
LOAN NUMBER 4167-GU

Loan Agreement

(Basic Education Reform Project)

between

REPUBLIC OF GUATEMALA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *October 20*, 1997

LOAN NUMBER 4167-GU

LOAN AGREEMENT

AGREEMENT, dated *October 20*, 1997, between REPUBLIC OF GUATEMALA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan 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 Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Section 6.03 is modified to read:

"Section 6.03. **Cancellation by the Bank.** If: (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days; or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan; or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of

the Loan; or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan; or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account; or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled.”.

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

- (a) “Basic Education” means pre-primary level and grades 1 through 6 of primary level;
- (b) “COEDUCA” means an administration committee established in selected public pre-primary and primary schools with legal personality and comprised of the parents of the students attending such school (Comité Educativo de Autogestión Educativa);
- (c) “COEDUCA Agreement” means any of the agreements referred to in Section 3.01 (c) of this Agreement;
- (d) “Decree No. 93” means Decreto No. 93 of the Borrower dated April 27, 1945 and published in the official gazette (Diario Oficial) in May 1945, which established, inter alia, the functions of the ministries of the Borrower, as such Decree has been amended to the date of this Agreement;
- (e) “Educational Innovation” means a specific project which meets the criteria set forth in the Operational Manual and to be financed out of the proceeds of the Loan consisting of the provision of technical assistance and training and/or the acquisition and utilization of goods to carry out educational initiatives for the benefit of the students of Basic Education;
- (f) “Educational Innovation Agreement” means any of the agreements referred to in Section 3.01 (f) of this Agreement;

(g) "Eligible Entity" means a public pre-primary school or a public primary school or a COEDUCA or an individual or any other entity which meets the criteria set forth in the Operational Manual for the carrying out of an Educational Innovation;

(h) "Executive Decree No. 165-96" means Acuerdo Gubernativo No. 165-96 of the Borrower dated May 21, 1996 which established, inter alia, the institutional decentralization of MINEDUC;

(i) "Executive Decree No. 457-96" means Acuerdo Gubernativo No. 457-96 of the Borrower dated October 22, 1996 which provided, inter alia, for the restructuring of the National Community-Managed Program for Educational Development (Programa Nacional de Autogestión Para el Desarrollo Educativo- PRONADE) and the establishment of a trust fund in a private banking institution in Guatemala;

(j) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth: (i) the Project's performance indicators and targets; (ii) the minimum counterpart funds for the Project; and (iii) the personnel to be hired by the PCU, as such letter may be amended from time to time with the agreement of the Bank;

(k) "ISE" means an entity or non-governmental organization acceptable to the Bank which provides education services in Guatemala;

(l) "MINEDUC" means the Ministry of Education (Ministerio de Educación) of the Borrower;

(m) "Operational Manual" means the Borrower's manual, satisfactory to the Bank, which sets forth, inter alia: (i) criteria for establishing public primary schools and their respective COEDUCAs under Part A.1 of the Project; (ii) the criteria for identifying public pre-primary and primary schools in need for afternoon shifts under Part A.6 of the Project; (iii) a format COEDUCA Agreement; (iv) the terms of reference for carrying out technical assistance and training activities under the Project; (v) the criteria for approving Educational Innovations; (vi) a format Educational Innovation Agreement; (vii) the description of the Project Area; (viii) the procedures and the terms and conditions to operate the revolving fund mentioned in Section 3.07 of this Agreement; and (ix) the terms and scope of the ongoing consultation process with the local communities and/or groups benefited under the Project;

(n) "PCU" means the Project Coordination Unit established within MINEDUC pursuant to Ministerial Resolution (Resolución Ministerial) No. 977 dated September 13, 1990;

(o) "Procurement Agreement" means the agreement referred to in Section 3.10 of this Agreement;

- (p) "Project Area" means the area described in the Operational Manual;
- (q) "Project Management Committee" means the committee referred to in Section 3.01 (b) of this Agreement;
- (r) "Quetzal" means the currency of the Borrower;
- (s) "Trust Fund" means the account (Cuenta de Fideicomiso) opened by the Borrower with the Trustee (as such term is defined herein);
- (t) "Trust Fund Agreement" means the agreement entered or to be entered into between the Borrower and the Trustee (as such term has been defined herein) under terms and conditions satisfactory to the Bank; and
- (u) "Trustee" means a private banking institution operating in Guatemala and acceptable to the Bank.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to thirty three million Dollars (\$33,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain a special deposit account in its central bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.08. The Minister of MINEDUC (or such other person or persons as such Minister shall appoint in writing) is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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 through MINEDUC and with the assistance and participation of the Project Management Committee, with due diligence and efficiency and in conformity with appropriate educational, technical, administrative, financial, engineering and environmental practices, and in accordance with the Operational Manual, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall establish, and thereafter operate and maintain during the implementation of the Project, a management committee (the Project Management Committee) with functions and responsibilities satisfactory to the Bank.

(c) The Borrower shall transfer, on a grant basis, the portion of the proceeds of the Loan allocated under Part A.3 of the Project to each COEDUCA established under Part A.1 of the Project (as provided in paragraph (d) below and in accordance with the procedures set forth in the Operational Manual) under an agreement (the COEDUCA Agreement) to be entered into between the Borrower and each COEDUCA, under terms and conditions which shall have been approved by the Bank, including those set forth in the Operational Manual.

(d) (i) Without limitation to the provisions of paragraphs (a) and (c) above and unless the Borrower has established an alternative mechanism, satisfactory to the Bank, to administer and disburse the funds mentioned herein, the Borrower shall

operate and maintain during the implementation of the Project the Trust Fund in accordance with the corresponding provisions of the Trust Fund Agreement for purposes of administering and disbursing on behalf of the Borrower the proceeds of the Loan allocated to Parts A.1 through A.4 of the Project and the corresponding counterpart funds for such Parts of the Project as set forth in the Implementation Letter; and (ii) except as provided in (i) herein, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Trust Fund Agreement or any provision thereof.

(e) In the event that the Borrower has established an alternative mechanism as provided in paragraph (d) (i) above, the Borrower shall operate and maintain during the implementation of the Project such alternative mechanism in a manner and under terms and conditions satisfactory to the Bank.

(f) For purposes of carrying out Part B.4 of the Project, the Borrower shall enter into an agreement (the Educational Innovation Agreement) with each Eligible Entity under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual.

(g) The Borrower shall exercise its rights under each COEDUCA Agreement and each Educational Innovation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce any COEDUCA Agreement or any Educational Innovation Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

Section 3.04. The Borrower shall maintain policies and procedures adequate to enable the Borrower to monitor and evaluate on an ongoing basis, the carrying out of the

Project and the achievement of the objectives thereof in accordance with the performance indicators and targets set forth in the Implementation Letter.

Section 3.05. (a) The Borrower shall continue to operate and maintain, during Project implementation, the PCU with functions and responsibilities satisfactory to the Bank, including, inter alia, the obligation to assist the Borrower in the coordination and monitoring of the Project.

(b) The Borrower shall ensure that the PCU is at all times headed by a Project coordinator and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank.

Section 3.06. Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall make available in Quetzales to MINEDUC each calendar year of Project implementation the minimum amounts of counterpart funds set forth in the Implementation Letter for the Project activities described in the corresponding plan referred to in Section 3.11 of this Agreement.

Section 3.07. Without limitation to the provisions of Sections 3.01 (a) and 3.06 of this Agreement, the Borrower shall establish, and thereafter operate and maintain at all times during Project implementation in its central bank, a revolving fund in Quetzales (in accordance with the procedures and terms and conditions set forth in the Operational Manual) with a quarterly balance equivalent to at least the amount of counterpart funds required to carry out the activities under Parts A.5, A.6, A.7, B and C of the Project for the next three months of Project implementation, as such activities and minimum amounts are set forth in the corresponding plan mentioned in Section 3.11 of this Agreement and the Implementation Letter, respectively.

Section 3.08. Without limitation to the provisions of Section 9.07 of the General Conditions, the Borrower shall not later than thirty days after the conclusion of each calendar year during the implementation of the Project, starting in 1999, prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall reasonably request on the progress made by the Borrower in the carrying out of the Project during the calendar year preceding the date of presentation of such report.

Section 3.09. Without limitation to the provisions of Section 9.01 of the General Conditions, the Borrower shall not later than thirty months after the Effective Date review jointly with the Bank the progress made by the Borrower in: (a) carrying out the Project; and (b) achieving the objectives of the Project, based on the indicators and targets referred to in Section 3.04 of this Agreement. As part of such review the Bank may require the Borrower to prepare an action plan, satisfactory to the Bank, to make adjustments in Project implementation. If so, the Borrower shall not later than forty five days after the conclusion of such review furnish such action plan to the Bank and shall

thereafter carry out, or cause to be carried out, such action plan in accordance with its terms.

Section 3.10. (a) The Borrower shall enter into an agreement (the Procurement Agreement) with a procurement entity acceptable to the Bank under terms and conditions satisfactory to the Bank for the purpose of assisting the Borrower in the procurement of goods, works and consultants' services under Parts A.5, A.6, B and C of the Project.

(b) Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Procurement Agreement or any provision thereof.

Section 3.11. Without limitation to the provisions of Section 3.01 (a) of this Agreement, the Borrower shall: (a) not later than November of each year of Project implementation, starting in November 1997, prepare and furnish to the Bank a plan, satisfactory to the Bank, with respect to, inter alia, the activities to be carried out during the calendar year following the date of presentation of each such report; and (b) thereafter carry out such plan in accordance with its terms.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) That Decree No. 93 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect, in the opinion of the Bank, the ability of the Borrower to carry out Parts A.1 through A.4 of the Project.

(b) That Executive Decree No. 165-96 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect, in the opinion of the Bank, the ability of the Borrower to carry out the Project.

(c) That Executive Decree No. 457-96 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner

so as to affect, in the opinion of the Bank, the ability of the Borrower to carry out Parts A.1 through A.4 of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events as specified, namely, that the events specified in paragraphs (a) or (b) or (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

- (a) That the Borrower has approved the Operational Manual.
- (b) That the Procurement Agreement has been signed by the parties thereto.
- (c) That the PCU has hired the personnel listed in an annex to the Implementation Letter.
- (d) That the Borrower has established the Project Management Committee as provided in Section 3.01 (b) of this Agreement.
- (e) That the Borrower has authorized the PCU to continue to operate as provided in Section 3.05 of this Agreement.
- (f) That the Borrower has established the revolving fund mentioned in Section 3.07 of this Agreement.

Section 6.02. The date January 19, 1998 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Minister of Finance 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:

Ministry of Finance
Ministerio de Finanzas Públicas
8a Avenida y 21 Calle
Zona 1,
Guatemala, Guatemala

Telex:

9207 MINFIP GU

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

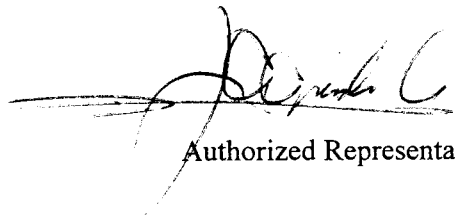
INTBAFRAD
Washington, D.C.

248423 (MCI) or
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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF GUATEMALA

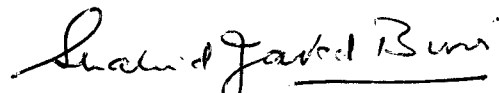
By



Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	1,000,000	100% of foreign expenditures; and 90% of local expenditures
(2) Goods under the Project (other than under Part B.4 of the Project)	2,700,000	100% of foreign expenditures; and 90% of local expenditures
(3) Consultants' services:		
(a) under the Project (other than under Parts B.4 and C.5 of the Project)	8,000,000	100%
(b) under Part C.5 of the Project	200,000	100%
(4) Training under the Project (other than under Part B.4 of the Project)	2,500,000	100%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Salaries and Operating Costs	11,500,000	80% until withdrawals under this Category have reached an aggregate amount of \$2,000,000 equivalent; 70% until withdrawals under this Category have reached an aggregate amount of \$4,500,000 equivalent; 60% until withdrawals under this Category have reached an aggregate amount of \$8,000,000 equivalent; 50% until withdrawals under this Category have reached an aggregate amount of \$10,500,000 equivalent; and 20% thereafter
(6) Educational Innovations	3,300,000	90% of local expenditures
(7) Unallocated	3,800,000	
	<hr/>	
TOTAL	<u>33,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(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;

(c) the term "Training" means expenditures (other than for consultants' services) incurred in connection with the provision of training under the Project, including the travel cost and per-diem of the trainees; and

(d) the term "Salaries and Operating Costs" means: (i) the salaries of the teachers to be hired under Part A.3 of the Project; and (ii) the expenditures incurred by the Borrower in connection with: (A) the acquisition and utilization of school supplies under the Project; (B) the acquisition and utilization of office supplies under the Project; (C) the operation and maintenance of the office equipment and vehicles to be acquired under the Project; (D) the travel cost and per-diem of the personnel of MINEDUC and the PCU designated by MINEDUC to coordinate, monitor and supervise the implementation of the Project; and (E) the operation of the PCU.

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; and

(b) payments made for expenditures under Category (6) of the table in paragraph 1 of this Schedule for the financing of each Educational Innovation under Part B.4 of the Project unless: (i) the fund referred to in Part B.3 of the Project has been established in a manner satisfactory to the Bank; and (ii) the corresponding Educational Innovation Agreement has been signed as provided in Section 3.01 (f) of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods with the exception of: (i) computer hardware and software equipment and vehicles to be awarded under Parts B.1 and C.1 of Section I of Schedule 4 to this Agreement; (ii) the first contract for printing services of textbooks to be awarded under Part C.2 (a) of Section I of Schedule 4 to this Agreement; and (iii) the first contract for any of the goods (other than for printing services of textbooks) to be awarded under Part C.2 (a) of Section I of Schedule 4 to this Agreement; (b) contracts for works other than: (i) the first contract for works to be awarded under Part C.2 (b) of Section I of Schedule 4 to this Agreement; and (ii) the first two contracts for works to be awarded under Part C.5 of Section I of Schedule 4 to this Agreement; (c) contracts for the employment of consulting firms costing less than \$75,000 equivalent; (d) contracts for the employment of individual consultants costing less than \$35,000 equivalent; and (e) Training and Salaries and Operating Costs as set forth in Categories (4) and (5) of the table in paragraph 1 hereof, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) expand the coverage and equity of Basic Education by increasing the enrollment of students in public pre-primary and primary schools located or to be located in the Project Area; (b) improve the efficiency and quality of Basic Education in the Project Area; and (c) strengthen the organization and management of MINEDUC in order to achieve the objectives of the Project.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Coverage and Equity

1. Establishment of public primary schools in the Project Area and their respective COEDUCA in accordance with the criteria set forth in the Operational Manual.
2. Provision of technical assistance and training to the COEDUCAs mentioned in A.1 above in the areas of administration and management of primary schools.
3. Hiring of teachers for the schools mentioned in A.1 above, including the acquisition, distribution and utilization of school supplies for such schools.
4. (a) Design, printing and distribution of materials to promote the establishment of ISEs and COEDUCAs; and (b) strengthen the current COEDUCAs.
5. Carrying out of campaigns to inform the public of, inter alia, the activities related to the expansion of Basic Education, including the printing, reproduction and distribution of materials required therefor.
6. Provision of technical assistance to MINEDUC to identify and select public pre-primary and primary schools located in the Project Area (in accordance with the criteria set forth in the Operational Manual) in need of afternoon shifts.
7. Hiring of teachers for the schools mentioned in A.6 above.

Part B: Efficiency and Quality

1. Provision of training to teachers and school administrators of public pre-primary and primary schools in the Project Area on: (i) general areas included in the curriculum; (ii) bilingual education; and/or (iii) multigrade teaching methodologies.

2. Design, printing and distribution of textbooks and didactic materials for public pre-primary and primary schools in the Project Area.
3. Establishment of a fund to finance the carrying out of Educational Innovations.
4. Financing of Educational Innovations.
5. Design and implementation of a national assessment system to monitor achievements in the academic areas of mathematics, language, social studies, reading and any other academic area to be selected in accordance with criteria acceptable to the Bank.

Part C: Institutional Strengthening

1. Institutional strengthening of MINEDUC to improve its organizational, planning and management capacity at the central and departmental levels through the provision of technical assistance and training and the acquisition and utilization of the goods required therefor.
2. Provision of technical assistance to school supervisors and principals, teachers and stakeholders (of public pre-primary and primary schools located in the Project Area) to improve their organizational, participatory and decision-making capacity, as the case may be.
3. Construction and/or rehabilitation of administrative facilities for MINEDUC.
4. Strengthening of the PCU to coordinate and monitor the implementation of the Project.
5. Strengthening of the Borrower's capacity to carry audits under the Project.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

- (i) one half of one percent (1/2 of 1%);
- (ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in Dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

- (i) one-half of one percent (1/2 of 1%);
- (ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or

portions thereof made by it that include such Disbursed Amount;
plus

- (iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount;

as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each April 15 and October 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after October 15, 2012, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for computer hardware and software equipment, vehicles, printing services of textbooks, office equipment, school and office furniture and didactic materials (excluding school supplies) shall be grouped in bid packages estimated to cost \$150,000 or more.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. Limited International Bidding

Computer hardware and software equipment and vehicles estimated to cost \$40,000 equivalent or more but less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) Printing services of textbooks, office equipment, school and office furniture and didactic materials (excluding office and school supplies) estimated to cost \$40,000 equivalent or more but less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost \$150,000 equivalent or more per contract, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) Procurement of all goods and works under Part C.2 (a) and (b) herein shall be carried out using standard bidding documents acceptable to the Bank.

3. National Shopping

(a) Computer hardware and software equipment estimated to cost less than \$40,000 equivalent per contract up to an aggregate amount not to exceed \$100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures; (b) printing services of textbooks, office equipment and supplies, school and office furniture estimated to cost less than \$40,000 equivalent per contract up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures; (c) didactic materials (excluding office and school supplies) estimated to cost more than \$3,000 equivalent but less than \$40,000 equivalent per contract up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures; and (e) except as provided in Part C.4 below, office and school supplies estimated to cost \$3,000 equivalent or less per contract shall be procured under contracts awarded on the basis of national shopping, all in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Office and school supplies estimated to cost \$3,000 equivalent or less per contract up to an aggregate amount not to exceed \$50,000 equivalent, may be procured in accordance with the provisions of paragraph 3.7 of the Guidelines in cases where comparison of price quotations from at least three suppliers eligible under the Guidelines may not be obtained.

5. Procurement of Small Works

Works estimated to cost less than \$150,000 equivalent per contract, up to an amount not to exceed \$1,500,000 equivalent, may be procured under lump-sum, fixed-

price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract to be awarded under Parts B.1 and C.1 of this Section; (b) the first contract to be awarded under Part C.2 (a) of this Section for printing services of textbooks; (c) the first contract for any of the goods (other than printing services of textbooks) to be awarded under Part C.2 (a) of this Section; (d) the first contract for works to be awarded under Part C.2 (b) of this Section; and (e) the first two contracts for works to be awarded under Part C.5 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for information campaigns under Part A.5 of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for the design and implementation of a national assessment system under Part B.5 of the Project, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Consultants' services estimated to cost \$50,000 equivalent or less per contract, up to an aggregate amount not to exceed \$4,500,000 equivalent shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for

its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms procured pursuant to the provisions of Parts B.1 and C.2 of Section II of this Schedule, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than \$75,000 equivalent per contract, the information relating to the selection of consultants, as referred to in paragraph 5.2 of the Consultant Guidelines, the description of the assignment (terms of reference) and the corresponding terms of employment shall be reviewed and approved by the Bank.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$35,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;

(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 Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$4,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the 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 Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan 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 Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the Special Account for the Project, minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the 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 Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.