

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
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June 29, 2011

Fernando Herrero
Minister of Finance
Ministry of Finance
Avenida 2, Calles 1 y 3
San José, Costa Rica

Dear Minister Herrero:

Re: Loan No. 7284-CR (Equity and Efficiency of Education Project)
Third Amendment to the Loan Agreement

We refer to the Loan Agreement between the Republic of Costa Rica (the Borrower) and the International Bank for Reconstruction and Development (the Bank) dated June 9, 2005, as amended, for the above-captioned Project. Capitalized terms used in this letter (“Amendment Letter”) and not defined herein have the meaning ascribed to them in the Loan Agreement.

We are pleased to inform you that, pursuant to your letter dated June 2, 2011, the Bank hereby agrees to amend the Loan Agreement so as to, *inter alia*, (a) introduce changes in Project activities; (b) reallocate Loan proceeds among different Categories; (c) reflect changes in the disbursement percentages in all Categories to 100 percent; and (d) extend the Closing Date to December 31, 2012.

We also refer to our recent decision to allow the use of electronic means for delivering applications for withdrawal and supporting documentation for projects financed by the Bank out of its own resources or as administrator of trust fund grants provided by other donors.

Accordingly, we propose to amend the Loan Agreement by incorporating the provisions set forth in the annex to this Amendment Letter as an integral part of the Loan Agreement.

1. Section 1.02 of the Loan Agreement is hereby amended to read as follows:
 - a. Section 1.02(a) of the Loan Agreement is replaced in its entirety and reads as follows:

“(a) “*Comunidad Educativa*” means the education stakeholders in a given public school that will benefit from the Sub-projects, which actors include, *inter alia*: (i) a School Network; (ii) a School Council; (iii) a *Patronato*; (iv) *Asociación de Desarrollo*; (v) school principals and teachers; (vi) the families of the students enrolled in the public school which pertain to said *Comunidad Educativa*; and (vii) the national Indigenous commission, where applicable;”

- b. Section 1.02(h) of the Loan Agreement is replaced in its entirety and reads as follows:

“(h) “*Environmental Management Framework*” means: (i) the updated environmental guidelines to be followed by the Borrower during the carrying out of civil works for the Project, as set forth in the *Manual Operativo para Desarrollar Proyectos de Infraestructura* and (ii) the updated resettlement process framework, as set forth in the *Manual Operativo para Desarrollar Proyectos de Infraestructura*;

- c. Section 1.02(j) of the Loan Agreement is replaced in its entirety and reads as follows:

“(j) “*Subproject*” means a project which consists of the carrying out of one or more Project activities under Part A of the Project for the benefit of a School Network and to be financed in part with the proceeds of the Loan, to be carried out in accordance with the procedures set forth in the updated Operational Manual (as hereinafter defined);”

- d. Section 1.02(k) of the Loan Agreement is hereby replaced in its entirety to read as follows:

“(k) “*Implementation Letter*” means the updated letter of even date herewith from the Borrower to the Bank setting forth: (i) the updated Performance Indicators (as hereinafter defined); and (ii) the updated Indigenous Peoples Development Framework (as hereinafter defined), as such letter may be amended from time to time with the agreement of the Bank;”

- e. Section 1.02(m) of the Loan Agreement is hereby replaced in its entirety to read as follows:

“(m) “*Indigenous Peoples Development Framework*” means the Borrower’s updated strategy to benefit the indigenous ethnic groups and afro-antillan populations, under the Project;”

- f. Section 1.02(s) of the Loan Agreement is hereby replaced in its entirety to read as follows:

“(s) “*Performance Indicators*” means the updated indicators for monitoring and evaluating progress towards the attainment of Project objectives set forth in the Implementation Letter;”

- g. Section 1.02(u) of the Loan Agreement is hereby deleted in its entirety.

- h. Section 1.02(x) of the Loan Agreement is hereby deleted in its entirety.

- i. A new Section 1.02(z) is hereby added to the Loan Agreement:

“(z) “*Anti-Corruption Guidelines*” means the Bank’s “Guidelines on Preventing Fraud and Corruption in projects Financed by IBRD Loans and IDA

Credits and Grants”, dated October 15, 2006, with the modifications set forth in the Appendix to this Amendment Letter.”

j. A new Section 1.02(aa) is hereby added to the Loan Agreement:

“(aa) “*Equity Programs*”, last modified by executive decree No. 36451-MEP, published in the official gazette on March 9, 2011, means cash transfer programs to students for, *inter alia*, school transportation, scholarship and school nutrition.”

k. A new Section 1.02(bb) is hereby added to the Loan Agreement:

“(bb) “*Equity Programs Department*”, last modified by executive decree No. 36451-MEP, published in the official gazette on March 9, 2011, means the department within MEP tasked to establish and manage, *inter alia*, school transportation, scholarship and school nutrition programs.”

l. A new Section 1.02(cc) is hereby added to the Loan Agreement:

“(cc) “*Dirección Regional Indígena*”, created by executive decree N° 35513-MEP, published in the official gazette on September 25, 2009, means the regional directorate with the mandate to ensure the cultural appropriateness of the national curriculum with respect to the indigenous population.”

m. A new Section 1.02(dd) is hereby added to the Loan Agreement:

“(dd) “*Administrative Circuits*”, last modified by executive decree N° 35513-MEP, published in the official gazette on September 25, 2009, means all the education centers with a specific territorial reach.”

n. A new Section 1.02 (ee) is hereby added to the Loan Agreement:

“(ee) “*International Education Knowledge Centers*” means specialized international institutions in education”

o. A new Section 1.02 (ff) is hereby added to the Loan Agreement:

“(ff) “*Liceos Rurales*”, created on November 17, 2009 by resolution S.E. 214-09 of the High Education Council (*Consejo Superior de Educación*), means upper secondary schools in rural areas.”

p. A new Section 1.02(gg) is hereby added to the Loan Agreement

“(gg) “*Manual Operativo para Desarrollar Proyectos de Infraestructura*” means the Project’s operational manual for the development of infrastructure projects, in form and substance satisfactory to the Bank, dated July 9, 2009, as it may be amended by the Borrower from time to time with the Bank’s prior approval;”

- q. A new Section 1.02(hh) is hereby added to the Loan Agreement:

“(hh) “*School Networks*” means the networks to improve efficiency in the use of resources equity in rural areas by linking a specific group of primary schools to a specific secondary school.”

- r. A new Section 1.02(ii) is hereby inserted:

“(ii) “*Targeted Administrative Circuits*” means the Administrative Circuits targeted by the Project.”

- s. A new Section 1.02(jj) is hereby added to the Loan Agreement:

“(jj) “*Telesecundarias*” means rural secondary schools up to ninth grade to be replaced by Liceos Rurales pursuant to resolution S.E. 214-09 by the High Education Council.”

- t. A new Section 1.02 (kk) is hereby inserted:

“(kk) “*Transfers to School Councils*”, created by executive decree No. 34075-MEP, published in the official gazette on November 5, 2007, means the transfer of funds from MEP to school councils.”

2. Section 2.03 of the Loan Agreement is hereby amended and replaced in its entirety to read as follows:

“Section 2.03. The Closing Date shall be December 31, 2012 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.”

3. Section 3.02 is hereby amended by inserting a new Section 3.02 (c) and reads as follows:

“(c) The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.”

4. A new Section 3.11 is hereby added to the Loan Agreement:

“Section 3.11. The Borrower, through MEP, shall ensure the accuracy of the description in the updated Indigenous Peoples Development Framework of the Project’s engagement processes with indigenous people through information sharing and discussions with a select group of Indigenous representatives to be appointed by each indigenous community affected by the Project (“Validation Process”). If not yet reflected in the Operational Manual, the outcome of the Validation Process shall be incorporated into the Operational Manual. The Validation Process shall be carried out within three (3) months after this amendment becomes effective.”

5. Section 3.06 is hereby amended by inserting a new Section 3.06(d) and reads as follows:

“(d) ensure that the Subprojects will be carried with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower.”

6. Section 3.07(d) of the Loan Agreement is hereby deleted in its entirety.

7. The disbursement table in paragraph 1 of Schedule 1 to the Loan Agreement is hereby amended and replaced in its entirety to read as follows:

“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 Dollars | Percent of Expenditures to be Financed |
|--|--|---|
| (1) Works, other than for Subprojects | 0.00 | 100% |
| (2) Goods, other than for Subprojects | 369,549.87 | 100% |
| (3) Consultant’s services (including audits), other than for Subprojects | 1,842,859.95 | 100% |
| (4) (a) REQ Subprojects (b) ID Subprojects | 3,055,185.24 0.00 | 100% 100% |
| (5) Training, other than for Subprojects | 523,251.55 | 100% |
| (6) Front-End fee | 150,000.00 | Amount due under Section 2.04 of this Agreement |
| (7) Premia for Interest Rate Caps and Interest Rate Collars | 0.00 | Amount due under Section 2.09 of this Agreement |
| (8) Unallocated | 0.00 | |
| (9) Works, Goods, Consultant services, Non-consultant services, and Training under Part A | 20,214,620.39 | 100% |
| (10) Goods, Consultant services, Non-consultant services and Training under Part B | 1,573,512.00 | 100% |
| (11) Goods, Consultant services, Non-consultant services and Training under Part C, and Consultant | 2,271,021.00 | 100% |

| | | |
|---------------------|--|----------------------|
| services for audits | | |
| TOTAL | | <u>30,000,000.00</u> |

8. Schedule 2 is hereby amended to read as follows:

**“SCHEDULE 2
Description of the Project**

The objectives of the Project are to: (a) reduce education quality gaps in the Borrower’s primary and secondary education system in rural areas; and (b) improve the equity and efficiency in the allocation, administration and use of the Borrower’s education sector resources.

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: Efficient and Equitable Access to Rural Education

Identifying efficient investments that improve access to quality education, by carrying out activities in support of:

- (1) Classrooms: (a) the renovation of existing classrooms; (b) the construction of new classrooms; and (c) the provision of furniture and equipment, including computers and software, other than those mentioned in Part B.1(ii) and Part C.2(a)(iii);
- (2) School building facilities, such as construction and provision of furniture and equipment for, kitchens, teachers lounges, student dormitories, and restrooms in schools belonging to rural School Networks; and
- (3) Common School Network facilities: (a) the construction of common School Network facilities such as technology centers and cultural, arts and physical education facilities; and (b) the provision of equipment as well as energy and connectivity facilities.
- (4) Regional Indigenous Education Directorate of *Sula*: (i) the provision of furniture and equipment.

Part B: Improving MEP’s Institutional Efficiency

Strengthening the institutional capacity of MEP to improve its equity programs and its efficiency, through: (i) the development and implementation of an education sector information system at school level; (ii) support for MEP’s Implementing Technical Units that manage the Equity Programs and the Transfers to School Councils to improve planning and monitoring of such programs; (iii) support of implementation of MEP’s institutional reform; and (iv) the management of the implementation of the Project, by carrying out activities in support of:

1. The development and implementation of an information system at school level: (i) technical assistance to develop the information system; and (ii) computer equipment and software to be installed in schools belonged to the Targeted Administrative Circuits.

2. Improving the design and strengthening the management of MEP's Implementing Technical Units that administer the Equity Programs and Transfers to School Councils to improve MEP's Implementing Technical Units' impact and cost effectiveness through the provision of: (i) technical assistance to MEP's Implementing Technical Units to improve the design of said programs; (ii) training for staff in MEP's Implementing Technical Units that administer the Equity Programs and the Transfers to School Councils to improve supervision and evaluation of said programs and transfers; (iii) Transfers to School Councils to finance, *inter alia*, school operating costs and school infrastructure improvements; and (iv) transfers of funds through the Equity Programs to beneficiaries.
3. Strengthening and implementation of MEP's institutional reform program at the central and regional level, including: (i) technical assistance to support and derive lessons learned from MEP's institutional reform program and related policy development and; (ii) training for staff in MEP's Implementing Technical Units at the central and regional level; and
4. The management of the implementation of the Project by the PCU.

Part C: Quality of Education

Strengthening the quality of primary and secondary education by carrying out activities in support of:

1. The development and implementation of a training program in intercultural education for MEP staff at the central and regional level.
2. A rural education quality improvement program adapted to the local and cultural context, including:
 - a. Improved model for rural secondary education, including: (i) the development of a strategy to transform *Telesecundarias* to *Liceos Rurales*; and (ii) the development of rural teaching methods that use ICT; (iii) the provision of computer equipment and software for the purpose of putting into use these rural teaching methods in all schools belonging to the Schools Networks under Part A.
 - b. Professional development programs for teachers assigned to rural areas, including: (i) an assessment of the needs and profile of rural teachers and their existing teaching models; and (ii) design and implementation of training programs for rural teachers, including intercultural education; and
 - c. The provision of teacher and student materials with an intercultural perspective to rural schools.
3. Improvements in MEP staff and teacher capacity to analyze student learning assessments, including:
 - a. The development of a standard methodology to analyze student learning assessments;

- b. The development of training modules for teacher training programs and programs to train MEP staff on the standard methodology to analyze student learning assessments; and
- c. Training for MEP staff and for teachers on the standard methodology to analyze student learning assessments.”

* * *

The Project is expected to be completed by December 31, 2012.”

- 9. Schedule 4 to the Loan Agreement is hereby amended to read as follows:
 - a. Section I.A of Schedule 4 is hereby replaced in its entirety and reads as follows:

“All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 and revised in October 2006 and May 2010 (the Procurement Guidelines), and with the provisions of this Schedule.
 - b. Section I.B of Schedule 4 is hereby replaced in its entirety to read as follows:

“All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 and revised in October 2006 and May 2010 (the Consultant Guidelines), and with the provision of this Schedule.”

This Amendment Letter shall be executed in two counterparts each of which shall be an original. Please confirm your agreement to the foregoing amendment by signing and dating the two counterparts of this Amendment Letter. Upon receipt by the Bank of one fully executed original of this Amendment Letter, this amendment will be effective as of the date first above written.

Very truly yours,

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ p.p. Trina Haque
Carlos Felipe Jaramillo
Director
Central America Country Management
Latin America and the Caribbean Region

AGREED

REPUBLIC OF COSTA RICA

By: /s/ Fernando Herrero
Authorized Representative

Name: His Excellency Fernando Herrero

Title: Minister of Finance

Date: June 30, 2011

Attachment:

- I. Terms and Conditions for Use of Electronic Means for Delivering Applications for Withdrawal and Supporting Documentation.

ANNEX

Terms and Conditions for Use of Electronic Means for Delivering Applications for Withdrawal and Supporting Documentation

1. **General.** Notwithstanding any provisions to the contrary set forth or referred to in this Agreement, applications for withdrawal, applications for special commitments, and documentation in support thereof (such applications and supporting documentation together referred to as “Applications”), may be delivered by electronic means to the Bank on the terms and conditions set forth in this Annex; and such Applications so delivered shall be deemed to have been duly given or made when they have been delivered by such electronic means to the Bank.
2. **Electronic Delivery.** Officials of the Recipient may deliver Applications electronically on behalf of the Recipient if they: (a) have been designated in writing by the Recipient, pursuant to the terms set forth or referred to in this Agreement, to sign and deliver Applications, (b) are registered as users of the Bank’s “Client Connection” (“CC”) website (<https://clientconnection.worldbank.org>), and (c) have received from the Bank secure identification devices (“Tokens”) for the purpose of delivering Applications by electronic means. The Recipient may continue to exercise the option of preparing and delivering Applications in paper format. The Bank reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the Recipient.
3. **Authorized Signatories.** Subject to any notice received by the Bank from the Recipient pursuant to Section 5(a)(i) below, the Recipient represents and warrants to the Bank (and such representations and warranties shall be relied upon by the Bank) that all officials authorized or to be authorized by the Recipient to sign Applications pursuant to the provisions set forth or referred to in this Agreement (collectively the “Signatories” and individually, a “Signatory”) are hereby also authorized by the Recipient to accept Tokens and to deliver such Applications by electronic means in accordance with the terms and conditions stipulated in this Annex. This authorization is in addition to any authorization from the Recipient currently in the Bank’s records with respect to this Agreement.
4. **Terms and Conditions of Use of Tokens to Process Applications.** The Recipient shall abide by the *Terms and Conditions of Use of Secure Identification Device in Connection with Use of Electronic Means to Process Applications* (“Terms and Conditions of Use of Tokens”) set forth in paragraph 5 of this Annex. The Recipient also represents and warrants to the Bank (and such representations and warranties, including without limitation, the representations and warranties contained in the Terms and Conditions of Use of Tokens, shall be relied upon by the Bank) that the Recipient shall deliver the Terms and Conditions of Use of Tokens to each Signatory and shall cause each Signatory to abide by those terms and conditions.
5. **Terms and Conditions of Use of Secure Identification Device in Connection With Use of Electronic Means to Process Applications.** The Bank will provide Tokens to permit the Recipient to deliver Applications to the Bank electronically, on the terms and conditions of use specified herein:

- (a) **Identification of Users**

- i. The Recipient will be required to have identified in a completed authorized signatory letter (“ASL”) duly delivered to and received by the Bank each Signatory who will be authorized to deliver Applications. The Bank will provide Tokens to each Signatory identified in the ASL, as provided below. The Recipient shall also immediately notify the Bank if a Signatory is no longer authorized by the Recipient to act as a Signatory.
- ii. Each Signatory must register as a user on the Bank’s “Client Connection” website (<https://clientconnection.worldbank.org>) prior to delivery of Tokens. Registration on CC will require that the Signatory establish a CC password (“CC Password”). The Signatory shall not reveal his/her CC Password to anyone or store or record the CC Password in written or other form. Upon registration as a CC user (“CC User”), the Signatory will be assigned a unique identifying account name.

(b) **Distribution, Initialization and Return of Tokens**

- i. The Bank will physically deliver a Token to each Signatory in a manner to be determined by and satisfactory to the Bank.
- ii. At the time of delivery of a Token to a Signatory, the Signatory will receive a copy of these Terms and Conditions of Use for purposes of initializing the Token.
- iii. The Bank will verify that the Token, Temporary Password and Terms and Conditions of Use have been duly delivered to and received by the CC User.
- iv. Promptly upon receipt of the Token and Terms and Conditions of Use, the Signatory will access CC using his/her account name and CC Password and register his/her Token and set a personal identification number (“PIN”) to be used in connection with the use of his/her Token, after which the Token will be initialized for use by the Signatory exclusively for purposes of delivering Applications. Upon initialization of the Token, the Signatory will be a “Token User”. The Bank will maintain in its database a user account (“Account”) for each Token User for purposes of managing the Token of the Token User. Neither the Recipient nor the Token User will have any access to the Account.
- v. Prior to first use of the Token by the Token User for delivering Applications, the Recipient shall ensure that the Token User has received training materials provided by the Bank in use of the Token.
- vi. Tokens shall be promptly returned to the Bank upon request of the Bank.

(c) **Management of Tokens**

- i. Tokens will remain the property of the Bank.
- ii. Use of the Token is strictly limited to use in the delivery of Applications by the Token User in the manner prescribed by the Bank in this Agreement and these Terms and Conditions. Any other use of the Token is prohibited.
- iii. The Bank assumes no responsibility or liability whatsoever for any misuse of the Token by the Token User, other representatives of the Recipient, or third parties.

- iv. The Recipient undertakes to ensure, and represents and warrants to the Bank (such representation and warranty being expressly relied upon by the Bank in delivery of a Token to each Token User) that each Token User is provided, understands and will abide by, these Terms and Conditions of Use, including without limitation the following:

Security

- A. The Token User shall not reveal his/her PIN to anyone or store or record the PIN in written or other form.
- B. The Token User shall not allow anyone else to utilize a Token to deliver an Application to the Bank.
- C. The Token User shall always logout from Client Connection when not using the system. Failure to logout properly can create a route into the system that is unprotected.
- D. If the Token User believes a third party has learned his/her PIN or has lost his/her Token he/she shall immediately notify clientconnection@worldbank.org.
- E. The Recipient shall immediately notify the Bank at clientconnection@worldbank.org of any lost, stolen or compromised Tokens, and take other reasonable steps to ensure such Tokens are disabled immediately.

Care of Tokens

- F. Tokens contain delicate and sophisticated instrumentation and therefore should be handled with due care, and should not be immersed in liquids, exposed to extreme temperatures, crushed or bent. Also, Tokens should be kept more than five (5) cm from devices that generate electromagnetic radiation (“EMR”), such as mobile phones, phone-enabled PDAs, smart phones and other similar devices. Tokens should be carried and stored separate from any EMR device. At close range (less than 5 cm), these devices can output high levels of EMR that can interfere with the proper operation of electronic equipment, including the Token.
- G. Without derogating from these Terms and Conditions of Use, other technical instructions on the proper use and care Tokens are available at <http://www.rsa.com>.

v. ***Replacement***

- A. Lost, damaged, compromised (in terms of E, above) or destroyed Tokens will be replaced at the expense of the Recipient.
- B. The Bank reserves the right, in its sole discretion, not to replace any Token in the case of misuse, or not to reactivate a Token User’s Account.

vi. ***Reservation of Right to disable Token***

- A. The Recipient shall reserve the right to revoke the authorization of a Token User to use a Token for any reason.

B. The Bank reserves the right, in its sole discretion, to temporarily or permanently disable a Token, de-activate a Token User's Account or both.