

CONFORMED COPY

INTERIM FUND Credit NUMBER N015 KE

Interim Fund
Development Credit Agreement

(Early Childhood Development Project)

between

REPUBLIC OF KENYA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the interim trust fund established
with funds contributed by certain members of International
Development Association pursuant to Resolution No. IDA 184
of the Board of Governors of International Development Association

Dated May 7, 1997

INTERIM FUND CREDIT NUMBER N015 KE

INTERIM FUND
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 7, 1997, between REPUBLIC OF KENYA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution, the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Association Administrator has received a letter of policy intent, dated May 23, 1996 from the Borrower, describing a program of actions, objectives and policies designed to promote and strengthen early child development in Kenya (hereinafter referred to as "the Program"), and declared its commitment to the execution of the Program;

(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 Administrator Association to assist in the financing of the Project through the

provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

(D) the Borrower intends to conclude agreements with NGOs (as hereinafter defined) and other donors in view of securing additional financing in an amount equivalent to about \$2,000,000 to assist in financing the Project on the terms and conditions to be set forth in such agreements with such NGOs and other donors; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) The term "Association," wherever used in the General Conditions, means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement," "Credit" and "Credit Account," wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement," "Interim Fund Credit" and "Interim Fund Credit Account," respectively;

(c) A new paragraph, numbered 15, is added to Section 2.01 to read as follows:

"15. 'Participating Country' means any country that meets the requirements set forth in Section 5 (e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5 (c) of said Resolution; and 'Participating Countries' means, collectively, all such countries";

(d) The last sentence of Section 3.02 is deleted.

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

"Except as the Administrator Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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 Administrator Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read as follows: "Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit, or (c) at any time the Administrator determines, with respect to any contract to be financed out of the

proceeds of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Interim Fund Credit shall be cancelled."

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) "Co-financing Agreements" means the agreements referred to in paragraph (C) of the Preamble;
- (b) "DECDIC" means the District ECD Implementation Committee referred to in paragraph 1 (b) of Schedule 4 to this Agreement;
- (c) "DICECE" means District Center for Early Childhood Education of a District;
- (d) "District" means an administrative subdivision of the Borrower's territory; "ECD" means early child development;
- (e) "Eligible ECD Center" means an ECD Center which satisfies the eligibility criteria specified in the Project Implementation Manual in respect of Grants;
- (f) "Eligible ECD Center Expenditures" means expenditures of an Eligible ECD Center, which are determined to be eligible for financing under a Grant in terms of criteria specified in the Project Implementation Manual;
- (g) "fiscal year" means the Borrower's fiscal year;
- (h) "Grant" means a grant under Part D.1 of the Project;
- (i) "IEC" means information, education and communication;
- (j) "Kenya Shilling" and "Ksh" mean the unit of currency of the Borrower;
- (k) "Memorandum of Understanding" means the Memorandum of Understanding referred to in Section 3.01 (d) of this Agreement, as same may be amended from time to time, and such term includes any schedules to the Memorandum of Understanding;
- (l) "MOEMoE" means the Borrower's Ministry of Education;
- (m) "NACECE" means the National Center for Early Childhood Education of MOEMoE;
- (n) "NECDIC" means the National ECD Implementation Committee referred to in paragraph 1 (a) of Schedule 4 to this Agreement;
- (o) "NGO" means nongovernmental organization;
- (p) "Project Account" means the project account referred to in Section 3.04 of this Agreement;
- (q) "Project Coordinator" means the Project Coordinator referred to in

paragraph 2 of Schedule 4 to this Agreement;

(r) "Project Implementation Manual" means the Project Implementation Manual, dated July 3, 1996, prepared by the Borrower and submitted to the Administrator Association, giving details of all procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements, as well as the criteria for the identification of Selected Districts, Selected NGOs and Eligible ECD Centers, as agreed with the Administrator Association for purposes of the Project;

(s) "Project Preparation Advance" means the project preparation advance granted by the Administrator Association to the Borrower pursuant to a letter of agreement, dated July 9, 1996, between the Borrower and the Administrator Association;

(t) "PPE" means the Pre-Primary Education Section of MOEMoE;

(u) "Selected District" means a District selected in accordance with criteria set forth in the Project Implementation Manual and in which the Project, or any Part thereof, is to be implemented;

(v) "Selected NGO" means any NGO selected in accordance with the provisions of Section 3.01 (b) and (c) of this Agreement to implement any Part of the Project; and

(w) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to nineteen million three hundred thousand Special Drawing Rights (SDR 19,300,000).

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Administrator Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Interim Fund Credit; and (ii) amounts paid (or, if the Administrator Association shall so agree, to be paid) on account of withdrawals made for the benefit of an Eligible ECD Center under a Grant to meet the reasonable cost of Eligible ECD Center Expenditures, and in respect of which the withdrawal from the Interim Fund Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Administrator Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Administrator Association shall, on behalf of the Borrower, withdraw from the Interim Fund 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 June 30, 2002 or such later date as the Administrator Association shall establish. The Administrator 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 Interim Fund 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 Interim Fund Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment 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 per cent (3/4 of 1%) per annum on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time.

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each February 1 and August 1, commencing August 1, 2007 and ending February 1, 2037. Each installment to and including the installment payable on February 1, 2017 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Administrator Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Interim Fund Credit shall have been repaid. If so requested by the Borrower, the Administrator Association may revise such modification 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 Administrator Association on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Administrator 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, subject to paragraphs (b) and (c) of this Section:

(i) carry out the Project through MOEMoE with due diligence and efficiency and in conformity with appropriate technical, financial and

administrative practices; and

(ii) provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project.

(b) Without prejudice to the generality of paragraph (a) of this Section, the Borrower may have Parts C and D of the Project implemented in Selected Districts by one or more selected NGOs, according to criteria for the selection of the appropriate mode of implementation, which shall be acceptable to the Administrator Association and specified in the Project Implementation Manual.

(c) Where one or more NGOs have been selected to implement Part C or D of the Project in Selected Districts, the Borrower shall cause such Selected NGOs to carry out such Part of the Project, with due diligence and efficiency, and in conformity with appropriate technical, financial and administrative practices, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable such Selected NGOs to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by such Selected NGOs.

(d) Where an NGO has been selected to implement Part C or D of the Project in a Selected District, the Borrower shall conclude a memorandum of understanding (hereinafter called Memorandum of Understanding) with such Selected NGO for the implementation of such Part of the Project, whereby the Borrower shall make available to such Selected NGO the proceeds of the Interim Fund Credit allocated to such Part of the Project for such Selected District on a grant basis and on such other terms and conditions as shall be acceptable to the Administrator Association.

(e) The Borrower shall exercise its rights under each Memorandum of Understanding in such manner as to protect the interests of the Borrower and the Administrator Association and to accomplish the purposes of the Interim Fund Credit, and, except as the Administrator Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive such Memorandum of Understanding or any provision thereof.

(f) Without limitation upon the provisions of paragraph (a) of this Section, and, except as the Borrower and the Administrator Association shall otherwise agree, the Borrower shall carry out the Project and, where applicable, shall cause Selected NGOs to carry out Parts C and D of the Project, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. For the purposes of Part D.1 of the Project, the Borrower shall make available the proceeds of the Interim Fund Credit allocated to such Part of the Project, or cause such proceeds to be made available, to Eligible ECD Centers on a grant basis, and on such other terms and conditions as shall be acceptable to the Administrator Association and specified in the Project Implementation Manual, which shall include the following:

(a) except as the Administrator Association may otherwise agree, Grants shall not exceed Kshs 125,000 in each case, and shall be provided for the benefit of Eligible ECD Centers, and in accordance of the terms of a letter of agreement to be signed between the Borrower or a Selected NGO, as the case may be, on the one hand, and a representative of the Eligible ECD Center, on the other;

(b) except as the Administrator Association may otherwise agree, grants shall be provided, in respect of each Eligible ECD Center, through an ECD fund to be held in a protected account located in an approved bank, where applicable, and used solely to finance Eligible ECD Center Expenditures; and

(c) the Borrower or, as the case may be, the selected NGO shall make suitable arrangements to ensure that:

(i) Grants shall not be used to finance taxes levied on or in respect

of Eligible ECD Center Expenditures, or any part thereof; and

(ii) Eligible ECD Centers shall furnish all information as may be reasonably required regarding the administration, operations and financial conditions of such Eligible ECD Centers.

Section 3.04. (a) Without limitation upon its obligations under Section 3.01 of this Agreement, the Borrower shall make appropriate budgetary provisions on behalf of MOEMoE to finance its counterpart contribution to the cost of the Project in accordance with the following schedule:

Fiscal year following Effective Date	Amount expressed in dollars
First fiscal year	200,000
Second fiscal year	1,000,000
Third fiscal year	1,000,000
Fourth fiscal year	1,500,000
Fifth fiscal year	1,500,000

Section 3.05. 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 Administrator Association, and furnish to the Administrator 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 Administrator Association, a plan for the future operation of the Project; and

(b) afford the Administrator 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 or cause to be maintained records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator Association;

(ii) furnish to the Administrator Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Administrator Association shall have reasonably requested; and

(iii) furnish to the Administrator Association such other information concerning said records, accounts and the audit thereof as the Administrator Association shall from time to time reasonably request.

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

(i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Administrator Association has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Administrator Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall cause Selected NGOs to maintain records and accounts adequate to reflect, in accordance with sound accounting practices, the operations and financial conditions of such Selected NGOs.

(b) The Borrower shall cause Selected NGOs to:

(i) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator Association;

(ii) furnish to the Borrower and the Administrator 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 their financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Administrator Association shall have reasonably requested; and

(iii) furnish to the Borrower and the Administrator Association such other information concerning such records, accounts, financial statements and the audit thereof as the Administrator Association shall from time to time reasonably request.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause Selected NGOs:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Administrator Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on their operations and conduct their affairs in accordance with sound technical, administrative and financial practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain their equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and administrative practices.

ARTICLE VI

Remedies of the Association and the Administrator

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that:

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) the Co-financing Agreements shall have failed to become effective by June 30, 1998, or such later date as the Administrator Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes that adequate funds for the Project are available to the Borrower from other sources;

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Co-financing Agreements.

(ii) Sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Administrator Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VII

Effective Date; Termination;
Designation of Administrator

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Interim Fund Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has made appropriate budgetary provisions for the first fiscal year following the Effective Date in accordance with Section 3.04 of this Agreement;

(b) the Borrower has established an adequate financial management and accounting system for the Project and appointed auditors to audit the accounts in accordance with Section 4.01 of this Agreement and Section II of Schedule 3 to this Agreement; and

(c) at least two Selected NGOs have been selected in accordance with criteria specified in the Project Implementation Manual, and a Memorandum of Understanding has been executed on behalf of the Borrower and each such Selected NGO.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Administrator Association, namely, that each executed Memorandum of Understanding referred to in paragraph (c) of Section 7.01 of this Agreement has been duly authorized or ratified by the Borrower and the Selected NGO, and is legally binding upon the Borrower and the Selected NGO in accordance with its terms.

Section 7.03. 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.

Section 7.04. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as Administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

ARTICLE VIII

Representatives of the Borrower; Addresses

Section 8.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P.O.P.O Box 30007
Nairobi
Kenya

Cable address:

FINANCE
Nairobi

Telex:

22921
MINFIN-KE

For the Association and the Administrator:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 KENYA

By /s/ Benjamin Kipkorir

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator
of the interim trust fund established with funds
contributed by certain members of International
Development Association pursuant to Resolution No. IDA
184 of the Board of Governors of International
Development Association

By /s/ Callisto Madavo

Regional Vice President

SCHEDULE 1

Withdrawal of the Proceeds of the Interim Fund Credit

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

Category	Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
1. Goods	6,600,000	100% of foreign expenditures and 80% of local expenditures
2. Training	4,800,000	100%
3. Grants	2,600,000	100% of amounts disbursed by Borrower or Selected NGO
4. Consultants' services and studies	1,400,000	100%
5. Operating costs	2,300,000	90% for expenditures incurred prior to December, 31, 1999, and 60% thereafter
6. Refunding of Project Preparation Advance	700,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
7. Unallocated	900,000	
	<hr/>	
Total	19,300,000	

2. For the purposes of this Schedule:

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

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

(c) the term "operating costs" means the incremental operating costs incurred by MOEMoE or Selected NGOs under the Project on account of: (i) local contractual staff salaries and allowances, and travel costs, (ii) maintenance and operation of vehicles and equipment, and related insurance costs, and (iii) office rent, supplies and utilities.

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.

4. The Administrator Association may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for expenditures for goods and consultants' services (firms) under contracts not exceeding \$100,000 equivalent, consultants' services (individuals) under contracts not exceeding \$50,000 equivalent, overseas training under contracts not exceeding \$10,000 equivalent, Grants, local training and operating costs, under such terms and conditions as the Administrator Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve child development and educability in poor households in Selected Districts of Kenya through improved cognitive and psycho-social development, improved child health and nutrition, increased school enrollment at the appropriate age, and reduction in drop-out and repetition rates in lower primary school.

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

Part A: Improved Teacher Performance

1. Provision of a two-year training course or, as the case may be, a five-week orientation course, for untrained teachers.
2. Carrying out of a training program for trainers, including training in adult learning and participatory methods skills.
3. Provision of short specialized courses to serve the needs of refresher training and help trained teachers upgrade their skills.

Part B: Community Capacity Building and Resource Mobilization

1. Carrying out of orientation sessions and development of IEC materials, including posters, flash cards, charts, radio programs and other mass media campaign materials, to promote and strengthen ECD.
2. Organization of community participatory development workshops to build management capacity of ECD Center committees.
3. Provision of parenting education, through workshops, demonstrations and seminars, to caregivers, including mothers, grandmothers and childminders employed to provide care for very young children.

Part C: Health and Nutrition Pilot

1. Testing of a replicable model emphasizing prevention and promotion to optimize health and nutrition standards of ECD Center children at the community level.
2. Provision of parental education to promote improved health behavior and child care in the home and environmental health.

Part D: Community Grants Pilot

1. Provision of grants to community or parent-owned ECD Centers in low-income areas to provide such schools with a steady income stream to meet monthly recurrent costs.
2. Provision of advisory services in self-management, accounting, fund-raising, planning and budgeting, under Part B.2 of the Project.

Part E: Preschool to Primary School Transition

Harmonization of curriculum and teaching methods in lower primary schools with

those of ECD Centers, thereby facilitating interaction between ECD Centers and lower primary classes.

Part F: Monitoring and Evaluation

1. Monitoring of input utilization and process outcomes at center level by means of child cards, center registers and wallcharts, and a survey of ECD centers, and supply of certain disaggregated information and profiles from DICECEs to each of the district centers for effective planning purposes.
2. Evaluation of the impact of the Project and of each of its components on child outcomes using household- and child-specific sample survey data.
3. Carrying out of special studies to address policy development issues, deal with operational research issues and evaluate specific issues, such as training and supervision, which are not covered by regular monitoring and evaluation activities.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Subject to the eligibility restrictions set forth in Section III of this Schedule, Goods 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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Notification and Advertising

An invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines."

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$4,100,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods required under Part D.1 of the Project estimated to cost less than \$5,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, and other goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$80,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from UN Agencies

(a) Goods referred to in paragraph 2 of this Part may be procured from the Inter-Agency Procurement Services Office (IAPSO) in accordance with the provisions of paragraph 3.9 of the Guidelines.

(b) Pharmaceuticals, for a total amount not exceeding \$1,200,000, may be procured through United Nations Children's Fund (UNICEF) or United Nations Children's Fund Supply Division Procurement and Assembly CenterCentre (UNIPAC), in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Administrator Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Administrator Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Administrator Association and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, as well as the first three contracts for goods to be financed under the Project, the procedures set forth in paragraphs 2 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

1. Subject to the eligibility restrictions set forth in Section III of this Schedule, Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Administrator Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Administrator Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator Association review or approval

of budgets, shortlists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Administrator Association review shall not apply to: (i) the terms of reference for such contracts, (ii) single-source selection of consulting firms, (iii) assignments of a critical nature, as reasonably determined by the Administrator Association, (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

Section III. Eligibility Restrictions

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures for goods provided by nationals of, and produced in or supplied from, Participating Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.02 of the Consultant Guidelines, only consultants from Participating Countries shall be eligible to provide services financed out the proceeds of the Interim Fund Credit.

SCHEDULE 4

Implementation Program

1. The Borrower shall maintain:

(a) a National ECD Implementation Committee (NECDIC), to be chaired by the Permanent Secretary, MOEMoE, and whose functions, composition and terms of reference shall be acceptable to the Administrator Association, to be responsible for providing overall policy and strategic guidance for the Project and, in particular, to review and approve proposed work plans and budgets, review the progress of the Project and address policy issues arising in the course of the implementation of the Project; and

(b) an intersectoral District ECD Implementation Committee (DECDIC), to be chaired by the District Education Officer in each Selected District, to be responsible for overall coordination of the activities of the Project in the Selected District.

2. The Borrower shall designate:

(a) the Permanent Secretary, MOEMoE, to have overall responsibility for the management and coordination of the Project; and

(b) a suitably qualified and experienced official to be head of PPE and Project Coordinator and, as such, to be responsible for the day-to-day management of the Project, including coordination of procurement, disbursement and accounting activities, preparation of annual work plans and budgets, progress reports, supervision of the recruitment and performance of consultants, and to act as secretary of NECDIC.

3. The Borrower shall take appropriate steps to address the staffing requirements of NACECE, DICECEs and PPE and, to this end, shall proceed to fill, and thereafter to keep filled at all times, the positions identified in the Project Implementation Manual.

4. The Borrower shall carry out the Project in accordance with procedures set out in the Project Implementation Manual and, except as the Administrator Association shall otherwise agree, shall not amend, abrogate or waive any provision thereof, if such amendment, abrogation or waiver may, in the opinion of the Administrator Association, materially or adversely affect the implementation of the Project.

5. The Borrower shall:

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

(b) not later than February 28 of each year, undertake, in conjunction with the Administrator Association and Selected NGOs, a joint annual review of the Project (or, in the case of the annual review to be undertaken not later than February 28, 1999, a midterm review), during which they shall exchange views generally on all matters relating to the progress of the Project and the performance by the Borrower of its respective obligations under this Agreement, including:

(i) the progress achieved by the Borrower in the implementation of the Project, having regard to the performance indicators referred to in paragraph and 5 (a) of this Schedule;

(ii) a review of the proposed work plans and budget for the forthcoming fiscal year; and

(iii) in the case of the midterm review, proposals for such strategic adjustments to the Project as may be deemed necessary or appropriate in furtherance of the objectives of the Project;

(c) not later than one month prior to each annual review, furnish to the Administrator Association, for its comments, a report, in such detail as the Administrator Association shall reasonably request, on the progress and status of the Project and giving details, in particular, of the various matters to be discussed at such review; and

(d) following each annual review, undertake to act promptly and diligently in order to take, or cause Selected NGOs to take, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project or to implement, or cause Selected NGOs to implement, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

6. The Borrower shall submit to the Administrator Association, for its review or approval, as the case may be:

(a) not later than January 31 of each year, proposed annual work plans and budget for the forthcoming fiscal year, giving details of proposed budgetary allocations and disbursement estimates, proposed procurement and training activities and such other particulars as the Administrator Association may require, including, where applicable, an evaluation of the results of the training program for the current fiscal year;

(b) semiannual progress reports on the status of the Project to be submitted not later than January 31 and July 31 of each year, including semiannual procurement reports, giving details of:

(i) revised cost estimates for individual contracts and for the Project, including best estimates of allowances for price contingencies;

(ii) revised timing of procurement actions, including advertising/advertising, bidding, contract award and completion time for individual contracts;

(iii) status of compliance with aggregate limits prescribed for specific procurement procedures; and

(c) reports, as needed, on the award of contracts under the Project.

7. For the purposes of Part F of the Project, the Borrower shall establish: (a) a Monitoring and Evaluation Working Group, to be chaired by the Head of Monitoring and Evaluation of MOEMoE, and comprising representatives of concerned agencies and entities, to oversee monitoring and evaluation activities at the national level; and

(b) a steering committee, to be chaired by the District Education Officer or Municipal Education Officer, as the case may be, in each Selected District, and comprising representatives of concerned agencies and entities, to oversee monitoring and evaluation activities at the district level.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project, as well as amounts paid or to be paid under Grants, to be financed out of the proceeds of the Interim Fund Credit allocated from time to time to the eligible Categories, and in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Interim Fund Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Administrator Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Interim Fund Credit Account plus the total amount of all outstanding special commitments entered into by the Administrator Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 4,000,000.

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

3. After the Administrator Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Administrator Association requests for deposits into the Special Account at such intervals as the Administrator Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator 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 Administrator Association shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the 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 Special Account for eligible expenditures. All such deposits shall be withdrawn by the Administrator Association from the Interim Fund Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Administrator Association shall reasonably request, furnish

to the Administrator 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 Administrator Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator Association shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Administrator 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 Administrator Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator 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 Interim Fund Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Administrator 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 Authorized Allocation.

Thereafter, withdrawal from the Interim Fund Credit Account of the remaining unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories shall follow such procedures as the Administrator Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Administrator Association shall have determined at any time that any payment out of the 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 Administrator Association, the Borrower shall, promptly upon notice from the Administrator Association: (A) provide such additional evidence as the Administrator Association may request; or (B) deposit into the Special Account (or, if the Administrator Association shall so request, refund to the Administrator Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator Association shall otherwise agree, no further deposit by the Administrator 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 Administrator Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Administrator Association, refund to the Administrator Association such outstanding amount.

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

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



