part B.2 of the Project	70,000	
(b) For other parts of the Project	660,000	
(3) Consultant Services		75% for individuals and 85% for firms
(a) For Part B.2 of the Project	290,000	
(b) For other parts of the Project	2,640,000	

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(4) Fellowships, workshops and training		100%
(a) For Part B.2 of the Project	730,000	
(b) For other parts of the Project	150,000	
(5) Institutional Block Grants	3,670,000	90%
(6) QEF Block Grants	11,730,000	80%
(7) Tharuna Aruna-II Program grants under Part B.2 of the Project	6,600,000	100%
(8) Incremental Operating Costs	70,000	80% for Borrower's fiscal year 2003; 60% for Borrower's fiscal year 2004; 40% for Borrower's fiscal year 2005 and thereafter
(9) Refunding of Project Preparation Advance	370,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(10) Unallocated	2,560,000	
TOTAL	<u>29,600,000</u>	

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) the term “Incremental Operating Costs” means salaries of additional project staff, expenses incurred in operating equipment and buildings, travel and office expenses, including utilities and consumable office supplies required for the Project.

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 except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 2,930,000, may be made in respect of: (i) Categories (1), (2), (3), (4), (5), (6) and (8) on account of payments made for expenditures before that date but after June 17, 2002; and (ii) Category (7) on account of payments made for expenditures before that date but after the date on which the Borrower complies with the provisions of paragraph 5, below, of this Schedule 1.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures incurred for: (i) civil works obtained through contracts costing less than US\$500,000 equivalent each; (ii) goods and equipment obtained through contracts costing less than US\$250,000 equivalent each, (iii) contracts with consulting firm services obtained through contracts costing less than US\$100,000 equivalent each; (iv) contracts with individual consultants costing less than US\$50,000 equivalent each for individual consultants; (v) all grants financed by the proceeds of the Credit; (vi) fellowships, workshops and training; and (vii) all Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. Notwithstanding the provisions of paragraph 1, above, no withdrawals shall be made in respect of payments made for expenditures under Category (7) unless the Borrower has furnished evidence satisfactory to the Association that: (i) an accountant has been hired by the Tharuna Aruna Institute and a satisfactory computerized accounting system has been established and is being operated by the Tharuna Aruna Institute; and (ii) the Tharuna Aruna MOU, satisfactory and acceptable to the Association, has been entered into between the Ministry of Employment and Labour and the Tharuna Aruna Institute.

SCHEDULE 2

Description of the Project

The objective of the Project is to support Sri Lanka's long-term tertiary education reform program by enhancing institutional capacities to achieve greater relevance and quality in undergraduate programs.

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: Building Institutional Capacity in the Tertiary Education System

1. Strengthening national policy and planning mechanisms, monitoring and evaluation systems and coordination in the Borrower's tertiary education system. In particular, this sub-component of the Project will support:

(a) capacity building in the Borrower's Ministry of Tertiary Education and Training and the University Grants Commission; and

(b) technical assistance for the Borrower to design and operate a management information system and a labor market observatory.

2. Establishing a Board for Quality Assurance to be responsible, among other things, for developing policies for quality standards and monitoring and evaluation of those standards by organizing independent peer reviews of self-assessments by faculties. The board will also be responsible for accrediting national and international accreditation agencies in Sri Lanka.

3. Strengthening management of eligible public and private tertiary education institutions and facilities by improving their planning, financial, management and human resources capacity.

4. Supporting a public awareness campaign and dialogue with stakeholders in the higher education system.

5. Monitoring and evaluation activities.

Part B: Improving the Relevance and Quality of Tertiary Education

1. Establishing a Quality Enhancement Fund to provide financial support, through QEF Block Grants, for undergraduate degree programs in eligible public and private tertiary education institutions.

2. Support training and work experience modules under the Tharuna Aruna-II Program to enhance the employment prospects and entrepreneurship skills of unemployed graduates.

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The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods and equipment (other than vehicles) required for the Project, estimated to cost less than US\$150,000 equivalent per contract, may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Association and the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works required for the Project estimated to cost more than US\$50,000 equivalent, per contract may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Association and the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) In order to ensure economy, efficiency, transparency and broad consistency with the provision of Section 1 of the Guidelines:

- (i) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 30 days prior to the deadline for the submission of bids;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process;
- (iv) qualification criteria (in case prequalification was not carried out) shall be stated in the bidding documents, and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, without let or hindrance;
- (v) bids shall be opened in public in one location, immediately after the deadline for submission of bids;
- (vi) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (vii) contracts shall be awarded to the lowest evaluated bidders;
- (viii) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (ix) rebidding shall not be carried out without the Association's prior concurrence;
- (x) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xi) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by the Association;
- (xii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;

- (xiii) bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (xiv) extension of bid validity shall not be allowed unless justified by exceptional circumstances; and
- (xv) there shall not be any restrictions on the means of delivery of the bids.

2. International and National Shopping

Equipment and furniture estimated to cost less than US\$30,000 equivalent per contract, may be procured under contracts awarded on the basis of international and national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

The following items may be procured in accordance with paragraph 3.7 of the Guidelines with the Association's consent:

- (a) equipment of a proprietary nature estimated to cost less than US\$20,000 equivalent; and
- (b) books, learning resources and small items estimated to cost less than US\$500 equivalent per contract.

4. Procurement of Small Works

Works estimated to cost less than US\$50,000 equivalent per contract, may be procured under the following methods:

- (i) contracts awarded on the basis of international and national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines;
- (ii) lump-sum, fixed-price or unit-rate contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully; or
- (iii) as a last resort, with the Association's prior agreement, by force account in accordance with the provisions of paragraph 3.8 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 in the Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with a procurement plan approved by the Association, and with the provisions of paragraph 1, mentioned above. The procurement plan shall be updated every six months during the execution of the Project, and each updated plan shall be furnished to the Association for its review and approval.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to:

- (a) the first contract for works and the first contract for goods awarded through national competitive bidding by Beneficiaries of block grants;

(b) each contract for goods and equipment estimated to cost US\$250,000 equivalent or more; and

(c) each contract for civil works estimated to cost US\$500,000 equivalent or more.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedure set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the World Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section.

Part B: Quality-and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, for contracts estimated to cost less than US\$200,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Contracts for consulting services estimated to cost less than US\$100,000 equivalent per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services estimated to cost more than US\$100,000 equivalent per contract and less than US\$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Single Source Selection

Services for continuation of the public awareness program and other miscellaneous service contracts estimated to cost less than US\$50,000 equivalent per contract may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

The following consultancies shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines:

- (a) an implementation specialist to oversee the first batch of QEF Block Grants;
- (b) a higher education quality monitoring and quality control specialist; and
- (c) other tasks that meet the requirements set forth in paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association, for its review and approval, prior to the issuance to consultants of any requests for proposals. The plan shall be updated every three months during the execution of the Project, and each updated plan shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with the selection plan, updated from time to time, as approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of US\$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of US\$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience and the terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) The terms of reference for all consultant contracts estimated to cost US\$20,000 equivalent or more per contract in the case of firms and US\$10,000 equivalent per contract in the case of individuals shall be submitted to IDA for prior review.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program General

1. The Borrower shall: (i) at all times implement the Project in accordance with the Development Credit Agreement, the Project Implementation Plan, and the Tharuna Aruna MOU; (ii) promptly inform the Association of any changes made, or proposed to be made, to the Project Implementation Plan and the Tharuna Aruna MOU; and (iii) consult with the Association prior to introducing any material changes to the Project Implementation Plan and the Tharuna Aruna MOU.

2. The Borrower shall implement, or shall cause other entities to implement, the Project in accordance with applicable environment and the social safeguards specified in the Project Implementation Plan.

3. The Borrower shall establish and operate, or shall cause to be established and operated, by not later than August 31, 2003, and maintain throughout the Project implementation period:

(a) a computerized financial management system, satisfactory and acceptable to the Association, for Part B.2 of the Project (the Tharuna Aruna-II Program); and

(b) separate computerized Project management information systems for: (i) Part B.2 of the Project (the Tharuna Aruna-II Program), and (ii) the other parts of the Project, satisfactory and acceptable to the Association.

4. (a) Until a completion report referred to in Section 9.06 (c) of the General Conditions has been furnished to the Association, the Borrower shall maintain, or shall cause to be maintained (unless otherwise agreed to in writing between the Borrower and the Association), the Planning and Development Unit (including the Quality Enhancement and Technical Team within the unit), the Tharuna Aruna Institute, and its regional offices, or any successor entities thereto, whose mandate, terms of reference and composition shall be acceptable to the Association.

(b) The Planning and Development Unit shall coordinate all activities under the Project (except under Part B.2 of the Project (the Tharuna Aruna-II Program), including: (i) financial management; (ii) procurement; (iii) monitoring and evaluation; and (iv) preparing and submitting to the Association quarterly consolidated progress reports and financial statements.

(c) The Tharuna Aruna Institute shall coordinate all activities under Part B.2 of the Project (the Tharuna Aruna-II Program), including: (i) financial management;

(ii) procurement; (iii) monitoring and evaluation; and (iv) preparing and submitting to the Association quarterly consolidated progress reports and financial statements.

(d) The responsibilities of the Quality Enhancement and Technical Team of the Planning and Development Unit shall include: (i) disseminating information, providing training and assisting with monitoring and review activities for the Quality Enhancement Fund; (ii) coordinating and assisting Local Technical Secretariats to carry out activities funded by the QEF Block Grants; (iii) organizing peer reviews and evaluation and processing of proposals for funding through QEF Block Grants; (iv) making provisions to collect repayments from those private tertiary education institutions to which repayable QEF Block Grants have been provided; (v) coordinating training and technical assistance programs financed by the Project; and (vi) preparing and submitting through the Ministry of Tertiary Education to the Association biannual reports, which consolidate implementation progress and financial management information from all QEF Block Grant Beneficiaries.

5. The Borrower shall prepare and transmit to the Association for comments, and thereafter, adopt in form and substance acceptable to the Association a Project Implementation Plan, which sets out details of all operational guidelines and procedures as shall have been agreed with the Association for the implementation, monitoring and supervision of the Project.

Tharuna Aruna-II Program

6. (a) The Borrower shall cause the Tharuna Aruna Institute to implement Part B.2 of the Project (the Tharuna Aruna-II Program) in accordance with the Tharuna Aruna MOU and the Project Implementation Plan.

(b) The Tharuna Aruna Institute shall establish regional offices in each of the Borrower's provinces to coordinate and supervise Project implementation.

(c) The Borrower shall cause the Tharuna Aruna Institute to ensure that adequate provisions are included in the relevant contractual arrangements with Beneficiaries to preserve and safeguard the privileges and immunities of the Association (and its affiliates) in relation to any actions or other legal proceedings that may arise as a consequence of such work experience and training.

QEF Block Grants and Institutional Block Grants

7. No expenditures for goods or services required to carry out a QEF Block Grant or an Institutional Block Grant shall be eligible for financing out of the proceeds of the Credit unless the grant proposal shall have been approved by the Association. QEF Block Grants and Institutional Block Grants shall be made through written contracts between the Ministry of Tertiary Education and the Beneficiaries of these grants that

contain terms and conditions that are adequate to protect the interests of the Borrower and the Association, including the right of the Borrower to:

(a) require the Beneficiary to carry out the activities financed by the grants with due diligence and efficiency and in accordance with sound educational, technical, financial and managerial standards and practices;

(b) require that: (i) the goods, works and services (including fellowships, workshops and training) financed by the Credit shall be procured in accordance with the provisions of Schedule 3 to this Agreement, and (ii) such goods, works and services (including fellowships, workshops and training) shall be used exclusively in the carrying out of activities approved for financing under the Credit;

(c) require the Beneficiaries to maintain policies and procedures adequate to enable the Borrower to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, implementation of grant activities, and the achievement of their objectives;

(d) inspect, or jointly with representatives of the Association (if the Association shall so request), the goods, works and services financed under any grant, and any relevant records and documents;

(e) require that: (i) the Beneficiaries shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance as shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiaries, as the case may be, to replace or repair such goods;

(f) require that the Beneficiaries achieve performance targets for improvements in quality and relevance of education to assess the impact of the grant;

(g) require that the Beneficiaries prepare and adhere to: (i) an implementation schedule, (ii) a procurement plan satisfactory to the Association, and (iii) an annex outlining agreed guidelines on any potential environmental issues, including chemical waste disposal, that may arise in implementing activities to be financed by the grant;

(h) obtain all such information as the Borrower or the Association shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiaries, and to the benefits to be derived from the grant activities;

(i) suspend or terminate the right of any Beneficiary to use the proceeds of its grant upon failure of the Beneficiary to perform its obligations under its legal agreement with the Borrower; and

(j) demand in certain circumstances to be identified in the written contracts immediate repayment of proceeds of the grant that have been withdrawn.

8. Notwithstanding the generality of the foregoing paragraph 7, QEF Block Grants and Institutional Block Grants shall be made only to those Beneficiaries that:

(a) have established to the satisfaction of the Borrower under guidelines acceptable to the Association, that they have: (i) the organization, management, staffing and other resources required for efficient carrying out of grant activities, and (ii) prepared an acceptable plan (including financial management and procurement details) for the carrying out of grant activities; and

(b) have prepared a comprehensive grant proposal, which is determined on a competitive basis and under guidelines acceptable to the Association: (i) to be technically feasible and cost-effective, and (ii) to have been designed in accordance with appropriate educational standards.

9. Notwithstanding the generality of the foregoing paragraphs 7 and 8, the Borrower shall not authorize any expenditures for activities to be financed under: (i) any QEF Block Grant, or (ii) any Institutional Block Grant for capacity building in information technology and improvement of English language competency, prior to making available adequate base line data, and other information to the Association on the actual and projected performance of students.

10. The Borrower shall ensure that all grant activities carried out by Beneficiaries comply with the environmental, resettlement and social standards set forth in the Project Implementation Plan.

Review

11. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the 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

(c) review with the Association, by August 31, 2006, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Category (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement with respect to Part B.2 of the Project (as described in Schedule 2 to this Agreement); and Categories (1), (2), (3), (4), (5), (6) and (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the other components and parts of this Project;

(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 US\$400,000 in respect of the Special Account for Part B.2 of the Project (the Tharuna Aruna-II Special Account) and an amount equivalent to US\$1,400,000 in respect of the Special Account for the other components and parts of the Project (the Project Special Account) to be withdrawn from the Credit Account and deposited into the Special Accounts 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 US\$200,000 in respect of the Tharuna Aruna-II Special Account and an amount equivalent to US\$700,000 in respect of the Project Special Account, until (i) in respect of the Tharuna Aruna-II Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Category (7) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part B.2 of the Project shall be equal to or exceed the equivalent of SDR 600,000, and (ii) in respect of the Project Special Account, the aggregate amount of withdrawals from the Credit Account allocated to Categories (1), (2), (3), (4), (5), (6) and (8) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for the other components and parts of the Project shall be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the respective Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 deposit into the respective Special Account of an amount or amounts 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 into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective 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 respective 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 any 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;

(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 Accounts;

(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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the Tharuna Aruna-II Special Account and the Project Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Part B.2 of the Project and the other components and parts of 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 of the Tharuna Aruna-II Special Account and the Project Special Account 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

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