

CONFORMED COPY

CREDIT NUMBER 3739 CD

GRANT NUMBER H023 CD

Development Financing Agreement

(Education Sector Reform Project)

between

REPUBLIC OF CHAD

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 20, 2003

CREDIT NUMBER 3739 CD

GRANT NUMBER H023 CD

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated March 20, 2003, between REPUBLIC OF CHAD (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated March 8, 2002, describing a program of actions, objectives and policies designed to reform and improve the Borrower's formal and informal education, raise the level of literacy and to support community initiatives in the education sector of its economy (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 and the Grant to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Administrative and Financial Procedures Manual” means the manual outlining all the administrative and financial arrangements for the Project, to be adopted by the Borrower pursuant to Section 6.01 (d) and referred to in paragraph 1 under Part A of Schedule 4 to this Agreement;

(b) “AIDS” means the Acquired Immune Deficiency Syndrome;

(c) “APE” means *Association des Parents d’Elèves*, a Parents Students Association established and operating under FENAPET (as hereinafter defined);

(d) “APICED” means *Agence pour la Promotion des Initiatives Communautaires en Education*, the Community Initiative Support Agency for Education to be established by the Borrower pursuant to Section 6.01 (a) of this Agreement;

(e) “Beneficiary” means an APE, FENAPET (as hereinafter defined), or a Literacy Provider (as hereinafter defined) in respect of a Community Grant (as hereinafter defined), a Girls’ Education Grant (as hereinafter defined), a FENAPET Grant (as hereinafter defined) or a Literacy Providers’ Grant (as hereinafter defined);

(f) “CFA Francs” or “CFAF” means *Franc de la Coopération Financière en Afrique Centrale*, the currency of the Borrower;

(g) “Community” means a group comprising of local population, which, pursuant to membership in an APE, is involved in the construction, operation and management of a community school, and includes a village;

(h) “Community Grant” means a grant made or proposed to be made by the Borrower to an APE, pursuant to a Community Grant Agreement (as hereinafter defined), to finance the activities under paragraph 3 (a) of Part A of Schedule 2 to this Agreement;

(i) “Community Grant Agreement” means the Agreement referred to under Part B of Schedule 4 to this Agreement and to be entered into between the Borrower and an APE as the same may be amended from time to time, and such term includes all schedules thereof;

(j) “CNC” means *Centre National des Curricula*, the National Curricula Center to be established by the Borrower pursuant to Section 6.01 (b) of this Agreement;

(k) “Contract Management Agency” means a contract management agency referred to in paragraph 9 (b) of Schedule 4 to this Agreement;

(l) “CTSE” means *Cellule Technique de Suivi de l’Education*, the Technical Office for Education Monitoring established pursuant to Borrower’s *Arrêté No. 097/MEN/DG/2000, portant création de la Cellule Technique de suivi des conclusions de la réunion sectorielle « Education et Formation »*, dated July 31, 2000;

(m) “DAPLAN” means *Direction de l’Alphabétisation et de la Promotion des Langues Nationales*, the Directorate for Literacy and Promotion of National Languages, a department in the MEN (as hereinafter defined);

(n) “DAPRO” means *Direction de l’Analyse et de la Prospective*, the division responsible for policy analysis and planning within the MEN (as hereinafter defined);

(o) “DPE” means *Direction des Projets Education*, the Directorate of Education Projects, a unit within the MEN (as hereinafter defined);

(p) “Environmental Management Plan” or “EMP” means the action plan, adopted by the Borrower on May 28, 2002 for carrying out environmental impact assessments and ensuring compliance with the Borrower’s environmental standards;

(q) “FENAPET” means *Fédération Nationale des Associations des Parents d’Elèves du Tchad*, the Chad National Federation of Parents Students Associations established pursuant to the Borrower’s *Ordonnance portant réglementation des Associations* No. 27/BIT/SUR dated July 28, 1962 and operating under the by-laws adopted on May 9, 2000;

(r) “FENAPET Grant” means a grant made or proposed to be made by the Borrower to FENAPET, pursuant to the FENAPET Grant Agreement (as hereinafter defined), to finance the activities under paragraph 2 (c) of Part D of Schedule 2 to this Agreement;

(s) “FENAPET Grant Agreement” means the Agreement referred to under Part B of Schedule 4 to this Agreement and to be entered into between the Borrower and FENAPET as the same may be amended from time to time, and such term includes all schedules thereof;

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

(u) “Girls’ Education Grant” means a grant made or proposed to be made by the Borrower to an APE, FENAPET or a Contract Management Agency, pursuant to a Girls’ Education Grant Agreement (as hereinafter defined), to finance the activities under paragraph 2 of Part A of Schedule 2 to this Agreement;

(v) “Girls’ Education Grant Agreement” means the Agreement referred to under Part B of Schedule 4 to this Agreement and to be entered into between the Borrower and APE as the same may be amended from time to time, and such term includes all schedules thereof;

(w) “HIV” means the Human Immuno-Deficiency Syndrome;

(x) “ISSED” means *Institut Supérieur des Sciences de l’Education*, the Institute of Higher Education Sciences, established and operating under the Borrower’s *Ordonnance* No. 005/PR/MEN/92, dated March 13, 1992, *portant création de l’Institut Supérieur des Sciences de l’Education*, and Decree No. 133/PR/MEN/92, dated March 20, 1992, *portant Statuts de l’Institut Supérieur des Sciences de l’Education*;

(y) “Literacy Provider” means an NGO (as hereinafter defined) or a private sector operator present in a local area and operating as an expert in literacy service delivery, and to which responsibility is delegated by DAPLAN for literacy service delivery;

(z) “Literacy Providers’ Grant” means a grant made or proposed to be made by the Borrower to a Literacy Provider, pursuant to a Literacy Providers Grant Agreement (as hereinafter defined), to carry out the activities under paragraph 1 of Part C of Schedule 2 to this Agreement;

(aa) “Literacy Providers’ Grant Agreement” means the Literacy Providers Grant Agreement referred to under Part B of Schedule 4 to this Agreement and to be entered into between the Borrower and a Literacy Provider as the same may be amended from time to time, and such term includes all schedules thereof;

(bb) “MEF” means *Ministère de l’Economie et des Finances*, the Borrower’s Ministry responsible for economy and finance;

(cc) “MEN” means *Ministère de l’Education Nationale*, the Borrower’s Ministry responsible for education;

(dd) “NGO” means a non-governmental organization established and operating under the laws of the Borrower;

(ee) “Project Account” means the account referred to in Section 3.04 (a) of this Agreement;

(ff) “Project Grant” means Community Grant, Girls’ Education Grant, FENAPET Grant or Literacy Providers’ Grant (as defined above), as the case may be;

(gg) “Project Implementation Manual” means the manual outlining all the arrangements for the implementation of the Project, to be adopted by the Borrower pursuant to Section 6.01 (c) and referred to in paragraph 1 under Part A of Schedule 4 to this Agreement;

(hh) “Project Preparation Advance” means the two project preparation advances granted by the Association to the Borrower pursuant to a first letter agreement signed on behalf of the Association on August 6, 2001 and on behalf of the Borrower on

August 20, 2001, and a second letter agreement signed on behalf of the Association on July 9, 2002 and on behalf of the Borrower on July 23, 2002;

(ii) "Project Quarter" means the three-month period beginning from the Effective Date and ending three months thereafter (the First Project Quarter) and any three-month period beginning at the end of the First Project Quarter, or at the end of any subsequent Project Quarter;

(jj) "Project Semester" means the six-month period beginning from the Effective Date and ending six months thereafter (the First Project Semester) and any six-month period beginning at the end of the First Project Semester, or at the end of any subsequent Project Semester; and

(kk) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Financing

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

(a) an amount in various currencies equivalent to fourteen million five hundred thousand Special Drawing Rights (SDR 14,500,000) (the Credit); and

(b) an amount in various currencies equivalent to seventeen million five hundred thousand Special Drawing Rights (SDR 17,500,000) (the Grant).

Section 2.02. (a) (i) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (A) amounts paid (or if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made under a Project Grant to meet the reasonable costs of goods, works and services required for Parts C.1 and D.2 (c) of the Project, in respect of which the withdrawal from the Credit Account is requested; and (B) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts B.1, B.3, B.4, B.5, C.2, D.1, D.2 (a) and (b), D.3 and D.4 of the Project and to be financed out of the proceeds of the Credit.

(ii) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (A) amounts paid (or if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made under a Project Grant to meet the reasonable costs of goods, works and services required for Parts A.2 and A.3 (a) of the Project, in respect of which the

withdrawal from the Grant Account is requested; and (B) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A.1, A.3 (b), B.2 and B.6 of the Project and to be financed out of the proceeds of the Grant.

(b) The Borrower may, for the purposes of the Project, open and maintain in CFA Francs two separate special deposit accounts, one for Parts B.1, B.3, B.4, B.5, C and D of the Project (Special Account A), and one for Parts A, B.2 and B.6 of the Project (Special Account B), in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 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: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum .

(b) Each commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be), or canceled; and (ii) at the respective rate set as of 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 respective rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) Each commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency

or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15, 2013 and ending February 15, 2043. Each installment to and including the installment payable on February 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

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

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

Section 2.08. The currency of French Republic is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

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

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

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

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall, for the purposes of making available its counterpart contribution to the financing of the Project:

(a) open and thereafter maintain, for the duration of the Project, an account in CFA Francs (the Project Account) in a commercial bank on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial contribution of CFAF 30,000,000;

(c) not later than fifteen (15) days before the end of the second Project Semester, replenish said account up to an amount of CFAF 275,000,000;

(d) thereafter replenish said account up to the amount of CFAF 275,000,000 at the end of each Project Quarter, starting at the end of the fifth Project Quarter, or whenever its balance shall be less than CFAF 135,000,000; and

(e) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works and services for the Project in addition to those financed from the proceeds of the Financing.

Section 3.05. The Borrower shall take all action which shall be necessary under the Environment Management Plan.

ARTICLE IV

Financial Covenants

Section 4.01 (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in 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 the accounts, and

the report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

- (iii) furnish to the Association such other information concerning such records, accounts and financial statements, 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 Financing Accounts 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 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 Financing Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall prepare, and furnish to the Association not later than 45 days after the end of each calendar quarter, a Financial Monitoring Report, in form and substance acceptable to the Association, which:

- (i) (A) sets forth actual sources and uses of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and uses 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 Financing during the six-month period following the period covered by said report;

- (ii) (A) describes 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; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Financing, as at the end of the period covered by said report.

ARTICLE V

Remedies of the Association

Section 5.01 Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely that a situation has arisen which shall make it improbable that the Program, or a significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Borrower has established APICED as an autonomous public entity and appointed directors, acceptable to the Association;
- (b) the Borrower has established CNC as an autonomous public scientific institution, appointed directors, acceptable to the Association, and revised, amended or reviewed *Ordonnance* No. 005/PR/MEN/92, dated March 13, 1992, and Decree No. 133/PR/MEN/92, dated March 20, 1992, establishing and governing the operations of ISSÉD to avoid duplication of responsibilities, in form and substance satisfactory to the Association;
- (c) the Borrower has adopted and furnished to the Association the Project Implementation Manual, in form and substance satisfactory to the Association;
- (d) the Borrower has adopted and furnished to the Association the Administrative and Financial Procedures Manual, in form and substance satisfactory to the Association;

(e) the Project Account has been opened and the initial contribution referred to in Section 3.04 (b) of this Agreement has been deposited therein;

(f) the Borrower has appointed the auditors referred to in section 4.01 (b) of this Agreement, in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(g) the Borrower has appointed to the DPE a Project director, a principal technical coordinator for civil works and an administrative officer, all in accordance with the provisions of Section II of Schedule 3 to this Agreement; and

(h) the Borrower has established an accounting and financial management system for the Project, satisfactory to the Association.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower at the time responsible for planning, development and cooperation is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Planning, Development
and Cooperation
B.P. 286
N'Djamena
Republic of Chad

Telex:	Facsimile:
5329 KD	(235) 51 51 85
	(235) 52 00 87

For the Association:

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

Cable address:	Telex:	Facsimile
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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 CHAD

By

/s/ Abdoulaye Beri
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Ali M. Khadr
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	730,000	1,620,000	100% of foreign expenditures and 82% of local expenditures
(2) Goods	2,480,000	4,570,000	100% of foreign expenditures and 82% of local expenditures
(3) Consultant's Services and Audit	3,850,000	3,250,000	82%
(4) Training	3,090,000	540,000	100%
(5) Project Grants			100% of amounts disbursed
(a) Community Grants		5,000,000	
(b) Girl's Education Grants		500,000	
(c) FENAPET Grants	240,000		
(d) Literacy Provider's Grants	1,890,000		
(6) Operating Costs	330,000	350,000	78%
(7) Refunding of Project Preparation Advance	410,000		Amounts due pursuant to Section 2.02 (c) of this Agreement

<u>Category</u>	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(8) Unallocated	1,480,000	1,670,000	
	-----	-----	
TOTAL	14,500,000 =====	17,500,000 =====	

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; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) the term “Operating Costs” means the incremental expenses incurred on account of Project implementation, management and monitoring, including Special Account banking charges, office supplies, utilities expenses, consumables, transport, travel and accommodation, per diem, supervision costs and salaries of locally contracted staff, but excluding salaries of officials of the Borrower’s civil service; and

(d) the term “Training” means the expenses incurred on stipends, travel, purchase of training materials and rental facilities, and includes workshops.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) a Project Grant under Category (5) (a) through (d) unless the Project Grant has been made in accordance with the criteria and on terms and conditions set forth

or referred to in the Project Implementation Manual and the provisions of paragraph 8 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account and the Grant Account to be made on the basis of statements of expenditure for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) works under contracts costing less than \$500,000 equivalent each; (c) consultants' services under contracts costing less than: (i) \$100,000 equivalent each for consulting firms; and (ii) \$50,000 equivalent each for individual consultants; and (d) Operating Costs and Training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in developing its policy framework, strategies and means for achievement of quality universal basic education and implementing its strategy to improve access to and equity of education.

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

Part A: Improving Access and Equity

1. The carrying out of community initiatives, including: (a) provision of training to APEs in organization, management, fund raising, project development and networking; (b) provision of training for community teachers; (c) undertaking sensitization and information dissemination campaign on the Project; (d) establishment of APICED as a mechanism for channeling funds from different sources and the MEF to the APEs; and (e) strengthening the capacity of APEs for participation in school management, all through the acquisition of goods, and the provision of works, training and technical advisory services.

2. Promotion of girls' education, including: (a) implementation of sensitization activities designed to improve girls' access to and retention in schools; (b) development and implementation of specific interventions to improve education opportunities in under-served regions and for nomadic populations; (c) improvement of women representation in APEs, teaching and directorship, and decision making and administration of schools; (d) creation of an incentive scheme to encourage girls' retention in secondary school and interest in science subjects; and (e) development and integration of gender sensitization modules in teachers' training modules, all through the acquisition of goods, and the provision of training and technical advisory services under Girls' Education Grants.

3. (a) Construction of classrooms and other requisite facilities, and acquisition and maintenance of school furniture and equipment, under Community Grants.

(b) Construction of wells through the provision of works and technical advisory services.

Part B: Improving Quality and Efficiency

1. The carrying out of curriculum development for training and teaching in basic education, including: (a) the establishment of a new basic and secondary education curriculum; and (b) undertaking a feasibility study for the implementation of bilingual

education, all through the acquisition of goods, and the provision of training and technical advisory services.

2. Supporting the development and management of textbooks, pedagogic and didactic materials to ensure access to adequate reading and guide materials in schools, through the acquisition of goods, and the provision of training and technical advisory services.

3. Development and implementation of adequate and effective learning assessment and research by, *inter alia*: (a) training of the technical staff at the CNC; (b) developing and experimenting with diagnostic learning assessment tools; (c) training teachers in formative and summative assessment methods; (d) development and application of standardized tests; and (e) undertaking a feasibility study for reform of the examination system, all through the provision of training and technical advisory services.

4. Strengthening of institutional capacity of CNC, ISSED, and *Centres de Formation Continue, Direction de la Formation et de l'Action Pédagogique, Ecoles Normales d'Instituteurs* and *Secteurs d'Animation Pédagogique* at MEN, including: (a) in-service and pre-service training of teachers; (b) curriculum development for teacher education; (c) creation of regional training networks and centers for documentation and pedagogical information; and (d) establishment of networks of training centers and establishment of links between such training centers and international training institutions, all through the provision of training and technical advisory services.

5. Development of national languages to improve teaching and the learning environment in selected community schools, through the acquisition of goods, and the provision of training and technical advisory services.

6. Improvement of health and nutrition to enhance students' learning and scholastic achievement by: (a) developing a set of health policies and regulations applicable to schools; (b) equipping all schools with appropriate sanitation facilities and access to potable water; (c) introducing health, hygiene and nutrition education; (d) introducing education for prevention of HIV/AIDS; and (e) providing de-worming, micro-nutrient and other health services, all through the acquisition of goods, and the provision of training and technical advisory services.

Part C: Literacy and Non-formal Education

1. Implementing literacy programs for adults with priority to women, including: (a) promotion of the role of Literacy Providers in the development of literacy programs; (b) drawing up an inventory of materials for use by the Literacy Providers; (c) strengthening the capacity of Literacy Providers for Project implementation; (d) supporting the Literacy Providers in training and distribution of pedagogic materials; and (e) assessing the impact of the literacy programs, through the provision of technical advisory services and the acquisition of equipment under Literacy Providers' Grants.

2. Strengthening of DAPLAN's capacity for monitoring and evaluation, through the acquisition of goods, and the provision of training and technical advisory services.

Part D: Strengthening Institutional Capacity for Planning, Management and

Monitoring

1. Establishment of CNC as an autonomous public, scientific institution to carry out quality improvement activities, development of curriculum and new programs for primary and lower secondary education, and teachers' education and professional development, through the acquisition of goods, and the provision of works and technical advisory services.
2. Carrying out of a strategic capacity building program for Project implementation, including: (a) building the MEN capacity for teacher training; (b) capacity strengthening activities for MEN in management, implementation of a capacity-strengthening plan, and operationalizing a new MEN organizational chart; and (c) strengthening the capacity of FENAPET to play an effective role in decision-making and APEs capacity in implementing the FENAPET action plan; all through the acquisition of goods, and the provision of works, training and technical advisory services under the FENAPET Grants.
3. Strengthening the capacity of MEN in planning and monitoring to improve DAPRO's key planning functions for Project implementation, information systems and dissemination and the school map unit's ability to analyze the relationship between education system supply and demand, through the acquisition of goods, and the provision of training and technical advisory services.
4. Strengthening of the capacity for monitoring, evaluation and policy analysis in the basic education and technical training sub-sectors including, developing the capacity of secondary and higher education and for coordination and policy analysis, through the acquisition of goods, and the provision of training and technical advisory services.

* * *

The Project is expected to be completed by December 31, 2006.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods and domestic contractors

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$2,220,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,650,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

(a) Goods estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 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.

(b) Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 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.

3. Community Participation

Goods and works required for Part A.3 (a) of the Project shall be procured in accordance with procedures acceptable to the Association, as set forth in the Project Implementation Manual.

4. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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

With respect to: (i) the first five contracts for goods estimated to cost less than the equivalent of \$100,000; and (ii) each contract for works estimated to cost the equivalent of \$500,000 or more, and each contract for goods estimated to cost the equivalent of \$100,000 or more, 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

Part A: General

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

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: The short list of consultants for services, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits estimated to cost less than \$70,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$30,000 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 technical support to Community initiatives and the language reading development program under Parts A.1 and A.3 of the Project, services for technical support to development of national languages under Part B.5 of the Project, services for technical support to literacy under Part C.1 of the Project, and contracts for the key staff of DPE, may, with the Bank'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 of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank, for its review and approval, prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as updated from time to time, as shall have been approved by the Bank.

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 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience and the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded

only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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

Part A: Project Implementation

1. The Borrower shall implement the Project or cause the Project to be implemented in accordance with the Project Implementation Manual, the Administrative and Financial Procedures Manual and the Environmental Management Plan, and, except as the Borrower and the Association shall otherwise agree, the Borrower shall not amend or waive any provision thereof, if in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objective thereof.

2. CTSE

(a) The Borrower shall maintain the CTSE in form and with functions and resources satisfactory to the Association.

(b) The CTSE shall be responsible for Project oversight.

3. DPE

(a) The Borrower shall maintain the DPE, in a form and with functions and resources satisfactory to the Association.

(b) The DPE shall be responsible for coordination and operational monitoring of activities under the Project, including technical coordination of Project activities, management of Project performance including implementation and financial management of operations and management of the Community-based construction program.

4. CNC

The Borrower shall:

(a) establish and maintain the CNC as an autonomous public scientific institution charged with the development of bilingual curricula and textbooks, the development of teacher training modules and the promotion of education research; and

(b) maintain the CNC with resources, satisfactory to the Association, including the financing of all its operation costs.

5. APICED

(a) The Borrower shall establish and maintain APICED as an autonomous public entity to facilitate the channeling of the Borrower's resources to the Communities, including the remuneration of community teachers, with resources satisfactory to the Association.

(b) APICED shall be responsible for: (i) assessment and approval of a Community's request for a Project Grant, in accordance with the criteria set forth in the Project Implementation Manual; and (ii) making recommendation for release of a Project Grant to the APE on behalf of a Community.

(c) APICED shall, for the purpose of administration of the Borrower's financial contribution to Community schools, open and maintain in CFA Francs an account in a commercial bank or other financial institution on terms and conditions satisfactory to the Borrower and to the Association, including appropriate protection against set-off, seizure and attachment.

6. The relevant Ministries, agencies and authorities (in particular, the Ministry of Environment and Water, the Ministry of Health and FENAPET) shall collaborate with the MEN in compliance with the Project Implementation Manual, in particular, with respect to ensuring proper implementation of the Project, and where appropriate shall enter into a memorandum of understanding with MEN.

Part B: Project Grants

7. The Borrower shall:

(a) enter into Grant Agreements satisfactory to the Association for the making of Project Grants; and

(b) prior to the execution of any Grant Agreement pursuant to subparagraph 7 (a) of this Part, ensure that any Beneficiary of a Community Grant, a Girls' Education Grant, a FENAPET Grant or a Literacy Providers' Grant, duly satisfies the criteria set forth in the Project Implementation Manual.

8. The terms and conditions of each Grant Agreement shall, *inter alia*, provide that:

(a) the Beneficiary: (i) carries out the activities under Part A.3 (a) of the Project in the case of Community Grants, Part A.2 of the Project in the case of Girls' Education Grants, Part D.2 (c) of the Project in the case of FENAPET Grants and Part C.1 of the Project in the case of Literacy Providers' Grants (hereinafter the Respective Parts of the Project), respectively, all with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; and (ii) maintains adequate records to reflect, in accordance with sound accounting practices, the

operations; resources and expenditure relating to the activities under the Respective Parts of the Project; and

(b) the goods, works and services to be financed from the proceeds of the Project Grant shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) be used exclusively in the carrying out of the activities under the Respective Parts of the Project; and

(c) the Borrower reserves the right to:

- (i) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites and construction included in the activities under the Respective Parts of the Project, the operations thereof and any relevant records and documents;
- (ii) obtain all information as the Borrower and the Association shall reasonably request regarding the administration, operation and financial conditions of the Beneficiary; and
- (iii) suspend or terminate the right of the Beneficiary to use the proceeds of the Project Grant upon the failure by the Beneficiary to perform any of its obligations under the Grant Agreement.

9. (a) FENAPET shall in respect to: (i) the FENAPET Grant; and (ii) part of the Girls' Education Grant intended for increasing the number of female teachers in rural schools, open and maintain in CFA Francs an account in a commercial bank or other financial institution on terms and conditions satisfactory to the Borrower and to the Association, including appropriate protection against set-off, seizure and attachment.

(b) The Borrower shall: (i) appoint an independent Contract Management Agency, in accordance with the provisions of Section II of Schedule 3 to this Agreement; and (ii) charge the Contract Management Agency with the responsibility for management and supervision of the activities of Literacy Providers, and administration of the Literacy Providers' Grants.

(c) The Contract Management Agency appointed, pursuant to paragraph 9 (b) (ii) of Schedule 4 to this Agreement, shall, for the purpose of the administration of: (i) the Literacy Providers' Grant; and (ii) part of the Girls' Education Grant intended for developing a tutoring program to encourage girls' education, open and maintain in CFA Francs an account in a commercial bank or another financial institution, on terms and conditions satisfactory to the Borrower and to the Association.

Part C: Monitoring and Reporting

10. 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 satisfactory to the Association, the carrying out of the Project and the achievement of its objective;

(b) prepare under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 31, April 30, July 31 and October 31 in each calendar year, a quarterly report, which shall cover salient aspects of the Project, including: (i) progress made in meeting the Project's objective; and (ii) overall Project performance by the Borrower of the Project;

(c) not later than the end of the First Project Semester, and not later than the end of each Project Semester thereafter, or such later dates as the Association shall request, undertake, in conjunction with the Association and DPE, a joint semi-annual review on all matters relating to the progress of the Project and, in particular, the progress achieved by the Borrower during the current Project semester, having regard to the performance indicators referred to in subparagraph (a) of this paragraph;

(d) in view of each joint semi-annual review, cause DPE to prepare and, not later than the first day of each semi-annual review, furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, on the progress of the Project; and

(e) following each semi-annual review, act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement such measures as may have been agreed upon between the parties in furtherance of the objective of the Project.

11. Midterm Review

(a) On or about twenty-four months after the Effective Date, the Borrower shall carry out jointly with the Association and DPE a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review).

The Midterm Review shall cover, amongst other things:

- (i) progress made in meeting the Project's objective; and
- (ii) overall Project performance against Project performance indicators.

(b) The Borrower shall cause DPE to prepare and at least four weeks prior to the Midterm Review, furnish to the Association a separate report describing the status of implementation of each component of the project and a summary of Project implementation generally.

(c) The Borrower shall, not later than two weeks after the Midterm Review, prepare and submit to the Association 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.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means, in respect of Special Account A, Categories 1, 2, 3, 4, 5 (c), 5 (d) and 6 set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and , in respect of Special Account B, Categories 1, 2, 3, 4, 5 (a), 5 (b) and 6 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, works and services required for the Project and to be financed out of the proceeds of the Financing allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount of CFAF 1,050,000,000 in respect of Special Account A and in respect of Special Account B, to be withdrawn from the Credit Account or the Grant Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount of CFAF 525,000,000 in respect of Special Account A and in respect of Special Account B, until (i) in respect of Special Account A, the aggregate amount of withdrawals from the Credit Account and the Grant Account allocated to Categories 1, 2, 3, 4, 5 (c), 5 (d) and 6 plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts B.1, B.3, B.4, B.5, C and D of the Project shall be equal to or exceed the equivalent of SDR 8,000,000, and (ii) in respect of Special Account B, the aggregate amount of withdrawals from the Credit Account and the Grant Account allocated to Categories 1, 2, 3, 4, 5 (a), 5 (b) and 6 plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A, B.2 and B.6 of the Project shall be equal to or exceed the equivalent of SDR 8,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized

Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account and the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories for the respective Special Account minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

SCHEDULE 6

Modifications to the General Conditions

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

1. Section 1.01 is amended to read as follows:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development financing to the extent and subject to any modifications set forth in such agreement.”

2. Paragraph 8 of Section 2.01 is amended to read as follows:

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

3. The following new paragraphs are added to Section 2.01:

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

“16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”;

“17. “Financing” means, collectively, the Credit and the Grant.”;

“18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

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

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

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

7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*. The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions”.

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02(a)(ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02(c)(i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01(b)(i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”.

9. Section 6.05 is amended to read as follows:

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