

CONFORMED COPY

IDA GRANT NUMBER H162-AF

Development Grant Agreement

(Strengthening Higher Education Project)

between

ISLAMIC REPUBLIC OF AFGHANISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 16, 2005

IDA GRANT NUMBER H162-AF

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated June 16, 2005, between ISLAMIC REPUBLIC OF AFGHANISTAN (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Recipient, 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 Grant to the Recipient 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 May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Beneficiaries” means universities that receive Block Grants, each a “Beneficiary”;

(b) “Block Grant” means a grant made, or proposed to be made by MOHE to a Beneficiary out of the proceeds of the Grant for the purpose of carrying out Sub-Projects, in accordance with paragraph B of Schedule 4 to this Agreement;

(c) “Disbursement Protocol” means a document to be prepared by MOF and signed by each Beneficiary, setting forth the disbursement and procurement arrangements for Block Grants;

(d) “Environmental and Social Safeguards Framework” means the Recipient’s Environmental and Social Safeguards Framework which sets out, among other things: (i) key principles for social and environmental management of Sub-Projects

(as hereinafter defined); (ii) procedures to screen and process Sub-Projects for significant social and environmental impacts, and to assist in mitigating impacts; (iii) procedures to ensure that these principles and procedures are properly applied; and (iv) guidelines for capacity building and monitoring;

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

(f) “Fiscal Year” means the Recipient’s fiscal year, commencing on March 21 of each calendar year and ending on March 20 of the following calendar year;

(g) “Higher Education Institutions” means local universities and other tertiary institutions involved in the implementation of the Project, each a “Higher Education Institution”;

(h) “Independent Committee” means the committee referred to in paragraph A.2(c) of Schedule 4 to this Agreement, to be comprised of, among others, the Deputy Ministers of Higher Education, the director of planning in MOHE, and representatives of the private sector and Higher Education Institutions;

(i) “MOF” means the Recipient’s Ministry of Finance, or any successor thereto;

(j) “MOHE” means the Recipient’s Ministry of Higher Education or any successor thereto;

(k) “Project Coordination Team” means a team established by each Beneficiary and referred to in paragraph A.2(d) of Schedule 4 to this Agreement;

(l) “Procurement Plan” means the Recipient’s procurement plan, dated March 15, 2005 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(m) “Project Implementation Manual” means the Project implementation manual referred to in Paragraph A.1 of Schedule 4 to this Agreement, including amendments, schedules and annexes thereto, setting forth the procedures governing the operation of the Project and the carrying out of Sub-Projects, provided however, that in the event of a conflict between this Agreement and the Project Implementation Manual, the provisions of this Agreement shall prevail;

(n) “Special Disbursement Unit” means the Special Disbursement Unit established and operating within MOF and referred to in paragraph 2(f) of Schedule 4 to this Agreement;

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

(p) “Steering Committee” means the committee established within MOHE and referred to in paragraph A.2(b) of Schedule 4 to this Agreement;

(q) “Strategic Development Plan” means a plan which sets out the strategic direction of a Higher Education Institution, prepared by a Beneficiary as a framework for the proposal for a Block Grant;

(r) “Sub-Project” means a project to be carried out under Part A.2 of the Project, in accordance with paragraph B of Schedule 4 to this Agreement; and

(s) “Sub-Project Agreement” means a written agreement to be entered into between MOHE and a Beneficiary in accordance with terms and conditions satisfactory to the Association, including those set forth in paragraph B.4 of Schedule 4 to this Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty six million two hundred thousand Special Drawing Rights (SDR 26,200,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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, services and Block Grants required for carrying out the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in dollars a special deposit account in a 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.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association 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, 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 Recipient from the Grant 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 2.05 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 Recipient; and (iii) in United States dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on June 15 and December 15 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 with due diligence and efficiency and in conformity with appropriate educational, administrative, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement, the Project Implementation Manual and the Environmental and Social Safeguards Framework.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient 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 Recipient and the Association, a plan to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall, no later than September 1, 2005, establish and 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 Recipient shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), 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 (6) 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 Grant Account were made on the basis of statements of expenditure, the Recipient 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 Grant 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) Without limitation upon the Recipient's progress reporting obligations set out in paragraph C of Schedule 4 to this Agreement, the Recipient shall 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 Grant, 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 forty-five (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 forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Termination

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

ARTICLE VI

Representatives of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Ministry of Finance
Islamic Republic of Afghanistan
Kabul
Afghanistan

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)
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 the District of Columbia, United States of America, as of the day and year first above written.

ISLAMIC REPUBLIC OF AFGHANISTAN

By

/s/ Said Tayeb Jawad
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Mariam J. Sherman
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Expenditures Associated with Project Implementation	26,200,000	100%
TOTAL	<u>26,200,000</u>	

2. For the purposes of this Schedule, the term “Expenditures Associated with Project Implementation” means expenditures arising under the Project including: (i) consultants’ services; (ii) training; (iii) fellowships; (iv) scholarships; (v) Block Grants, and (vi) incremental operating costs, but excluding salaries of officials of the Recipient’s civil service.

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; (b) payments to each Beneficiary of a Block Grant unless the Beneficiary has opened a bank account on terms and conditions acceptable to the Association; and (c) payments to each Beneficiary of a Block Grant unless the Beneficiary has signed the Disbursement Protocol.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms and engineering support under contracts costing less than \$100,000 equivalent per contract; and (d) all Block Grants, training and incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in restoring the basic operational performance of Higher Education Institutions so as to enhance the quality of tertiary education.

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

Part A: Improvement of Quality in Key Higher Education Institutions

1. Carrying out of partnership programs between selected universities within the Recipient's territory and established foreign universities, with the aim of, *inter alia*, supporting the preparation of Strategic Development Plans, supporting curriculum revision and development, providing fellowships for local professors to study at foreign universities, providing opportunities for foreign faculty to teach at local universities, carrying out of joint research and publication and preparing physical and academic facility development plans.

2. Provision of Block Grants to assist Beneficiaries in carrying out Sub-Projects designed to implement the prioritized and focused areas of the Strategic Development Plan and to restore the basic operational performance of Beneficiaries.

Part B: Development of Higher Education System

1. Provision of technical assistance to MOHE for the development of an improved higher education system including, defining the relationship between MOHE and Higher Education Institutions, facilitating the autonomy and accountability of Higher Education Institutions, reforming the employment structure of academic staff and reviewing the financing strategies of Higher Education Institutions.

2. Development of an autonomous quality assurance system for public and private universities, through the provision of technical advisory services, equipment and training.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the procedures set out in the annex to this schedule.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract, and works estimated to cost less than \$25,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract and services for contracts under Part A.1 of the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$200,000 or more procured on the basis of International Competitive Bidding or National Competitive Bidding; (b) each contract for goods or works procured on the basis of Direct Contracting; (c) each contract for works estimated to cost the equivalent of \$500,000 or more procured on the basis of National Competitive Bidding; and (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, 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 qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

**ANNEX
to**

SCHEDULE 3

Procedures for National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Guidelines, the following criteria shall be followed in procurement under National Competitive Bidding procedures:

- (i) Standard bidding documents approved by the Association shall be used.
- (ii) Invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least twenty eight (28) days prior to the deadline for the submission of bids.
- (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.
- (iv) Bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
- (v) Foreign bidders shall not be precluded from bidding.
- (vi) Qualification criteria (in case pre-qualifications were not carried out) shall be stated on the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any hindrance.
- (vii) Bidders may deliver bids, at their option, either in person or by courier service or by mail.
- (viii) All bidders shall provide bid security as indicated in the bidding documents. A bidder's bid security shall apply only to a specific bid.
- (ix) Bids shall be opened in public in one place preferably immediately, but no later than one hour, after the deadline for submission of bids.
- (x) Evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format, and within the specified period, agreed with the Association.
- (xi) Bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association.

- (xii) Split award or lottery in award of contracts shall not be carried out. When two (2) or more bidders quote the same price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (xiii) Contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances.
- (xiv) Extension of bid validity shall not be allowed without the prior concurrence of the Association (A) for the first request for extension if it is longer than eight (8) weeks, and (B) for all subsequent requests for extensions irrespective of the period.
- (xv) Negotiations shall not be allowed with the lowest evaluated or any other bidders.
- (xvi) Re-bidding shall not be carried out without the Association's prior concurrence; and
- (xvii) All contractors or suppliers shall provide performance security as indicated in the contract documents. A contractor's or a supplier's performance security shall apply to a specific contract under which it was furnished.

SCHEDULE 4

Implementation Program

A. Overall Project Implementation and Coordination

1. (a) The Recipient shall prepare a Project Implementation Manual and furnish it to the Association for review and approval no later than August 1, 2005.

(b) The Recipient shall carry out the Project in accordance with the Project Implementation Manual and the Environmental and Social Safeguards Framework, and except as the Association shall otherwise agree, the Recipient shall not amend, vary or waive any provision of the Project Implementation Manual and/or the Environmental and Social Safeguards Framework if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. (a) The Recipient shall vest responsibility for overall implementation of the Project in MOHE.

(b) The Recipient shall, through MOHE, establish and maintain a Steering Committee with functions, staffing and resources satisfactory and acceptable to the Association. The Steering Committee shall be responsible for, among others, coordinating the partnership program referred to in Part A.1 of Schedule 2.

(c) The Recipient shall, through MOHE, set up an Independent Committee with functions, staffing and resources satisfactory and acceptable to the Association, to be responsible for reviewing Sub-Project proposals and recommending to MOHE, the provision of Block Grants to Beneficiaries. The Independent Committee shall also be responsible for evaluating the fulfillment by Beneficiaries of the performance indicators set out in the Sub-Project Agreement and the Project Implementation Manual, and recommending the release of annual tranches of the Block Grant by MOHE.

(d) The Recipient shall, through MOHE, cause each Beneficiary to establish and maintain a Project Coordination Team to act as the focal point for the implementation of Sub-Projects and, in the case of universities, the partnership program referred to in Part A.1 of Schedule 2 to this Agreement.

(e) The Recipient shall, through MOHE, no later than August 1, 2005 appoint a qualified financial management specialist in accordance with Schedule 3 to this Agreement, with terms of reference acceptable to the Association, to be responsible for overseeing and coordinating the work of financial staff of Beneficiaries.

(f) The Recipient shall maintain the Special Disbursement Unit within MOF with functions, staffing, and resources satisfactory and acceptable to the Association.

B. Sub-Projects

3. (a) Beneficiaries shall implement Sub-Projects with Block Grants. Allocation of Block Grants among Beneficiaries shall be guided by equitable and transparent criteria as set out in the Project Implementation Manual.

(b) A Sub-Project shall finance the provision of goods (equipment and supplies), civil works (rehabilitation of physical facilities directly related to delivery of academic programs), consultants' services (technical assistance and training), and scholarships.

(c) To be eligible for a Block Grant, a Beneficiary must prepare and furnish a Sub-Project proposal to MOHE that fully satisfies the eligibility criteria specified in the Project Implementation Manual.

(d) In evaluating each Sub-Project proposal, consideration shall be given to the Beneficiary's capacity to carry out, manage and maintain the Sub-Project in conformity with appropriate administrative, financial, technical, environmental and managerial standards.

(e) Each Beneficiary may, for the purpose of Sub-Projects, open and maintain an account in a bank on terms and conditions acceptable to the Association. Payments out of the said account shall be made exclusively for eligible expenditures in accordance with the provisions of the Sub-Project Agreement.

(f) Block Grants shall be deposited into the account specified in subparagraph 3(c) above in annual tranches, and, in some cases, multiple installments per tranche, in accordance with performance indicators set out in the Project Implementation Manual and the Sub-Project Agreement. The fulfillment of the performance indicators shall be determined by the Independent Committee.

4. The Recipient, through MOHE, shall make appropriate amounts of the proceeds of the Grant available to the Beneficiary under a Sub-Project Agreement. The Sub-Project Agreement shall provide for rights adequate to protect the interests of the Association and the Recipient, including to the extent that it shall be appropriate to:

(i) require the Beneficiary to carry out the Sub-Project with due diligence and efficiency and in accordance with sound administrative, financial, technical and managerial standards; and maintain adequate records for the Sub-Project concerned;

(ii) require that all goods, works, and services required for the Sub-Project shall be procured in accordance with the provisions of Schedule 3 to this Agreement;

(iii) require that all goods, works, and services shall be used exclusively in the carrying out of the Sub-Project;

(iv) inspect, by itself or jointly with representatives of the Association if the Association shall so request, any goods, works, and construction included in the Sub-Project, the operation thereof, and any relevant records and documents;

(v) require that the Sub-Project complies with the environmental and social safeguard standards set forth in the Environmental and Social Safeguards Framework; and

(vi) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Block Grant upon the failure by the Beneficiary to perform any of its obligations under the Sub-Project Agreement.

C. Progress Reports and Mid-term Review

5. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the 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 June 30, 2007, 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 August 31, 2007, 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Category” means Category (1) 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, services and Block Grants required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$3,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient 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 Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Category, 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Category shall follow such procedures as the Association shall specify by notice to the Recipient. 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Modifications to the General Conditions

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

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “Credit Account” is modified to read “Grant Account”.
 - (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Section 1.01 is modified to read as follows:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”
4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”
5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02(a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the

percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:

- (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
- (b) Section 6.03(c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”