

Public Disclosure Authorized

**CONFORMED COPY**

---

---

**GRANT NUMBER H137-KG**

# **Development Grant Agreement**

**(Rural Education Project)**

**between**

**KYRGYZ REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated February 3, 2005**

---

---

**GRANT NUMBER H137-KG**

**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated February 3, 2005, between the KYRGYZ REPUBLIC (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 (the Project) 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 a grant to the Recipient in support of the Project, 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) “Beneficiary” means a school eligible to receive and administer a Sub-grant (hereinafter defined) for a Sub-project (hereinafter defined) selected in accordance with criteria set forth in the Operational Manual (hereinafter defined);

(b) “BoTs” means the Board of Trustees of each school established by Order # 621-1 of the Ministry of Education of the Recipient dated December 1, 1999 which will be responsible for the supervision of Sub-projects under Part B.1 of the Project;

(c) “EMP” means the Environmental Management Plan, satisfactory to the Association, prepared and adopted by the Recipient, describing the environmental mitigation, monitoring, and institutional measures under the Project;

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

(e) “Letter of Textbook Development Policy” means the Recipient’s letter dated November 5, 2004 describing the actions of the Government regarding textbook development policy and referred to in Part C.1 (f) of Schedule 2 to this Agreement;

(f) “MoE” means the Recipient’s Ministry of Education or any successor thereto;

(g) “MoF” means the Recipient’s Ministry of Finance or any successor thereto;

(h) “Operational Manual” means the Operational Manual to be adopted by the Recipient, setting forth the operational and administrative procedures in respect of the preparation, selection, evaluation, approval, processing, financing and implementation and supervision of Sub-projects under Part B.1 of the Project, as well as procedures for implementation of the Project, including criteria, approval and implementation procedures of teacher incentives under Parts A.3 and A.4 of the Project, and which includes the EMP as its integral part, as such manual may be amended from time to time upon agreement with the Recipient and the Association;

(i) “PIU” means the Project Implementation Unit operating within MoE which will be responsible for the management and implementation of the Project;

(j) “Procurement Plan” means the Recipient’s procurement plan, dated November 8, 2004 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;

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

(l) “Sub-grant” means a sub-grant made or proposed to be made to a Beneficiary out of the proceeds of the Grant for the carrying out of a Sub-project;

(m) “Sub-grant Agreement” means an agreement to be entered into between PIU, on behalf of MoE, and an eligible Beneficiary in accordance with the provisions of Part C.2 (c) of Schedule 4 to this Agreement;

(n) “Sub-project” means a specific project under Part B.1 of the Project, which is proposed to be carried out by an eligible Beneficiary utilizing a Sub-grant;

(o) “TAB” means the Textbook Approval Board to be established by the Recipient under Part C.1 (d) of Schedule 2 to this Agreement and referred to in paragraph 3 of Part A of Schedule 4 to this Agreement; and

(p) “TRF” means the Textbook Rental Fund to be established by the Recipient under Part C.2 of Schedule 2 to this Agreement and referred to in paragraph 4 of Part A 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 ten million one hundred thousand Special Drawing Rights (SDR 10,100,000).

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: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for carrying out of the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Recipient on account of withdrawals made by a Beneficiary of a Sub-grant to meet the reasonable cost of goods, works and services required for the implementation of a Sub-project under Part B.1 of the Project in respect of which the withdrawal from the Grant Account is requested.

(b) The Recipient 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.

Section 2.03. (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 2.04 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 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 2.04. Commitment charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.05. The Closing Date shall be March 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

### **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 through its MoE with due diligence and efficiency and in conformity with appropriate financial, economic, environmental and administrative 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.

Section 3.02. (a) 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 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 terms of reference 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. Without limitation upon any of its obligations under paragraph (a) of Section 3.01 of this Agreement and except as the Recipient and the Association shall

otherwise agree, the Recipient shall: (i) not later than by the effectiveness of this Agreement open a separate project account (the Project Account) in a commercial bank acceptable to the Association; (ii) thereafter maintain the Project Account during the entire Project implementation period, and replenish said Account regularly with funds sufficient to ensure the Recipient's Project co-financing obligations; and (iii) use the amount in the Project Account exclusively for financing the Recipient's contribution to Project expenditures.

Section 3.04. For the purposes of Section 6.09 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 designed 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, through its MoE, 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 Recipient, through its MoE, 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, through its MoE, 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 Part B.1 (b) of Schedule 4 to this Agreement, the Recipient, through its MoE, 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**

### **Effectiveness; Termination**

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

(a) the PIU has been established by the Recipient and is fully operational, with structure, functions and staffing necessary to start implementation of the Project; and

(b) the Operational Manual, satisfactory to the Association, has been adopted by the Recipient.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VI**

### **Representative of the Recipient; Addresses**

Section 6.01. The Minister of Education 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 Education of the Kyrgyz Republic  
257 Tynystanova Street  
Bishkek City, 720040  
Kyrgyz Republic

Telex:

245-156NUR KH

Facsimile:

(996 312) 66-24-42

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 Bishkek, Kyrgyz Republic, as of the day and year first above written.

KYRGYZ REPUBLIC

By /s/ Bolot Abildaev

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ J. Christopher Lovelace

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Grant**

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	40,000	100%
(2) Goods, equipment and materials	3,540,000	100%
(3) Sub-grants under Part B.1 of the Project	820,000	100% of the amounts disbursed
(4) Consultants' services, including audit	3,150,000	100% of local expenditures 90% of foreign expenditures
(5) Training	620,000	100%
(6) Incremental operating costs	190,000	100%
(7) Teacher incentives	690,000	100%
(8) Unallocated	<u>1,050,000</u>	
TOTAL	<u>10,100,000</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 Recipient for services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient for services supplied from the territory of the Recipient;

(c) the term “training” means expenditures incurred on account of Project related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers;

(d) the “teacher incentives” means the reasonable cost of performance incentives to teachers working in schools in Issyk-Kul and Talas oblasts, and incentives to new teachers working in rural schools referred to in Parts A.3 and A.4 of the Project, respectively, to be paid based on criteria, principles and procedures set forth in the Operational Manual; and

(e) the term “incremental operating costs” means the incremental expenses incurred by TRF, MoE’s assessment unit, education budgeting and strategic planning unit and the PIU, on account of the Project implementation such as the costs of communication, printing and publications, translation, supplies, vehicle operation and maintenance, bank charges, local travel costs and field trip expenses and such other reasonable expenditures as may be agreed upon by the Association, all based on an annual budget to be prepared by the PIU which shall have been approved by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for: (a) works and goods under contracts costing less than \$100,000 equivalent each; (b) services under contracts costing less than \$100,000 equivalent each for consulting firms and services under contracts costing less than \$50,000 equivalent each for individual consultants; (c) Sub-grants; (d) training; (e) incremental operating costs; and (f) teacher incentives, 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 improving learning and learning conditions in primary and secondary schools, with priority attention to rural areas.

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: Improved Teacher Incentives**

1. Improving the existing school-based self-appraisal procedures for teachers and school principals by development of model performance management arrangements.
2. Development of national guidelines and criteria for performance evaluation, including new external verification procedures to support the existing school evaluation commissions in carrying out performance evaluation for teachers and school principals.
3. Development of a performance incentive scheme for teachers and school principals, including a pilot implementation of the scheme through the provision of performance incentives to teachers working in schools of Issyk-Kul and Talas oblasts.
4. Provision of incentives to new teachers willing to work in rural schools.
5. Technical assistance and training of teachers, school principals, and education administrators in implementation of the new performance management system.

#### **Part B: School Sub-grants for Improved Learning**

1. Provision of Sub-grants to schools in Issyk-Kul and Talas for the implementation of learning improvement plans (LIPs) through the following Sub-projects: (a) Sub-projects promoting students' learning improvement and providing support to disadvantaged students; (b) Sub-projects supporting the improvements of teachers' performance; and (c) Sub-projects providing students and/or schools with instructional equipment and learning materials and small repairs to schools.
2. Technical assistance and training to schools and communities in preparing and implementation of the Sub-projects.

### Part C: Textbooks and Learning Materials

1. Improving textbooks provision to schools by: (a) developing of new textbooks and teacher manuals; (b) financing reprints of existing textbooks and teacher manuals; (c) provision of financing for textbooks and teacher manuals with new titles and new content; (d) setting up the TAB responsible for establishing technical specifications and evaluation criteria for textbook authorship and publishers, including evaluation criteria for bidding of new textbooks and teacher's guides; (e) training of textbook authors and publishers, and TAB management and members to develop new, modern textbooks; and (f) providing support in the implementation of a program described in a Letter of Textbook Development Policy.
2. Improving the textbook rental scheme, including establishment of the TRF as an autonomous body with its own managing board representing the MoF, MoE, and other relevant ministries and agencies of the Recipient, and the TRF manager, and staff responsible for setting the level of rental fees on an annual basis.
3. Provision of learning materials such as teachers' guides, supplementary reading materials, library books, maps, globes, mathematical and other scientific instruments, and laboratory equipment to all schools of the Recipient based on lists of materials each school requires.

### Part D: Student Assessment

1. Improving school-based and classroom-based formative assessment by developing, field testing and disseminating of teacher support materials, sample tasks and tests to improve teachers' own assessment, including workshops.
2. Technical assistance to the MOE and the Kyrgyz Academy of Education specialists in: (a) preparing and field testing of assessment questions and answers to be used for students' national examinations; and (b) reviewing annual student promotion exams to bring them into line with agreed achievement standards for each grade level.
3. Support to the carrying out the periodic sample-based national surveys of student achievements, including improving of test items for these sample surveys.
4. Provision of financing to support participation of the Recipient in the Organization for Economic Cooperation and Development's Programme for International Student Assessment.
5. Technical assistance and capacity building to the MOE to: (a) set up an assessment unit, including defining its tasks and responsibilities and its institutional relationship; (b) recruit and design training programs for local specialists; (c) advise on technical and material resource requirements (security, equipment, logistics); and

(d) support the participation of staff in international organizations and conferences, including regional activities.

Part E: Education Budgeting and Strategic Planning

1. Provision of technical assistance, training and office equipment and software for establishing an education budgeting and strategic planning unit within the MoE.
2. Preparing four annual cycles of commissioned strategy papers on priority topics on education budgeting and planning, including annual policy workshops to discuss the findings and recommendations of the strategy papers.
3. Technical assistance, training, workshops, studies and surveys to monitor and evaluate the Project outputs and outcomes.

Part F: Project Management Support

Provision the PIU with office furniture, a vehicle, office equipment, software, technical assistance and training for its staff and financing of minor office refurbishing, operating costs, audit of Project activities, and public information services.

\* \* \*

The Project is expected to be completed by September 30, 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 for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule. If the Recipient employs any procurement or inspection agents, it shall ensure that the requirements of Section 3.10 and 3.11 of the Procurement Guidelines are met.

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 in accordance with the provisions of Section II of the Procurement Guidelines. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, 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. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.



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

3. Community Participation. Goods, works and services required for Sub-grants under Part B.1 of the Project may be procured on the basis of community participation in accordance with the procedures set forth in the Operational Manual.

### 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. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

#### B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. 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.

4. Selection Based on Consultants' Qualifications. Services 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, 3.7 and 3.8 of the Consultant Guidelines.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the record of justification for such contracts, referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines, shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

## **SCHEDULE 4**

### **Implementation Program**

#### Part A: Project Management

1. The Recipient, through MoE, shall maintain BoTs during Project execution which, in close cooperation with the PIU, shall be responsible for Sub-projects preparation, evaluation and implementation supervision, including accounting, procurement and reporting issues, in accordance with the provisions of the Operational Manual.
2. The Recipient, through MoE, shall maintain the PIU during execution of the Project, with staffing and resources adequate to enable the PIU to effectively implement the Project which shall be responsible for financial management, procurement, disbursement, and preparation of progress reports and annual reports in respect of or related to the Project.
3. The Recipient shall, by December 31, 2006, establish and thereafter maintain the TAB during the execution of the Project with terms and reference satisfactory to the Association.
4. The Recipient shall, by December 31, 2006, establish and thereafter maintain a new textbook rental scheme, including the TRF during the execution of the Project with terms of reference satisfactory to the Association.
5. The Recipient, through MoE, shall take all necessary measures to implement the Project activities, including Sub-projects in accordance with the EMP.

#### Part B: Reporting and Monitoring

1. The Recipient shall:
  - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable 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 September 30, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, 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 December 31, 2007, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph, 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.

2. The Recipient, through PIU: (a) shall provide to the Association, by September 15 and March 15 of each year throughout the execution of the Project, a semi-annual report on the progress of Project implementation, of such scope and such detail as the Association shall reasonably request, including a draft annual Project plan for the following year; and (b) shall carry out annual assessment to monitor the impact of the Project.

Part C: Learning Improvement Sub-grants

1. The Recipient shall carry out Part B.1 of the Project in accordance with the provisions of the Operational Manual and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual without prior approval of the Association.

2. For the purposes of carrying out Part B.1 of the Project, the Recipient, through MoE, shall ensure that:

(a) PIU, in close cooperation with the BoTs of eligible schools, shall select Sub-projects for financing from the proceeds of the Grant in accordance with criteria and selection procedures set forth in the Operational Manual;

(b) PIU shall submit for the Association's review proposals for Sub-projects which shall have been reviewed and decided upon by BoTs of eligible schools, as the Association may from time to time reasonably request;

(c) PIU shall provide financing, on a grant basis, for approved Sub-projects pursuant to a standard agreement, in a format and substance acceptable to the Recipient and the Association (the Sub-grant Agreement), to be entered into between PIU and a Beneficiary, and such Sub-grant Agreement shall include, *inter alia*:

- (i) a description of the Sub-project, together with an estimate of the cost thereof;
- (ii) the amount to be provided to a Beneficiary under a Sub-grant Agreement and a disbursement schedule;
- (iii) the implementation schedule for the Sub-project;

- (iv) an amount of co-financing to be provided for the Sub-project by the Beneficiary and/or evaluation of in-kind contribution to the Sub-project;
  - (v) the obligation of the Beneficiary to procure small works, goods and services to be financed under the Sub-grant Agreement in accordance with the procedures set forth in the Operational Manual and to comply with the EMP provisions;
  - (vi) the obligation of the Beneficiary to report to PIU on the progress of Sub-project implementation and to enable representatives of PIU and of the Association, if the Association shall so request, to visit the facilities, construction sites or other activities to be financed under the Sub-grant Agreement; and
  - (vii) the obligation of the Beneficiary to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Grant made available to the Beneficiary under the Sub-grant Agreement and to submit to PIU at regular intervals statements with respect to such records and accounts.
- (d) PIU shall submit for the Association's approval the first two Sub-grant Agreements for each category of Sub-projects referred to in Part B.1 of Schedule 2 to this Agreement, prior to entering into such agreements with Beneficiaries.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories means Categories (1), (2), (3), (4), (5), (6) and (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Grant 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 \$1,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,500,000.
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 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 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 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 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories 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.”