

CONFORMED COPY

LOAN NUMBER 3979 IND

Loan Agreement

(Secondary School Teacher Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 29, 1996

LOAN NUMBER 3979 IND

LOAN AGREEMENT

AGREEMENT, dated March 29, 1996, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS (B) the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank 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 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 Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "Fiscal Year" means the Borrower's fiscal year commencing April 1 and ending March 31;

(b) "Grants" mean grants made or proposed to be made by the Borrower, in part out of the proceeds of the Loan, to a Grantee for research activities under Parts B.2 and D.3 of the Project, in accordance with the provisions of Schedule 6 to this Agreement;

(c) "Grantee" means a teacher or a group of teachers from secondary schools or a faculty member or a group of faculty members from LPTKs, and LPTKs, to whom or to which the Borrower proposes to make or has made a Grant;

(d) "IKIP" means Institut Keguruan dan Ilmu Pendidikan, a public institute of teacher training and educational sciences of the Borrower;

(e) "LPTK" means Lembaga Pendidikan Tenaga Kependidikan, a public teacher training institution of the Borrower;

(f) "Research Management Team" means the team established under the University Research Council in the Directorate General of Higher Education in the Borrower's Ministry of Education and Culture, to carry out the selection process and administer the Grants;

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

(h) "STKIP" means Sekolah Tinggi Keguruan dan Ilmu Pendidikan, a public institute of teacher training of the Borrower; and

(i) "UT" means Universitas Terbuka, the Borrower's Open University.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of sixty million four hundred thousand dollars (\$60,400,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn

from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement (i) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project (other than Parts B.2 and D.3 thereof) described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan, and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of Grants made under Parts B.2 and D.3 of the Project and in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a commercial bank on terms and conditions satisfactory to the Bank, including, in the case of a commercial bank, 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 7 to this Agreement.

Section 2.03. The Closing Date shall be October 1, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal

amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Directorate General of Higher Education in the Borrower's Ministry of Education and Culture, with due diligence and efficiency and in conformity with appropriate administrative, educational and financial 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 Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank 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 Bank, a plan for the future operation of the activities under the Project; and

(b) afford the Bank 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 Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan 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 Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank'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.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The 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 6.02. The following addresses are specified for

the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI)
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar, Ambassador
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas Hope
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	1,800,000	50%
(2) Equipment, furniture,	10,800,000	100% of foreign

learning and teaching materials, and consumable materials

expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally

(3) Fellowships:

(a) International	17,800,000	100%
(b) Domestic	6,700,000	50%
(4) Grants	3,800,000	70% of Grant amount
(5) Local training	4,300,000	50%
(6) Scholarships	6,300,000	70%
(7) Operating expenditures	2,000,000	50%
(8) Consultants' services and studies	900,000	70%
(9) Unallocated	6,000,000	
TOTAL	<u>60,400,000</u> =====	

2. For the purposes of this Schedule:

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

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

(c) the term "Operating expenditures" means expenditures on account of the Project by the central and local Project Implementation Units for staff honoraria, travel expenses, office consumables, and miscellaneous administrative support.

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 Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) civil works under contracts costing less than \$500,000 equivalent, except for the first contract for civil works costing the equivalent of \$100,000 or more; (ii) goods under contracts costing less than \$200,000 equivalent, except for the first contract for goods costing \$50,000 equivalent or more; (iii) fellowships, Grants, local training, scholarships, and operating expenditures; and (iv) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each, under such terms and conditions as the Bank shall specify by notice to the Borrower.

Description of the Project

The objective of the Project is to enhance teaching and learning processes in secondary schools through the improvement of teacher education in the Borrower's teacher training institutions.

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

Part A: Improving Pre-Service and In-Service Teacher Education

1. Improvement of the curriculum for the undergraduate degree program for pre-service and in-service teacher education in English and social sciences by developing curricula providing for one or more of the following: (a) flexibility for teaching in both junior and senior secondary schools, (b) flexibility in teaching more than one subject, and (c) courses that improve the students' possibilities to compete for employment outside the education sector.
2. Strengthening biology, chemistry, physics and mathematics pre-service and in-service teacher education through the provision of science equipment and related storage facilities to ten IKIPs and two STKIPs, and the carrying out of workshops in the use and maintenance of science equipment for LPTK staff.
3. Improvement of the access of faculty and students of LPTKs to textbooks and other curriculum materials currently used in schools, through provision of senior and junior secondary textbook series, and education reference books to all public LPTKs.
4. Promotion of active learning techniques to improve teacher education, through writing and production of teaching books, and translation of foreign publications relating to subject content and teaching methods.
5. Establishment of a student support center at each LPTK to provide tutorial services and assistance in study skills to entering students to improve the success rate in beginning-level courses.
6. Improvement of the qualification of secondary school teacher through provision of about 18,000 tuition scholarships to teachers with a three-year post-secondary diploma to study for an undergraduate degree.
7. Improvement of the teacher undergraduate degree program, through the updating of the UT learning materials, both for the face-to-face and the distance education upgrading programs.
8. Renovation and upgrading of office space for about 3,600 faculty members and of conference rooms at IKIPs and STKIPs.

Part B: Strengthening the Linkages of LPTKs to Secondary Schools

Strengthening the linkages of LPTKs to secondary schools through:

1. Preparation of a handbook for the implementation of a student teaching practicum at LPTKs.
2. Provision of Grants to:
 - (a) teams of faculty members of LPTKs and teachers of secondary schools for the financing of research activities, including small equipment and consumables, for the improvement of student teaching and field experiences for teacher trainees; and

(b) LPTKs for the formation and implementation of partnerships with foreign institutions.

Part C: Raising the Qualifications of Teacher Educators

Raising the qualifications of teacher educators through:

1. Provision of about 1,600 fellowships at the master's level and about 150 fellowships at the doctorate level for teaching staff of LPTKs.
2. Provision of short-term international fellowships for about 150 LPTK faculty members holding a graduate degree.
3. Carrying out of about eight regional workshops for lecturers in content-specific pedagogy for each major teaching subject.

Part D: Building Educational Research Capacity

Building educational research capacity through:

1. Development and implementation of a procedure for assessing entry-level mastery of core subjects of new LPTK undergraduate degree students.
2. Development of an assessment procedure for teaching skills of student teachers.
3. Provision of Grants to individual and teams of faculty members of LPTKs for the carrying out of research, including small equipment and consumables, related to the improvement of instruction at LPTKs.

Part E: Preparing LPTKs for a Wider Mandate

1. Preparation for the development of full-fledged subject-content departments and degrees at selected IKIPs to allow graduates to prepare for non-teaching jobs in selected areas.
2. Improvement of the Borrower's models for institutional self-study and peer validation for use as a model for continuous self-evaluation and improvement for LPTKs, including support for the accreditation process.
3. Development of effective career information systems at the IKIPs and STKIPs, including teaching and non-teaching careers.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
November 1, 2001	1,165,000
May 1, 2002	1,205,000
November 1, 2002	1,245,000
May 1, 2003	1,290,000
November 1, 2003	1,335,000
May 1, 2004	1,385,000
November 1, 2004	1,435,000
May 1, 2005	1,485,000
November 1, 2005	1,535,000
May 1, 2006	1,590,000
November 1, 2006	1,645,000
May 1, 2007	1,705,000

November 1, 2007	1,765,000
May 1, 2008	1,825,000
November 1, 2008	1,890,000
May 1, 2009	1,960,000
November 1, 2009	2,030,000
May 1, 2010	2,100,000
November 1, 2010	2,175,000
May 1, 2011	2,250,000
November 1, 2011	2,330,000
May 1, 2012	2,415,000
November 1, 2012	2,500,000
May 1, 2013	2,585,000
November 1, 2013	2,680,000
May 1, 2014	2,775,000
November 1, 2014	2,870,000
May 1, 2015	2,970,000
November 1, 2015	3,075,000
May 1, 2016	3,185,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement

under IBRD Loans and IDA Credits" published by the Bank in January 1995 (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 in bid packages estimated to cost \$200,000 equivalent 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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$7,600,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Except as provided in Part C.4 of this Section, civil works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Equipment, furniture and consumable materials estimated to cost less than \$50,000 equivalent per contract and equipment of a specialized nature, up to an aggregate amount not to exceed \$4,600,000 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. National Shopping and Direct Contracting

Printed books and teaching materials up to an aggregate amount not to exceed \$800,000 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, or, if they must be procured from a particular supplier, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an amount not to exceed \$1,200,000 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 Bank, and relevant

drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank 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 Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for civil works estimated to cost the equivalent of \$500,000 or more, each contract for goods estimated to cost the equivalent of \$200,000 or more, the first contract for civil works estimated to cost the equivalent of \$100,000 or more, and the first contract for goods estimated to cost the equivalent of \$50,000 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

1. 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 thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, 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 individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. In carrying out Part A.1 of the Project, the Borrower shall:

(a) not later than July 1, 1996, establish curriculum teams for English, social sciences, and subject-specific pedagogy; each such team to be established in an IKIP selected on the basis of its strong English, social sciences or subject-specific pedagogy program, respectively; and

(b) thereafter maintain such teams until the completion of the Project.

2. In carrying out Part A. 6 of the Project, the Borrower shall:

(a) not later than March 31, 1997, prepare and furnish to the Bank for comments, an action plan for the deployment of about 2,400 excess LPTK faculty members to secondary schools and to UT, such plan to include: proposed incentives; requirements that faculty members who have not had previous experience teaching at secondary school level complete a specified period of time teaching at secondary schools; requirements that all faculty members have periodically required teaching experience at the secondary school level; and proposal to increase the average student/teacher ratio of the LPTKs to 12 students per teacher; and

(b) promptly thereafter take all measures required to carry out the action plan, taking into account the Bank's comments thereon.

3. In carrying out Part B.1 of the Project, the Borrower shall:

(a) not later than July 1, 1996, establish the LPTK teaching practicum team, and, thereafter, maintain such team until the completion of the Project; and

(b) furnish to the Bank for comments, not later than July 31, 1997, the draft handbook for the implementation of the student teaching practicum, and, promptly thereafter, finalize the handbook taking into account the comments of the Bank.

4. In carrying out Part C.1 of the Project, the Borrower shall take all measures necessary to ensure that such teaching staff, when returning from overseas and local degree programs, are offered teaching positions appropriate for the training received.

5. In carrying out Part D.1 of the Project, the Borrower shall:

(a) not later than October 1, 1996, commence the development of a test for new undergraduate degree student assessment at LPTKs; and

(b) not later than July 31, 1997, commence the testing of such students using such test.

6. In carrying out Part D.2 of the Project, the Borrower shall, not later than June 30, 1998, furnish to the Bank for comments, an action plan for the raising of admission standards at selected IKIPs, based on the analysis of the testing of new undergraduate degree students at LPTKs, and, thereafter, carry out the action plan taking into account the comments of the Bank on such plan.

7. In carrying out Parts B.2 and D.3 of the Project, the Borrower shall make Grants in accordance with the procedures and on the conditions set forth or referred to in Schedule 6 to this Agreement.

8. In carrying out Part C.1 of the Project, the Borrower shall provide fellowships in accordance with selection criteria

agreed with the Bank.

9. In carrying out Part E.1 of the Project, the Borrower shall, not later than October 1, 1996, in accordance with selection criteria acceptable to the Bank, select at least two IKIPs for future conversion into a university.

10. In carrying out Part E.2 of the Project, the Borrower shall:

(a) maintain, until completion of the Project, a policy on zero growth in the appointment of faculty members to LPTKs, except for fields of specialization in which there is a proven acute shortage of teachers; and

(b) not later than October 1, 1996, establish the task force to coordinate the institutional self-study and peer-evaluation activities.

11. The Borrower shall:

(a) not later than October 1 in each year, commencing October 1, 1997, and until the completion of the Project, furnish to the Bank for comments a report on the implementation of the budget for the Project for the past and current Fiscal Year, together with the proposed budget for the following Fiscal Year; and

(b) thereafter, revise the proposed budget for the following Fiscal Year taking into account the Bank's comments.

12. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by April 1, 1999, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

13. The Borrower shall:

(a) cause technical audits of Project implementation to be carried out, in a manner acceptable to the Bank, in each Fiscal Year during implementation of the Project; and

(b) furnish to the Bank for comments as soon as available but not later than six months after the end of each such year, a copy of such audit.

14. The Borrower shall establish and, thereafter, maintain until completion of the Project, a Central Project Implementation Unit, and local project implementation units at LPTKs, with competent staff in adequate numbers.

SCHEDULE 6

Procedures and Conditions for Grants under Parts B.2 and D.3 of the Project

1. Each Grant shall be made by the Borrower only:

(a) to a Grantee who or which shall have established, to the satisfaction of the Borrower, acting through the Research Management Team, on the basis of criteria and procedures, acceptable to the Bank, that said Grantee: (i) (A) in the case of an individual Grantee, has the qualifications and experience necessary for the efficient carrying out of the research, and (B) in all other cases, has the organization, management, staffing and other resources required for the efficient carrying out of the Research; and (ii) has prepared an acceptable plan, including terms of reference, for the carrying out of the research; and

(b) for a research project which is determined by the Borrower, acting through the Research Management Team, on the basis of guidelines acceptable to the Bank: (i) to be technically feasible and cost-effective, and (ii) to have been designed in accordance with appropriate educational standards.

2. Grants shall be made on terms whereby the Borrower shall obtain, through a single written agreement with each of the Grantees, rights adequate to protect the interests of the Borrower and the Bank, including the right, as applicable, to:

(a) require the Grantee to carry out the research with due diligence and efficiency and in accordance with sound financial, educational and managerial standards and to maintain adequate records;

(b) require that (i) the goods and services required for the research and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement, (ii) such services shall be used exclusively in the carrying out of the research, and (iii) such goods shall be used primarily in the carrying out of the research;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and any relevant records and documents;

(d) require that the Grantee (except where the Grantee is an individual) shall take out and maintain with responsible insurers insurance to cover the hazards incident to the acquisition, transportation and delivery of goods required for the research and to be financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Grantee to replace or repair such goods;

(e) obtain all such information as the Borrower and the Bank shall reasonably request relating to the foregoing and to the benefits to be derived from the research; and

(f) suspend or terminate the right of the Grantee to the use of the proceeds of the Loan upon failure by such Grantee to perform its obligations under its agreement with the Borrower providing for the Grant.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1)

through (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$4,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$800,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$8,000,000.

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 Bank 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 Bank a request or requests for deposit into the 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank from the Loan 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 Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

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

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

