

**CONFORMED COPY**

**CREDIT NUMBER 3886-LA  
GRANT NUMBER H0840-LA**

# **Development Financing Agreement**

**(Second Education Development Project)**

**between**

**LAO PEOPLE'S DEMOCRATIC REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 8, 2004**

**CREDIT NUMBER 3886-LA  
GRANT NUMBER H0840-LA**

**DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated July 8, 2004, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated July 18, 2003, from the Borrower describing a program of actions, objectives and policies designed to strengthen the education sector as one of four foundations of its Socio-Economic Development Strategy (hereinafter the Borrower's Letter of Education Policy);

(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

(C) 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), and further amended pursuant to 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) “Bank of Lao PDR” means the Borrower’s Central Bank, or any successor thereto;

(b) “Committee for the Approval of Curriculum and Instructional Materials and National Assessment System” means the Committee for the Approval of Curriculum and Instructional Materials and National Assessment System to be established by the Borrower in accordance with the provisions set forth in paragraph 10 of Schedule 4 to this Agreement;

(c) “Community Grant” means a grant in LAK made or to be made available by the Borrower through the relevant Village Development Committee out of the proceeds of the Grant to a Participating Village to finance, in part, the carrying out of the corresponding Community Subproject under Part A.2 of the Project in accordance with, inter alia, the relevant provisions of the Project Implementation Manual, and the term “Community Grants” means, collectively, more than one Community Grant;

(d) “Community Subproject” means a community subproject carried out or to be carried out by a Participating Village under Part A.2 of the Project, using the proceeds of a Community Grant in accordance with the relevant provisions of the Project Implementation Manual;

(e) “Construction Subproject” means a construction subproject carried out or to be carried out by a Participating Village under Part A.1 of the Project, using the proceeds of a Construction Subproject Grant in accordance with the provisions of the Operational Manual for Community-Based Contracting and the relevant Construction Subproject Grant Agreement;

(f) “Construction Subproject Grant” means a grant in LAK made or to be made available by the Borrower through the relevant Provincial Education Services office out of the proceeds of the Grant to a Participating Village to finance, in part, the carrying out of the corresponding Construction Subproject under Part A.1 of the Project in accordance with the provisions of the relevant Construction Subproject Grant Agreement, and the term “Construction Subproject Grants” means, collectively, more than one Construction Subproject Grant;

(g) “Construction Subproject Grant Agreement” means the agreement to be entered into between the relevant Provincial Education Services office and a Participating Village for purposes of providing a Construction Subproject Grant and the carrying out of a Construction Subproject by a Participating Village under Part A.1 of the Project, pursuant to, inter alia, the provisions of the Operational Manual for Community-Based Contracting, and the term “Construction Subproject Grant Agreements” means collectively, all said Construction Subproject Grant Agreements;

(h) “Department of Planning and Cooperation” means the Department of Planning and Cooperation maintained in the Ministry of Education for the purpose of education sector policy development, planning, maintaining and disseminating statistics, and coordinating external assistance, and any successor or successors thereto;

(i) “Displaced Person” means a person who, on account of the execution of Part A.1 or A.2 of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Displaced Persons” means, collectively, all such Displaced Persons;

(j) “District Education Bureau” means the District Education Bureau established by the Borrower and maintained in each of the Project Districts, and any successor or successors thereto;

(k) “District Implementing Unit” means the unit to be established by the Borrower in each of the Project Districts in accordance with paragraph 2(b)(i)(C) of Schedule 4 to this Agreement;

(l) “Eligible Categories” means categories 1 through 6 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(m) “Environmental Guidelines” means the guidelines adopted by the Borrower on July 10, 2003 and included in the Operational Manual for Community-Based Contracting, which Guidelines set forth measures to mitigate any adverse environmental impact that may result from the implementation of the Project, as said Guidelines may be amended from time to time with the prior agreement of the Association;

(n) “Ethnic Group Development Plan” means the plan, adopted on July 10, 2003, maintained and implemented by the Borrower, providing procedures, rules, and guidelines for: (i) the informed involvement of the Borrower’s ethnic groups, through a process of informed consultation, in the design and implementation of the Project in locations in which such people reside or which they use for their livelihood, and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts, under the Project, as such plan may be amended from time to time with the prior agreement of the Association;

(o) “Financial Management Manual” means the manual adopted and maintained by the Borrower, satisfactory to the Association, in accordance with the provisions set forth in paragraph 2(a)(ii) of Schedule 4 to this Agreement, that sets forth the day-to-day financial management measures and procedures to be undertaken by the Borrower in the carrying out of the Project, as said Manual may be amended from time to time with the prior agreement of the Association;

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

(q) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's Fiscal Years, which period commences on October 1 and ends on September 30 in each calendar year, and the term "Fiscal Years" means, collectively, more than one Fiscal Year;

(r) “Implementing Unit” means a unit established and maintained by the Borrower at the central level in each of the Borrower's Ministry of Education's Departments of Finance, Teacher Training, Planning and Cooperation, Non-formal Education, the National Research Institute for Educational Sciences, Department of General Education, Department of Personnel and the National University of Lao PDR, for the purpose of providing and coordinating the input of each respective entity into the implementation of the Project, and in accordance with the provisions of paragraph 2 (b) of Schedule 4 to this Agreement;

(s) “LAK” means Kip, the currency of the Borrower;

(t) “Land Acquisition Process Framework” means the framework adopted on July 10, 2003 by the Borrower, satisfactory to the Association and in the Operational Manual for Community-Based Contracting, for the compensation, rehabilitation and resettlement assistance of Displaced Persons, as such framework may be amended from time to time with the prior concurrence of the Association;

(u) “Ministry of Education” means the Borrower's Ministry of Education, or any successor or successors thereto;

(v) “National Research Institute for Educational Sciences” means the National Research Institute for Educational Sciences established by the Borrower and maintained in the Ministry of Education for the purpose of developing education curricula and instructional materials at the primary and secondary school-levels, in accordance with the provisions of paragraph 10(c) of Schedule 4 to this Agreement, or any successor or successors thereto;

(w) “Operational Manual for Community-Based Contracting” means the manual, adopted, maintained and implemented by the Borrower, satisfactory to the Association, for the purposes set forth in paragraph 2(a)(iii) of Schedule 4 to this Agreement, as the same may be amended from time to time with the prior agreement of the Association;

(x) “Participating Village” means a Participating Village within a Project District that: (i) receives a Construction Subproject Grant and carries out or will carry out a Construction Subproject under Part A.1 of the Project in accordance with the provisions of the relevant Construction Subproject Grant Agreement and Operational Manual for Community-Based Contracting; or (ii) receives a Community Grant and carries out or will carry out a Community Subproject under Part A.2 of the Project in accordance with the relevant provisions of the Project Implementation Manual;

(y) “Project Advisory Council” means the Project Advisory Council established and maintained in the Ministry of Education in accordance with the provisions of paragraph 1(a) of Section 4 to this Agreement;

(z) “Project Districts” means those districts of the Borrower listed in the Annex to Schedule 2 to this Agreement, as said Annex may be amended from time to time with the prior concurrence of the Association, and a “Project District” means any of said Project Districts;

(aa) “Project Implementation Manual” means the Borrower’s manual, adopted, implemented and maintained by the Borrower, satisfactory to the Association, for the purposes set forth in paragraph 2(a)(i) of Schedule 4 to this Agreement, as said manual may be amended from time to time with the prior concurrence of the Association;

(bb) “Project Working Group” means the Borrower’s Project Working Group established and maintained in accordance with the provisions of paragraph 1(c) of Schedule 4 to this Agreement;

(cc) “Project Provinces” means those provinces and municipalities of the Borrower listed in the Annex to Schedule 2 to this Agreement, as said Annex may be amended from time to time with the prior concurrence of the Association, and a “Project Province” means any of said Project Provinces;

(dd) “Project Steering Committee” means the Project Steering Committee established within the Ministry of Education and maintained for the purposes set forth and in accordance with the provisions set forth in paragraph 1(b) of Schedule 4 to this Agreement;

(ee) “Provincial Education Services” means the Provincial Education Services established by the Borrower and maintained in each of the Project Provinces in accordance with paragraph 6 of Schedule 4 to this Agreement, and any successor or successors thereto;

(ff) “Provincial Implementing Unit” means the unit established or to be established by the Borrower in each of the Project Provinces in accordance with the provisions set forth in paragraphs 2(b) or 2(e), as the case may be, of Schedule 4 to this Agreement;

(gg) “Special Account” means the account referred to in Section 2.02(c) of this Agreement; and

(hh) “Village Development Committee” means the administrative unit established by the Borrower at the village level and referred to in the Operational Manual for Community-Based Construction and the Project Implementation Manual.

## **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 three million nine hundred thousand Special Drawing Rights (SDR 3,900,000) (the Credit); and

(b) an amount in various currencies equivalent to five million six hundred thousand Special Drawing Rights (SDR 5,600,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services under Parts B, C.2, C3 and C4 of the Project to be financed out of the proceeds of the Credit; and

(b) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement, for:

(i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A

and C.1 of the Project, excluding Construction Subprojects under Part A.1 of the Project and Community Subprojects under Part A.2 of the Project to be financed out of the proceeds of the Grant; and

- (ii) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of a Construction Subproject Grant or a Community Subproject Grant, to meet the reasonable costs of goods, works and services required for a Construction Subproject or a Community Subproject, respectively, and in respect of which the withdrawal from the Grant Account is requested.

(c) The Borrower may, for the purposes of the Project, open and maintain in United States Dollars a separate special deposit account in the Bank of Lao PDR on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

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

Section 2.03. The Closing Date shall be February 28, 2010, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be), or canceled; and (ii) at the respective rate set as of June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The respective rate set as of June 30 in each



year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 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 June 15 and December 15, commencing June 15, 2014 and ending December 15, 2043. Each installment to and including the installment payable on December 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 the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) shall, through the Ministry of Education, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering practices, and sound social and environmental standards acceptable to the Association, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and

(b) without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower through the Ministry of Education 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 designed to ensure the continued achievement of the Project's objectives; and

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

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in 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 Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors, acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts, and 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 an 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) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 3 of Schedule 4 to this Agreement, the Borrower shall, through the Ministry of Education, prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **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, the Borrower, or any other authority having jurisdiction, shall have taken any action to abrogate, revise, amend, repeal, suspend or waive the Borrower's Letter of Education Policy.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions and in respect of the Credit, the following additional event is specified, namely that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

## **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 the Project Advisory Council and the Project Working Group, each in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement;

(b) the Borrower has adopted a Project Implementation Manual, a Financial Management Manual, and an Operational Manual for Community-Based Contracting, satisfactory to the Association, in accordance with paragraph 2 of Schedule 4 to this Agreement;

(c) the Borrower has: (i) designed a chart of accounts and installed a computerized financial management system in the Department of Finance in the Ministry of Education; and (ii) trained the accounting staffs of the Ministry of Education in the Project Provinces and Project Districts in the preparation of monthly financial reports; all in a manner and substance satisfactory to the Association;

(d) the Borrower has appointed: (i) a qualified Project Manager; (ii) and Implementing Unit and Implementing Unit Heads; and (iii) a Provincial Implementing Unit in each of Houaphanh, Phongsaly, Oudomxay and Louangnamtha Provinces and a District Implementing Unit in each of the corresponding Project Districts; all in a manner and substance satisfactory to the Association and in accordance with the provisions of paragraph 2(b) of Schedule 4 to this Agreement; and

(e) the Borrower has submitted to the Association its procurement bidding documents, satisfactory to the Association, for the first year of Project implementation.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Land Acquisition Process Framework, Environmental Guidelines, and Ethnic Group Development Plan have been duly authorized by the Borrower and are legally binding and enforceable in accordance with the applicable laws of the Lao People's Democratic Republic.

Section 6.03. The date one hundred and eighty (180) 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 Finance of the Borrower 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 Finance  
Post Office Box No. 46  
That Louang Road  
Vientiane  
Lao People's Democratic Republic

Cable address:	Telex:	Facsimile:
MINFINANCE VIENTIANE	4369 MOF LS	856-21-412142

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 Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Somdy Douangdy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jemal-ud-din Kassum

Authorized Representative



**SCHEDULE 1**

**Withdrawal of the Proceeds of the Financing**

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Part B of the Project		75,000	90%
(2) Goods: (a) under Parts A and C.1 of the Project, excluding goods under Construction Subproject Grants and Community Subproject Grants	295,000		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(b) under Parts B, C.2, C.3 and C.4 of the Project, excluding goods under Community Subproject Grants		1,310,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally

<u>Category</u>	<u>Amount of the Grant Allocated Expressed in (SDR Equivalent)</u>	<u>Amount of the Credit Allocated Expressed in (SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(3) Consultants' Services:			
(a) under Parts A and C.1 of the Project, excluding services under Construction Subproject Grants and Community Subproject Grants	945,000		88%
(b) under Parts B, C.2, C.3, and C.4 of the Project		585,000	88%
(4) Grants:			
(a) Construction Subproject Grants under Part A.1 of the Project	2,470,000		100% of the amount disbursed
(b) Community Subproject Grants under Part A.2 of the Project	295,000		100% of the amount disbursed

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Incremental Operating Costs:			
(a) under Parts A and C.1 of the Project, excluding incremental operating costs under Construction Subproject Grants and Community Subproject Grants	510,000		95%
(b) under Parts B, C.2, C.3 and C.4 of the Project		295,000	95%
(6) Training and Workshops:			
(a) under Parts A and C.1 of the Project, excluding training and workshops under Construction Subproject Grants	655,000		100%
(b) under Parts B, C.2, C.3 and C.4 of the Project		1,020,000	100%

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(7) Refunding of Project Preparation Advance		165,000	Amounts due pursuant to Section 2.02 (d) of this Agreement
(8) Unallocated	430,000	450,000	
	<u>5,600,000</u>	<u>3,900,000</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;

(c) the term “incremental operating costs” means reasonable expenditures incurred by the Borrower for Project management and monitoring, including expenditures for Project staff travel and per diem, office supplies, utilities, office rent, email internet fees, maintenance of office equipment, and operation and maintenance of vehicles, but excluding staff salaries or salary supplements and allowances (which expenditures would not have been incurred absent the Project).

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 Association may require withdrawals from the Credit Account and the Grant Account to be made on the basis of statements of expenditure for: (a) works under contracts costing less than \$25,000 equivalent each; (b) goods under contracts costing less than \$50,000 equivalent each; (c) consultants’ services under contracts awarded to consulting firms costing less than \$100,000 equivalent each; (d) consultants’ services under contracts awarded to individuals costing less than \$50,000 equivalent each; (e) training and incremental operating costs; and (f) Construction Subprojects; 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 to achieve universal completion of primary education by implementing the education policies and reform actions set forth in its Letter of Education Policy, including increasing access to, and the completion of, primary school in the Project Provinces, improving the quality of education, and building the policy development and management capacity of its Ministry 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: Increase Access and Completion of Primary School

1. Carrying out of a community-based contracting program for school construction at the village level in the Project Districts, including the provision of Construction Subproject Grants;
2. Carrying out of a Community Grant program to support increased enrollment and improve the learning conditions in schools in selected villages, including the provision of Community Grants; and
3. Carrying out of a teacher upgrading program to enhance the qualifications of contract teachers, and an in-service teacher training program for multi-grade teaching in selected villages, including the provision of teacher training, technical advisory services, equipment, goods, and vehicles therefor.

#### Part B: Improve the Quality of Education

1. Carrying out of a program of evaluating, revising, publishing and distributing primary textbooks and teachers' guides, including the provision of capacity building study visits, printing services, equipment and technical advisory services therefor; and
2. Strengthening the capacity of the National Research Institute for Educational Sciences to establish a National Assessment System to monitor educational standards and basic competencies, including the provision of staff training and workshops, equipment, printing services, vehicles, and technical advisory services therefor.

Part C: Strengthen Policy and Strategy Development Capacities

1. Carrying out of a program to strengthen the capacity of the Ministry of Education to formulate short- and medium-term policy agenda, and conduct policy and strategy analyses, including:

(a) establishing a Policy Analysis Division and Statistics and Information Technology Division in the Department of Planning and Cooperation and work programs therefor; and

(b) carrying out of studies on, inter alia, education cost and financing, the measures and activities carried out under the Ethnic Group Development Plan, student grade repetition issues, Project impacts under Part A of the Project, and available educational options to meet the needs of a market economy.

2. Improving the system of collecting, analyzing, reporting, filing, storing and archiving of education statistics and information, including, inter alia, the development of a Geographic Information System.

3. Strengthening the capacity of the Borrower to manage and administer the delivery of management training.

4. Supporting Project management in the carrying out of the Project, including the auditing of Project accounts and establishment and maintenance of financial management systems;

including the provision of staff training, vehicles, furniture and equipment, printing services, and technical advisory services therefor.

\* \* \*

The Project is expected to be completed by August 31, 2010.

## **Annex to Schedule 2**

### **Project Provinces and Project Districts**

**1. Phongsaly Province**

**Districts:** Samphanh; Gnot ou

**2. Louangnamtha Province**

**Districts:** Long; Viengphoukha; Nalae

**3. Oudomxay Province**

**Districts:** Namor; Nga; Beng; Houne; Pakbeng

**4. Houaphanh Province**

**Districts:** Xiengkhor; Viengthong; Viengxay; Huameung; Xamtay

**5. Attapeu Province**

**Districts:** Sanxay; Phouvong

**6. Xekong Province**

**Districts:** Dakcheung; Khaleum

### **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 following provisions 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.      Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$50,000 equivalent or more each.

3.      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.      International Shopping

Goods, including library books, computers, software packages and motorcycles, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$240,000 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.



2. National Shopping

Goods, including computers, printers, projectors, photocopiers and office furniture, estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$110,000 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. Procurement from UN Agencies

Vehicles, excluding motorcycles, up to an aggregate amount of \$160,000 equivalent may be procured from the Inter-Agency Procurement Office of the United Nations in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Direct Contracting

Goods, including specialized books and journal subscriptions, required for Parts B and C of the Project, which are of a proprietary nature and only available from one source may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Community Participation

Goods, works and services required for Construction Subprojects and Community Subprojects under Parts A.1 and A.2, respectively, of the Project shall be procured in accordance with community participation procedures acceptable to the Association.

6. Small Works

Works under Parts B and C of the Project estimated to cost less than \$25,000 equivalent per contract up to an aggregate amount not to exceed \$110,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations 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 satisfactory to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest evaluated 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 prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods and works to be procured in accordance with the provisions of Parts B and C.4 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract in each year of Project implementation for each of goods and works to be procured in accordance with the provisions of Parts C.1, C.2 and C.6 of this Section, the following procedures shall apply:

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

(ii) prior to the execution of any contract procured under shopping procedures or small works procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of 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 Section II of this Schedule 3.

Part B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits under Part C of the Project estimated to cost less than \$15,000 equivalent per contract, up to an aggregate amount not to exceed \$52,000, 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 involving consulting firms, and estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount not to exceed \$380,000 equivalent, 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 the Project's Geographic Information System under Part C of the Project may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services 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 Association 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 Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every twelve (12) months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. 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 Association.

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 consultants to be selected in accordance with the provisions of Part C.3 of this Section, and individual consultants estimated to cost more than \$50,000 equivalent per contract, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. 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**

#### **Management, Monitoring and Reporting**

1. The Borrower shall:

(a) establish and thereafter maintain, until completion of the Project, the Project Advisory Council, chaired by the Vice Minister of Education and consisting of, inter alia, senior representatives of the Ministry of Education, Committee for Planning and Cooperation, Ministry of Foreign Affairs, Ministry of Finance, the Ethnic Minorities Committee of the National Assembly, the Governor of each of the Project Provinces, the Director of the Provincial Education Services of each of the Project Provinces, the Lao Front for Reconstruction, and the Institute for Linguistic Research, for the purpose of providing overall coordination and oversight of implementation of the Project and assigned with qualified staff in adequate numbers, including the secretariat support of the Project Management Team, in a manner and substance satisfactory to the Association;

(b) maintain the Project Steering Committee, chaired by the Vice Minister of Education, and consisting of:

- (i) the Directors of all the Departments within the Ministry of Education; and
- (ii) representatives from the Committee for Planning and Cooperation, the Ministry of Foreign Affairs and the Ministry of Finance for the purpose of providing inter-departmental coordination of Project activities;

assigned with qualified staff in adequate numbers and provided with sufficient funds, facilities and resources, all in a manner and substance satisfactory to the Association; and

(c) establish and thereafter maintain, until completion of the Project, a Project Working Group, consisting of a representative from each of the Implementing Units, chaired by the Director of the Department of Planning and Cooperation, for the purpose of coordinating and supporting Project activities, provided with sufficient resources and assigned with qualified staff in adequate numbers, in a manner and substance satisfactory to the Association.

2. The Borrower shall:

(a) adopt, implement and maintain until completion of the Project:

(i) a Project Implementation Manual, satisfactory to the Association, that includes, inter alia: (A) Project implementation arrangements; (B) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation; (C) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement; (D) the project performance indicators, consistent with the provisions set forth in Schedule 7 to this Agreement; and (E) procedures for the monitoring and reporting of the progress of the Project;

(ii) a Financial Management Manual, satisfactory to the Association, that sets forth the day-to-day financial management measures and procedures to be undertaken by the Borrower in the carrying out of the Project, consistent with the provisions set forth in Article IV of this Agreement; and

(iii) in respect of Part A.1 of the Project, an Operational Manual for Community-Based Contracting, satisfactory to the Association, for the purposes of setting forth, inter alia, the principles of the Project, implementing entities' responsibilities, program staffing and program cycles, quality control, procurement arrangements consistent with Schedule 3 to this Agreement, monitoring and evaluation processes, flow of funds, the Land Acquisition Process Framework, Environmental Guidelines and the Ethnic Group Development Plan; and

thereafter carry out the Project in accordance with the relevant provisions of said manuals, in a manner and substance satisfactory to the Association, and shall not amend, revise, delete, suspend, abrogate, or waive such manuals, or any part or parts thereof, without the prior approval of the Association;

(b) (i) appoint, and thereafter maintain: (A) a Project Manager to be responsible for the day-to-day management of the Project; (B) an Implementing Unit and Implementing Unit Head within each of the Ministry of Education's Departments of Finance, Teacher Training, Planning and Cooperation, and Non-formal Education, Department of General Education, Department of Personnel, the National Research Institute for Educational Sciences, and the National University of Lao PDR; and (C) a Provincial Implementing Unit in each of the Houaphanh,

Phongsaly, Oudomxay and Louangnamtha Provinces and a District Implementing Unit in each of the corresponding Project Districts; all of whose qualifications and experience shall be acceptable to the Association;

(ii) provide such other requisite resources as shall be satisfactory to the Association; and

(iii) take all measures necessary to enable said Project Manager, Implementing Unit, Implementing Unit Heads and District Engineers to carry out their respective activities under the Project in a manner and substance satisfactory to the Association;

(c) by December 31, 2004, appoint and thereafter maintain the services of independent auditors throughout the period of Project implementation, satisfactory to the Association, to assist the Borrower in carrying out its obligations set forth in Section 4.01 of this Agreement;

(d) by October 31, 2004 appoint and thereafter maintain District Engineers in each Project District whose qualifications and experience shall be acceptable to the Association;

(e) establish by November 30, 2006 and thereafter maintain, a Provincial Implementing Unit, in each of the Xekong and Attapeu Provinces and corresponding Project Districts, provided with sufficient resources and assigned with qualified staff in adequate numbers, in a manner and substance satisfactory to the Association;

(f) design a chart of accounts and install and maintain, until completion of the Project a computerized financial management system in the Department of Finance in the Ministry of Education, and train the accounting staffs of the Ministry of Education in the Project Provinces and the Project Districts in the preparation of financial monthly reports; all in a manner and substance satisfactory to the Association; and

(g) furnish to the Association its procurement bidding documents for the first year of Project implementation, satisfactory to the Association, and thereafter carry out its procurement activities in accordance with, inter alia, said bidding documents, in a manner and substance satisfactory to the Association.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on April 30 and October 31 of each calendar year, commencing April 30, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this paragraph 3 on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by April 30, 2007, or such later date as the Association shall request, a mid-term Project report prepared in accordance with terms of reference satisfactory to the Association and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

4. Without limitation to the provisions set forth in paragraph 3 of this Schedule 4 to this Agreement, the Borrower shall, by October 31 of each calendar year, commencing October 31, 2005, carry out and furnish to the Association for its review and comments, an annual review, under terms of reference satisfactory to the Association, which annual review shall include, inter alia:

(a) an assessment of the Borrower's performance of the education sector, based on performance indicators satisfactory to the Association;

(b) an evaluation of the progress in the implementation of the Borrower's educational policy measures and institutional reforms;

(c) a disaggregation of the Ministry of Education's fiscal budget and actual expenditures for the preceding fiscal year, including expenditures under externally-financed projects; and

(d) a disaggregation of the Ministry of Education's planned expenditures under externally-financed projects for the next fiscal year.



5. The Borrower shall, by September 30 of each calendar year, commencing September 30, 2005, prepare, under terms of reference satisfactory to the Association, and submit to the Association for its review and comments, a draft Annual Operational Plan, which Plan shall include, inter alia, a three-year rolling implementation and financing plan, and thereafter finalize such plan, taking into account the Association's comments thereon.

**Increase Access and Completion of Primary School**

6. The Borrower shall maintain, under terms of reference satisfactory to the Association, in each Project Province, its Provincial Education Services, provided with sufficient resources and competent and adequate staff in sufficient numbers, including qualified and experienced District Engineers for the purpose of providing Project management support in the relevant Project Province.

7. The Borrower shall carry out Part A.1 of the Project: (a) only in those Project Provinces and relevant Project Districts that appoint and thereafter maintain: (i) Implementing Units consistent with paragraphs 2(b)(i)(C) or 2(e), as the case may be, of this Schedule 4; and (ii) District Engineers consistent with paragraph 2(d) of this Schedule 4; and

(b) in accordance with the Operational Manual for Community-Based Contracting.

8. The Borrower shall carry out Part A.2 of the Project: (a) only in those Project Provinces and relevant Project Districts that appoint and thereafter maintain Implementing Units consistent with paragraphs 2(b)(i)(C) or 2(e), as the case may be, of this Schedule 4; and

(b) in accordance with the provisions set forth in the Project Implementation Manual.

9. In the carrying out of Part A.3 of the Project, the Borrower shall, through the Department of Teacher Training, conduct, under terms of reference satisfactory to the Association: (a) a teacher upgrading program to upgrade the training achievement status of contract teachers; and (b) an in-service teacher training program for multi-grade teaching, in form and substance satisfactory to the Association.

**Improve the Quality of Education**

10. In carrying out Part B.1 of the Project, the Borrower shall, through its Ministry of Education:

(a) by April 1, 2005: (i) issue a Ministerial Decision, establishing a Committee for the Approval of Curriculum and Instructional Materials and National Assessment System; (ii) designate the Permanent Members of the Textbook Working Group; and (iii) prepare and furnish to the Association for its review and comments proposed measures to be undertaken to develop a national textbook policy satisfactory to the Association;

(b) by April 30, 2006, adopt a Textbook Policy, taking into account the comments thereon by the Association; and

(c) maintain, under terms of reference satisfactory to the Association, a National Research Institute for Education Sciences, provided with qualified and competent staff in adequate numbers and provided with adequate resources for the purpose of developing education curricula and instructional materials at the primary- and secondary school-levels.

11. In carrying out Part B.2 of the Project, the Borrower shall:

(a) maintain, under terms of reference satisfactory to the Association, a Division of Evaluation within the National Research Institute for Education Sciences, provided with qualified and competent staff in adequate numbers and with adequate resources, for the purpose of carrying out specialized student assessment activities; and

(b) develop and furnish to the Association for its review and comments: (i) by July 31, 2005, the first-round sample-based survey on student learning outcomes and thereafter administer said survey, taking into account the Association's comments thereon, in a manner and substance satisfactory to the Association; and (ii) by July 31, 2008, the second-round sample-based survey on student learning outcomes, and thereafter administer said survey, taking into account the Association's comments thereon, in a manner and substance satisfactory to the Association.

**Strengthen Policy and Strategy Development**

12. The Borrower shall maintain, under terms of reference satisfactory to the Association, within the Department of Planning and Cooperation of the Ministry of Education, a Policy Analysis Division and a Statistics and Information Technology

Division, each provided with adequate and competent staff and sufficient resources, for the purpose of strengthening the capacity of the Ministry of Education to formulate its policy agenda and conduct relevant policy and strategy analyses.

13. The Borrower shall prepare and furnish to the Association, for its review and comments:

(a) by October 31, 2005, terms of reference for the carrying out of studies by the Borrower on: (i) the Borrower's education sector costing and financing; (ii) the measures and activities carried out by the Borrower in accordance with the Ethnic Group Development Plan; (iii) Project impacts under Part A of the Project; and (iv) student grade repetition issues; immediately thereafter, taking into account the Association's comments thereon, carry out said studies, and adopt and implement a timebound action plan to carry out the recommendations in said studies, all in a manner and substance satisfactory to the Association; and

(b) by October 31, 2006, terms of reference for the carrying out of a study on the adequacy of the Borrower's education system in meeting the needs of a modern economy; immediately thereafter, taking into account the Association's comments thereon, carry out said study; and adopt and implement a timebound action plan to carry out the recommendations in said study, all in a manner and substance satisfactory to the Association.

14. The Borrower shall establish, under terms of reference satisfactory to the Association, by January 31, 2005, a Department of Education Administration and Management within the Faculty of Education of the National University of Laos, thereafter maintain said Department, headed by a qualified and competent Director, and provide it with adequate and competent staff and resources, satisfactory to the Association, for the purpose of developing in-country capacity for the delivery of education and training in the area of education administration and management.

15. The Borrower shall establish, under terms of reference satisfactory to the Association, prior to the commencement of the 2005-2006 academic year, a Bachelor of Arts Program in Education Administration and Management within the Department of Education Administration and Management within the Faculty of Education of the National University of Laos, satisfactory to the Association.

#### **Other Covenants**

16. The Borrower shall, through its Ministry of Education, take all such action as shall be necessary to:

(a) for the Fiscal Year 2005-2006 national budget, propose to the National Assembly that at least fifteen (15) percent of the said budget be allocated to the education sector;

(b) for the Fiscal Year 2005-2006, expend at least fifty (50) percent of the education sector budget on primary education;

(c) remit salary payments to primary school teachers in accordance with the Prime Minister's Notification No 10/PM dated June 27, 2003;

(d) provide schools participating in school construction activities under Part A.1 of the Project, with adequate staff and resources, including a qualified teacher for every class in each participating school; and

(e) by October 1, 2008, propose to the National Assembly a budgetary allocation for the Ministry of Education for a recurrent budget for the re-supply of primary school textbooks, satisfactory to the Association.

17. In the carrying out of the Project, the Borrower shall:

(a) take all such actions as shall be necessary to apply and cause to be applied:

(i) the Environmental Guidelines;

(ii) the Land Acquisition Process Framework;

(iii) the Ethnic Group Development Plan; and

(b) not amend, revise, delete, abrogate, suspend, or waive any of such Guidelines, Framework or Plan or any provision thereof, without the prior consent of the Association.

18. The Borrower shall ensure that each Participating Village carrying out its respective Construction Subproject or Community Subproject:

(a) shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and to this end, carry out its Construction Subproject and Community Subproject under Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and sound social

and environmental standards acceptable to the Association and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for such Construction Subproject and Community Subproject;

(b) shall procure the goods, works and consultants' services required for its Construction Subproject and Community Subproject and to be financed out of the proceeds of the Credit or the Grant, as the case may be, in accordance with the applicable provisions of Schedule 3 to this Agreement;

(c) shall use the goods and services financed out of the proceeds of the Credit or the Grant, as the case may be, exclusively for the purposes of its Construction Subproject and Community Subproject, consistent with the provisions of this Agreement;

(d) shall allow the Borrower to inspect, from time to time, the goods, works and services under its Construction Subproject and Community Subproject, including all records and documents relating thereto;

(e) promptly informs the Borrower of any condition which interferes or threatens to interfere with the progress of the carrying out of its Construction Subproject and Community Subproject and ensures that appropriate corrective measures are taken;

(f) from time to time, at the request of either the Borrower or the Association, exchanges views with the Borrower and the Association regarding progress achieved in carrying out its Construction Subproject and Community Subproject; and

(g) furnishes to the Association all such information and documents related to its Construction Subproject and Community Subproject as may reasonably be requested, including such information and documents as may be required by the Borrower to fulfill its supervision, monitoring, and reporting obligations to the Association in accordance with the provisions of this Agreement.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (4), (5) 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 (i) an amount equivalent to \$800,000 to be withdrawn from the Credit Account or the Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for the Special Account shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the Credit Account and the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR2,000,000.
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 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant 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 Association requests for deposits into the 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 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 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 Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

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

- (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, 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 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 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into 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 the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association 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 Association, refund to the Association such outstanding amount.

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

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



## **SCHEDULE 6**

### **Modifications to the General Conditions**

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

1. Section 1.01 is amended to read:

“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 finance 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.”

**SCHEDULE 7**

**Performance Indicators**

CREDIT/ GRANT*		Baseline	Mid-Term	Project Completion	Source of Data
			<b>Outcome Indicators</b>		
X	Lower construction costs		cost per sq meter benchmarked against other projects	cost per sq meter benchmarked against other projects	
X	Increased enrolment in target districts	72,700 enrolled	85,000 enrolled with breakdown by ethnic group and gender	95,000 enrolled with breakdown by ethnic group and gender	Ministry of Education annual statistics and indicators
		Net Enrollment Ratio (NER) 50%	NER 60%	NER 70%	LECS (Lao Expenditure and Consumption Survey) III survey data analysis
X	Increased primary completion rates in target districts	50% completion rate	60% completion rate with breakdown by ethnic group and gender	70% completion rate with breakdown by ethnic group and gender	Ministry of Education annual statistics and indicators
X	Reduced repetition in grade 1 and 2 in target districts	40% repetition in grade 1 and 2	30% with breakdown by ethnic group	20% with breakdown by ethnic group	Ministry of Education annual statistics
X	Reduced gap in net enrolment rates between target districts and national average	50:80	60:83	70:85	Ministry of Education annual statistics Household surveys
X	Reduce national enrolment gap between poor and non-poor households	Not yet available	...	...	LECS III Survey data 2003
X	Contract teachers upgraded to qualified status in project villages	NA	360, including ethnic/language breakdown	540, including ethnic/language breakdown	Project reports Ministry of Education annual statistics
X	All teachers in project schools	NA	200 (excluding contract teachers)	540	Ministry of Education Statistics

\* "X" references indicators pertaining to the Grant components; where there is no "X" indicated, reference is to the Credit components.

	trained in multigrade methods				Project reports
	Student:textbook ratio at 1:1 in rural areas	5:1	1:1 in grades 1 &2	1:1 in grades 1-5	Ministry of Education Annual Statistics Project/Textbook Monitoring reports
	Improved learning outcomes in rural and ethnic minority areas	N/A	Achievement data baseline established, including breakdown by ethnic group, gender	Second Round results including breakdown by ethnic minority and gender	Assessment of Student Learning Outcomes results
	Policies and strategies increasingly made on the basis of information	NA	Financing, repetition and language of instruction studies completed, strategies developed	Policy proposal on language of instruction discussed	Published policy studies Ministry of Education Strategy papers
	Increased education expenditure	10% of total government expenditure	15% (by 2005)	15%	
	Increased recurrent capital expenditure	40:60	55:45	70:30	
	Increased expenditure on primary education	44% of total education expenditure	50% (by 2005)	50%	
			<b>Output Indicators</b>		
X	Incomplete dilapidated primary schools replaced to accommodate 5 grades	NA	200 schools (400 classrooms)	400 schools (800 classrooms)	Project monitoring data Ministry of Education annual statistics District project reports Annual Assessments
X	CBC (Community-Based Contracting) Grants distributed equitably	NA	% schools in ethnic minority villages % off the road	% schools in ethnic minority villages % off the road	CBC monitoring reports Annual evaluation of CBC procedures
	Community Grants (CG) awarded to CBC villages annually	NA	300 villages 500 grants cumulative	400 villages 1,469 grants cumulative	Project reports Financial reports

X	Cost of education to parents decreased	...	...	...	Project surveys
X	Each class has a qualified teacher in project schools	NA	100% of classes with qualified teacher	100% of classes with qualified teachers	
	Textbooks evaluated for ethnic inclusion & revised	NA	Books for grades 1 - 3	Books for grades 4 , 5	Evaluation report Project reports
	Outside expertise utilized for book evaluation & revision	NA	For Grades 1, 2, 3	For grades 4,5	Project monitoring reports
	Primary textbooks & teachers' guides procured & delivered to schools	NA	1.24 million textbooks and 90,000 teacher guides for gr. 1 & 2	2.24 million primary textbooks, 196,600 teacher guides, for all grades and subjects	Ministry of Education statistics Mid-term special assessment Monitoring report Decree establishing the division Project reports
	Policy Analysis Division established & fully operational	Policy Division staffed by 2005			
	Program on Education Administration & Management established		Lecturers are trained	First year of second class	Project supervision reports
	Increased participation of experts in ethnic minority affairs	Steering and project committees include representatives of Government agencies responsible for ethnic minority affairs (Lao Front, Linguistics Research Institute, National Assembly) in discussions pertaining to EGDP and ethnic minorities	First class of (30) BA students begins by September 2006	Representation continued	Project reports Project supervision
<b>Monitoring and Evaluation</b>					
	GIS established and producing reports by district	GIS initiated in two provinces	GIS expanded to all Provinces		Project monitoring reports Supervision reports
X	Participatory beneficiary		Agreement on indicators and conduct	Final beneficiary assessment	Beneficiary assessment

X	assessment Evaluation of transparency and equity of CBC and CG procedures	Evaluation conducted each year until year 3	assessment Evaluation conducted and procedures revised accordingly		Annual evaluations
X	Complaints mechanism effective		# of complaints, % resolved, time to resolution	# of complaints, % resolved, time to resolution	Annual evaluation of CBC and CG procedures and processes
<b>Village Empowerment and Support Indicators</b>					
X	Village development committees established (VDC)		200	400	Project and supervision reports
X	Village committees include representation of all ethnic groups and women	NA	100% of VDCs	100% of VDCs	Annual evaluation of CBC process and procedures
X	VDCs meet on a regular basis	NA	twice a month	twice a month	Annual evaluation of CBC process Project supervision reports
X	Villages participating in CBC receive support visits from district engineer	NA	at least 4 days/month	at least 4 days/month	Project reports Beneficiary Assessment

NA means not applicable

... means the future value cannot be predicted