Development Credit Agreement

(Post Secondary Education Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 4, 2005
CREDIT NUMBER 3984 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 4, 2005, between the Federal Democratic Republic of Ethiopia (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated March 4, 2004, describing a program designed to increase the quality and accessibility of its post-secondary education, improving the quality of teaching and learning, increasing innovation and modernization at all levels of its institutions for higher education;

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

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 May 1, 2004), (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Annual Work Plan” means a plan submitted by the Borrower during each Project Year (as hereinafter defined), and the first such plan referred to in Section 6.01 (d) of this Agreement, setting forth planned activities, budget, as well as financial, accounting, disbursement, procurement and administrative procedures for implementation of Parts A.2 and B of the Project, and, “Annual Work Plans” means all
such plans referred to in paragraph 5 of Schedule 4 to this Agreement, as the same may be amended from time to time;

(b) “Birr” means the currency of the Borrower;

(c) “DIF” means a development innovation fund, established by the Borrower as a mechanism for promoting innovation and modernization in the Higher Education (as hereinafter defined) system, and which constitutes Part A.3 of the Project;

(d) “DIF Beneficiary” means a Public Institution (as hereinafter defined) to which a DIF Grant is made under Part A.3 of the Project;

(e) “DIF Grant Agreement” means the Agreement to be entered into between the Borrower and a DIF Grant Beneficiary for the purpose of financing a DIF Subproject under Part A.3 of the Project;

(f) “DIF Grant” means a grant made or proposed to be made to a Public Institution (as hereinafter defined) under Part A.3 of the Project;

(g) “DIF Operational Manual” means the manual referred to in Section 6.01 (c) of this Agreement and consisting of different schedules setting forth the eligibility criteria, terms and conditions of DIF Grant and Performance Agreements and their procurement, accounting, evaluation and monitoring requirements, and other related procedures for processing of DIF Subprojects (as hereinafter defined), including, detailed performance indicators to be used for Part A.3 of the Project, as the same may be amended from time to time;

(h) “DIF Oversight Committee” means the committee referred to in paragraph 1 (b) of Schedule 4 to this Agreement with the responsibility for providing oversight and policy guidance under Part A.3 of the Project;

(i) “DIF Subproject” means a proposal by an academic staff member or administrator of a Public Institution (as hereinafter defined) for advancement of performance of academic programs or management functions, and consistent with the Public Institution’s strategic plan;

(j) “EHESI” means Ethiopia Higher Education Strategy Institute, a unit in the MoE (as hereinafter defined);

(k) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;
(l) “Fiscal Year” and “FY” mean the borrower’s fiscal year beginning July 8 and ending July 7 of the next calendar year;

(m) “Higher Education” means Higher Education as defined in the Higher Education Proclamation No. 351 of 2003, of the laws of the Borrower;

(n) “Institutional Development Grant Beneficiary” means any of the following Higher Education (as hereinafter defined) institutions: Addis Ababa University, Alemaya University, Arba Minch University, Bahir Dar University, Gondar University, Debub University, Jimma University, Makale University and Nazareth College of Technical Teacher Education, all to whom Institutional Development Grant may be made under Part A.1 of the Project;

(o) “Institutional Development Grant Performance Agreement” means the Agreement to be entered into between Borrower and an Institutional Development Grant Beneficiary for the purpose of financing an activity under Part A.1 of the Project;

(p) “Institutional Development Grant” means a grant made or proposed to be made to a Block Grant Beneficiary (as hereinafter defined) under Part A.1 of the Project;

(q) “MoE” means the Borrower’s Ministry of Education;

(r) “NBE” means National Bank of Ethiopia, the Borrower’s central bank;

(s) “PPD” means the Planning and Programming Department within MoE with the responsibility for reviewing, screening, appraising and recommending proposals for DIF Subprojects under Part A.3 of the Project;

(t) “Procurement Plans” means the Borrower’s procurement plans for: (i) Part A of the Project; and (ii) Part B of the Project, all dated June 2, 2004 covering the initial 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 18 month periods (or longer) of Project implementation;

(u) “Project Account” means the account referred to in Section 3.04 of this Agreement;

(v) “Project Year” means the twelve-month period beginning on September 1, 2004, and ending on September 1, 2005, (the First Project Year), and any twelve-month period beginning at the end of the First Year, or end of subsequent Project Years;
(w) “Public Institution” means a public institution as defined under the Higher Education Proclamation;

(x) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement;

(y) “TVET” means Technical and Vocational Education and Training under the Borrower’s established vocational training centers;

(z) “TVET Office” means the office within MoE with the responsibility for coordination, management and monitoring of activities under Part B of the Project, as further described in paragraph 3 (c) of Schedule 4 to this Agreement; and

(aa) “TVET Steering Committee” means the committee with the responsibility for oversight and policy guidance of activities under Part B of the Project, as further described in paragraph 3 (b) 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 twenty-seven million four hundred thousand Special Drawing Rights (SDR 27,400,000).

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 the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the Association shall so agree, to be paid) by Borrower on account of withdrawals made by: (A) an Institutional Development Grant Beneficiary under an Institutional Development Grant, or (B) a DIF Beneficiary under a DIF Grant, all to meet the reasonable cost of goods and services required for the carrying out of an activity under Part A.1 of the Project, or a DIF Subproject under Part A.3 of the Project, in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars in NBE: (i) a special deposit account (Special Account “A”) for purposes of depositing the corresponding proceeds of the Credit for Part A.3 of the Project; and (ii) a
special deposit account (Special Account “B”) for the purposes of depositing the corresponding proceeds of the Credit for Parts A.1, A.2 and B of the Project, all on terms and conditions satisfactory to the Association. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 1, 2009, 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 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 May 15 and November 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 May 15 and November 15 commencing November 15, 2014 and ending May 15, 2044. Each installment to and including the installment payable on May 15, 2024 shall be one
percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower’s per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower’s economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower’s economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.
ARTICLE III

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the 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. (a) Except as the Association shall otherwise agree, procurement of the goods 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, as said provisions may be further elaborated in the Procurement Plans.

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

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure continued achievement of Project’s objectives; and

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

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower, for the purpose of making available its counterpart contribution to the financing of the Project, shall:
(a) open and maintain, for the duration of the Project, an account in Birr in NBE, on terms and conditions satisfactory to the Association (the “Project Account”);

(b) promptly thereafter, make an initial deposit in an amount of Birr 170,000 to finance its contribution to the costs of the Project;

(c) thereafter deposit into the Project Account on a quarterly basis, the amount required to timely replenish said Project Account back to the amount of the initial deposit; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services for the Project in addition to those financed from the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall 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 Borrower 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 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. Without limitation upon the Borrower’s progress reporting obligations set out in paragraphs 10 and 11 of Schedule 4 to this Agreement, the Borrower 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 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.

Section 4.03. The Borrower shall, not later than 6 months after Effective Date, appoint the independent auditors referred to in Section 4.01 (b) of this Agreement, with experience and qualifications satisfactory to the Association, and shall employ them in accordance with the provisions of Section III of Schedule 3 to this Agreement.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the program or a significant part thereof will be carried out.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions:

(a) the Borrower has: (i) established the accounting and financial management system, in form and substance satisfactory to the Association, to ensure proper accounting and monitoring of Project funds; (ii) prepared standard reporting formats and chart of accounts on recording and reporting of Project financial transactions, in form and substance satisfactory to the Association; and (iii) employed two accountants to the Planning and Programming Department, with qualifications and terms of reference satisfactory to the Association;
(b) the Borrower has opened the Project Account pursuant to Section 3.04 (a) of this Agreement and has deposited therein the initial deposit referred to in Section 3.04 (b) of this Agreement;

(c) the Borrower has adopted the DIF Operational Manual with all schedules thereof, in form and substance satisfactory to the Association; and

(d) the Borrower has completed an Annual Work Plan for implementation of Parts A.2 and B of the Project during the first Project Year, satisfactory in form and substance to the Association.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economic Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance and Economic Development
Ministry of Finance and Economic Development
PO Box 1905
Addis Ababa
Federal Democratic Republic of Ethiopia

Telex: Facsimile:

2114 251-1551355
2115
For the Association:

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

Cable address: Telex: Facsimile:  
INDEVAS 248423 (MCI) or (202) 477-6391  
Washington, D.C. 64145 (MCI)  

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

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Sufian Ahmed  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ishac Diwan  
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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) for Part A.2 of the Project</td>
<td>1,100,000</td>
<td>100% of foreign expenditures and 90% of local expenditures</td>
</tr>
<tr>
<td>(b) for Part B of the Project</td>
<td>900,000</td>
<td></td>
</tr>
<tr>
<td>(2) Consultants’ services and training, including audits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) for Part A.2 of the Project</td>
<td>1,630,000</td>
<td>100% of foreign expenditures and 85% of local expenditures</td>
</tr>
<tr>
<td>(b) for Part B of the Project</td>
<td>1,850,000</td>
<td></td>
</tr>
<tr>
<td>(3) Institutional Development Grant under Part A.1 of the Project</td>
<td>10,940,000</td>
<td>100% of the amount disbursed</td>
</tr>
<tr>
<td>(4) DIF Subprojects under Part A.3 of the Project</td>
<td>10,300,000</td>
<td>100% of the amount disbursed</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td>680,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>27,400,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
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; and

(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.

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 made for expenditures under Category (3) for Institutional Performance Development Grants unless, an Institutional Development Grant Performance Agreement has been entered into between the Borrower and an Institutional Development Grant Beneficiary, in accordance with the terms and conditions referred to in paragraph 7 of Schedule 4 to this Agreement, as shall be evidenced by the first such Institutional Development Grant Performance Agreement furnished to the Association for its prior approval;

(c) payments made for expenditures under Categories (1) and (2) unless the Higher Education institution and the TVET institution have each, submitted an Annual Work Plan based on expected expenditure for their respective institutional development, as set forth in paragraph 9 of Schedule 4 to this Agreement, and focusing on the Borrower’s development policy objectives; and

(d) payments made for expenditures under Category (4), until and unless: (i) a DIF Grant Agreement has been entered into between the Borrower and a DIF Beneficiary, in accordance with the terms and conditions referred to in paragraph 6 of Schedule 4 to this Agreement, as shall be evidenced by the first such DIF Grant Agreement furnished to the Association for its prior approval; and (ii) the Borrower has employed a short term international procurement specialist and a long term national procurement specialist, in accordance with the provisions of Section III of Schedule 3 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $150,000 equivalent per contract; (b) for services of individual consultants costing less than $50,000 equivalent per contract; and (c) for services of consulting firms under contracts costing less than $100,000 equivalent per contract, 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 Borrower’s efforts to increase human resource development capacity at its post-secondary education level.

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: University Education

1. Supporting improvement of education quality and relevance, including implementation of policy reforms set forth in the Higher Education Proclamation, through the provision of Institutional Development Grants to an Institutional Grant Beneficiary.

2. Strengthening the capacity of MoE for management of expanded higher education functions, including establishment of three new higher education system support agencies including, a quality and relevance assurance agency, a higher education strategy institute, a national pedagogical resource center and institutional pedagogical resource centers, all through the acquisition of goods and provision of technical advisory services.

3. Establishing the Development Innovation Fund, as a financing mechanism for promoting innovation and modernizing staff teaching, student learning and management of the DIF Beneficiaries, including supporting, inter alia, DIF Subprojects proposals for innovative development activities including, post-graduate degree education, professional training, research, teaching and laboratory equipment, information technology, scientific journals, textbooks, expatriate academic staff, administration reorganization, institutional partnerships, consultation meetings, technical workshops and strengthening the capacity for management and institutional planning.

Part B: Technical and Vocational Innovation Education and Training

Strengthening the capacity of MoE to implement TVET reform, including:

1. carrying out professional and skill development programs to build the capacity for TVET systems, including, long-term degree training and advanced diploma programs in high priority areas, and short-term training through workshops and seminars.
2. supporting activities for monitoring, evaluating and researching the impact of TVET system reforms, and carrying out studies at the regional and federal levels in specific occupational areas to determine training needs for developing quality and accurate curricula of TVET studies, developing and testing new curricula and assessment methodologies to validate testing and certification procedures.

3. supporting the design and testing of new instructional programs and working relationships and partnerships, including developing and testing curricula for effectiveness and relevancy, developing prototype instructional materials and assessment instruments for sharing with training providers, developing training curricula in new areas of post-graduate studies to build the capacity for TVET personnel at policy and implementation levels, revising existing middle level training curricula to incorporate new service standards and accreditation requirements.

* * *

The Project is expected to be completed by March 1, 2009.
SCHEDULE 3

Procurement

Section I. General

A. All goods 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.

B. All 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” 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 Bank 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

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 preferences in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than $150,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping

Goods estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping.
3. 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.

4. Procurement from UN Agencies

Office and field equipment estimated to cost less than $100,000 equivalent per contract, may be procured directly from Inter-Agency Procurement Services Office (IAPSO) in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods for 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 the purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $200,000 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 on the basis of Least-cost-Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.
3. **Selection Based on Consultants’ Qualifications**

   Services 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.

4. **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.

5. **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 the Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association:

   (a) each contract for goods estimated to cost the equivalent of $150,000 or more;

   (b) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; and

   (c) each contract for consultants’ services provided by individual consultants estimated to cost the equivalent of $50,000 or more.

All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

A. Institutional Arrangements

Part A of the Project

1. The Borrowers shall, in relation to Part A of the Project, maintain at all times during Project implementation:

   (a) MoE, specifically the Office of the Vice Minister for Higher Education, with the responsibility for overall coordination and monitoring of implementation of activities under Part A of the Project, including administration of Institutional Development Grants and DIF Subprojects;

   (b) DIF Oversight Committee with the responsibility for providing oversight and policy guidance in implementation of the DIF Subprojects. To this end, the DIF Oversight Committee shall be comprised of the Vice Minister for Education, a representative of the MoFED, Head of PPD and the director of EHESI; and

   (c) PPD with the responsibility for: (i) financial management, procurement and administrative functions of the Project; (ii) encouraging innovation and modernization of the higher education system, (iii) publicizing proposals for DIF Subprojects; (iv) ensuring consistency of proposals of DIF Subprojects with the Borrower’s policy priorities for higher education, and timely submission, review and recommendation of proposals for DIF Subprojects to the respective Area Review Panel for approval; (v) reviewing and approving DIF Subprojects appraised by a Beneficiary’s Proposal Review Committee; and (vi) preparing Performance Agreements for approved DIF Subprojects. To this end, the PPD shall designate focal persons with experience and qualifications, including work performance satisfactory at all times to the Association.

2. The Borrower shall cause each DIF Beneficiary to establish and thereafter maintain at all times during the Project implementation, a Proposal Review Committee with the responsibility for: (a) reviewing, appraising, evaluating and recommending to the PPD through the respective Academic Vice President, proposals for DIF Subprojects not exceeding $20,000 (Level 1 Subproject Proposals), for funding; and (b) reviewing, appraising, evaluating and recommending, through the respective Academic Vice President to the PPD, proposals for DIF Subprojects not exceeding $150,000 (Level 2 Subproject Proposals), for processing through the respective Area Review Panel and funding, all in accordance with the criteria established in the DIF Operational Manual.
Part B of the Project

3. The Borrower shall, in relation to Part B of the Project, maintain at all times during Project implementation:

   (a) MoE, specifically the TVET Office, with the responsibility for overall coordination and monitoring of implementation of activities under Part B of the Project;

   (b) TVET Steering Committee for providing oversight and policy guidance in implementation Part B of the Project. To this end TVET Steering Committee shall be comprised of, *inter alia*, a representative of the MoE, the employer’s federation, the chamber of commerce, TVET regional commissions, labor providers, non-governmental organizations, and may incorporate such external specialists, as may be necessary from time to time; and

   (c) TVET Office, with the responsibility for preparing and submitting Annual Work Plans for activities under Part B of the Project, including, *inter alia*, review of status in implementation of activities under the preceding Project Year’s Work Plan and proposed budget plan for the succeeding Project Year.

B. Execution Covenants

Part A.3 of the Project

4. Except as the Association shall otherwise agree, for the purpose of Part A.3 of the Project, the Borrower shall: (a) apply the criteria, policies, procedures and guidelines set forth in the DIF Operational Manual; and (b) not amend, or abrogate, or waive, or permit to be amended, abrogated or waived, the DIF Operational Manual, or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of Part A.3 of the Project.

5. Eligibility Criteria for DIF Subprojects

   Without limitation to the provisions of paragraph 4 of this Schedule, no proposal for a DIF Subproject shall be eligible for financing out of the proceeds of the Credit, unless the PPD shall have determined on the basis of appraisal conducted in accordance with the guidelines set forth in the DIF Operational Manual, that the relevant DIF subproject satisfies the eligibility criteria specified in the DIF Operational Manual, which shall include the following:
(a) the purpose of the DIF Subproject shall be to advance performance of academic programs or management functions, and in compliance with a DIF Beneficiary strategic plan; and

(b) the proposal for DIF Subproject shall be developed by an academic staff member or administrator of a DIF Beneficiary, and identify the means for achieving the advancement of performance of academic programs, including, *inter alia*, undergraduate programs, graduate programs, and leadership and management activities.
6. Terms and Conditions for DIF Grant and Performance Agreements

In financing DIF Subprojects, MoE shall enter into DIF Grant Agreements with the Beneficiaries concerned under terms and conditions which shall include the following:

(a) financing shall be on a grant basis, at two levels: (i) level 1 proposals for DIF Subprojects shall not exceed $20,000 equivalent per grant, and (ii) level 2 proposals for DIF Subprojects shall not exceed $150,000 equivalent per grant;

(b) the requirement that the goods, services and training financed out of the proceeds of the DIF Grant be procured in conformity with the provisions set forth in Schedule 3 to this Agreement and the DIF Operational Manual, and that such goods, services and training, shall be used exclusively in the carrying out of the relevant DIF Subproject; and

(c) provide the right of MoE to suspend or terminate the right of a DIF Beneficiary to use the proceeds of the DIF Grant upon failure by the DIF Beneficiary to perform any of its obligations under the DIF Grant.

Part A.1 of the Project

7. Terms and conditions for Financing Activities under Institutional Development Grants

(a) Pursuant to the provisions of paragraph 8 of this Schedule, any activity under Part A.1 of the Project shall be: (i) initiated by an Institutional Development Grant Beneficiary and identified as an activity within the specific policy reforms, set forth in the Higher Education Proclamation; and (ii) in compliance with the Borrower’s strategy for development of Higher education.

(b) The MoE shall ensure that to be eligible to carry out an activity under Part A.1 of the Project, an Institutional Development Grant Beneficiary shall have: (i) submitted to MoE for review and approval, a work plan, including proposed application of the Institutional Development Grant; (ii) completed a draft strategic development plan; and (iii) fulfilled the following annual conditions: (A) commencing FY 2004 and subsequent FYs, establish graduate tax to entering undergraduate students, prior to or during FY 2004, complete and appoint DIF Area Review Panels; (B) during FY 2005, approve and implement on an initial formula for determining amount and disbursement system of the block grants, under the Borrower’s program to support Higher Education Institutions; (C) prior to or during FY 2006, and implement its institutional accreditation system; and (D) during FY 2007, review its cost sharing scheme and the block grant
formula, and have its inter and intra university education information system and financial management reporting systems operational.

8. **Institutional Development Grant Performance Agreements**

For the purpose of Part A.1 of the Project, the Borrower shall conclude an Institutional Development Grant Performance Agreement with each Institutional Development Grant Beneficiary, stating details of disbursement and procurement procedures and the following additional terms and conditions:

(a) require the Institutional Development Grant Beneficiary to carry out the activities under Part A.1 of the Project with due diligence and efficiency and in accordance with financial, managerial standards and practices, and maintain adequate records;

(b) obtain all such information as the Association or the Borrower shall reasonably request relating to implementation of Part A.1 of the Project, and the performance of the Institutional Development Grant Beneficiary thereunder; and

(c) suspend or terminate the right of an Institutional Development Grant Beneficiary to use the proceeds of the Credit upon failure by such an Institutional Development Grant Beneficiary to perform its obligations under the Institutional Development Grant Participation Agreement.

9. **Parts A.2 and B of the Project**

The Borrower shall in relation to Parts A.2 and B of the Project: (a) not later than May 31 of each year, prepare and furnish to the Association an Annual Work Plan for the succeeding Project Year, in a form and substance satisfactory to the Association; (b) prepare and submit the Annual Work Plan for the first Project Year provided for under Section 6.01 (d) of this Agreement; and (c) thereafter implement Parts A.2 and B of the Project or cause Parts A.2 and B of the Project to be implemented in accordance with each Annual Work Plan, and, except as the Borrower and the Association shall otherwise agree, not amend or waive any provision thereof, if in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of Parts A.2 and B of the Project or the objectives of the Project.
C. Monitoring and Reporting

10. The Borrower shall:
   
   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;
   
   (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about May 31 in each FY, a report integrating the results of the monitoring 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 in each FY, 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.

11. Midterm Review

   The Borrower shall:
   
   (a) not later than March 30, 2006 carry out jointly with the Association a mid-term review, which shall cover: (i) overall progress in the implementation of the Project in meeting the objectives thereof; and (ii) the results of the monitoring and evaluation activities, as measured against the performance indicators;
   
   (b) not later than one month before the review referred to in subparagraph (a) above, prepare and furnish to the Association a report in such scope and detail as the Association shall reasonably request, on the implementation of the Project and achievement of the objectives thereof, including a program of action to deal with potential deficiencies in Project implementation as may have been identified prior to carrying out such review; and
   
   (c) thereafter, act promptly and diligently in order to 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 Accounts

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1) through (4) 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:

      (i) in respect of the Special Account A, an amount equivalent to $2,000,000 to be withdrawn from the Credit Account and deposited into said Special Accounts 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 $1,500,000 in respect of the Special Account A for Part A.3 of the Project, until the aggregate amount of withdrawals from the Credit Account of the amount allocated to Part A.3 of the Project 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 4,000,000; and

      (ii) in respect of the Special Account B, an amount equivalent to $3,000,000 to be withdrawn from the Credit Account and deposited into said Special Accounts 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 $2,000,000 in respect of the Special Account B for Parts A.1, A.2 and B of the Project, until the aggregate amount of withdrawals from the Credit Account of the amount allocated to Parts A.1, A.2 and B of the Project 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 6,000,000.
2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested;

   (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective Special Account at such intervals as the Association shall specify; and

   (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 respective 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 respective 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 respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:
(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account 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 Accounts;

(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 for the respective Special Account, 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.
SCHEDULE 6

Performance Indicators

Unless otherwise agreed to by the Association, for the purpose of this Agreement, the performance indicators for implementation of the Project are as follows:

Part A of the Project

1. Number of accredited programs and institutions.

2. Number of faculty/ instructors upgraded through short-term and degree training, disaggregated by gender.

3. Number of comprehensive Innovation proposals submitted and successfully implemented.

4. Number of master’s degrees and PhDs awarded annually, disaggregated by gender.

5. Number of institutional administrators and managers upgraded.

6. Percentage of entering students finishing on time, disaggregated by gender.

7. Percentage of age cohort enrolled in: (a) undergraduate programs, (b) graduate programs, and (c) TVET programs, all disaggregated by gender.

Part B of the Project

1. Number of course curricula revised and improved.

2. Number of regional trade and testing centers established and functioning.

3. Number of institution and department level administrators upgraded through short-term and degree training.

4. Number of workshops and seminars offered with input from international technical assistance.
5. Tracer studies and labor market assessments conducted.
6. Number of MA graduates, disaggregated by gender.
7. Number of Advanced Diploma graduates, disaggregated by gender.