Financing Agreement

(Education Quality Reform Project)

between

MONGOLIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 18, 2015
FINANCING AGREEMENT

AGREEMENT dated June 18, 2015, entered into between MONGOLIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to nineteen million and five hundred thousand Special Drawing Rights (SDR19,500,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are March 1 and September 1 in each year.

2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollars.
2.08. The Payment Currency is Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Education, Culture, and Science in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

4.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its Minister of Finance.

5.02. The Recipient’s Address is:

    Ministry of Finance
    Government Building II
    United Nations Street 5/1
    Ulaanbaatar 15015
    Mongolia
Facsimile:
976-11-327914

5.03. The Association’s Address is:

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

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 1-202-477-6391
Washington, D.C.

AGREED at , as of the day and year first above written.

MONGOLIA
By

Authorized Representative
Name: JErdenbat
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION
By

Authorized Representative
Name: James Anderson
Title: Country Manager
SCHEDULE 1

Project Description

The objectives of the Project are to improve the quality of education for primary school children in Mongolia, with particular emphasis on improving native language and mathematical skills, and to strengthen school-level planning.

The Project consists of the following parts:

Part 1. Improving Learning Outcomes

1.1. Scale-up of the following activities to all primary schools to achieve the goal of primary education quality reform:

(a) provision of books and materials;
(b) establishment of classroom libraries and support to school libraries;
(c) carrying out of a participatory public reading program;
(d) development of scientific and mathematics-focused children's books; and
(e) content development for special needs children, including those with disabilities.

1.2. Support to the national rollout of early grade native language and mathematical skills assessments for grades 1 and 2 students, including:

(i) development and validation of assessment methodologies;
(ii) training of teachers in the use of these assessment methodologies and the interpretation of results;
(iii) on-site monitoring of and support to the correct use of these assessment methodologies; and
(iv) development of corrective and preventive policies and tailored interventions to improve learning outcomes in native language and mathematical skills in grades 1 and 2.
Support to the national rollout of the national education quality assessment for grade 5, including:

(i) strengthening of the Education Evaluation Center to administer and analyze national assessments for grade 5;

(ii) development and validation of the standardized assessment test for grade 5; and

(iii) training of school administrators and teachers in preparation for the nationwide administration of the national assessment test for grade 5, including training on:
(A) administration of the assessment tests to grade 5 students; (B) scoring and grading of the assessment tests; (C) data capturing and entry; (D) development and administration of quality control mechanisms of the assessment results; and (E) utilization of the assessment results to support systems and policies for pedagogical and curricular improvement.

Part 2. Pre- and In-service Professional Development of Teachers

2.1. Support to the upgrade of teacher quality, through:

(a) support to primary education teacher training institutions, including:

(i) provision of high quality teaching and learning aids and materials, particularly those associated with early grade native language and mathematical skills;

(ii) provision of in-service training to teacher trainers; and

(iii) carrying out of a review of the practicum programs for teacher trainees, particularly relating to the teaching and learning practices of early grade native language and mathematical skills;

(b) development of teaching methodology demonstration lessons to assist teachers initiate children into reading; and

(c) development of teaching methods and materials to improve oral counting, rational counting, number recognition, comparisons of quantity, number sequencing, mathematical reasoning, and the operations of addition and subtraction.
2.2. (a) Skills improvement of teachers, especially with respect to the use of early grade learning materials for native language and mathematical skills;

(b) Provision of in-service training and hand-on support to school principals;

(c) Capacity-building and support to district and provincial education officers, methodologists, school principals and teachers; and

(d) Support to the carrying out of classroom observations using an internationally accepted instrument to measure teachers’ use of instructional time, materials and core pedagogical practices.

Part 3. Implementation of a School Support Program

Provision of financing to eligible schools for the implementation of an approved school quality enhancement proposal, including support to increasing the time in school during the school year and the development of a school-level planning function.

Part 4. System Management, Monitoring and Evaluation

4.1. Provision of technical assistance to the MECS, including:

(a) provision of a chief technical advisor and financial management and procurement specialists attached to the office of the Project Director; and

(b) provision of consulting services to the working groups established for the Project.

4.2. Carrying out of an impact evaluation to assess Project effectiveness, including support to the Department of Monitoring and Evaluation of MECS and to the Education Evaluation Center.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall establish and thereafter maintain throughout the period of Project implementation, a Steering Committee, with composition including representatives from the central public administration organizations in charge of economic development and of finance, satisfactory to the Association, to oversee the implementation of the Project and ensure policy coordination.

2. The Recipient shall designate a Project Director, with qualifications, functions, terms of reference, and support staff satisfactory to the Association, and who shall be responsible for, inter alia: (i) providing overall strategic direction for the Project; (ii) preparing the annual work and procurement plan for the consideration of the Steering Committee; (iii) making day-to-day decisions to ensure the timely implementation of the approved work and procurement plan; and (iv) guiding and coordinating the activities of the working groups established under paragraph 3 of this Section.

3. The Recipient shall establish and thereafter maintain throughout the period of Project implementation, working groups within MECS, with composition, functions, funds, staffing, facilities and other resources in accordance with the Project Operation Manual, to carry out the necessary tasks with respect to planning, preparation, coordination, logistics, implementation, supervision, and monitoring and evaluation of the activities of the Project.

4. The Recipient shall:

   (a) carry out Parts 1, 2 and 3 of the Project, except the national assessment for grade 5, through the department in charge of strategic policy and planning of MECS in close collaboration with the relevant working group;

   (b) carry out Part 4 of the Project through the department in charge of monitoring and evaluation and internal auditing of MECS in close collaboration with the relevant working group; and

   (c) carry out the rollout of the national assessment for grade 5 and manage the data collected under the early grade native language and mathematical skills assessments through the Education Evaluation Center in close collaboration with the relevant working group.
B. Project Operation Manual

1. Without limitation upon the provisions of Section 3.01 of this Agreement, the Recipient shall ensure that the Project is carried out in accordance with the Project Operation Manual.

2. Except as the Association may otherwise agree, the Recipient shall not amend or waive any provision of the Project Operation Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project. In the event of a conflict between the provisions of the Project Operation Manual and those of this Agreement, the provisions of the latter shall prevail.

C. School Support Program

1. For the purpose of carrying out Part 3 of the Project, the Recipient shall make School Financing to eligible schools to finance approved Sub-projects in accordance with eligibility criteria and procedures acceptable to the Association.

2. The Recipient shall make each School Financing under a Sub-financing Agreement with the respective school on terms and conditions approved by the Association, which shall include those set forth in Annex A to this Schedule 2.

3. The Recipient shall exercise its rights under each Sub-financing Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Sub-financing Agreement or any of its provisions.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Safeguards

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Indigenous People Planning Framework.

2. To that end, the Recipient shall ensure that:

   (a) a social assessment of each site-specific activity and/or Sub-project is carried out in accordance with the provisions of the IPPF;
for each site-specific activity and Sub-project, Indigenous Peoples Plans, acceptable to the Association, shall be prepared as required by and in accordance with the IPPF, as the case may be; and

each site-specific activity and/or Sub-project is carried out in accordance with the respective Indigenous Peoples Plan prepared for such site-specific activity or Sub-project.

3. The Recipient shall: (a) not amend the IPPF or any Indigenous Peoples Plan without the prior written approval of the Association; and (b) report any issues on the implementation of the requirements of this section.

4. In the event of a conflict between the provisions of any of the instruments referred to above in paragraph 3 and those of this Agreement, the provisions of the latter shall prevail.

5. The Recipient shall establish and thereafter maintain, throughout the period of Project implementation, a grievance redress mechanism as required by and in accordance with the IPPF.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association and set forth in the Project Operation Manual. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient.
The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods and Non-consulting Services. All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) Direct Contracting; (b) Shopping; and (c) National Competitive Bidding, subject to the following additional provisions:
Additional Procedures for National Competitive Bidding

(a) Applicable Procurement Procedure

Bidding shall be conducted in accordance with the Open Bidding Procedure, as defined in Chapter Two of the Public Procurement Law of Mongolia enacted on December 1, 2005 (as amended through June 16, 2011) and related provisions, subject to the following:

(b) Participation in Bidding and Preferences

(i) Government-owned enterprises in Mongolia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Recipient.

(ii) A bidder declared ineligible by the World Bank, based on a determination by the World Bank that the bidder has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for or in executing a World Bank-financed contract, shall be ineligible to be awarded a World Bank-financed contract during the period of time determined by the World Bank.

(iii) A firm which has been engaged by the Recipient to provide consulting services for the preparation or implementation of a project, and any of its affiliates, shall be disqualified from subsequently providing goods or works resulting from or directly related to the firm's consulting services for such preparation or implementation. This provision does not apply to the various firms which together are performing the contractor's obligations under a turnkey or design and build contract.

(iv) Prospective bidders shall be permitted to request bidding documents either in person or by mail upon submission of a written application. Bidding documents shall be sold to anyone who is willing to pay the required fee for the bidding documents which shall not exceed the cost of reproduction and delivery of such documents.

(v) Interested foreign bidders from eligible countries shall be allowed to participate without being required to associate or form joint ventures with local bidders. Foreign bidders shall be eligible to participate in bidding under the same conditions as
local bidders. Mongolian bidders and goods of Mongolian origin shall be given no preference over foreign bidders, either in the bidding process or in the evaluation of bids.

(vi) Prior registration shall not be a requirement for any bidder to participate in bidding.

(vii) Pre-qualification of contractors shall not be required, except in the case of large or complex works and with the prior written concurrence of the World Bank.

(c) Advertising, Time for Bid Preparation

Invitations to bid shall be advertised in at least one widely circulated national newspaper, allowing sufficient time, normally a minimum of 30 days, for the preparation and submission of bids. Bidding documents may be distributed electronically provided that the World Bank is satisfied with the adequacy of such electronic system.

(d) Standard Bidding Documents

Standard bidding documents, acceptable to the World Bank, shall be used. The bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission and opening of bids. Bidders shall be allowed to submit bids by hand, by mail or by courier.

(e) Assessment of Bidder’s Qualification

Qualification criteria shall be clearly specified in the bidding documents, and all criteria so specified, and only criteria so specified, shall be used to determine whether a bidder is qualified. The evaluation of the bidder’s qualifications shall be conducted separately from the technical and commercial evaluation of the bid. When post qualification is applied, the assessment of bidder’s qualifications shall be carried out only after the preliminary and detailed evaluation of bids has been completed by the Recipient and, in doing so, the qualifications of the bidder who has submitted the lowest evaluated substantially responsive bid shall be assessed first. The evaluation of a bidder’s qualifications shall only take into account the bidder’s capacity and resources to perform the contract, specifically its experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction or manufacturing facilities and financial capacity. In carrying out the post-qualification assessment, the Recipient shall exercise reasonable judgment in requesting, in writing, from a bidder
only missing factual or historical supporting information related to the bidder’s qualifications and shall provide a reasonable time period (that is, a minimum of seven days) to the bidder to provide his response.

(f) **Evaluation Criteria**

Evaluation criteria to be used in the evaluation of bids shall be clearly specified in the bidding documents, and evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used in bid evaluation. The evaluation of bids shall be done in strict adherence to the criteria specified in the bidding documents, and contracts shall be awarded to the qualified bidder offering the lowest evaluated and substantially responsive bid.

(g) **Bid Opening and Bid Evaluation**

(i) Bids shall be opened in public, immediately upon the stipulated deadline for submission of bids. Bidder’s representatives and the project’s beneficiaries from the concerned local community who choose to attend shall be allowed to attend. The name of the bidder and total amount of each bid, including discounts, shall be read aloud and recorded in the Bid Opening Record. Bids received after the deadline for bid submission shall be rejected and returned to the bidders unopened. Immediately after completion of the bid opening proceedings, a copy of the Bid Opening Record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the Bid Opening Record shall be promptly provided to all bidders who submitted bids. With respect to all contracts which are subject to the World Bank’s prior review, the Recipient shall provide the World Bank a copy of the Bid Opening Record.

(ii) All bids shall not be rejected or new bids invited without the World Bank’s prior written concurrence.

(iii) No bid shall be rejected merely on the basis of a comparison with the owner’s estimated cost or budget ceiling without the World Bank’s prior written concurrence.

(iv) A bid containing material deviations from or reservations to the terms, conditions or specifications of the bidding documents shall be rejected as not substantially responsive. A bidder shall not be permitted to withdraw material deviations or
reservations once bids have been opened. Bidders shall not be eliminated from detailed evaluation on the basis of non-material, minor deviations or reservations.

(v) Bidders shall be requested to extend the validity of their bids only under exceptional circumstances and, in all such cases, the Recipient shall communicate such request in writing to all bidders before the date of expiry of their bids. In such a case, bidders shall not be requested nor permitted to amend the price or any other condition of their bid. Bidders shall have the right to refuse to grant such an extension of the validity of their bids without forfeiting their bid securities, but bidders granting such extension shall be required to provide a corresponding extension of their bid security.

(vi) In the case of contracts of more than eighteen (18) months’ duration, the bidding documents and the resultant contract shall provide for price adjustment, based on a formula acceptable to the World Bank, which shall be disclosed to the bidders in the bidding documents.

(vii) The bid of a bidder which refuses to accept arithmetical corrections made by the Evaluation Committee during the evaluation of its bid shall be rejected.

(viii) A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents or otherwise to modify its bid as originally submitted.

(ix) There shall be no post-bidding negotiations with the lowest evaluated bidder or any other bidder. No bidder shall be required, as a condition for the award of contract, to change his bid price or otherwise materially alter his bid after it has been submitted.

(h) **Suppliers, Contractors and Subcontractors**

(i) The World Bank shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the World Bank, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the World Bank.
(ii) Bidding documents and contracts under national competitive bidding procedures financed by the World Bank shall include a provision requiring suppliers, contractors and subcontractors to permit the World Bank to inspect their accounts and records relating to the bid submission and the performance of the contract by the suppliers, contractors and/or subcontractors as the case may be, and to have them audited by auditors appointed by the World Bank, if so required by the World Bank. The deliberate and material violation by the suppliers, contractors or subcontractors of such provision may amount to obstructive practice which is subject to sanctions under the Guidelines.

(i) Publication of Award of Contract

The Recipient shall publish the following information on contract award on an accessible website when it becomes operational or on another means of publication acceptable to the World Bank: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated price of each bid that was evaluated; (d) name of bidders whose bids were rejected and the reasons for their rejection; and (e) name of the winning bidder, price it offered as well as the duration and summary scope of the contract award. This publication shall be updated quarterly.

(j) Complaints by Bidders and Handling of Complaints

The provisions of Chapter Seven of the Public Procurement Law of Mongolia on the settlement of disputes shall apply to all World Bank-financed contracts awarded under national competitive bidding procedures.

C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection based on Consultants’ Qualifications; (c) Single-source Selection of consulting firms; (d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the
Selection of Individual Consultants; and (e) Single-source procedures for the Selection of Individual Consultants.

D. **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. All other contracts shall be subject to Post Review by the Association.

Section IV. **Withdrawal of the Proceeds of the Financing**

A. **General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Training and Incremental Operating Costs for Parts 2 and 4 of the Project</td>
<td>5,900,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) DLI Expenditures</td>
<td>13,600,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>19,500,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

B. **Withdrawal Conditions; Withdrawal Period**
1. Notwithstanding the provisions of Part A of this Section:

   (a) No withdrawal shall be made for payments made prior to the date of this Agreement.

   (b) No withdrawal shall be made for DLI Expenditures under Category (2) until and unless the Recipient shall have: (i) complied with the additional instructions referred to in Section IV.A.1 of this Schedule, including submission to the Association of the applicable statements of expenditure evidencing the incurrence of eligible DLI Expenditures during the respective DLI Period for which payment is requested; (ii) engaged a verification consultant, with terms of reference and qualifications satisfactory to the Association, for the purpose of verifying the achievement of the DLI Targets; and (iii) furnished evidence satisfactory to the Association, in accordance with the verification protocol set out in Annex B to this Schedule, that the DLI Target for the respective DLI Period for which payment is requested has been achieved.

   (c) Withdrawals under Category (2) shall not exceed the lesser of: (a) the DLI Value allocated to each DLI achieved during the respective DLI Period; and (b) the amount of DLI Expenditures incurred but not paid by the proceeds of the Financing as of the DLI Period for which payment is requested.

2. Notwithstanding the foregoing:

   (a) if the DLI 1 Target for Year 1 has not been fully achieved by the start of Year 2 but the Association is satisfied that the selection of technical assistance is in the process of being completed, the Association may authorize the withdrawal of, or consider as eligible expenditures, fifty percent (50%) of the DLI Value allocated to DLI 1 for Year 1;

   (b) if the DLI 1 Target for Year 2 has not been fully achieved by the start of Year 3 but the Association is satisfied that the selection of the early grade mathematical skills assessment technical assistance is in the process of being completed, the Association may authorize the withdrawal of, or consider as eligible expenditures, sixty five percent (65%) of the DLI Value allocated to DLI 1 for Year 2;

   (c) if the DLI 1 Target for Year 3 has not been fully achieved by the start of Year 4 but the Association is satisfied that the initial early grade mathematical skills assessment testing is in the process of being completed, the Association may authorize the withdrawal of, or consider as eligible expenditures, fifty percent (50%) of the DLI Value allocated to DLI 1 for Year 3;
(d) if the DLI 1 Target for Year 4 has not been fully achieved by the start of Year 5 but the Association is satisfied that:

(i) the procurement of new books is at the bid evaluation stage, the Association may authorize the withdrawal of, or consider as eligible expenditures, fifty percent (50%) of the DLI Value allocated to DLI 1 for Year 4; or

(ii) while the bidding process for the procurement of new books has not commenced, the bidding documents have the Association’s non-objection, the Association may authorize the withdrawal of, or consider as eligible expenditures, thirty percent (30%) of the DLI Value allocated to DLI 1 for Year 4;

(e) if the DLI 1 Target for Year 5 has not been fully achieved by the end of Year 5 but the Association is satisfied that early grade native language and mathematical skills assessments have become grades 1 and 2 teachers’ tools to assess progress in learning outcomes in reading and math in at least 25% of the primary schools in the country, the Association may authorize the withdrawal of, or consider as eligible expenditures, thirty percent (30%) of the DLI Value allocated to DLI 1 for Year 5;

(f) if the DLI 2 Target for Year 1 has not been fully achieved by the start of Year 2 but the Association is satisfied that the selection of technical assistance is in the process of being completed, the Association may authorize the withdrawal of, or consider as eligible expenditures, fifty percent (50%) of the DLI Value allocated to DLI 2 for Year 1;

(g) if the DLI 2 Target for Year 2 has not been fully achieved by the start of Year 3 but the Association is satisfied that:

(i) the first batch of schools are in the process of preparing their school proposal to be submitted for approval, the Association may authorize the withdrawal of, or consider as eligible expenditures, fifty percent (50%) of the DLI Value allocated to DLI 2 for Year 2; or

(ii) the orientation on how to use the School Support Handbook has been or is being provided to the first batch of participating schools, the Association may authorize the withdrawal of, or consider as eligible expenditures twenty percent (20%) of the DLI Value allocated to DLI 2 for Year 2;

(h) if the DLI 2 Target for Year 3 has not been fully achieved by the start of Year 4 but the Association is satisfied that:
(i) the second batch of schools are in the process of preparing their school proposal to be submitted for approval, the Association may authorize the withdrawal of, or consider as eligible expenditures, fifty percent (50%) of the DLI Value allocated to DLI 2 for Year 3; or

(ii) the orientation on how to use the School Support Handbook has been or is being provided to the second batch of participating schools, the Association may authorize the withdrawal of, or consider as eligible expenditures, twenty percent (20%) of the DLI Value allocated to DLI 2 for Year 3;

(i) if the DLI 2 Target for Year 4 has not been fully achieved by the start of Year 5 but the Association is satisfied that at least half of the second batch of schools are implementing their Sub-project, the Association may authorize the withdrawal of, or consider as eligible expenditures, fifty percent (50%) of the DLI Value allocated to DLI 2 for Year 4;

(j) if the DLI 2 Target for Year 5 has not been fully achieved by the end of Year 5 but the Association is satisfied that 50% of the school financing completion reports required have been submitted to MECS, the Association may authorize the withdrawal of, or consider as eligible expenditures, thirty percent (30%) of the DLI Value allocated to DLI 2 for Year 5; and

(k) if (i) the Association is satisfied that the unmet portion of a DLI Target for which a partial withdrawal was authorized under sub-paragraphs (a) through (h) above has been achieved fully or partially before the end of the subsequent DLI period, and (ii) the DLI Target for such subsequent DLI Period has been fully achieved, then the Association may authorize the withdrawal of such portion of the withheld amount of Financing.

3. In the event that the Association has withheld, or was entitled to withhold, any part of the Financing pursuant to paragraph 2 above, the Association may at any time, by notice to the Recipient:

(a) authorize partial releases of the amounts so withheld or to be withheld, if and when the Association is satisfied that: (i) the non-fulfillment of the respective DLI Target(s) is due to an event of force majeure; and/or (ii) the Recipient has made reasonable efforts, in the sole opinion of the Association, to remedy the situation in order to achieve said DLI Target(s); or

(b) cancel the amount(s) so withheld or to be withheld, or reallocate them, whether in full or in part, to any other Category.
4. The Closing Date is December 31, 2020.
ANNEX A

to
SCHEDULE 2

Principal Terms and Conditions of the Sub-financing Agreement

For purposes of Section I.C.2 of Schedule 2 to this Agreement, the Sub-financing Agreement to be entered into by the Recipient and each eligible school shall reflect, inter alia, the following terms and conditions:

1. For the purpose of carrying out an approved Sub-project, the Recipient shall make available to the school a School Financing under terms and conditions acceptable to the Association.

2. The Recipient shall have the right to suspend or terminate the right of the school to use the proceeds of the School Financing, or obtain a refund of all or any part of the amount of the School Financing then withdrawn, upon the school’s failure to perform any of its obligations under the Sub-financing Agreement.

3. The school shall:

   (a) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient, and to provide, promptly as needed, the resources required for the purpose;

   (b) procure the goods and services to be financed out of the Sub-financing in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement;

   (c) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives;

   (d) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and
(2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;

(e) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and

(f) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.
ANNEX B to SCHEDULE 2

Disbursement-Linked Indicators

DLI 1: Improved Learning Outcomes

<table>
<thead>
<tr>
<th>Year</th>
<th>Target</th>
<th>DLI Value (in USD)</th>
<th>DLI Achievement Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MECS has prepared TORs and selected TAs for early grade native language assessment and development of reading books</td>
<td>1,500,000</td>
<td>TORs for early grade native language and mathematical skills assessments TA have the Bank’s non-objection</td>
</tr>
<tr>
<td></td>
<td>(a) Initial early grade native language assessment testing has been completed and national baseline established</td>
<td>4,000,000</td>
<td>Contracts signed by the early grade native language and mathematical skills assessments consultant(s)</td>
</tr>
<tr>
<td></td>
<td>(b) MECS has prepared TORs and selected TAs for early grade mathematical skills assessment</td>
<td>4,500,000</td>
<td>Early grade native language and mathematical skills assessments baselines</td>
</tr>
<tr>
<td>2</td>
<td>New reading books available in 80% of schools in country</td>
<td>3,500,000</td>
<td>Sample of early grade native language and mathematical skills assessments findings (school reports)</td>
</tr>
<tr>
<td>3</td>
<td>Early grade native language and mathematical skills assessments have become grades 1 and 2 teachers’ tools to assess progress in learning outcomes in reading and math in at least 50% of the primary schools in the country.</td>
<td>1,400,000</td>
<td>Evidence of implementation of corrective and/or preventive measures by grades 1 and 2 primary school teachers to improve learning outcomes in reading and math</td>
</tr>
</tbody>
</table>

Bidding documents for the acquisition of new books have the Bank’s non-objection.
Procurement process for the acquisition of new books in progress
New books in school

<table>
<thead>
<tr>
<th>Verification Protocol</th>
<th>Review of TORs and contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Review of bidding documents</td>
</tr>
<tr>
<td></td>
<td>Review of school early grade native language and mathematical skills assessments reports</td>
</tr>
<tr>
<td></td>
<td>On-site observations in a random sample of primary schools to observe: (a) new books utilization; (b) administration of the early grade native language and mathematical skills assessments instruments; and (c) implementation by grades 1 and 2 teachers of corrective and/or preventive measures to improve learning outcomes in reading and math</td>
</tr>
</tbody>
</table>

**DLI 2: Implementation of a School Support Program**

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target</strong></td>
<td>(a) MECS has adopted a final School Support Handbook</td>
<td>First batch of schools (200) are implementing or are about to begin implementation of their school proposal</td>
<td>(a) At least 10% of the first batch of schools have satisfactorily completed implementation of their school proposal</td>
<td>Third and last batch of schools (450) are implementing their school proposal</td>
<td>School financing completion reports have been submitted to MECS</td>
</tr>
<tr>
<td></td>
<td>(b) MECS has prepared TORs and contracted TA to support the implementation of the school support program</td>
<td></td>
<td>(b) Second batch of schools (450) are implementing or are about to begin implementation of their school proposal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DLI Value (in USD)</td>
<td>500,000</td>
<td>1,600,000</td>
<td>2,000,000</td>
<td>1,500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
<td>---------</td>
</tr>
<tr>
<td>DLI Achievement Measure</td>
<td>TORs for TA have the Bank’s non-objection</td>
<td>Contracts signed by the consultant</td>
<td>School Support Handbook adopted by MECS</td>
<td>Orientation to participating schools completed/batch</td>
<td>Evidence of implementation of school proposals</td>
</tr>
<tr>
<td>Verification Protocol</td>
<td>Review of TORs and contracts</td>
<td>On-sight observations in a random sample of primary schools</td>
<td>School completion reports</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 1 and September 1:</td>
<td></td>
</tr>
<tr>
<td>commencing September 1, 2019 to and including March 1, 2029</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing September 1, 2029 to and including March 1, 2039</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


4. “Department of Monitoring and Evaluation” means the Department of Monitoring and Evaluation within the Recipient’s Ministry of Education, Culture, and Science.

5. “Disbursement-Linked Indicators” and the acronym “DLIs” mean, collectively, the disbursement-linked indicators set forth in Annex B to Schedule 2 to this Agreement.

6. “DLI Expenditures” means reasonable costs of goods, consultants’ services, non-consulting services, school financing, and Incremental Operating Costs (as hereinafter defined) required for Parts 1 and 3 of the Project.

7. “DLI Period” means the calendar period specified in Annex B to Schedule 2 to this Agreement, during which each DLI Target (as hereinafter defined) is set to be achieved.

8. “DLI Target” means the target specified in Annex B to Schedule 2 to this Agreement set to be achieved under the applicable DLI during the respective DLI Period.

9. “DLI Value” means the amount of the Financing allocated in Annex B to Schedule 2 to each respective DLI Target, or such other amount as the Association may establish from time to time by notice to the Recipient.

10. “Education Evaluation Center” means the Recipient’s Education Evaluation Center, or any successor thereto.

11. “Incremental Operating Costs” means reasonable expenditures directly related to the Project (which expenditures would not have been incurred absent the Project), based on an annual budget for such costs approved ex-ante in writing by the Association, including expenditures for consumable materials, office supplies,
communications services (including postage handling, telephone and internet costs), publication services, translation services, office space rental and utilities, maintenance of office equipment and operation, and but excluding salaries, bonuses, fees and honoraria of members of the Recipient’s civil service.

12. “Indigenous People Planning Framework” and the acronym “IPPF” mean the framework dated March 13, 2014, satisfactory to the Association, which sets out the principles, guidelines, and procedures to ensure that Project activities and Sub-projects are screened, designed and implemented to: (a) ensure ethnic minority groups can benefit from the Project; (b) guide free, prior and informed consultation with ethnic minority communities; and (c) ensure issues raised by ethnic minority communities are incorporated into the design of Project activities and Sub-projects, as such framework may be amended from time to time with the prior written agreement of the Association.

13. “Indigenous Peoples Plan” means a plan, acceptable to the Association and prepared on the basis of the Indigenous People Planning Framework, that sets out measures which will ensure that: (a) indigenous peoples affected by the Project receive culturally appropriate social and economic benefits; and (b) when potential adverse effects on indigenous peoples are identified, those adverse effects are avoided, minimized, mitigated, or compensated for, as such plan may be amended from time to time with the prior written agreement of the Association.

14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.


18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 1, 2014 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

of Schedule 2 to this Agreement, which sets forth, *inter alia*, policies and procedures for routine tasks, administrative activities, records management, and documentation, and which includes the School Support Handbook (as hereinafter defined) as an attachment, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.

20. “Rural Education and Development Project” means the project described in the financing agreement between the Recipient and the Association, dated October 7, 2008 (Grant No. H373-MN).

21. “School Financing” means a grant made or proposed to be made by the Recipient out of the proceeds of the Financing to an eligible primary school for the implementation of a Sub-project under Part 3 of the Project.


23. “Sub-financing Agreement” means an agreement to be entered into between the Recipient and a primary school pursuant to paragraph 2 of Section 1.C of Schedule 2 to this Agreement.

24. “Steering Committee” means the committee referred to in paragraph 1 of Section 1.A of the Schedule to the Project Agreement, as such committee may be reconstituted from time to time with the prior written agreement of the Association.

25. “Sub-project” means an activity that increases the quality of education, including the provision of enrichment opportunities for students, financed or proposed to be financed under Part 3 of the Project.

26. “Training” means expenditures for training, directly related to the Project, based on an annual budget for such expenditures approved *ex-ante* in writing by the Association, including expenditures for the purchase and publication of materials, rental of facilities, course fees, honoraria, and travel, accommodation and subsistence of trainees.

**Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:
"Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

2. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the remaining paragraphs accordingly:

"32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02 (a)."