

CONFORMED COPY

LOAN NUMBER 4463 LV

Loan Agreement

(Education Improvement Project)

between

REPUBLIC OF LATVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 19, 1999

LOAN NUMBER 4463 LV

LOAN AGREEMENT

AGREEMENT, dated August 19, 1999, between REPUBLIC OF LATVIA (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, as amended through December 2, 1997, (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth

and the following additional terms have the following meanings:

(a) "Euro" and "EUR" each mean the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty of European Union;

(b) "Minister" means the Minister of Education and Science of the Borrower;

(c) "MES" means the Ministry of Education and Science of the Borrower;

(d) "PMU" means the Project Management Unit established under the State Secretary of MES;

(e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(f) "Steering Committee" means the Steering Committee to be established by the Borrower within MES in accordance with the provisions of paragraph A (1) (b) of Schedule 5 to this Agreement; and

(g) "Team Leaders" means the Team Leaders to be designated in accordance with the provision of paragraph A (1) (c ) of Schedule 5 to this Agreement.

## 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 twenty-eight million two hundred ninety thousand Euro (EUR 28,290,000).

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 works, goods and services required for the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2004, 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 fee in an amount equal to one percent (1%) of the amount of the loan, on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. 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 2.07. Interest and other charges shall be payable on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions set forth in Schedule 3 to this Agreement.

### 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 MES with due diligence and efficiency and in conformity with appropriate financial, administrative and educational standards, and shall provide, promptly, as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the works, goods and consultants' services required under 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 (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; and

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

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank 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 (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and a 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 such records and accounts and the audit thereof, and concerning said auditors, as the Bank may 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 (1) 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

##### Effective date; Termination

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

(a) The Team Leaders have been appointed in accordance with the provisions of paragraph A (1) (c) of Schedule 5 to this Agreement; and

(b) the MES has: (i) operated the financial management system for the Project so as to be able to produce a project financial statement, including a summary of sources and uses of funds, a Special Account reconciliation statement, and a cash withdrawal statement; and (ii) produced a manual for the Project financial system.

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

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
1 Smilsu Street  
Riga, LV-1919  
Latvia

Facsimile:

371 7820010

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

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 Riga, Latvia, as of the day and year first above written.

REPUBLIC OF LATVIA

By /s/ Edmunds Krastins

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky

Acting Regional Vice President  
Europe and Central Asia

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:

Category	Amount of the Loan Allocated (Expressed in Euro equivalent)	% of Expenditure to be Financed
(1) Works	20,000,000	85%
(2) Goods	1,200,000	100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 85% of local expenditures for locally procured
(3) Consultants' services and training	3,900,000	100%

(4) Fee	282,900	Amount due
2.04		under Section
Agreement		of this
(5) Unallocated	<u>2,907,100</u>	
TOTAL	28,290,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date 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 for: (a) goods and works under contracts costing less than EUR 273,000 equivalent each; (b) services of consulting firms under contracts costing less than EUR 91,000 equivalent each; and (c) services of individual consultants under contracts costing less than EUR 46,000 each, 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 improve energy efficiency and space utilization of educational facilities and to build and strengthen institutional management capacity to assess and promote quality education.

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: Improving Operating Efficiency of School Buildings

Implementation of measures to improve energy efficiency and space utilization in a selected number of educational facilities, including:

(1) replacement or repair of deteriorating roofs, elimination of structural weaknesses in building foundations and walls, repair of heating and electrical systems and other necessary repairs; and

(2) increasing capacity utilization of school buildings through measures to consolidate schools wherever economically justifiable and to partition school interiors so as to improve space utilization.

#### Part B: Improving Educational Quality

Implementation of measures to strengthen institutional management capacity to assess and promote quality learning, including:

(1) Setting Standards: development and adoption of content and performance standards in selected areas in each of the compulsory grades of 3, 6 and 9;

(2) Assessing Students Success: assistance to the unit in MES responsible for the development, implementation and dissemination of student achievement tests, including advisory services, training, equipment, renovation and improvement of facilities to comply with security requirements and provision of equipment and materials;

(3) Communications Strategy: provision of technical assistance and training to assist MES to develop and to implement an effective public communications strategy, including the dissemination of information on school performance and student learning and the obtaining of feedback thereon from

stakeholders;

(4) School Self-Improvement: provision of technical assistance, training and equipment to assist in the development and implementation of school self-improvement models in about 30 pilot schools, and extension of the same to schools to be renovated under Part A of the Project; and

(5) Strengthening the Capacity for Policy Formulation: carrying out by MES, and in collaboration with regional school authorities, of: (a) studies in the areas of education governance, internal efficiency and quality, and (b) training of education administrators in the areas of policy analysis and policy making, education economics, and finance, and statistical analysis and evaluation.

Part C: Project Management

Provision of technical assistance, training and equipment to PMU to strengthen its capacity in Project management and implementation and in monitoring of performance indicators.

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The Project is expected to be completed by June 30, 2004.

### 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 Euro 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) three-fourths of one percent (3/4 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 Deutsche Mark 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) three-fourths of one percent (3/4 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 (6) 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 semi-annual 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 April 15, 2014, 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 Selection of Consultants

#### Section I. Procurement of Good 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 as revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

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

##### Part C: Other Procurement Procedures

###### 1. National Competitive Bidding

Works under the Project estimated to cost less than EUR 640,000 equivalent per contract up to an aggregate amount of EUR 18,200,000 equivalent, shall be procured under contracts awarded on the basis of national competitive procedures in accordance with the provision of paragraphs 3.3 and 3.4 of the Guidelines.

###### 2. International or National Shopping

(a) Goods estimated to cost less than EUR 185,000 equivalent per contract up to an aggregate amount not exceeding EUR 550,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Procurement Guidelines.

(b) Goods estimated to cost less than EUR 46,000 equivalent per contract, up to an aggregate amount not to exceed EUR 550,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

##### Part D: Review by the Bank of Procurement Decisions

###### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 for goods and works to be procured in accordance with the procedures referred to in Part B of this Schedule; and (b) the first contract to be procured in accordance with the procedures referred to Parts C.1 and C.2 of this Schedule; 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 Procurement

Guidelines shall apply.

## Section II. Selection 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 and revised in January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

### Part B: Quality- and Cost-based Selection

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.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Selection under a Fixed Budget

Services for training estimated to cost up to an aggregate amount of EUR 364,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.5 of the Consultant Guidelines.

#### 2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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 estimated to cost the equivalent of EUR 185,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third 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 the equivalent of EUR 95,000 or more, but less than the equivalent of EUR 185,000 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.

(c) With respect to each contract for the employment of individual consultants, 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 the said approval shall have been given.

#### 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 Consultant Guidelines shall apply.

#### SCHEDULE 5

##### Implementation Program

###### Part A: Management of Project Implementation

(1) The Borrower, acting through the Minister, shall:

(a) assign the general responsibility for management of Project implementation to MES;

(b) not later than September 30, 1999, establish the Steering Committee under the chairmanship of the Minister and under terms of reference agreed upon with the Bank, and assign to the Steering Committee the responsibility for facilitating Project implementation at the policy level and for ensuring participation of stakeholders in the design and monitoring of such implementation;

(c) for coordination of the implementation of each component included in Part B of the Project, cause MES to appoint a full-time Team Leader, whose qualifications and experience are satisfactory to the Bank;

(d) cause MES not later than September 30, 1999, to select three regions to participate in activities under Part B of the Project in accordance with criteria agreed upon with the Bank;

(e) cause MES to undertake the selection of schools for activities included in Part A of the Project in accordance with criteria, methodology and time-schedule agreed upon with the Bank;

(f) no later than March 31, 2000 prepare, in accordance with principles satisfactory to the Bank, and submit to the Bank a report on the financial management of the Project to form the basis for review between the Bank and the Borrower of the disbursement procedures for the Loan;

(g) no later than September 31, 2002, submit to the Bank a plan to expand the program of school infrastructure improvement under Part A of the Project to schools not covered under the Project, including a proposed financing plan for the implementation thereof; and

(h) cause the MES to maintain the PMU until Project completion with such staff and resources as shall be required for the PMU to perform the following functions under the Project:

(i) coordination of the activities of various entities involved in Project implementation;

(ii) preparation of work plans, including time-schedules, for Project implementation;

(iii) formation, as necessary, under a qualified Project manager, of a working group for each Project component comprising representatives of stakeholders in such component (such as general and vocational schools, Regional School Boards, relevant departments of MES, and selected pedagogical institutes) and the preparation by such working groups, for incorporation into the work plans referred to in paragraph (ii) above, of activities included in their respective Project components;

(iv) coordination and supervision of the preparation of bidding and contract documents under the Project, including

coordination of the recruitment of local and foreign consultants; and

- (v) monitoring of Project progress on the basis of indicators agreed upon with the Bank.

(2) The Borrower, acting through MES, shall ensure the preparation through the PMU and the furnishing to the Bank of quarterly reports on Project progress.

(3) The Borrower and the Bank shall, by December 31, 2000: (a) undertake a review of the performance of procurement of works under the National Competitive Bidding and International Competitive Bidding procedures referred to in Section I of Schedule 4 to this Agreement; and (b) based on the conclusions of such review, agree, if necessary to achieve the Project objectives, to amend the aggregate amount of contracts to be awarded under each such procedure.

Part B: Monitoring and Evaluation

The Borrower shall:

(1) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators and measures set forth in the Project;

(2) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (1) of this Part B, on the progress achieved in the carrying out of the Project and the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(3) review with the Bank, by June 30, 2002, or such later date as the Bank shall request, the report referred to in paragraph (2) of this Part, and, thereafter, take all measures required to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the 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 EUR 2,800,000 to be withdrawn from the Loan Account and deposited in 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 EUR 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 EUR 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 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, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions 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 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 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.

