

CONFORMED COPY

CREDIT NUMBER 3609 MOZ

Development Credit Agreement

(Higher Education Project)

between

REPUBLIC OF MOZAMBIQUE

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 20, 2002

CREDIT NUMBER 3609 MOZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 20, 2002, between REPUBLIC OF MOZAMBIQUE (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a Letter of Sector Policy from the Borrower dated November 30, 2001, describing the rationale and the objectives of the Higher Education Strategic Plan of the Borrower (hereinafter called the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) 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; 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), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is

such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “BM” means “Banco de Moçambique”, the Borrower’s Central Bank established pursuant to its Statutes;

(b) “Public Beneficiaries” means, in respect of Part B.5 of the Project, public higher education institutions established under the Borrower’s Law No. 1 of June 24, 1993;

(c) “Private Beneficiaries” means, in respect of Part B.5 of the Project, private higher education institutions established under the Borrower’s Law No. 1 of June 24, 1993;

(d) “Individual Beneficiaries” means, in respect of Part C.2 of the Project, students from the territory of the Borrower selected in accordance with the criteria specified in paragraph 7 of Schedule 4 to this Agreement;

(e) “Eligible Categories” means Categories (1), (2), (3), (4), (5), (6), (7) and (8) set forth in paragraph 1 of Part A of Schedule 1 to this Agreement.

(f) “Eligible Expenditures” means the expenditures for goods and services to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories;

(g) “Environmental Impact Assessment and Resettlement Action Plan” or “EIA/RAP” means the environmental impact assessment and resettlement action plan, acceptable to the Bank, to be prepared and submitted to the Association by the Borrower, in accordance with the EIA/RAP Framework agreed with the Association, for each eligible HEI (as hereinafter defined), pursuant to paragraph 3 (a) of Schedule 1 to this Agreement, consisting of, *inter alia*: (i) a description of the site where construction activities are to be carried out under Parts B.1, B.2, B.3 and B.5 of the Project and the justification for said activities; (ii) the actual or potential environmental impact of the construction activities referred to under sub-paragraph (i) above; (iii) a management plan setting forth adequate mitigating measures and systems required to monitor the implementation of the construction activities referred to under sub-paragraph (i) above and to ensure compliance of such activities with said measures with a view to limiting any actual and potential adverse environmental impact; (iv) the actual or potential resettlement that may be required for the construction activities referred to under sub-paragraph (i) above; and (v) a compensation and resettlement plan setting forth adequate mitigating measures required for the construction activities referred to under sub-paragraph (i) above and to ensure compliance of such activities with the Association’s policies on involuntary resettlement;

(h) “Evaluation Committee” means the committee to be established pursuant to Schedule 4 to this Agreement for the purposes of Part B.5 of the Project;

(i) “HEI” means a higher education institution in the territory of the Borrower as defined in the Revised Higher Education Law No. 1 of June 24, 1993;

- (j) “ICT” means Information, Communication and Technology;
- (k) “Initial Deposit” means the respective amounts specified in Section 3.04 (b) of this Agreement;
- (l) “Metical” means the Borrower’s currency;
- (m) “MESCT” means the Borrower’s Ministry of Higher Education, Science and Technology;
- (n) “Quality Enhancement and Innovation Facility” or “QIF” means a funding mechanism through which the Borrower shall provide: (i) QIF Sub-Loans for Private Beneficiaries; and (ii) QIF Grants for Public Beneficiaries, for the purposes of Part B.5 of the Project;
- (o) “QIF Grant ” means a grant made or proposed to be made by the Borrower to a Public Beneficiary for the purposes of Part B.5 of the Project;
- (p) “QIF Grant Agreement” means a grant agreement to be entered into between the Borrower and a Public Beneficiary for the purposes of Part B.5 of the Project;
- (q) “QIF Sub-Loan” means a loan made or proposed to be made by the Borrower to a Private Beneficiary for the purposes of Part B.5 of the Project;
- (r) “QIF Sub-Loan Agreement” means a loan agreement to be entered into between the Borrower and a Private Beneficiary for the purpose of Part B. 5 of the Project;
- (s) “Project Account” means, the account referred to in Section 3.04 (a) to this Agreement;
- (t) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;
- (u) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to a letter signed on behalf of the Association on November 20, 2001 and on behalf of the Borrower on November 30, 2001;
- (v) “Provincial Governing Board” means the board to be established by the Borrower pursuant to Schedule 4 to this Agreement, for the purposes of Part C.2 of the Project;
- (w) “PIM” means the Borrower’s Project Implementation Manual dated October 24, 2001, containing detailed arrangements regarding the implementation of the different activities under the Project, including, *inter alia*, the institutional responsibilities, reporting structure, review and monitoring, procurement, disbursement, financial management and, *inter alia*, criteria, procedures and guidelines for the QIF Sub-Loans, QIF Grants, QIF and Provincial Scholarships, for the purposes of the implementation of the Project;
- (x) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(y) “UEM” means *Universidade Eduardo Mondlane*, “UP” means *Universidade Pedagógica* and “ISRI” means *Instituto Superior de Relações Internacionais*, all Borrower’s HEIs.

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 forty-seven million one hundred thousand Special Drawing Rights (SDR 47,100,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable costs of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made for the Beneficiaries under a QIF Sub-Loan or a QIF Grant, respectively, to meet the costs of goods, works and services required for such QIF Sub-Loan or QIF Grant, and in respect of which withdrawal from the Credit Account is requested.

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

Section 2.03. The Closing Date shall be May 31, 2007, 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

thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on September 1 and March 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 September 1 and March 1 commencing September 1, 2012 and ending March 1, 2042. Each installment to and including the installment payable on March 1, 2022 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

principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end shall carry out the Project with due diligence and efficiency and in conformity with appropriate financial, technical, administrative, engineering and environmental practices, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project; and

(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 as well as the mitigating measures set forth in the EIA/RAP to be prepared by the Borrower.

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

Section 3.03. For the purposes of Section 9.07 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 months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the sustainability of the Project; and

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

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and thereafter maintain, until the completion of the Project, an account (the Project Account) in Meticaïs, in a commercial bank acceptable to the Association;

(b) promptly thereafter make an Initial Deposit in Meticaïs of an amount equivalent to \$150,000 (the Initial Deposit) into such account to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Account by the first day of each quarter each year during Project implementation such amounts as shall be required and agreed upon with the Association to timely replenish the Project Account back to the amount of the Initial Deposit referred to in paragraph (b); and

(d) use the funds in the Project Account exclusively to finance expenditures under the Project.

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 a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account 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 or Project Management Reports, the

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure or Project Management Reports, the Borrower shall:

- (i) maintain or cause to be maintained, 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 or Project Management Reports 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 provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan for the strengthening of a financial management system acceptable to the Association in order to enable the Borrower, not later than eighteen months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, consisting of three separate, but coherent reports of which:

- (i) the financial report: (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) the status report describes: (A) physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets, as the case may be; and
- (iii) the procurement report sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

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 auditors referred to in Section 4.01 (b) (i) of this Agreement have been appointed in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(b) the Borrower has adopted the PIM, in form and substance satisfactory to the Association;

(c) the Project Account has been opened;

(d) the Borrower has established a financial management system, in form and substance acceptable to the Association, including the development of a financial procedures manual and the appointment of financial management staff for the Project Coordinating Unit with experience acceptable to the Association and in accordance with the provisions of Schedule 3 to this Agreement; and

(e) the Borrower has submitted the final Letter of Sector Policy in a form and substance satisfactory to the Association.

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 Governor of the Banco de Moçambique 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:

Banco de Moçambique
Departamento de Estrangeiro
Maputo
República de Moçambique

Cable address:	Telex:	Facsimile:
MOBANCO	6355/BMMO	258 1 422015 / 428030

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MOZAMBIQUE

By: /s/ Armando Panguene

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By:

/s/ Pamela Cox

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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 (to be Expressed in SDR Equivalent)</u>	<u>% of Expenditures To be Financed</u>
(1) Goods under Parts A, B.1, B.2, B.3, B.4 and C.1 of the Project	7,100,000	100% of foreign expenditures and 85% of local expenditures
(2) Works under Parts A, B.1, B.2, B.3 and B.4 of the Project	12,800,000	100% of foreign expenditures and 85% of local expenditures
(3) Consultants Services including audits under Parts A, B.1, B.2, B.3, B.4 and C.1 of the Project	6,800,000	100% of foreign expenditures and 95% of local expenditures
(4) (a) Training under Parts A, B.1, B.2, B.3 and B.4 of the Project	6,500,000	100%
(b) Workshops under Parts A, B.1, B.2, B.3 and B.4 of the Project	1,000,000	100% of foreign expenditures and 95% of local expenditures
(5) Sub-Loans under Part B.5 of the Project	2,400,000	100% of amounts disbursed
(6) Grants under Part B.5 of the Project	1,600,000	100% of amounts disbursed

(7) Provincial Scholarships	1,500,000	100%
(8) Operating Costs	2,300,000	50%
(9) Refinancing of the Project Preparation Advance	400,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(10) Unallocated	4,700,000	
TOTAL	47,100,000	

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 goods or services supplied from the territory of the Borrower; and

(c) the term “Operating Costs” means the incremental expenses incurred by the Borrower on account of the Project implementation including management and monitoring, office supplies, vehicle operation, travel and supervision costs, but excluding salaries of officials of the Borrower.

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 for:

(a) payments made under Categories (2), (5) and (6) of the table in paragraph A.1 of this Schedule for each new construction site outside the existing campuses of each one of the HEIs, under Parts B.1, B.2 and B.3, and the Public or Private Beneficiaries under Part B.5 of the Project, respectively, unless the Borrower shall have submitted to the Association an EIA/RAP, in form and substance satisfactory to the Association; and

(b) expenditures under Categories (5), (6) and (7) unless the Sub-Loans and Grants have been made in accordance with the criteria, procedures and terms and conditions set forth or referred to in paragraphs 5, 6 and 7 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than \$100,000 equivalent each; (b) contracts for consulting firms costing less than \$100,000 equivalent each; (c) contracts for individual consultants costing less than \$50,000 equivalent each; (d) works costing less than \$200,000 each; and (e) all operating costs, training and workshops as the

costing less than \$200,000 each; and (e) all operating costs, training and workshops as the Association shall determine.

B. Special Account

1. The Borrower shall, for the purposes of the Project, open and maintain in US Dollars a special deposit account in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B. 2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(b) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports or statement of expenditures, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the

Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A

to

SCHEDULE 1 Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

The term "Authorized Allocation" means an amount of \$4,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$2,000,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 5,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement

Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 Special Account such amount as the Borrower shall have requested and as shall have been shown by the documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, 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 shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B

to

SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the amount of six million US Dollars (\$6,000,000).

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower's higher education sector in: (i) enhancing internal efficiency and expand the output of graduates, (ii) improving equitable access (gender, location and socio-economic), and (iii) improving the quality of the teaching-learning process and the relevance of the curriculum.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: System-wide Reform and Development

1. The support of the Borrower's Higher Education policy and system reform, through the provision of technical advisory services, rehabilitation of MESCT buildings, training, studies and workshops.

2. The development of: (i) a new regulatory, fiscal and accountability framework; (ii) new pedagogical teaching methods and programs; (iii) the use of ICT in the delivery and teaching of higher education; (iv) an accreditation system; (v) new or alternative sources of funding; and (vi) a HIV/AIDS prevention and support program for students, through the provision of technical advisory services.

Part B: HEIs Institutional Development and Investments

1. Eduardo Mondlane University

The improvement of the university graduation rate and efficiency in resource utilization while improving the quality of programs, learning environment and pedagogical methods through the: (i) carrying out of curriculum and academic reform and external quality reviews in selected disciplines; (ii) strengthening of academic and administrative staff capacity; (iii) reform of financial management, university management and administration, and efficiency improvements, including the establishment of efficient computer based financial and academic management and information systems, based on the analysis and recommendations of the study by external management consultants; (iv) establishment of a central library with advanced ICT capability; and (v) rehabilitation and construction of new facilities for the university.

2. Pedagogical University

The implementation and improvement of the quality of the university's programs through: (i) the rehabilitation and construction of new facilities, including students accommodation; (ii) the revision and the strengthening of the university's curriculum; (iii) capacity building of academic and administrative staff; (iv) the development and start-up of new program courses; and (v) the strengthening of the university's financial and managerial capacity.

3. Higher Institute for International Relations

The improvement of the institute's learning programs through: (i) the rehabilitation or provision of new teaching, library, student and administrative facilities; (ii) the academic and administrative staff capacity building; (iii) the development, implementation and supervision of the institute's educational programs; and (iv) the development of ICT, including the strengthening of the institute's financial and information management capacity.

4. Distance Learning Network

The development of the Borrower's new Distance Learning Network through: (i) the provision of training and institutional capacity building in design, development, delivery, management and evaluation of distance-learning; (ii) provision of a network infrastructure including minor civil works, equipment, consultant services staff and operating costs for establishing the central unit and the regional learning centers and the communication network; and (iii) the provision of materials and program implementation costs to carry out the pilot programs with the Borrower's educational institutions.

5. Quality Enhancement and Innovation Facility

The provision of grants for Public Beneficiaries and loans for Private Beneficiaries: (i) investments to support upgrading and capacity building of staff (through staff fellowships for postgraduate education and other training for teaching and management staff), and innovations to improve quality and efficiency of existing programs (through curriculum development, provision of equipment and learning materials) and to develop and introduce new academic programs to improve equity of access and meet changing skill requirements; (ii) the Academic Staff Program to individual academic staff or groups of staff to enable them to invest in development of new skills, teaching methods or learning materials, and the design and introduction of innovations and improvements in curriculum and delivery of courses and academic support of students; (iii) the Research Program to support basic or applied research to develop linkages or other forms of collaboration with the Borrower's industry and productive sector or with other national or international research and higher education institutions; and (iv) provision of equipment and small rehabilitation of educational facilities.

Part C: Provincial Scholarships

1. Management

Supporting the management of Part C of the Project through the provision of technical advisory services and training for the establishment of a public scholarship scheme to provide financial assistance for students in HEIs.

2. Scholarships

Provision of scholarships to cover the costs of tuition, travel, subsistence and lodging costs

Provision of scholarships to cover the costs of tuition, travel, subsistence and lodging costs for eligible students in HEIs.

* * *

The Project is expected to be completed by November 30, 2006.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good 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 Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods and works estimated to cost less than \$100,000 equivalent per contract, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Goods/works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from UN Agencies

Vehicles and office equipment may be procured from the Inter-Agency Procurement Services Office of the United Nations (IAPSO) in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) or more 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.

Part D: Review by the Bank 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 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods and works estimated to cost the equivalent of \$200,000 or more, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

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 Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.
2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. Consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for repetitive assessments such as auditing may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 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 and 3.7 of the Consultant

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 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for training and study tours which are estimated to cost less than \$100,000 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

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) 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 \$50,000 or more, the qualifications, experience, 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.

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

1. 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 6 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 not later than sixty days after the end of each calendar semester (6 months) of each year of Project implementation, 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 calendar semester preceding the date of said report provided, however, that the first report to be furnished to the Association shall cover the period from December 30, 2001 through June 30, 2002, 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;

(c) review with the Association, by September 30, 2002, 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; and

(d) the Borrower shall ensure that the Beneficiaries shall maintain its operations under terms and conditions satisfactory to the Association including qualified and experienced management and staff.

2. PIM

Except as the Association shall otherwise agree, the Borrower shall apply the procedures and guidelines set out in the PIM, and the Borrower shall not assign, amend, abrogate or waive the PIM or any provision thereof which, in the opinion of the Association, will materially or adversely affect the implementation of the Project.

Part B.5 of the Project

3. Eligibility Criteria for QIF Sub-Loans

Without limitation on the provisions of paragraph 2 above, no QIF Sub-Loans shall be eligible for financing out of the proceeds of the Credit unless the Evaluation Committee of the MESCT shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the PIM, that the QIF Sub-Loans satisfies the eligibility criteria specified in more detail in the PIM, which shall include the following:

(a) the QIF Sub-Loan shall be for the purposes and activities described in Part B. 5 of Schedule 2 to this Agreement;

(b) the QIF Sub-Loans shall be initiated by a Private Beneficiary;

(c) the QIF Sub-Loans shall be economically, financially and technically viable in accordance with the standards specified in the PIM; and

(d) the QIF Sub-Loans shall be in compliance with the standards set forth in the applicable laws of the Borrower relating to health, safety and environmental protection.

4. Terms and Conditions of QIF Sub-Loans

In financing QIF Sub-Loans, MESCT shall enter into a QIF Sub-Loan Agreement with the Private Beneficiary, under terms and conditions which shall include the following:

(a) financing to be on a loan basis and, unless otherwise agreed with the Association, not to exceed the equivalent of \$250,000 per QIF Sub-Loan at an interest rate of under terms and conditions satisfactory to the Association;

(b) the obligation to carry out the QIF Sub-Loan in accordance with the PIM, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the QIF Sub-Loan;

(c) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and (ii) such goods, works and services shall be used exclusively in the carrying out of the QIF Sub-Loan;

(d) the right of MESCT to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the QIF Sub-Loan, the operations thereof and any relevant records and documents;

(e) the right of MESCT to obtain all information as the Association shall reasonably request regarding the administration, operation and financial conditions of the QIF Sub-Loan; and

(f) the right of MESCT to suspend or terminate the right of the Private Beneficiary to use the proceeds of the Credit for the QIF Sub-Loan upon the failure by the Private Beneficiary to perform any of its obligations under the QIF Sub-Loan Agreement.

5. Eligibility Criteria for QIF Grants

Without limitation on the provisions of paragraph 2 above, no QIF Grants shall be eligible for financing out of the proceeds of the Credit unless the Evaluation Committee of the MESCT shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the PIM, that the QIF Grants satisfies the eligibility criteria specified in more detail in the

forth in the PIM, that the QIF Grants satisfies the eligibility criteria specified in more detail in the PIM, which shall include the following:

(a) the QIF Grants shall be for the purposes and activities described in Schedule 2, Part B. 5 to this Agreement;

(b) the QIF Grants shall be initiated by a Public Beneficiary; and

(c) the QIF Grants shall be economically, financially and technically viable in accordance with the standards specified in the PIM.

6. Terms and Conditions of QIF Grants

In financing QIF Grants, MESCT shall enter into a QIF Grant Agreement with the Public Beneficiary, under terms and conditions which shall include the following:

(a) financing to be on a grant basis and, unless otherwise agreed with the Association, not to exceed the equivalent of \$250,000 per QIF Grant;

(b) the obligation to carry out the QIF Grant in accordance with the PIM, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the QIF Grant;

(c) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and (ii) such goods, works and services shall be used exclusively in the carrying out of the QIF Grant;

(d) the right of MESCT to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the QIF Grant, the operations thereof and any relevant records and documents;

(e) the right of MESCT to obtain all information as the Association shall reasonably request regarding the administration, operation and financial conditions of the QIF Grant; and

(f) the right of MESCT to suspend or terminate the right of the Public Beneficiary to use the proceeds of the Credit for the QIF Grant upon the failure by the Public Beneficiary to perform any of its obligations under the QIF Grant Agreement.

Part C. 2 of the Project

7. Eligibility Criteria for Provincial Scholarships

Without limitation on the provisions of paragraph 2 above, no Provincial Scholarships

Without limitation on the provisions of paragraph 2 above, no Provincial Scholarships shall be eligible for financing out of the proceeds of the Credit unless the Provincial Governing Board shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the PIM, that the Provincial Scholarships satisfies the eligibility criteria specified in more detail in the PIM, which shall include the following:

(a) the Provincial Scholarships shall be for the purposes and activities described in Schedule 2, Part C. 2 to this Agreement; and

(b) a mechanism to guarantee the equitable distribution of Provincial Scholarships based on geographical, gender, socio-economic and merit criterias, taking into account the characteristics and specifics of the Provinces.

8. Midterm Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators specified in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) carry out, jointly with the Bank, not later than 32 months after effectiveness date, a Midterm Review, of the Project, which shall cover, inter alia: (i) progress made in meeting the Project's objectives; (ii) progress made in implementing the letter of sector policy and Strategic Plan; and (iii) overall Project performance as measured against Performance Indicators;

(c) at least three (3) weeks prior to the Midterm Review, furnish to the Association a report describing the status of the items listed in paragraph (a) above and of Project implementation generally; and

(d) not later than four (4) weeks after the Midterm Review, prepare an action program, acceptable to the Association, for further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement such action program.

9. The Borrower shall:

(a) cause UEM, UP and ISRI to approve action plan for generating institutional cost savings and first measures of that plan to be taken twelve months after project effectiveness;

(b) cause UEM to make 3 year-long Bachelor degree programs in selected areas, shorten *licenciaturas* to four years (except medicine and architecture), graduate degree programs, all fully operational two years after project effectiveness;

(c) cause UP and ISRI to make 3 year-long Bachelor degree programs in selected areas, shorten *licenciaturas* to 4 years, graduate degree programs, all fully operational three years

(c) cause UP and ISRI to make 3 year-long Bachelor degree programs in selected areas, shorten *licenciaturas* to 4 years, graduate degree programs, all fully operational three years after project implementation;

(d) by December 31, 2004, discuss with the Association implementation of higher education funding policy;

(e) by December 31, 2004, complete at least 4 departmental external quality reviews in three institutions by mid-term review; and

(f) shall ensure that the share of UP and ISRI generated revenue increases by 5%-points.

10. The Borrower shall cause UEM to:

(a) by December 31, 2002, have established a student monitoring system (and agreed with the relevant university bodies) to monitor student programs (rate of graduation, admissions and drop-outs);

(b) by mid-term review of the project, produce an action plan approved by the relevant university bodies, which includes numerical targets (in terms of percentage improvement in graduation rates, percentage of increase in proportion of students who graduate without repetition or with no more than one year of repetition, percentage of reductions in proportion of students who repeat or drop out of courses and reduction in average years of study per graduate) in each department/program, and specifies actions taken to improve the indicators in departments/programs showing poor performance; and

(c) ensure that the share of UEM generated revenue increases from 14% of state budget financing in 2001 to 17% by 2003 and to 20% by 2006.

SCHEDULE 5

Performance Indicators

Progress towards the project development objectives will be assessed in terms of:

(a) An increase in the absolute number of students graduating in all HEIs, from 786 in 2000 to 1,500 in 2006; an increase by 5 percentage points in the number of students from the North (10% to 15%) and Center (30% to 35%) enrolled in public HEIs by the year 2006.

(b) A reduction in the *licenciatura* completion time by increasing the admission/enrollment share from 16.3 percent (1,471 admitted / 9,021 student enrolled in 1999) to 18.3 percent (20 percent is the ideal) in public HEIs by 2006.

(c) Curriculum changes in selected faculties that show evidence of increased use of

(c) Curriculum changes in selected faculties that show evidence of increased use of new and updated materials and computers for word processing information gathering and data analysis.

(d) Qualitative reforms in the teaching-learning process, in selected faculties, that provide strong evidence of an increase in the use of student centered, project-oriented approaches, integrated with computer use, and providing a measurable increase in the proportion who pass rather than fail each course.

