

CONFORMED COPY

CREDIT NUMBER 3849 AM

Development Credit Agreement

(Education Quality and Relevance Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 24, 2004

CREDIT NUMBER 3849 AM

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 24, 2004, between the Republic of Armenia (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated November 4, 2003, describing the main features of the Borrower's education reform program (the Program) to be carried out during the period from 2003-2013, and setting out certain measures required to carry out the Program and declaring the Borrower's commitment to the execution of the Program;

WHEREAS (B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of credits over a period of approximately 10 years to be utilized by the Borrower in the implementation of the Program;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

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) “Assessment and Testing Center” or “ATC” means a state non-commercial organization referred to in Part A.1 of Schedule 2 to this Agreement;

(b) “Center for Education Projects” or “CEP” means a project management unit established and operating within MOES;

(c) “Center for Education Reform” or “CER” means a joint stock company duly established and operating in Armenia in accordance with the provisions of the Law on Joint Stock Companies (Registration No. 278.120.02636, Certificate No. 01A 044424) and includes a Curriculum Development Unit, or any legal successor thereto;

(d) “Computer Revolving Fund” or “CRF” means a fund to be duly established under Part B.1 of Schedule 2 to this Agreement;

(e) “Computer Revolving Fund Manual” means a manual satisfactory to the Association, adopted by MOES setting forth the operational and administrative procedures for the management of the CRF as such manual may be amended from time to time with prior agreement of the Association;

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

(g) “Ministry of Education and Science” or “MOES” means the Borrower’s Ministry of Education and Science;

(h) “Ministry of Social Security” or “MOSS” means the Borrower’s Ministry of Social Security;

(i) “National Center for Education Technologies” or “NCET” means a state non-commercial organization referred to in Part B.1 of Schedule 2 to this Agreement;

(j) “National Employment Services” or “NES” means a state agency duly established in the structure of the Ministry of Social Security or any legal successor thereto;

(k) “Operational Manual” means the manual dated November 1, 2003, satisfactory to the Association, adopted by MOES setting forth the operational and administrative procedures for the implementation of the Project as such manual may be amended from time to time with prior agreement of the Association;

(l) “Participating School” means the school selected by CEP according to criteria set forth in the Operational Manual to receive computer technology and/or participate in the staff development program;

(m) “Project Account” means the account referred to in Section 5.01(a) of this Agreement;

(n) “Project Coordinating Group” means a group of individuals referred to in Part A.2(b) of Schedule 4 to this Agreement to assist the Project Steering Committee;

(o) “Project Preparation Advance” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement dated November 12, 2001, between the Association and signed on behalf of the Borrower on January 23, 2002;

(p) “Rationalization Assistance Committee” means the committee referred to in Part A.2(c) of Schedule 4 to this Agreement;

(q) “Regional Training Center” means a regional training center in the structure of the CER referred to in Part C.5 of Schedule 2 to this Agreement.

(r) “School Contract” means an agreement to be entered into between the NCET and/or CEP and a Participating School pursuant to Parts B.2 and C.3 of Schedule 2 to this Agreement;

(s) “State Foundation of the Social Security of Republic of Armenia” (SFSSRA) means the state institution duly established and operating in Armenia pursuant to the Prime Minister’s Decree No. 201, dated March 13, 2001, or any legal successor thereto;

(t) “School Rationalization Plan” or “SRP” means a plan satisfactory to the Association describing a set of measures, to improve the efficiency of the school sector including any reassignment or releases of its existing personnel;

(u) “Staff Optimization Manual” means the manual referred to in Section 5.01(d) of this Agreement setting forth the operational and administrative procedures in respect of the retrenchment of the education staff under the Project, including compensation and retraining, as such manual may be amended from time to time with prior agreement of the Association;

(v) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(w) “Steering Committee” means the Steering committee established by the Borrower pursuant to Prime Minister’s Decree No. 456/N, dated September 26, 2003, or any successor thereto, in accordance with the provisions of Part A.2 of Schedule 4 to this Agreement; and

(x) “Working Groups” means the working groups to be established in accordance with the provisions of Part A.3 of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million two hundred thousand Special Drawing Rights (SDR 13,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A and B and C.1, C.2, C.4 and D and E and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the

Association shall so agree, amounts to be paid) on account of Grants under School Contracts under Part C.3 of the Project.

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

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

Section 2.03. The Closing Date shall be November 30, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on 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 Association 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 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.

Section 2.09. The Minister of Finance and Economy, and any person whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MOES and SFSSRA with due diligence and efficiency and in conformity with appropriate administrative, financial, educational, pedagogical and labor practices, in accordance with the Operational Manual, Staff Optimization Manual, Computer Revolving Fund Manual and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. The Borrower shall open, pursuant to Section 5.01(a) of this Agreement and thereafter maintain in a commercial bank acceptable to the Association, an account (Project Account), wherein it shall deposit an amount from its own resources sufficient to cover the portion of counterpart financing requirements for local expenditures for which the Borrower is responsible under the Project financing plan and which are projected to be made under the Project in the three months succeeding. Except as otherwise agreed by the Association, the balance in the Project Account, as of the first day of each quarter, shall not be less than \$100,000 equivalent.

Section 3.03 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

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 accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section, its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such

statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) The Borrower shall prepare and furnish to the Association a financial monitoring report (FMR), 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 Credit, 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 FMR 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 FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has opened the Project Account with a deposit of an initial amount of \$100,000 equivalent;

(b) the National Center for Education Technologies and the Assessment and Testing Center have been set up pursuant to the laws of the Borrower and Charters acceptable to the Association;

(c) two School Contracts, the first on installation of computers in schools and the other on training of school teachers in form and substance satisfactory to the Association, shall have been executed and delivered by one or two schools, and all conditions precedent to their effectiveness, if any, have been fulfilled; and

(d) the Borrower has adopted a Staff Optimization Manual satisfactory to the Association.

Section 5.02. 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 each type of School Contract referred to in Section 5.01(c) of this Agreement, has been duly authorized and executed by the parties thereto and is legally binding upon them in accordance within its terms.

Section 5.03. The date one hundred and twenty (120) 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. Except as provided in Section 2.09 of this Agreement, the Minister of Finance and Economy 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 and Economy
1 Government House
Republic Square
Yerevan 375010
Republic of Armenia

Telex:
243331 LADA SU

Facsimile:
(3741) 151-069

For the Association:

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

Cable address:
INDEVAS
Washington, D.C.

Telex:
248423 (MCI) or
64145 (MCI)

Facsimile:
(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 Yerevan, Republic of Armenia, as of the day and year first above written.

REPUBLIC OF ARMENIA

By: /s/ Vardan Khachatryan
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Roger J. Robinson
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works	365,000	90%
(2) Goods		
(a) IT Networks	525,000	100% of foreign expenditures and 100%
(b) Other Goods	4,525,000	(ex-factory cost) of local expenditures and 90% for other items procured locally
(3) Consultants' Services	1,460,000	100% of foreign expenditures 92% of local expenditures
(4) Training	1,960,000	100%
(5) School Grants	830,000	100% of disbursed amount
(6) Support to redundant teachers	1,170,000	100% of disbursed amount
(7) Incremental Operating Costs	165,000	90%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR)</u>	<u>% of Expenditures to be Financed</u>
(8) Refunding of PPA	900,000	Amounts due pursuant to Section 2.02(c) of Agreement
(9) Unallocated	<u>1,300,000</u>	
TOTAL	<u>13,200,000</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 “Support to redundant teachers” means the expenditures incurred for financing the cost of providing compensation benefits, training of MOES and MOSS staff, hiring of consultants to advise retrenched staff on options and the provision of training and other services to assist in the re-employment of retrenched education staff;

(d) the term “incremental operating costs” means equipment and vehicle maintenance, cost for fuel, office utilities, minor office equipment, supplies, literature, field trips, meetings and in country travel costs related to Project, communication costs, reasonable banking charges and media advertisement; and

(e) The term “school grant” means a grant distributed by the CEP to a Participating School for the acquisition of staff development services as set forth in Part C.3 of Schedule 2 to this Agreement.

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

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

(b) payments made for expenditures under Category 2(a) of the table in paragraph 1 above until the Borrower has made arrangements satisfactory to the Association which provides for affordable internet access to schools.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) works; (b) goods under contracts not exceeding \$100,000 equivalent; (c) services provided by consulting firms under contracts not exceeding \$100,000 equivalent; (d) services provided by individual consultants under contracts not exceeding \$50,000, equivalent; (e) training; (f) school grants; and (g) support to redundant teachers, 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 support the first phase of the Borrower's Program through: (a) improving and strengthening the efficiency of the education sector to meet the challenges of a knowledge economy; (b) upgrading the quality and relevance of the school education system; and (c) improving the evaluation of the education system's performance.

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 objectives:

Part A: Establishment of a National Curriculum and Assessment System

1. Establishing and supplying equipment for the Assessment and Testing Center.
2. Provision of consultants' services for developing a new national education curriculum, including revised entrance procedures for higher education and related assessments for monitoring student performance.
3. Provision of consultants' services to train ATC staff, local experts in MOES, CER and the universities on curriculum design, education system assessment and implementation.
4. Printing and publishing the curriculum and assessment documents.
5. Supplying and installing equipment for the Curriculum Development Unit of the CER.

Part B: Development and Integration of Information Communication Technologies in Schools

1. Establishing and supplying equipment for the National Center for Education Technologies to enable it to oversee all educational technology activities including the setting up and management of the Computer Revolving Fund and the contributions from other donors.
2. Supplying of computer hardware and associated software to Participating Schools to establish computer technology learning centers on interest-free financing terms.

3. Provision of technical support to schools to establish computer technology learning centers.
4. Provision of consultants' services to develop educational software, related manuals and teacher training materials.
5. Provision of consultants' services to develop and maintain an education portal.
6. Provision of technical support to establish and equip a network operating center and provide networking equipment for schools to link to this center.
7. Developing, publishing and distributing pedagogical resources related to the use of technology in education.

Part C: Teacher Professional Development

1. Provision of financing and technical assistance to the Center for Education Reform for training of teachers and school directors on modern teaching and assessment methods, integrating technology use in education and education reforms and developing training materials for trainers and training of trainers.
2. Provision of minor equipment and assistance to selected schools to enable them to implement the new teaching strategies, network and serve as innovation centers.
3. Provision of financing on a grant basis to Participating Schools to meet the costs of conducting teacher professional development initiatives.
4. Developing, printing, publishing and distribution of pedagogical resources.
5. Provision of financing to refurbish and equip selected buildings as Regional Training Centers.

Part D: System Management and Efficiency

1. Provision of financing to SFSSRA to provide a range of services to teachers made redundant under the School Rationalization Plan (SRP), including training, counseling, redundancy payments and advice on options.
2. Training MOES and MOSS staff and school directors on the procedures and criteria for making education staff redundant.
3. Strengthening the capacity of schools directors, board members, accountants, MOES staff and other beneficiary government institutions staff to adapt to their new roles as a result of the decentralization and reforms of the education system.

4. Relocating the Education Management Information System (EMIS) and meeting the incidental costs for its refurbishment and training of relevant personnel on its use.

Part E: Project Management

Provision of equipment, training and administrative support to CEP to assist in Project implementation and annual audit of the Project accounts, financial management, monitoring and reporting.

* * *

The Project is expected to be completed by May 31, 2008.

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 the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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

Grouping of Contracts

To the extent practicable, contracts for information technology, office equipment, office furniture and other related equipment shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$600,000 equivalent per contract and goods estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods, other than printing materials and educational software in the Armenian language, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods which are of a proprietary nature such as educational reference literature for the MOES and related agencies and the CEP and media time, may with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to: (i) all contracts procured in accordance with international competitive bidding procedures; and (ii) the first two contracts procured in accordance with national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts procured in accordance with international shopping procedures; (ii) the first two contracts procured in accordance with national shopping procedures; and (iii) all contracts procured in accordance with direct contracting procedures, the following procedures shall apply:

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of 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.

Part B: Quality-and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for the annual audit of the project financial statements and other audits under Part E of the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for the supply and installation of educational software and training of trainers under Part B.2 of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for assessment of monitoring student performance and revised entrance procedures for higher education under Part A.2 and training under Part C.1 of the Project which are estimated to cost less than \$250,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 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. 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 individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, 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

Part A: Institutional Arrangements

1. The Borrower, shall:
 - (a) designate the Center for Education Projects (CEP) with the responsibility for procurement planning, monitoring and reporting, disbursement and implementation of internal financial controls, maintenance of Project accounts and preparation of FMRs, and shall ensure that CEP at all times shall have adequate staff and resources to fulfill its responsibilities with respect to Project implementation;
 - (b) cause the National Center for Education Technologies (NCET) to implement the education information and communication technology aspects of the Project and the management of the Computer Revolving Fund under Part B of the Project; and
 - (c) cause the SFSSRA to implement the activities outlined in the Staff Optimization Manual.
2. In order to ensure the overall coordination of the Project activities and the provision of policy guidance in respect thereof, the Borrower shall establish, not later than June 1, 2004: (a) a Project Steering Committee consisting of key stakeholders responsible for Project implementation; (b) a Project Coordination Group chaired by the Deputy Minister of MOES and consisting of the Director of CER and Director of CEP, and other persons responsible for addressing the education operational issues in Project and preparing reports to the Project Steering Committee; and (c) a Rationalization Assistance Committee consisting of representatives from MOES, MOSS, SFSSRA and NES, responsible for assisting SFSSRA to implement the SRP in accordance with the Staff Optimization Manual;
3. The Borrower shall maintain in each designated Project area, Working Groups established by Ministerial order with composition and responsibilities acceptable to the Association to assist in overall project implementation.

Part B: School Contracts

4. For purposes of carrying out Part B.2 of the Project, the CEP and/or NCET shall:

(a) prior to delivering and installing any computer equipment to a Participating School, enter into a contract with said school, on terms and conditions acceptable to the Association; and

(b) each exercise its right to each School Contract in such manner as to protect the interest of the Association and the Borrower.

5. For purposes of carrying out Part C.3 of the Project, CEP shall:

(a) enter into a contract with a Participating School on terms and conditions acceptable to the Association; and

(b) exercise its right to each school contract in such manner as to protect the interest of the Association and the Borrower.

Use of Proceeds Under School Sales Contracts

6. The Borrower shall utilize all the funds received under the School Contracts for the supply and installation of computers and related software to capitalize the Computer Revolving Fund in accordance with the provisions of the CRF Manual.

Part C: Project Monitoring and Evaluation

7. The Borrower shall, through CEP:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, 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 or about March 31, 2006, 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 Association, by March 31, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Part D: Project Management

8. The Borrower shall:

(a) not later than July 31, 2004, ensure a national curriculum framework acceptable to the Association has been adopted;

(b) not later than January 31, 2005, submit an adopted policy on reforming higher education entrance exams acceptable to the Association;

(c) prepare and adopt by January 31 of each year, commencing from January 31, 2005, Annual School Rationalization Plans;

(d) not later than June 30, 2005, and every June 30 thereafter, ensure that Participating Schools which could not afford to purchase computers and the related software are provided favorable terms defined in the CRF Manual to enable them to participate in the scheme; and

(e) not later than October 1, 2004, establish Regional Training Centers.

SCHEDULE 5

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;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit 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 \$1,500,000 to be withdrawn from the Credit 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 shall be limited to an amount equivalent to \$750,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.
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 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 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 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 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 the 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 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 pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit 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 of the remaining unwithdrawn amount of the Credit 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 the 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 for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.