

CONFORMED COPY'

LOAN NUMBER 7052-GU

Loan Agreement

(Universalization of Basic Education Project)

between

REPUBLIC OF GUATEMALA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 14, 2002

LOAN NUMBER 7052-GU

LOAN AGREEMENT

AGREEMENT, dated November 14, 2002, between the 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 (the Project), 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 Fixed-Spread Loans” of the Bank dated September 1, 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Basic Education” means the pre-primary level and grades 1 through 6 of the primary level of the Borrower’s education system;

(b) “Bilingual Education” means Basic Education provided in both the Spanish Language and either one of the 16 Mayan languages referred to in the Operational Manual (as defined below), or the Xinca or Garifuna language;

(c) “Bilingual School” means a school where Bilingual Education is provided;

(d) “COEDUCA” means *Comité Educativo*, an administration committee comprised of the parents of the students attending a Basic Education school which is established following the requirements of the PRONADE Program (as defined below) and granted legal personality;

(e) “COEDUCA Agreement” means any of the agreements referred to in Section 3.01 (f) of this Agreement;

(f) “Cultural Education Activity” means an activity for the provision of education on arts and culture which is proposed by MCS (as defined below) and acceptable to the Bank, for implementation in a location outside Guatemala City and following procedures acceptable to MCS and the Bank, and in respect of which the Loan proceeds will finance part of the cost of technical assistance, training and/or equipping required therefor;

(g) “Eligible Categories” means categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(h) “Eligible Expenditures” means the expenditures for goods, services and other expenditures referred to in Section 2.02 of this Agreement;

(i) “Eligible Student” means a female student of a PRONADE School selected in accordance with the criteria set forth in the Operational Manual as beneficiary of a scholarship to be financed out of the proceeds of the Loan;

(j) “MCS” means *Ministerio de Cultura y Deportes*, the Borrower’s Ministry of Culture and Sports;

(k) “MINEDUC” means *Ministerio de Educación*, the Borrower’s Ministry of Education;

(l) “Model COEDUCA Agreement” means the model COEDUCA Agreement set forth in the Operational Manual;

(m) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(n) “PCU” means the Project coordination unit referred to in Section 3.01 (c) of this Agreement;

(o) "Performance Indicators" means the indicators set forth in a letter from the Borrower to the Bank of even date herewith;

(p) "Prior Loan" means Loan No. 4167-GU (Basic Education Reform Project) governed by the loan agreement entered into between the Borrower and the Bank on October 20, 1997;

(q) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(r) "PRONADE Program" means *Programa Nacional de Autogestión Para el Desarrollo Educativo*, the Borrower's community-managed education program set forth in the Borrower's Executive Decree No. 457-96, dated October 22, 1996, as amended to the date of this Agreement;

(s) "PRONADE School" means a new school of the PRONADE Program located in a rural area and operated by a COEDUCA;

(t) "Quetzal" means the currency of the Borrower;

(u) "Revolving Fund" means the fund referred to in Section 3.01 (e) of this Agreement;

(v) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(w) "Steering Committee" means the committee referred to in Section 3.01 (b) of this Agreement;

(x) "Trust Fund" means the trust fund referred to in Section 3.01 (d) of this Agreement which was opened by the Borrower in a banking institution in accordance with the provisions of the Borrower's *Acuerdo Gubernativo* No. 457-96 dated October 22, 1996 to finance the operations of PRONADE schools; and

(y) "Trust Fund Agreement" means the agreement entered into between the Borrower and *Banco Industrial*, the Trust Fund trustee, on December 30, 1999 or such other agreement as the Borrower shall enter into, under similar terms acceptable to the Bank, with any other commercial bank, acceptable to the Bank, of similar solvency and coverage as the existing Trust Fund trustee.

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 this Agreement, an amount equal to sixty-two million one hundred sixty thousand dollars (\$62,160,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. 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, scholarships, services and PRONADE School support required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be April 30, 2006 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. The Borrower agrees that 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 such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate, provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

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

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. Without any limitation to the authority of the representative of the Borrower under Section 6.01 of this Agreement, the Director of Public Credit of the Borrower is authorized by the Borrower to furnish to the Bank on its behalf the evidence of the authority of the person or persons authorized to act on behalf of the Borrower for purposes of Article 2.02 of this Agreement and Article V of the General Conditions and sign applications for withdrawal, and the authenticated specimen signature of any such person.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project and, to this end shall carry out, with the guidance of the Steering Committee:

- (i) Parts A, B and D of the Project through MINEDUC; and
- (ii) Part C of the Project through MCS,

all with due diligence and efficiency and in conformity with appropriate educational, technical, administrative, financial, engineering and environmental practices, 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 policy guidance committee (the Steering Committee) with functions and responsibilities satisfactory to the Bank.

(c) The Borrower shall establish, and thereafter operate and maintain, during the implementation of the Project, a Project coordination unit with functions and responsibilities satisfactory to the Bank, at all times headed by a Project coordinator and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank.

(d) The Borrower shall:

- (i) maintain during the implementation of the Project a 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 counterpart funds for Part A of the Project; and
- (ii) except as the Bank shall otherwise agree, not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Trust Fund Agreement or any provision thereof.

(e) The Borrower shall establish, and thereafter operate and maintain, at all times during implementation of the Project, a revolving fund in Quetzales with a

quarterly balance equivalent to at least the amount of counterpart funds required to carry out the Project for three months of Project implementation.

(f) The Borrower shall, through MINEDUC, transfer, on a grant basis, the portion of the proceeds of the Loan allocated for Part A of the Project to each COEDUCA under an agreement to be entered into between the Borrower, through MINEDUC, and each COEDUCA, substantially in the terms of the Model COEDUCA Agreement.

(g) The Borrower shall, through MINEDUC, exercise its rights under each COEDUCA 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, through MINEDUC, shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce any COEDUCA 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. The Borrower shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, said Manual to include, *inter alia*:

- (a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial requirements thereof);
- (b) the identification of the selected 16 Mayan languages;
- (c) the criteria for the selection of Eligible Students which shall include, *inter alia*, criteria to target female students in rural areas, primarily those whose mother tongue is one of the selected 16 Mayan languages, the Garifuna language, or the Xinca language;
- (d) the requirements for establishment and operation of the PRONADE Schools and the scholarship program referred to in Part A.2 of the Project;
- (e) the functions and organization of the PCU and Steering Committee; and
- (f) the Model COEDUCA Agreement.

Section 3.04. The Borrower shall, through MINEDUC in respect of Parts A, B and D of the Project, and MCS in respect of Part C thereof:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, 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, not later than twelve months after the Effective Date and yearly thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such 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 shortly after such report's preparation, the report referred to in paragraph (b) of this Section, 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.

Section 3.05. For the purposes of Section 9.08 of the General Conditions, 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 for the future operation 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 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 related to 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 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 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, including as part of the information to be provided in each such report, a management letter concerning the Borrower's internal controls; 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 Project Management Reports or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than March 31, 2002, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. 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) the Borrower has adopted the Operational Manual;
- (b) the Borrower has established the PCU and the Steering Committee;
- (c) the Borrower has established the Revolving Fund and allocated an amount of \$250,000 equivalent therein; and
- (d) the Borrower has strengthened the financial management system referred to in Section 4.01 of this Agreement in a manner satisfactory to the Bank.

Section 5.02. The date November 22, 2002 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 Public 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 Public Finance
Ministerio de Finanzas Públicas
8ª Avenida y 21 Calle
Zona 1,
Guatemala, Guatemala

Facsimile:

(502) 230-0333

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:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

REPUBLIC OF GUATEMALA

By /s/ Eduardo Weymann
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Eduardo Somensatto
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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)	Works	2,770,000	100 of foreign expenditures; and 90% of local expenditures
(2)	Goods	28,510,000	100% of foreign expenditures; and 90% of local expenditures
(3)	Consultants' services, Training, fellowships, communication campaigns, research and audits	14,070,000	100%
(4)	Scholarships	3,540,000	100% of expenditures for the first year of the scholarship, 80% of expenditures for the second year of the scholarship, 60% of expenditures for the third year of the scholarship, and 40% of expenditures for the fourth year of the scholarship

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(5) PRONADE School Expenditures	6,330,000	80% of expenditures until withdrawals under this Category have reached an aggregate amount of \$570,000; 60% until withdrawals under this Category have reached an aggregate amount of \$2,320,000; 40% until withdrawals under this Category have reached an aggregate amount of \$4,900,000; and 20% thereafter
(6) Front end fee	621,600	
(7) Premia for Interest Rate Caps and Interest Rate Collars		Amount due under Section 2.09 (c) of this Agreement
(8) Unallocated	6,318,400	
TOTAL	<u>62,160,000</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 reasonable travel cost and per-diem of the trainees; and

(d) the term “PRONADE School Expenditures” means expenditures incurred for: (i) teachers’ salaries, school supplies for students and educational materials for teachers of PRONADE Schools; and (ii) identification, organization, processing of legal status and training of parents and administrators of COEDUCAs.

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 for Categories (1), (2) and (3) of the table in paragraph A.1 of this Schedule unless the allocations in the Prior Loan for similar expenditures have been fully committed.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower:

(a) for goods, works and services of individual consultants and consulting firms under contracts in respect of which prior review is not required pursuant to the provisions of Parts D.2 of Sections I and II of Schedule 4 to this Agreement; and

(b) for PRONADE Schools, scholarships and Training.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in the Borrower’s *Banco de Guatemala*, on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports**

1. For the purposes of this Annex, the term “Authorized Allocation” means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.
2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$11,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve coverage and equity of Basic Education through the expansion and consolidation of PRONADE Schools and the provision of scholarships to Eligible Students; (b) to improve efficiency and quality of Basic Education by supporting multicultural and Bilingual Education, expanding multigrade schools and improving teacher qualifications; (c) to enhance the Borrower's goals of cultural diversity and pluralism; and (d) to decentralize and modernize MINEDUC by supporting on-going efforts to strengthen the organization and management of the education system.

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. Expansion of Coverage of PRONADE Schools

(a) Organization and establishment of COEDUCAs and operation of PRONADE Schools.

(b) Evaluation of the PRONADE Program to assess: (i) the impact of such Program on student coverage and the repetition and drop-out rates; and (ii) the effectiveness of the support services provided to COEDUCAs and to teachers.

(c) Pilot testing in PRONADE Schools of two administrative models designed to test the capability of COEDUCAs to handle financial administration and monitoring of the respective school without further administrative training, and evaluation of such pilot testing to review progress, achievements, and difficulties.

(d) Carrying out of a pilot program for the provision of education services by itinerant teachers in about 12 isolated rural communities.

2. Scholarships

(a) Provision of scholarships to Eligible Students.

(b) (i) Strengthening the capacity of: (A) COEDUCAs for the administration and management of the scholarships provided in their schools; and (B) MINEDUC for scholarships' supervision; and (ii) training required therefor.

(c) Implementation of a communication strategy at the local level to disseminate the scholarship program.

(d) Development and implementation of a database for the scholarship program, including the training and equipment required therefor.

(e) (i) Revisions of MINEDUC's manual for training of communities on the criteria for selection of Eligible Students and for the management of the scholarship program; and (ii) carrying out of periodic evaluations to measure the effectiveness of the scholarship program in reaching its objectives and targeting indigenous Eligible Students.

Part B: Quality and Efficiency of Education

1. Equipping of: (a) multigrade monolingual and Bilingual Schools with books for classroom libraries; (b) multigrade schools with furniture to support multigrade education; (c) multigrade monolingual schools with student workbooks and teacher guides; and (d) multigrade Bilingual Schools with teacher guides and student workbooks.

2. Design, printing and distribution of textbooks for multigrade Bilingual Schools and monolingual Basic Education schools for math and culture in the selected 16 Mayan languages and in the Garifuna, Xinca and Spanish languages.

3. Training of teachers of multigrade monolingual and Bilingual Schools in multigrade methodologies, including training of trainers of such methodologies.

4. Strengthening MINEDUC's institutional capacity to manage the implementation of Part B of the Project and to evaluate the results of the teaching methods and curriculum program of multigrade monolingual and Bilingual Schools, through the provision of technical assistance and training.

5. Review and revision as needed of learning materials, instructor and teacher training materials, and teacher supervision materials.

Part C: Cultural Diversity

1. MCS Institutional Strengthening

(a) Establishment of a Policy and Planning Unit in MCS designed to improve the cooperation between MCS, MINEDUC, other agencies of the Borrower, civil society organizations, and the private sector, in the promotion and dissemination of cultural diversity and pluralism.

(b) Strengthening of the knowledge of MCS' and MINEDUC's technical staff on the Borrower's multicultural and inter-cultural policies.

(c) Development, in consultation with a wide range of governmental, academic, civil society and private sector stakeholders, of a plan for cultural resources development in Guatemala.

(d) Review of the national and international legal and normative framework for the recognition and promotion of cultural diversity and the Borrower's strategies and policies therefor, and identification of the legal reforms that might be needed to fully implement such policies.

2. Deconcentration of Culture and Arts Education

(a) Design and implementation of Cultural Education Activities.

(b) Evaluation of the social and human development impact of Cultural Education Activities with a view to their implementation in other regions and municipalities.

3. Cultural Resources Information System

Design and implementation of a national information system which would provide access to cultural information and knowledge to cultural promoters, school teachers, academic and research institutes, other governmental institutions, civil society organizations, and the private sector, including, *inter alia*, development of a cultural resources database on Guatemala's diverse ethnic and linguistic groups.

Part D: Decentralization and Modernization of Education

1. Strengthening of MINEDUC's System Management Capacity at the Local, Departmental and Central Levels

(a) Strengthening of MINEDUC's management capacity in particular for its multilingual and multicultural education program.

(b) Decentralization of MINEDUC database management to the departmental and municipal level and provision of, at such level, the equipment required therefor.

(c) Strengthening of the policy, planning, and evaluation functions of MINEDUC at all levels to ensure that policy and plans respond to system needs, and that evaluation results are utilized.

(d) Strengthening of the personnel management function at all MINEDUC levels.

(e) Development of MINEDUC human resource policies.

2. Social Communication Campaign

Carrying out of a communication campaign consisting of, *inter alia*, workshops at the national, departmental and local levels, multimedia dissemination in at least six different languages, teacher conferences, and unconventional means of advertising in towns and rural areas, designed to reach in particular parents, teachers and communities in rural areas to raise their awareness of the developmental and educational importance of initial learning in the mother's tongue, and involvement and participation of parents in their children's education, and to encourage parents to send their children to school.

3. Education Management Information System

Improvement of MINEDUC's education management information system through:

(a) provisions and updating of equipment for MINEDUC at the central level, and carrying out of software development and data management to support MINEDUC decentralization;

(b) carrying out of studies to analyze the quality of the information gathered by MINEDUC; and

(c) provision of training to users of such information.

4. Infrastructure Improvement

Expansion of MINEDUC's headquarters in Guatemala City.

* * *

The Project is expected to be completed by October 31, 2005.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On February 15, 2006 and August 15, 2006	4.83%
On February 15, 2007 and August 15, 2007	0%
On each February 15 and August 15 beginning February 15, 2008 through August 15, 2017	4.42%
On February 15, 2018	1.94%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the

table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

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, 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 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.

2. The following provisions shall apply to goods and works 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 and works shall be grouped in bid packages estimated to cost respectively \$200,000 and \$1,500,000 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 shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$1,500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,100,000 equivalent, and goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed

\$10,600,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents satisfactory to the Bank which shall provide, *inter alia*, that no bidder will be disqualified for submitting a bid which falls above or below the cost estimated by the Borrower of the goods or works to be procured.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$5,700,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Advertising time for radio broadcasting in indigenous languages for the campaign in Part D of the Project costing \$2,400,000 equivalent or less in the aggregate, 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 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

(a) With respect to: (i) each contract procured in accordance with the procedures referred to in Part B.1 hereof; and (ii) the first two contracts for goods and works procured each year in accordance with the procedures referred to in Part C.1 hereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods procured each year in accordance with the procedures referred to in Part C.2 hereof, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) 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 and revised in September 1997 and January 1999 (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 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. Least-cost Selection

Services for audits, fellowships, seminars and study tours estimated to cost less than \$200,000 equivalent per contract and not exceeding in the aggregate \$2,400,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for the design of bilingual and multigrade materials, selected simple studies and research activities approved by the Bank, all estimated to cost less than \$75,000 equivalent per contract and not exceeding in the aggregate \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and not exceeding in the aggregate \$1,700,000 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 estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (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 \$75,000 or more, but less than the equivalent of \$200,000, 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 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 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.