

CONFORMED COPY

LOAN NUMBER 2804 HO

(Rural Primary Education Management Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated August 27, 1987

LOAN NUMBER 2804 HO

LOAN AGREEMENT

AGREEMENT, dated August 27, 1987, between REPUBLIC OF HONDURAS (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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" of the Bank, dated January 1, 1985, with the

last sentence of Section 3.02 deleted (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) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "SEP" means the Ministry of Public Education of the Borrower;

(c) "Project Area" means the area in the territory of the Borrower comprising the Departments of Atlantida, Colon, Cortes, Gracias a Dios, Islas de la Bahia and Yoro;

(d) "School District" means any geographical area determined by SEP according to appropriate technical and administrative criteria;

(e) "Executive Council" means the Consejo Nacional de Educacion of SEP, created by Decree No. 79, of November 14, 1966 (Ley Organica de Educacion), which sets policy for SEP; and

(f) "Technical Unit" means the Unidad Coordinadora de la Cooperacion Externa of SEP, created by Acuerdo No. 6712-EP-86, of December 9, 1986, and regulated by Acuerdo No. 0209-EP-87, of January 21, 1987.

## 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 in various currencies equivalent to four million four hundred thousand dollars (\$4,400,000).

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 (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between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

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

Section 2.03. The Closing Date shall be June 30, 1994 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one half per cent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. 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. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through SEP with due diligence and efficiency and in conformity with appropriate administrative, financial, architectural and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) above, the Borrower shall maintain in SEP an Executive Council and a Technical Unit, both with staff, organization and functions satisfactory to the Bank.

Section 3.02. For purposes of carrying out the Project, the Borrower shall: (a) establish and maintain in SEP, until the completion report referred to in Section 9.07 (c) of the General Conditions has been furnished to the Bank, a Project coordinating unit with staff (to be appointed in accordance with a timetable acceptable to the Bank), organization and functions satisfactory to the Bank;

(b) appoint in such unit, and thereafter maintain in it, a Director with qualifications and experience satisfactory to the Bank; and

(c) provide, promptly as needed, the funds, facilities, services and other resources required for the operation of such unit.

Section 3.03. For purposes of carrying out Part C of the Project, the Borrower shall: (a) establish and maintain, until the completion report referred to in Section 9.07 (c) of the General Conditions has been furnished to the Bank, a regional micro-planning unit, based in the city of La Ceiba, with staff (to be appointed in accordance with a timetable acceptable to the Bank), organization and functions satisfactory to the Bank;

(b) appoint in such unit, and thereafter maintain in it, a Director with qualifications and experience satisfactory to the Bank; and

(c) provide, promptly as needed, the funds, facilities, services and other resources required for the operation of such unit.

Section 3.04. 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 3.05. The Borrower shall:

- (i) not later than December 31, 1989, present to the Bank for its review and comments a plan for implementing the recommendations of the evaluation referred to in Part A 1.(b) of the Project;
- (ii) promptly revise such plan to incorporate any comments of the Bank thereon; and
- (iii) promptly thereafter, put such plan into effect in a manner and in accordance with a timetable satisfactory to the Bank.

Section 3.06. The Borrower shall:

- (i) not later than October 31, 1990, prepare and submit to the Bank for its review and comments a program for implementing the plan referred to in Part B.4 of the Project;
- (ii) promptly revise such program to incorporate any comments of the Bank thereon; and
- (iii) promptly thereafter, put such program into effect in a manner and in accordance with a timetable satisfactory to the Bank.

#### ARTICLE IV

##### Financial Covenants

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

(b) The Borrower shall:

- (i) have the accounts referred to in paragraph (a) of this Section including 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 four months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said accounts and the audit thereof and said records as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of the Loan withdrawn in respect of such expenditures were used for the purposes for which they were provided.

#### ARTICLE V

##### Other Covenants

Section 5.01. The Borrower shall provide the schools included in the Project with the necessary number of fully-qualified and trained teachers and administrative staff, who shall serve on a full-time basis, and only when such fully-qualified and trained teachers are not available on a full-time basis, employ such teachers, temporarily, on a part-time basis.

Section 5.02. (a) The Borrower shall operate the schools included in, or related to, the Project, in accordance with appropriate administrative and educational policies and practices and with due regard to economy, so as to promote the training and other educational objectives of the Borrower, and shall appropriate, or cause to be appropriated, specific annual budget allocations for each such educational institution in such amounts as shall be necessary for such operation.

(b) The Borrower shall cause the buildings, equipment and furniture of the schools included in the Project to be adequately inspected and maintained and cause all necessary repairs and renewals thereof to be made, all in accordance with sound administrative and technical standards.

#### ARTICLE VI

##### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that any provision of the contract referred to in Section 7.01 (c) of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, affect materially and adversely the carrying out of the Project.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

#### ARTICLE VII

##### Effective Date; Termination

Section 7.01. The following events are specified as

additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the unit referred to in Section 3.02 (a) of this Agreement shall have been established and that the Director referred to in Section 3.02 (b) of this Agreement shall have been appointed;

(b) that the unit referred to in Section 3.03 (a) of this Agreement shall have been established and that the Director referred to in Section 3.03 (b) of this Agreement shall have been appointed; and

(c) that the Borrower shall have entered into an administrative services contract, satisfactory to the Bank, with a firm or organization with qualifications and experience satisfactory to the Bank, that shall be responsible for assisting the Borrower in the selection and hiring of the consultants employed for the Project.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the contract referred to in Section 7.01 (c) of this Agreement shall have been duly authorized or ratified by, and executed and delivered on behalf of, the respective parties thereto and is legally binding upon such parties in accordance with its terms.

Section 7.03. The date November 27, 1987 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VIII

##### Representative of the Borrower; Addresses

Section 8.01. The Secretaria de Estado en el Despacho de Hacienda y Credito Publico of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaria de Estado en el  
Despacho de Hacienda y Credito Publico  
Tegucigalpa, D.C.  
Honduras

Cable address:

Telex:

HACIENDA  
Tegucigalpa, Honduras

1308 HACIENDA

For the Bank:

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

United States of America

Cable address:

Telex:

INTBAFRAD  
Washington, D.C.

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

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

REPUBLIC OF HONDURAS

By /s/ Roberto Martinez Ordonez  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Husain  
Regional Vice President  
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Consultants' services (including services under the administrative services contract referred to in Section 7.01 (c) of this Agreement)	600,000	100%
(2) Salaries and travel expenses for eligible staff	2,200,000	100%
(3) Equipment, materials and about 20 vehicles under Part B of the Project	900,000	100% of foreign expenditures and 50% of local expenditures
(4) Civil works under Part C of the Project	600,000	100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
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(5) Furniture and school supplies under Part C of the Project	100,000	72%
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TOTAL	4,400,000
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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; and

(c) the term "eligible staff" means incremental full-time staff assigned to the Project by SEP.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures: (i) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$25,000, may be made on account of payments made before that date but after April 1, 1987; and (ii) under Categories (4) and (5) unless the Bank receives evidence satisfactory to it that the Borrower has selected the two districts referred to in Part C of the Project in accordance with criteria satisfactory to the Bank and that the plans referred to in Part B.1 (c) and (d) of the Project shall have been carried out in a manner satisfactory to the Bank.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to:

(a) enhance the institutional capacity of SEP in the areas of internal administration, sectoral policy formulation, and coordination of education investment planning and budgeting; and

(b) assist SEP in the preparation of a comprehensive operational plan for establishing an effective management system for rural primary education in the Project Area.

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: Institutional Strengthening

1. Carrying out, by means of technical assistance, of:

(a) a program to strengthen the capacity of the Technical Unit of SEP in the areas of planning, policy formulation, budget development and management, financial analysis and auditing;

(b) an evaluation of the current internal administrative organization of SEP; and

(c) studies to evaluate current decentralization policies and make recommendations related to the future use of such policies.

2. Training and provision of technical support to the SEP staff engaged in the carrying out of Part B of the Project.



Part B: Regional Planning and Management

1. Carrying out of a micro-planning process in each School District of the Project Area, consisting of:

(a) a diagnostic survey to determine the availability of resources in rural primary schools, student enrollment levels, socio-economic conditions, topographical characteristics and the efficiency of the administrative and supervisory services;

(b) projections of demographic and economic growth of the school communities and school enrollment for a ten-year period;

(c) the development of a master plan to reorganize schools into a cohesive administrative network; and

(d) the development of specific action plans to implement the plan referred to in (c) above. Such action plans shall be developed to identify requirements for: physical facilities, teacher training, and school management and supervision.

2. Development of a student testing system for primary grades.

3. Carrying out of activities referred to in 1.(a) above for secondary schools in the Project Area.

4. Preparation of a comprehensive operational plan for each department in the Project Area, consisting of the integration of all plans referred to in 1.(c) and (d) above.

Part C: Micro-Planning Pilot Sub-project

Carrying out of a micro-planning pilot sub-project in two School Districts of the Project Area, consisting of:

1. Implementation of the action plans referred to in Part B.1 (d) of the Project by means of:

(a) constructing, rehabilitating and repairing school facilities;

(b) acquisition and utilization of furniture, equipment and school supplies;

(c) carrying out of in-service teacher training; and

(d) establishing and putting into operation a network for school management and supervision.

2. Development of a specific action plan for provision of teaching materials and guides.

3. Implementation of the student testing system referred to in Part B.2 of the Project.

4. Evaluation of the micro-planning process and the implementation of all other action plans referred to in Part B of the Project.

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The Project is expected to be completed by December 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
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On each March 15 and September 15

beginning September 15, 1992 through September 15, 2006	145,000
On March 15, 2007	195,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

#### Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

Except as provided in Part B hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

###### Part B: Other Procurement Procedures

1. Civil works, furniture and school supplies under Part C of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Furniture and school supplies estimated to cost less than the equivalent of \$2,500 per contract, up to an aggregate amount not to exceed the equivalent of \$60,000, may be procured under contracts awarded on the basis of comparison of price quotations

solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part C: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for: (i) civil works, furniture and supplies estimated to cost the equivalent of \$50,000 or more; and (ii) equipment and materials estimated to cost the equivalent of \$40,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ or cause to be employed consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the

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

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

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) the Bank shall have determined that all further withdrawals should be made directly by the Borrower from the Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 have been or 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the

Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account and immediate cancellation.

