

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4726 RU

Loan Agreement

E-Learning Support Project

(First Phase of the Adaptable Program Loan)

between

RUSSIAN FEDERATION

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 7, 2004

LOAN NUMBER 4726 RU

LOAN AGREEMENT

AGREEMENT, dated December 7, 2004, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated June 27, 2003, from the Minister of Education of the Russian Federation on behalf of the Borrower describing a phased program (the Program) of support for introduction and enhanced use of information and communication technologies in the education system at the general and initial vocational level, and declaring the Borrower's commitment to implementation of the Program;

(B) the Borrower has requested the Bank to support the execution of the Program through extension to the Borrower of the Adaptable Program Loan consisting of two phases for the total amount up to the equivalent of US\$300,000,000 over a period of seven (7) years;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project, which constitutes the first phase of the Program;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, and as support for the execution of the first phase of the Program, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement, on the understanding that the second phase of the Program will be implemented based on the results of the first phase.

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 October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(b) “ICT” means information and communication technologies;

(c) “Interministerial Working Group” means the group for Project preparation and implementation, established by the Borrower through the MOE, which is acting in accordance with the provisions of Section A.1 of Schedule 5 to this Agreement;

(d) “MOE” means the Borrower’s Ministry of Education, or any successor thereto;

(e) “MOEDT” means the Borrower’s Ministry of Economic Development and Trade, or any successor thereto;

(f) “MOF” means the Borrower’s Ministry of Finance, or any successor thereto;

(g) “NTF” means the National Training Foundation, a non-profit organization established pursuant to the Resolution of the Government of the Russian Federation No. 1273-P, dated August 12, 1994, acting on the basis of its Charter registered by the Borrower’s Ministry of Justice, dated September 29, 1994, and re-registered by the Moscow Registration Chamber on February 28, 2001 (Registration No. 002033537), as the same such Charter may be amended from time to time, or any successor thereto;

(h) “Operational Manual” means a manual setting forth the procedures and rules related to Project implementation to be adopted by NTF satisfactory to the Borrower and the Bank;

(i) “Participating Regions” means subjects of the Russian Federation selected by the MOE and agreed with the Interministerial Working Group in accordance with the

established criteria, which are proposed to serve as pilot testing regions for ICT introduction under the Project;

(j) “Project Implementation Agreement” means the agreement to be entered into between the Borrower, represented by the MOF and MOE, and the NTF in accordance with the provisions of Section 3.02 (b) of this Agreement, as the same such Agreement may be amended from time to time;

(k) “Regional Participation Agreement” means the agreements to be entered into between the MOE, NTF and each Participating Region in accordance with the provisions of Section 3.02 (c) of this Agreement, as the same such Agreements may be amended from time to time;

(l) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(m) “Strategic Management Committee” means the committee established by the Borrower through the MOE and NTF for the purposes of Bank projects in the education sector, which is carrying out defined tasks related to the Project, in accordance with the provisions of paragraph A.2 of Schedule 5 of this Agreement.

Section 1.03. Each reference in the General Conditions to the “Project implementation entity” shall be deemed as a reference to the NTF.

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 one hundred million dollars (US\$100,000,000), to support the first phase of the Program.

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 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 Dollars a special deposit account in a bank acceptable to the 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 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008, 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. Such fee shall be payable not later than sixty (60) days after the Effective Date.

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. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "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.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in US dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) 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 the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, 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 said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan 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.

Section 2.07. Interest and other charges shall be payable semiannually in arrears 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 amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its obligations under the Loan Agreement, shall:

(a) carry out the Project through the MOE with the assistance of the NTF with due diligence and efficiency and in conformity with appropriate administrative, financial and education practices;

(b) take or cause to be taken all actions necessary to enable the NTF to perform its obligations set forth in the Project Implementation Agreement and not take or permit to be taken any action which would prevent or interfere with such performance; and

(c) provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. 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:

(a) carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement;

(b) through the MOF and MOE, enter into an agreement with the NTF (the Project Implementation Agreement), on such terms as shall be acceptable to the Bank, which shall include terms specifying the responsibilities of the NTF in respect of coordination of Project activities, accounting, preparation of requests for withdrawals from the Loan Account, and procurement; and

(c) in order to implement the Project in the Participating Regions, enter into a Regional Participation Agreement between the MOE, NTF and each Participating Region, on such terms and conditions as shall be satisfactory to the Bank, including the requirements set forth or referred to in Part F of Schedule 5 of this Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and 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 3.04. For the purposes of Section 9.07 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 before 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 Project's objectives; 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 through the NTF shall maintain, or cause to be maintained, a financial management system, including records and accounts, and prepare, or cause to be prepared, financial statements, all in accordance with accounting

standards acceptable to the Bank, consistently applied, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause the NTF to:

- (i) have its records, accounts and financial statements (statement of expenditure details, statements of sources and uses of funds, and related statements) for each fiscal year audited, in accordance with auditing standards 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 sub-paragraph (i) of this Section for such year so audited; and (B) an opinion on such statements, records and accounts, and 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 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 cause the NTF to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
- (iii) enable the Bank's representatives to examine such records.

(d) The Borrower shall cause the NTF to:

- (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account 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 (6) 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, including 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; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part B of Schedule 5 to this Agreement, the Borrower, through the NTF, shall furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan;
- (ii) sets forth a statement of expenditure details, both cumulatively and for the period covered by said report, showing separately the amounts of expenditures for different items according to the categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (iii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and
- (iv) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first full calendar quarter after the Effective Date, and shall

cover the period from the incurrence of the first expenditure under the Project through the end of such first full calendar quarter, thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

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

- (a) an extraordinary situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;
- (b) the Project Implementation Agreement or any provision thereof, shall have been amended, suspended, abrogated, repealed or waived, in such a way as to affect materially and adversely the ability of the Borrower to carry out the Project; and
- (c) the NTF shall have failed to perform any of its obligations under the Project Implementation Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified, namely, the events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, the Project Implementation Agreement, in a format acceptable to the Bank, has been entered into between the Borrower, through the MOF and MOE, and the NTF.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower or authorized Deputy 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
Ilyinka Street 9
103097 Moscow
Russian Federation

Telex:

Facsimile:

112008

(7-095) 925-0889

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:

Facsimile:

477-6391

INTBAFRAD

248423 (MCI) or

(1 202)

Washington, D.C.

64145 (MCI)

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

RUSSIAN FEDERATION

By /s/ Fursenko Andrey Aleksandrovich

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kristalina I. Georgieva

Authorized Representative

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 Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|--|--|---|
| (1) Goods, equipment and supplies | 25,500,000 | 100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 82% of local expenditures for other items procured locally, including local transportation and insurance related to those items |
| (2) Research and Development | 28,100,000 | 87% of individual consultants; 100% of eligible social charges; 79% of expenditures on consulting firms |
| (3) Training | 2,600,000 | 100% |
| (4) Goods, works and services under Grants | 40,700,000 | 100% |
| (5) Operating Costs | 3,100,000 | 87% of NTF salaries; 100% of social charges; 100% of training; |

| | |
|-------|--------------------|
| | 84% of other costs |
| TOTAL | <u>100,000,000</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 expenditures for goods, works or services supplied from the territory of the Borrower;

(c) the term “Training” means Project related costs and expenses related to study tours, seminars, workshops and other training activities, which will be carried out other than through a goods, works or services provider’s contract, in accordance with a procedure acceptable to the Bank, including travel expenses of trainees, trainers, representatives of ministries and administration, and other relevant organizations of federal and regional levels, which are involved in Project implementation;

(d) the term “Operating Costs” means reasonable expenses incurred by the NTF on account of Project implementation, management and monitoring set forth in the approved annual budget of the NTF, adopted pursuant to the provisions of the Operational Manual, including the cost of: (i) maintenance of office equipment and facilities and minor office renovation; (ii) office goods, furniture, stationary and supplies; (iii) rent and utilities; (iv) Project management related training and seminars, conferences and study tours, including the cost of training materials; (v) communication; (vi) remuneration of NTF staff, including social charges; (vii) transportation and travel; and (viii) Project-related auditing services, bank charges and supervision costs; and

(e) the term “Grants” means purpose-oriented financing, awarded in accordance with procedures set forth in the Operational Manual acceptable to the Bank, to educational establishments, state and non-state organizations, or groups of authors and individuals, for purposes consistent with the objectives of the Project, including, inter alia, the development of a unified telecommunication infrastructure; the creation, testing and implementation of new training materials, and innovative educational projects; the creation of conditions for implementation of ICT in education in Russian regions; training; and the dissemination and discussion of project results and achievements through conferences and workshops.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of US\$500,000 may be made before that date but after May 31, 2003; and (b) any expenditure under any Category in the table set forth in paragraph 1 of this Schedule unless the Bank has received payment in full of the fee referred to in Section 2.04 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 such terms and conditions as the Bank shall specify by notice to the Borrower, for: (a) goods under contracts not exceeding US\$250,000 equivalent each; (b) services of consulting firms under contracts not exceeding US\$100,000 equivalent each; (c) services of individual consultants under contracts not exceeding US\$50,000 equivalent each; (d) training; and (e) operating costs.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in carrying out its education modernization program goals of improving the accessibility, quality and efficiency of Russia's general and initial vocational 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: Learning Materials

Assistance in the form of capacity building support (including Grants) relating to:

1. Development of a regulatory framework for materials development and use.
2. Developing, purchasing, licensing and distributing a range of critical learning materials for efficient use of ICT in education.
3. Testing materials that would focus on embedding ICT in teaching and learning practices.

Part B: Teacher Training in the Educational Use of ICT

Provision of assistance in the form of capacity building support (including Grants) for:

1. Organization of training of new and existing teachers and education managers in the use of ICT in education.
2. Instructional design and development capacity in learning materials production.
3. Development of general education institutions providing teaching for children, including those with special needs, using distance education support where appropriate.

Part C: Development of a Network of Interschool Resource Centers

Provision of assistance in the form of capacity building support (including Grants) relating to establishing a network of interschool resource centers for:

1. Strategic planning for effective use of ICT in education.

2. Teacher support, training and advisory services.
3. Dissemination of ICT in education practices.
4. Extending curriculum offerings, including support through selected distance education services to ensure equal access.
5. Extending access to new learning materials and educational resources, including the local community.
6. Technical assistance for ICT implementation in schools.

Part D: Project Management

Provision of support for project implementation through the NTF.

* * *

The Project is expected to be completed by December 31, 2007

SCHEDULE 3

Amortization Schedule

| <u>Date Payment Due</u> | <u>Payment of Principal (expressed in Dollars)*</u> |
|--|---|
| On each April 15 and October 15 | |
| beginning October 15, 2009 through October 15, 2020 | 4,165,000 |
| and on April 15, 2021 | 4,205,000 |

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods 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, September 1997 and January 1999 (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 goods shall be grouped in bid packages estimated to cost US\$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto may be applied to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than US\$300,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines subject to modifications agreed with the Borrower and attached as Annex 1 to this Schedule.

2. International Shopping

Goods estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than US\$50,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods which must be procured as an extension of an existing contract, or must be purchased from the original supplier to be compatible with existing equipment, or are of a proprietary nature, or must be procured from a particular supplier as a condition of a performance guarantee may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation 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 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 each contract: (i) estimated to cost the equivalent a total of US\$250,000 or more; and (ii) all contracts for goods to be procured in accordance with the procedures referred to in Part C.4 of Section 1 of this Schedule above, 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

1. Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

2. The short list of consultants for services estimated to cost less than a total of US\$200,000 equivalent per contract, or for specific assignments where participation of foreign firms is not appropriate or justified, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

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. Quality-based Selection

Services for highly specialized assignments, including:

(a) development of the regulatory framework for creating and using new-generation digital learning materials in the education sphere, training and teaching modules and materials;

(b) setting up collections of digital information objects for use in the education sphere, including acquisition of rights and licenses;

- (c) development of special software and digital training management tools;
- (d) creation of innovative teaching and learning materials in key educational areas;
- (e) examination and testing of these materials in practice;
- (f) rendering support to educational portal functioning;
- (g) teacher training in use of ICT;
- (h) training of pedagogical design specialists;
- (i) certification of specialists in ICT field;
- (j) strategic planning for effective use of ICT in education and monitoring development of regional ICT education programs;
- (k) development of a network of Interschool Resource Centers (IRC) in Project Regions, including in-service training; and
- (l) provision of distance education services to ensure equal access to education;

may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for assignments similar to those listed in Part C.1 above, estimated to cost less than a total of US\$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for customizing proprietary software, for development of curricula, for testing new training materials, or for strategic planning, 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.

4. Eligibility of State-Owned and Other Research Institutes

Short lists for assignments to be procured under the provisions of Parts C.1, C.2 or C.3 of this Section may include, or be entirely composed of, suitable government-owned entities (scientific and research institutes, state unitary education organizations, state electronic materials and cinema production organizations, state publishers, institutions of culture, and all types and levels of educational institutions and interschool resource centers).

5. Individual Consultants

Services for analytical, reviewing, and evaluation assignments, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 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 request 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 a total of US\$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of a total of US\$50,000 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 the said approval shall have been given.

(c) The Bank may require prior reviews of other terms of reference for consulting firms and individual consultants, not included in subparagraphs (a) and (b) of this paragraph 2.

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.

**Annex 1
To
SCHEDULE 4**

**Mandatory Provisions for Procurement under
Bank-Financed Contracts Subject to National Competitive Bidding**

Contracts for goods or works for which Schedule 4 to the Loan Agreement allows procurement under paragraphs 3.3 and 3.4 of the Procurement Guidelines may be procured in accordance with the provisions of national laws and regulations. In order to assure economy, efficiency, transparency and broad consistency with the provisions in Section I of the Procurement Guidelines, the national procurement provisions shall be modified as set forth in the following paragraphs.

Eligibility

1. No restrictions in respect of eligibility to participate in bidding for contracts shall be placed on the basis of nationality of bidder and/or origin of goods other than those imposed by primary boycotts.
2. Eligibility for foreign firms to participate in bidding shall not be based on requirements to joint-venture with national firms.
3. Bidders shall only be required to register for bidding provided that registration requirements and process are simple and non-discriminatory and otherwise qualified foreign bidders are not excluded from participating.
4. No preference shall be accorded to bidders on the basis of place of registration, ownership, small size, etc. No restrictions shall be imposed in terms of source of labor, material or equipment.
5. Government-owned entities shall be eligible to participate in bidding for contracts if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependant agency of the purchaser or the contractor.

Standard Bidding Documents

6. Until a modified version of the Borrower's standard bidding document has been approved for use by the Bank, the Bank's own standard bidding document shall be used.

Advertising Bidding Opportunities; Time for Bid Preparation

7. Bidding opportunities shall be advertised in national press of wide circulation. Prospective bidders shall be allowed at least thirty (30) days for bid preparation and submission of bids (excepting contracts for readily available off-the-shelf goods or standard specification commodities or small value works).

8. The opportunity to pre-qualify for procurements involving large or complex contracts shall be advertised.

9. Minimum experience, technical and financial requirements (for pre- or post qualification) shall be explicitly stated in the bidding documents and only criteria so specified shall be used to determine whether a bidder is qualified to bid. Bids by bidders which are deemed not qualified to bid shall not be further considered and shall be rejected.

Bid Opening

10. Bids shall be opened immediately after the deadline for bid submission and in the presence of bidders who wish to attend. Bids received after the deadline shall not be considered and shall be returned unopened.

Rebidding

11. Rebidding shall not necessarily be required if only one bid has been received provided that the bid received is responsive, bid price is acceptable and bidder is deemed capable of performing the contract.

Bid Evaluation

12. Evaluation criteria shall be clearly specified in the bidding documents and evaluation criteria other than price shall be expressed in monetary terms. Only criteria so specified shall be used in bid evaluation. Merit points shall not be used in evaluations of bids for goods and works contracts.

13. Bid evaluations shall be confidential and bidders shall not be allowed to be present during evaluation. No information relating to the evaluation shall be disclosed to any bidder until the successful bidder has been notified of contract award.

14. Bids containing material deviations from technical specifications and/or material reservations to the terms or conditions of the bidding documents shall be rejected as “substantially not responsive”. Bidders shall not be requested or permitted to withdraw material deviations or reservations once bids have been opened.

15. Evaluations shall be made in strict adherence to the criteria specified in the bid documents and no other criteria than those specified in the bidding documents shall be applied. Contract shall be awarded to the lowest evaluated qualified and responsive bidder.

16. There shall be no negotiations of price or substance with “winning” bidders prior to contract award.

SCHEDULE 5

Implementation Program

A. Overall Management and Implementation of the Project

1. The MOE shall be responsible for the overall Project management and implementation, and shall organize the work of the interministerial working group on project preparation and implementation (the Interministerial Working Group). The Interministerial Working Group shall include representatives of the MOE, MOF, MOEDT, NTF, regions and other stakeholders, and shall coordinate the Project, define Project implementation strategy, ensure approval of Project related documents, approve and monitor Project activities.

2. The MOE shall ensure the work of a committee (the Strategic Management Committee) to be responsible for: (i) substantive support for Project implementation; (ii) review of terms of reference, budgets, implementation plans and reports related to the Project; and (iii) staffing and functioning of the Expert Committee of the Project, according to the Operational Manual. The Strategic Management Committee shall include representatives of the MOE, regions, the NTF and the professional community.

3. The NTF shall be responsible for operational management and implementation of the Project and shall help the Strategic Management Committee to coordinate Project activities, and also shall be responsible for financial management, procurement, disbursement of Loan funds and preparing Project reports.

4. The Borrower shall ensure that, until the completion of the Project, the NTF at all times functions in a manner, and with staff, consultants, facilities and other resources necessary for the management and implementation of the Project, satisfactory to the Bank.

B. Annual (Quarterly) Reports and Work Program

1. The Borrower shall cause the NTF to: (a) provide to the Bank, by April 1 of each year throughout the execution of the Project, an annual report on the progress of Project implementation, of such scope and in such detail as the Bank shall reasonably request, including a draft annual project implementation plan for the following year; and (b) carry out annual assessments to monitor the impact of the Project.

2. The Borrower shall submit to the Bank, not later than forty-five (45) days after the end of each quarter, a quarterly progress report, in a format satisfactory to the Bank,

outlining progress made in the implementation of the Project, as well as the problems encountered and how they are being addressed.

3. Regarding the training programs to be carried out under the Project, the Borrower, through the NTF, shall:

(a) select the beneficiaries and the providers of such training programs in accordance with criteria satisfactory to the Bank;

(b) not later than December 31 of each year, exchange views with the Bank on the training programs to be carried out in the following calendar year; and

(c) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the annual results of the training programs and the benefits derived therefrom.

C. Counterpart Funding Requirements for the Project

1. Without limitation upon any of its obligations under Section 3.01 and Schedule 1 of this Agreement, the Borrower shall ensure that necessary annual allocations will be made within the Federal budget for the Borrower's counterpart contribution to the costs of the Project, taking into account the contribution to be provided from the Participating Regions, according to paragraph C.2 of this Schedule.

2. Each Participating Region shall provide, as cofinancing of Project expenditures, the necessary annual allocations from the consolidated budget of this region in an amount not less than 50% of the portion of the Loan intended for financing the corresponding Project activities in this region.

3. Outcomes of competitive bidding procedures for the procurement of goods, works and services under the Project shall be grounds for the provision of counterpart funding from the Federal budget and/or consolidated budgets of Participating Regions as envisaged by this Agreement.

D. Grants

1. Recipients of Grants under the Project shall be selected in accordance with specific eligibility criteria and a model grant agreement set forth in the Operational Manual acceptable to the Bank.

2. The items eligible to be financed under the Grants (goods, works and services) shall be determined by the Borrower through the NTF in accordance with criteria acceptable to the Bank.

E. Monitoring and Evaluation

The Borrower, through the NTF, shall:

(a) monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph E (a) of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by March 1, 2006, or such later date as the Bank shall request, the report referred to in sub-paragraph E (b) of this Schedule, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

F. Participating Regions

The Borrower through the MOE shall ensure the commitment of the Participating Regions to the objectives of the Project, through the inclusion of appropriate provisions in the Regional Participation Agreements, including that the Participating Regions shall:

(a) adopt or revise regional e-learning programs to ensure consistency with the objectives, tasks, timeframe and content of the Project Implementation Plan, including modernization of the methodological services and professional upgrading system;

(b) develop, agree with the Strategic Management Committee, approve and ensure execution of regional Project Implementation Plans in accordance with Project objectives, tasks and timeframe;

(c) develop, agree with the Strategic Management Committee, and approve the required regulatory and legal documents to define Project implementation

mechanisms, and ensure the functioning of the interschool resource center network after Project completion;

(d) through agreements with local governments, make changes required for efficient Project implementation, inter alia, to the regulatory documentation for schools and curriculum advisory services; and

(e) ensure timely provision of financial and other reports in compliance with the Regional Participation Agreements.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) 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, works 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 US\$8,000,000 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 US\$2,000,000 until the aggregate amount of withdrawals from the Loan 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 US\$6,000,000.

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

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

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

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the

respective 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, 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 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.