Memorandum of Understanding

Among

THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT OF THE UNITED KINGDOM (DFID)

and

THE EUROPEAN COMMISSION (EC)

and

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

With

THE GOVERNMENT OF INDIA (GOI)

for

India Elementary Education Project
(Sarva Shiksha Abhiyan)

Dated December 16, 2004
This Memorandum of Understanding is among

The Department for International Development of the United Kingdom (DFID)
And The European Commission, (EC), and
The International Development Association, (IDA)
Collectively referred to as "Development Partners" and
The Government of India (GOI).

Reitals

Whereas:

1. The Government of India (GOI) is deeply committed to universalizing access to and
   completion of elementary education of satisfactory quality by 2010.
   By the 86th Constitution Amendment adopted in 2002 GOI has made elementary
   education a fundamental right of every child.
   To provide a comprehensive policy and budgetary framework for achieving these goals,
   GOI has launched in January 2001 the National Program of Universal Elementary Education,
   Sarva Shiksha Abhiyan (or SSA), under which GOI will provide incremental resources for
   elementary education in a cost sharing arrangement with the states as set forth in the SSA
   Framework for Implementation, and as described in the Project Appraisal Document of IDA
2. GOI commenced implementation of the Program in 2001 and common arrangements for implementation (the SSA Framework of Implementation) with the states and Union Territories (Project states) have been approved and adopted.

3. GOI's and the Project States' contribution to the Program during the Project Period (FY2003-04 to FY2006-07) are estimated to be Rupees 7780 Crores ($1729 million equivalent) and Rupees 4163 Crores ($925 million equivalent) respectively. The Development Partners endorsed the Program in 2003/04. Their combined contribution to the Program for the project period is estimated to be about $1046 million equivalent, subject to final approvals by their respective organizations. EC contribution forms part of an existing commitment of 200 million euros that started in October 2001 and extends to September 2008 (i.e. extends beyond the period covered by the current project). DFID has signaled the intention to design, appraise, and consider for funding total assistance of up to 500 million pounds, including on-going assistance to District Primary Education Program (DPEP), proposed and future assistance for SSA, and to prepare a subsequent submission to the UK Secretary of State for continued funding to SSA up to 2010. The IDA has also indicated its willingness to consider continued support to the SSA after the end of the present project period. The table in Annex 1 to this Memorandum shows the expected contributions by GOI and the Development Partners.

4. GOI is committed to improve the management of education sector resources and the delivery of quality education services in order to enhance the development impact of the Program. The Development Partners are committed to build stronger partnerships in support of the Program, and to openness, consultation and sharing of information.

5. a) The Development Partners are committed to India's universalization of elementary education and accept common procedures and requirements. The Development
Partners are in agreement that sector wide support would honor GOI ownership, facilitate partners harmonization, and strengthen the efficiency and effectiveness of service delivery. In this respect, all the Development Partners confirm their wish to work as far as possible with GOI procedures and support GOI initiatives for further improvement.

b) The Development Partners agree that their support will be within the framework of the Program and focused on the achievements of the SSA objectives. In this respect, each Development Partner will conclude (or adapt in the case of EC) bilateral financing agreements with GOI.

6. Accordingly, the Development Partners have agreed to adopt financial management, procurement and disbursement policies and procedures as described in GOI’s Manual on Financial Management and Procurement and reflected in the World Bank’s Project Appraisal Document. They have also agreed on a common disbursement, reporting, monitoring and evaluation system for the Program. The Development Partners have reached the following understandings on co-operation and on procedures and the exchange of information to support the Program.

Financial Contribution

7. Development Partners have agreed to a Sector Wide Approach whereby external and GOI funds are pooled to support SSA. As regards financial flows, Development Partners are committed to the principle that resources will be channeled through GOI systems to ensure greater levels of harmonization in line with GOI procedures and requirements. Additional EC funding of 10 million euros for capacity building would also support implementation of SSA.
8. The Development Partners have agreed to finance two-thirds of the SSA Program Expenditures above the thresholds referred to in paragraph 10 below up to the limit of the overall envelopes provided by each Development Partner. Reimbursement of this two-thirds amount will be shared between the Development Partners according to the following percentages: IDA 48%, DFID 33% and EU 19%. These percentages would allow full disbursement of the external financial contribution, based on the indicative Program Expenditures up to March 31, 2007. The table in Annex 2 to this Memorandum shows the estimated disbursement against Eligible Expenditures.

9. On an annual basis, the Development Partners may need to adjust these percentages to take account of increased levels of eligible expenditure, variations in funding availability on annual basis (in the case of DFID and EC) and exchange rate fluctuations. In the event of any such exigency compelling any Development Partner to reduce its above-mentioned percentage in a particular year, while maintaining its overall commitment to the program, the decision to do so will be taken in consultation with the other Development Partners and GOI. The other Development Partners would make their best efforts, in consultation with each other and GOI, to meet the shortfall in that year subject to their overall commitments for the Project. In any other circumstance, any increase in its percentage by any Development Partner will require the agreement of the other Development Partners and GOI. A decision regarding changes in the disbursement percentage by any Development Partner for situations enumerated above should be taken through consultation as early as possible in order to ensure timely disbursements.

10. The financial contributions, including advance by the Development Partners and retroactive financing in the case of IDA and DFID, will be confirmed in the bilateral agreements to be concluded between GOI, IDA and DFID, and to be revised between GOI and EC. Unless the Development Partners and GOI agree otherwise, the Threshold Levels of Expenditure would
be as follows: FY2003/04 – Rs. 1500 Crores; FY2004/05 – Rs. 1800 Crores; FY2005-06 – Rs. 2400 Crores; FY2006-07 – Rs. 3000 Crores.

11. In the event of overall shortfall in external support to the project, subject to the respective bilateral agreements, the Development Partners recognize that the development objectives of the project may not be fully realized.

12. To facilitate timely disbursement GOI will give the earliest indication of the total annual estimated disbursement amount to the nodal development partner (as described in para. 21). Following prompt consultation between the Development Partners, the nodal partner would respond at the earliest if there is a need to change the respective percentage share (as described in paragraph 9). The disbursement claim by GOI on basis of the June FMR would be thereafter filed separately to each Development Partner. The Partners would promptly examine the FMRs and seek in consultation with each other, any clarification from GOI necessary to accept the FMRs. It shall be the endeavor of the Development Partners to disburse their share of the funds in their respective currencies to the three separate accounts maintained by GOI in a timely manner and in accordance with their respective agreements.

13. GOI would provide six monthly Financial Management Reports (FMR) to the Development Partners in December and June. The contents of the FMR have been separately agreed with GOI. The disbursement by the Development Partners would be based on June FMR covering expenditure in the preceding GOI Financial Year (April to March) except for the disbursement claim for Financial Year 2003/04. A Consolidated
Report on Audits of the expenditure for the preceding GOI Financial Year (April to March) would be provided by GOI latest by January in the succeeding year to coincide with the January JRM, which may review, if needed, individual audit reports. Any adjustment resulting out of a difference between the June FMR and the audited reports for that year will be made at the next annual disbursement. Any claim arising due to recertification of an earlier audit disallowance would be taken along with next annual disbursement. Disbursement against expenditures for Financial Year 2003/04 will be based on the Consolidated Report of Audits made available latest by December 2004.

14. There would be an advance of 15% of total assistance from each Development Partner to be disbursed immediately after respective formal agreements with GOI to support release of funds to the Project Executing Agencies, as per agreed parameters. This advance would be adjusted against the disbursement claim pertaining to expenditure for the year 2006/07 or other fiscal year as may be agreed between GOI and the Development Partners.

Financial Management and Procurement

15. The implementation of the Program would be as per the financial management and procurement rules and procedures set forth in the GOI Manual of Financial Management and Procurement for SSA. GOI would inform the Development Partners of any amendment in the Manual necessitated for improving the implementation of the Program. Development Partners may take up the matter, under their respective agreements, with GOI if they feel that such changes may have any adverse impact on the Project and the financial implications thereof.
16. Development Partners retain the option to carry out a post-review of contracts in consultation with GOI. The Development Partners will consult with each other before carrying out such reviews or audits and will take all measures necessary to avoid duplication. A Development Partner will provide other Development Partners and GOI with the results of any such reviews conducted by such Development Partner. Similarly, the intention to perform and the outcomes of post-review undertaken in accordance with the provisions within each Development Partners financial agreement with GOI will be communicated to other partners.

Joint Reviews

17. a) The Development Partners and GOI will carry out Joint Review Missions (JRM) twice a year. The JRMs will take place in January and July of each year and will be coordinated and led by GOI. The main objective of the JRM is to review progress in the implementation of the Program with respect to Development Objectives and agreed indicators, and to discuss follow-up actions, including capacity issues.

b) Participation in JRMs has been agreed to be shared between GOI and the Development Partners in a 50:50 ratio, with an indicative maximum of 20 participants in total in each JRM.

c) Development Partners therefore agree that their respective representatives on JRMs will be reflective of their financial share. This will therefore be in the ratio of 5:3:2 (assuming 10 persons) by WB:DFID:EC respectively.

d) Circumstances at the time of review may necessitate a change to this representation which will be discussed and mutually agreed by the Development Partners and GOI.

e) Development Partners will contribute to the development of the Terms of Reference (TORs) for Joint Reviews in collaboration with GOI. Once TORs are agreed, Development Partners and GOI will agree how they will cover areas of special interest and expertise in respect to TORs to ensure the optimal mix of skills within the team.
Mid Term Review

18. The January 2006 JRM will be the Mid Term Review of the Program, which shall be carried out under enhanced Terms of Reference to be agreed by GOI and the Development Partners. The Mid Term Review shall, inter alia, review the financing parameters and arrangements with reference to design parameters and arrangements, for considering suitable changes, if needed, in interest of the program.

Consultation and Information

19. The Development Partners will co-operate fully with each other on all matters relating to the execution of the Program and on other matters of common interest to them. In particular, the Development Partners will send to each other for information copies of letters or notices to GOI which in their judgment are of common concern to the Development Partners.

20. The Development Partners will ensure that all relevant information is shared among themselves in a timely manner. The Development Partners will ensure that they interact with the GOI as a coherent group and through a single agreed mode of communication. They will use inclusive e-mails and internal discussions prior to meeting with GOI. Such consultative arrangements will ensure that no duplication takes place in the efforts of different Development Partners.

21. In order to facilitate effective communication between the Development Partners on the one hand and with GOI on the other, one Development Partner will take on a nodal role for all communication with GOI except as required for the effective execution of the respective bilateral agreements. This nodal role will be determined by mutual agreement between the Development
Partners and will be rotated on an annual basis. The nodal Development Partner will, inter alia, act as the conduit for information to and from GOI, ensure dissemination of information between Development partners, and convene a monthly meeting of Development Partners in New Delhi. The monthly meeting will provide the forum to discuss matters relating to the Program, agree any actions to be taken and necessary communications with GOI on any issues arising from these meetings.

22. Any dispute or controversy that arises in relation to the Program should be settled by means of dialogue and consultation between the Development Partners and GOI. Unilateral actions by any of the Partners should be avoided without consultation. In this regard the GOI’s SSA framework, the Manual for Financial Management and Procurement and, the IDA’s PAD will form the basis for interpretation of any issues. Each Development Partner will promptly consult with GOI and the other Partners whenever it proposes to suspend or terminate, in whole or in part, payments for financing the Program subject to its respective bilateral agreements.

23. Notwithstanding the provisions within this Memorandum of Understanding, nothing contained within it will have the effect of modifying, abrogating or waiving provisions contained within the separate bilateral agreements entered into between each Development Partner and the GOI.

24. The procedures outlined in this Memorandum, including those for procurement, financial management and the sharing of information, may, as necessary, be subject to periodic review by the Development Partners and GOI.
Additional Development Partners

25. Any public institution or multilateral/bilateral entity not currently a party to this Memorandum of Understanding may, by agreement of the Development Partners and GOI, become an additional Development Partner.

Communication

26. Except as otherwise provided in this Memorandum of Understanding, all written communications required or permitted by this memorandum will be directed to the following addresses:

For Department For International Development of the United Kingdom:

DFID
B-28, Tara Crescent
Qutab Institutional Area
New Delhi 110 016
India
Facsimile                  Tel
91-11-26529296          91-11-26529123

For European Commission:

Delegation of the European Commission to
India, Bhutan, Maldives, Nepal and Sri Lanka
65, Golf Links
New Delhi 110 003
India
Facsimile Tel
91-11-24629206 91-11-24629237

For International Development Association:
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Facsimile
(202) 477-6391

For Government of India:
Ministry of Finance
North Block
New Delhi, 110001.
IN WITNESS WHEREOF the parties, acting through their duly authorized representatives, have caused this Memorandum of Understanding to be signed in their respective names, as of the day and year first above written.

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT
OF THE UNITED KINGDOM (DFID)

By [Signature]
Acting Head, DFID India

EUROPEAN COMMISSION

By [Signature]
Ambassador-Head of Delegation to India, Bhutan, Maldives, Nepal and Sri Lanka

INTERNATIONAL DEVELOPMENT ASSOCIATION

By [Signature]
Country Director, India

GOVERNMENT OF INDIA

By [Signature]
Authorized Representative
Annex 1

Indicative Financing Level of GOI, External Partners and States
(April 2003 to March 2007)

<table>
<thead>
<tr>
<th></th>
<th>% of Total</th>
</tr>
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<tbody>
<tr>
<td>GOI releases</td>
<td>75.6%</td>
</tr>
<tr>
<td>Of which GOI</td>
<td>45.7%</td>
</tr>
<tr>
<td>Of which external</td>
<td>29.9%</td>
</tr>
<tr>
<td>IDA</td>
<td>14.3%</td>
</tr>
<tr>
<td>DFID</td>
<td>9.9%</td>
</tr>
<tr>
<td>EC</td>
<td>5.7%</td>
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<tr>
<td>State releases</td>
<td>24.4%</td>
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<tr>
<td>Total</td>
<td>100%</td>
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</tbody>
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Annex 2

Indicative Disbursement Against Eligible Expenditures
(GOI Fiscal Year)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>SSA Expenditure</td>
<td>2600</td>
<td>3600</td>
<td>4440</td>
<td>5126</td>
<td>15746</td>
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<tr>
<td>Eligibility threshold</td>
<td>1500</td>
<td>1800</td>
<td>2400</td>
<td>3000</td>
<td>8700</td>
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<tr>
<td>Eligible expenditure</td>
<td>1100</td>
<td>1800</td>
<td>2040</td>
<td>2126</td>
<td>7046</td>
</tr>
<tr>
<td>IDA (48% of external)</td>
<td>352</td>
<td>576</td>
<td>653</td>
<td>680</td>
<td>2261</td>
</tr>
<tr>
<td>DFID* (33% of external)</td>
<td>242</td>
<td>396</td>
<td>449</td>
<td>468</td>
<td>1554*</td>
</tr>
<tr>
<td>EC (19% of external)</td>
<td>139</td>
<td>228</td>
<td>258</td>
<td>269</td>
<td>895</td>
</tr>
<tr>
<td>Total External</td>
<td>733</td>
<td>1200</td>
<td>1360</td>
<td>1417</td>
<td>4710</td>
</tr>
</tbody>
</table>

Notes: (i) The numbers are rounded.
(ii) The shares among the Development Partners are within the external pool only.

* Indicative figures given for DFID may exceed funds available in any one year, and therefore the overall project contribution of 33% may vary on an annual basis.