

CONFORMED COPY

**CREDIT NUMBER 4055-KH
GRANT NUMBER H161-KH**

Development Financing Agreement

(Education Sector Support Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 14, 2005

CREDIT NUMBER 4055-KH
GRANT NUMBER H161-KH

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated June 14, 2005, between KINGDOM OF CAMBODIA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower has adopted an Education Strategic Plan 2004-2008, dated August 2004 (hereinafter called "ESP"), which describes specific actions that the Borrower plans to undertake to achieve universal access to nine years of basic education by 2015 and the promotion of equity in education opportunities;

(B) the Borrower has requested that the Association support the Borrower's implementation of its Education Sector Support Project (hereinafter called "the Project"), which Project forms part of the Borrower's overall Education Sector Support Program (hereinafter called "ESSP"), adopted by the Borrower on December 2004, through a Credit and a Grant to be utilized by the Borrower in the development and implementation of the Project;

(C) 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;

(D) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit and the Grant 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), with the modifications set forth in Schedule 6 to this Agreement (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) “Community Contracting Operational Manual” means the manual, adopted by MoEYS, to assist in the implementation of Part A.1 (a) of the Project, and referred to in paragraph 5 of Schedule 4 to this Agreement, as said manual may be amended from time to time with the prior agreement of the Association;

(b) “Counterpart Funds Account” means the account referred to in Section 3.02 of this Agreement;

(c) “Disadvantaged Children” means children living in communes with high poverty incidence, children living in ethnic minority areas and girls;

(d) “Eligible Categories” means Categories (1) through (7) set forth in the table in Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(f) “Ethnic Minority” means a social group in Cambodia that has a social and cultural identity distinct from the dominant society, that is susceptible of being disadvantaged in the development process induced by the Project or any other part thereof;

(g) “Financial Management System” means the system referred to in Section 5.01 (c) of this Agreement;

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

(i) “IDA Credit Special Account” means the account to be established in accordance with Section 2.02 (b) (i) of this Agreement;

(j) “IDA Grant Special Account” means the account to be established in accordance with Section 2.02 (b) (ii) of this Agreement;

(k) “Inter-ministerial Steering Committee” means the committee established and maintained in accordance with paragraph 1 of Schedule 4 to this Agreement, responsible for providing overall policy guidance and for Project oversight;

(l) “MoEYS” means the Borrower’s Ministry of Education, Youth and Sports, and any successor thereto;

(m) “Poor and underserved communes” means communes with high poverty incidence where existing schools do not offer a full primary cycle and/or there is no access to lower secondary education;

(n) “Procurement Plan” means the Borrower’s procurement plan, dated February 18, 2005, covering the initial 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 3.03 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(o) “Project Implementation Plan” means the Project Implementation Plan, dated February 18, 2005, adopted by the Borrower, and giving details of all procurement and disbursement arrangements, performance indicators and the other administrative, financial and organizational arrangements, as shall have been agreed with the Association for the purposes of the Project, as the same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Project Implementation Plan;

(p) “Scholarship Scheme Operational Manual” means the manual, adopted by MoEYS, to assist in the implementation of Part A.2 of the Project, and referred to in paragraph 7 of Schedule 4 to this Agreement, as said manual may be amended from time to time with the prior agreement of the Association; and

(q) “Special Account” means any of the two accounts referred to in Section 2.02 (b) of this Agreement, and “Special Accounts” means, collectively, both accounts.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

- (a) an amount in various currencies equivalent to five million three hundred thousand Special Drawing Rights (SDR 5,300,000) (the Credit); and
- (b) an amount in various currencies equivalent to thirteen million one hundred thousand Special Drawing Rights (SDR 13,100,000) (the Grant).

Section 2.02. (a) (i) 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 works required for Part A.1 (a) of the Project and to be financed out of the proceeds of the Credit; and

(ii) The amount of the Grant may be withdrawn from the Grant 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 Part A.1 (b), Part A.2, Part B.1, Part B.2 and Part C of the Project and to be financed out of the proceeds of the Grant.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars, two special accounts in the National Bank of Cambodia, on terms and conditions satisfactory to the Association: (i) the IDA Credit Special Account for Part A.1 (a) of the Project; and (ii) the IDA Grant Special Account for A.1 (b), Part A.2, Part B.1, Part B.2 and C of the Project. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 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: (i) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the

Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum .

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2015, and ending March 15, 2045. Each installment to and including the installment payable on March 15, 2025, 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 of the Credit to conform to the schedule of installments as provided in paragraph (a) above.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through its Ministry of Education Youth and Sports with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, technical and education practices, and social and environmental standards, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement.

Section 3.02. Without limitation upon the provisions of paragraph (a) of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the Borrower shall, for purposes of financing its contribution to expenditures under the Project:

(a) open a Counterpart Funds Account at the National Bank of Cambodia and thereafter, maintain said Counterpart Funds Account under terms and conditions acceptable to the Association until the completion of the Project;

(b) deposit into the Counterpart Funds Account, an initial amount equivalent to one hundred thousand United States Dollars (US\$100,000); and thereafter, replenish the Counterpart Funds Account on a quarterly basis by depositing therein the amounts needed in accordance with annual work plans and budgets referred to in paragraph 12 (a) of Schedule 4 to this Agreement; and

(c) ensure that funds deposited into the Counterpart Funds Accounts in accordance with paragraphs (a) and (b) of this Section shall be used exclusively to finance expenditures under the project.

Section 3.03. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project 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 guidelines 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 3.04. 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) 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 Financing Accounts were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Financing Accounts was made, all records

(contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure 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 paragraph 14 of Schedule 4 to this Agreement, the Borrower shall, through MoEYS, 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 Financing, 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 FMR 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 FMR 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 following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has appointed a Project Manager, a project facilitator, a financial officer and a procurement officer, in a manner and substance satisfactory to the Association and in accordance with the provisions of paragraph 2 of Schedule 4 to this Agreement;

(b) the Borrower has designed a monitoring and evaluation system, in a manner and substance satisfactory to the Association, to carry out a school effectiveness baseline study and a final impact evaluation, in accordance with the provisions of paragraph 10 of Schedule 4 to this Agreement;

(c) the Borrower has adopted a computerized accounting system and manual processes, in a manner and substance satisfactory to the Association, including the chart of accounts of the Project and the format of the Financial Monitoring Reports; and

(d) the staff of the Project finance office and accountants of the Borrower, at the provincial level, have been trained in accordance with the provisions of paragraph 4 of Schedule 4 to this Agreement.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Economy and Finance 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 Economy and Finance
92 Street, Sangkat Wat Phnom
Phnom Penh
Kingdom of Cambodia

Facsimile:

(855-23) 427-798
(855-23) 430-224

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(1-202) 477-6391

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

KINGDOM OF CAMBODIA

By /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ian C. Porter

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant 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>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Part A.1(a) of the Project	5,300,000		100%
(2) Goods		1,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factor cost) and 100% of local expenditures for other items procured locally
(3) Consultants' services		2,200,000	100%
(4) Training		2,370,000	100%
(5) Scholarships under Part A.2 of the Project		3,420,000	100% of Scholarships amounts disbursed
(6) Incremental Operating Costs		1,450,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(7) Goods, works and services under Part C of the Project		1,970,000	100%
(8) Unallocated		590,000	
TOTAL	5,300,000	13,100,000	
	=====	=====	

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) the term “incremental operating costs” means the reasonable costs of incremental expenditures incurred by the Borrower in the implementation of the Project, (which expenditures would not have been incurred absent the Project) including travel and per diem expenses for Project staff, communication expenditures, office consumables, public disclosure of procurement activities, and bank account charges, but excluding staff salaries and salary supplements and allowances.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) 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 263,000, may be made in respect of Categories (1), (2), (3), (4) and (6) on account of payments made for expenditures before that date but after February 18, 2005; (b) in respect of Category (1), until the “Community Contracting Operational Manual” satisfactory to the Association has been adopted by the Borrower pursuant to paragraph 5 of Schedule 4 to this Agreement; (c) in respect of Category (5), until the “Scholarship Scheme Operational Manual” satisfactory to the Association has been adopted by the Borrower pursuant to paragraph 7 of Schedule 4 to this Agreement; and (d) in respect of Category (7), until an implementation plan satisfactory to the

Association has been adopted by the Borrower pursuant to paragraph 11 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Financing Accounts to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works under contracts costing less than \$100,000 equivalent each; (b) goods under contracts costing less than \$100,000 equivalent each; (c) services of individual consultants under contracts costing less than \$50,000 equivalent each; (d) services of consulting firms under contracts costing less than \$100,000 equivalent each; (e) training; (f) scholarships; and (g) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to implement the ESSP goals to enhance access to educational services, with special focus on the poor and underserved communes.

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. Enabling Equitable Access to Education for Disadvantaged Children

1. Expanding educational facilities in poor and underserved communes, including: (a) construction of about 1,500 primary and lower-secondary classrooms, including construction of latrines and wells to improve school sanitation; and (b) provision of school furniture, educational materials, library books, and instructional equipment.
2. Reducing access barriers for disadvantaged children to increase enrollment and schooling opportunities, including the provision of targeted scholarships to disadvantaged children.

Part B. Supporting Educational Quality Improvement

1. Strengthening decentralized quality education service delivery in selected provinces, including: (a) supporting the development, implementation and monitoring of school development plans; (b) in-service training for school staff and principals in “child-friendly” teaching and learning methodologies and leadership skills respectively; (c) promoting the recruitment and on-service training of local teachers from rural and remote area schools during vacation periods; (d) developing national teacher professional standards; and (e) encouraging parental participation in school affairs and local accountability through the dissemination of information on school effectiveness.
2. Establishing a National Assessment System to evaluate education quality including student achievement tests in mathematics and Khmer language at the primary and secondary education levels, through test development, administration in a sample of students, data analysis and results dissemination.

Part C. Carrying out of additional activities to be selected under the ESSP.

* * *

The Project is expected to be completed by June 30, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts for goods shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost more than \$50,000 per contract, may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of paragraph 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines and Annex A to this Schedule.

2. Shopping. Goods estimated to cost \$50,000 or less equivalent per contract and works estimated to cost \$50,000 equivalent or less per contract, may be procured under contracts awarded on the basis of Shopping.

3. Procurement from UN Agencies. Goods estimated to cost \$100,000 or less equivalent per contract may be procured directly from the United Nations Development Programme's Inter-Agency Procurement Services Office in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

4. Community Participation. Goods and works required for Part A.1 (a) of the Project may be procured on the basis of community participation in accordance with procedures acceptable to the Association.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Service Delivery Contractors. Services to be provided by selected Provincial Health Offices under Part A.1 of the Project may be procured in accordance with the provisions of paragraph 3.21 of the Consultant Guidelines on the basis of procedures acceptable to the Association.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for works estimated to cost the equivalent of \$100,000 or more, procured on the basis of National Competitive Bidding; (b) the first two contracts for works procured on the basis of Shopping and Community Participation, regardless of the value thereof; (c) each contract for goods procured on the basis of International Competitive Bidding; (d) the first two contracts for goods procured on the basis of National Competitive Bidding, Shopping, Procurement from UN Agencies, and Community Participation, regardless of the value; (e) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (f) each contract for consultants' services provided by individuals estimated to cost the equivalent of \$50,000 or more; and (h) each contract for consultants' services provided by individuals procured on a sole-source basis, regardless of the value thereof. All other contracts shall be subject to Post Review by the Association.

**Annex A
to
SCHEDULE 3**

National Competitive Bidding Procedures

The following provisions shall apply in respect of contracts for goods and works financed under the Project and procured according to National Competitive Bidding procedures:

Participation in bidding and preferences

- (i) Government-owned enterprises in Cambodia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Borrower or the procuring entity. Military or security units, or enterprises which belong to the Ministry of Defense or the Ministry of Public Security shall not be permitted to bid.
- (ii) Prospective bidders shall be permitted to request bidding documents either in person or through the mail upon submission of a written application. Bidding documents shall be sold to anyone who is willing to pay the required fee of the bidding documents, and no other conditions shall be imposed on the sale of the bidding documents. The fee for the bidding documents should be reasonable and consist only of the cost of printing (or photocopying) the documents and their delivery to the purchaser. The bidding documents shall be delivered, at the prospective bidders' preference, either by hand or by mail/courier provided that the bidder is willing to pay the mail/courier delivery charges which should be specified in the Invitation for Bids. Each bidder shall be allowed to purchase only one set of the bidding documents.
- (iii) Foreign suppliers and contractors from eligible countries, shall, if they are interested, be allowed to participate without being required to associate or form joint ventures with local suppliers or contractors.
- (iv) Foreign bidders shall be eligible to participate in bidding under the same conditions as local bidders, and local bidders shall be given no preference (either in the bidding process or in bid evaluation) over foreign bidders, nor shall bidders located in the same province or city as the procuring entity be given any such preference over bidders located outside that city or province.

- (v) Prior registration shall not be a requirement to participate in bidding procedures.
- (vi) Pre-qualification of contractors shall not be required; except in the case of large or complex works and with the prior approval of the Association.

Advertising; time for bid preparation

- (vii) Invitations to bid shall be advertised in at least one widely circulated national newspaper. A minimum of 30 days for the preparation and submission of bids shall be provided, and potential bidders shall be allowed to purchase bidding documents up to 24 hours prior to the deadline for the submission of bids.

Standard Bidding Documents

- (viii) Standard bidding documents, acceptable to the Association, shall be used. The bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission and opening of bids. Bidders shall be allowed to submit bids by hand or by mail.

Qualification criteria and evaluation criteria

- (ix) Qualification criteria shall be clearly specified in the bidding documents, *and* all criteria so specified, and *only* criteria so specified, shall be used to determine whether a bidder is qualified. The evaluation of the bidder's qualifications should be conducted separately from the technical and commercial evaluation of the bid. When post qualification is applied, the assessment of bidders' qualifications shall be carried out only after the preliminary and detailed evaluation of bids has been completed by the Purchaser/Employer and, in doing so, the qualifications of the bidder who has submitted the lowest evaluated substantially responsive bid shall be assessed first. In carrying out the post-qualification assessment, the Employer/Purchaser shall exercise reasonable judgment in requesting, in writing, from a bidder only missing factual or historical supporting information related to the bidder's qualifications and shall provide a reasonable time period (that is, a minimum of 7 days) to the bidder to provide his response.
- (x) Evaluation criteria shall be clearly specified in the bidding documents, and evaluation criteria other than price shall be quantified in monetary terms. All evaluation criteria so specified, and only evaluation criteria so specified, shall be taken into account in bid evaluation. Merit points shall not be used in bid evaluation.

Bid opening, evaluation and award of contract

- (xi) Bids shall be opened in public, immediately after the stipulated deadline for submission of bids. Bidders' representatives and the project's beneficiaries from the concerned local community who choose to attend, shall be allowed to be present. The name of the bidder and total amount of each bid, including discounts, shall be read aloud and recorded. Bids received after the deadline for bid submission shall be returned to the bidders unopened. Immediately after completion of the bid opening proceedings, a copy of the bid opening record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the bid opening record shall be promptly provided to all bidders who submitted bids.
- (xii) All bids shall not be rejected or new bids solicited without the Association's prior concurrence.
- (xiii) No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Association's prior concurrence.
- (xiv) A bid containing material deviations from, or reservations to, the terms, conditions or specifications of the bidding documents shall be rejected as not substantially responsive. A bidder shall not be permitted to withdraw material deviations or reservations once bids have been opened. Bidders shall not be eliminated from detailed evaluation on the basis of non-material, minor deviations or reservations.
- (xv) Evaluation of bids shall be made in strict adherence to the criteria specified in the bidding documents, and contracts shall be awarded to the qualified bidder offering the lowest evaluated and responsive bid.
- (xvi) In the case of contracts with a duration in excess of 18 months, bidding documents shall allow for price adjustment formulae.
- (xvii) Bidders who disagree with arithmetic corrections made by the evaluating committee during the evaluation stage shall not be allowed to withdraw their bids without forfeiting their bid security.
- (xviii) A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents, or otherwise to modify the bid as originally submitted.

- (xix) There shall be no post-bidding negotiations with the lowest or any other bidder.
- (xx) The Borrower shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Bank and the Government, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for, or in executing, a Bank-financed contract.

Suppliers and Contractors

- (xxi) Bidding documents and contracts under national competitive bidding procedures financed by the Association shall include a provision requiring suppliers and contractors to permit the Association to inspect their accounts and records relating to the bid submission and the performance of the supplier and/or contractor, as the case may be, and to have them audited by auditors appointed by the Association, if so required by the Association.

Publication of the Award of Contract

- (xxii) The Borrower shall publish the following information on contract award on a free and open access website when it becomes operational or on another means of publication acceptable to the Association: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated price of each bid that was evaluated; (d) name of bidders whose bids were rejected and the reasons for their rejection; and (e) name of the winning bidder, price it offered as well as the duration and summary scope of the contract awarded. This publication shall be updated quarterly.

Complaints by Bidders and Handling of Complaints

- (xxiii) The Borrower shall establish an effective protest mechanism, related to the procurement process and contract award, acceptable to the Association, allowing bidders to protest and the timely handling of such protests. The procedures to receive and handle complaints shall be disclosed in the bidding documents.

SCHEDULE 4

Implementation Program

Project Management and Implementation

1. The Borrower shall appoint and maintain an Inter-Ministerial Steering Committee, chaired by a MoEYS Secretary of State and with membership acceptable to the Association, and with such powers, responsibilities, funds and other resources as shall be necessary to provide general policy guidance and to oversee the Project.
2. The Borrower shall appoint and maintain in MoEYS' Directorate of General Education, until completion of the Project, a Project Manager, with qualifications and experience acceptable to the Association, responsible for the daily management and overall coordination and implementation of Project activities, and provided with adequate resources and competent staff in sufficient numbers, including a project facilitator, a financial officer and a procurement officer.
3. The Borrower shall carry out the Project in accordance with the procedures set forth in the Project Implementation Plan and, except as the Association may otherwise agree, shall not amend, suspend, abrogate or waive any provision thereof, if such amendment, suspension, abrogation or waiver may, in the opinion of the Association, materially and adversely affect the implementation of the Project or the achievements of the objectives thereof.
4. The Borrower shall provide, and shall cause to be provided, training to the staff of the Project finance office and to accounting staff at the provincial level, in accounting and financial management essentials, in a manner and substance satisfactory to the Association.
5. For purposes of carrying out Part A.1 (a) of the Project, the Borrower shall prepare, adopt and implement the Community Contracting Operational Manual, satisfactory to the Association.
6. The Community Contracting Operational Manual shall include, in such detail as the Association shall reasonably request: (i) procedures and criteria for review and selection of participating communities; (ii) procedures for disbursement of funds, and (iii) the terms and conditions of construction contracts.

7. For purposes of carrying out Part A.2 of the Project, the Borrower shall prepare, adopt and implement the Scholarship Scheme Operational Manual, satisfactory to the Association.

8. The Scholarship Scheme Operational Manual shall include, in such detail as the Association shall reasonably request: (i) procedures and criteria for selection, review and approval of scholarships applications and beneficiaries; (ii) procedures for disbursement of tuition funds; and (iii) the terms and conditions of the provision of scholarships.

9. Except as the Borrower and the Association shall otherwise agree, the Borrower shall not amend, suspend, abrogate or waive any provision of the Community Constructing Operational Manual and the Scholarship Scheme Operational Manual without the prior approval of the Association.

10. The Borrower shall carry out, not later than March 31, 2006, a school effectiveness baseline study and, not later than June 30, 2010 a follow-up final impact evaluation including recommendations for sustainability, in accordance with terms of reference acceptable to the Association, and thereafter take all measures required to ensure the achievement of the objectives of the Project, based on the recommendations and conclusions of said documents.

11. The Borrower shall carry out Part C of the Project pursuant to an implementation plan, satisfactory to the Association, and for such purpose the Borrower shall prepare and furnish to the Association for its review and comments, such implementation plan.

12. The Borrower shall:

- (a) by June 30 of each year, commencing in 2005, provide to the Association for its review and comments a consolidated annual work plan for the next fiscal year, including a Procurement Plan and the estimated budget therefore; and
- (b) thereafter, implement said annual work plan in a manner satisfactory to the Association, giving due consideration to the Association's view thereon.

13. Without limitation to the provisions of Section 9.06 of the General Conditions on reporting requirements and paragraph 13 (b) of this Schedule, the Borrower shall, on January 31 and July 31 of each year, commencing in 2006, furnish to the Association for its review and comments biannual Project Progress Reports.

Monitoring and Evaluation

14. The Borrower shall:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, 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, 2008, 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, 2008, 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 (i) in respect of the IDA Credit Special Account Category (1) and (ii) in respect of the IDA Grant Special Account Categories (2) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Financing 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:

(i) in respect of the IDA Credit Special Account, an amount equivalent to \$600,000, to be withdrawn from the Credit Account and deposited into the IDA Credit Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the Credit Account allocated to Category (1) 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 A.1 (a) shall be equal to or exceed the equivalent of SDR 1,000,000; and

(ii) in respect of the IDA Grant Special Account, an amount equivalent to \$800,000 to be withdrawn from the Grant Account and deposited into the IDA Grant Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$400,000 until the aggregate amount of withdrawals from the Grant Account allocated to Categories (2), (3), (4), (5), (6) and (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 A.1 (b), Part A.2, Part B.1, Part B.2 and Part C shall be equal to or exceed the equivalent of SDR 1,500,000.

2. Payments out of the respective 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 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 or the Grant 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 or the Grant 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 or the Grant 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 or Grant 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 and the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories for the respective 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 the Project, shall equal the equivalent of twice the amount of the respective Authorized Allocation.

Thereafter, withdrawal from the Credit Account and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant 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 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 or the Grant Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is modified to read:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.”

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

“12. “Grant” means the development grant provided for in the Development Financing Agreement.”

- “13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”
- “14. “Financing” means, collectively, the Credit and the Grant.”
- “15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”: Section 2.01(6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

- (a) Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

- (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02 (c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.06 (b) is modified to read as follows:

“(b) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.”

8. Section 5.08 is modified to read:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Financing Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Credit Agreement as required to be consistent with such policy of the Association.”

9. Article VI is modified as follows:

- (a) The word “credit” in paragraphs (a) (ii) and (c) (i) of Section 6.02 is replaced with the words “credit, grant or financing”.
- (b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.
- (c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

SCHEDULE 7

Performance Indicators

Performance Indicators by Project Component	Mid-term	Project Completion
Component A.1: Upper primary/lower secondary classrooms built	900	1,500
Component A.2: Scholarships awarded to disadvantaged children	40,000	70,000
Component B.1: Number of MOEYS administrative and school staff trained	1,300	2,300
Component B.2: Tests rounds administered on a nationally representative sample of students in Grades 3, 6, and 9	1 round	2 round