

CONFORMED COPY  
LOAN NUMBER 4605 RU

Loan Agreement  
(Education Reform Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated February 8, 2002

LOAN NUMBER 4605 RU

LOAN AGREEMENT

AGREEMENT, dated February 8, 2002, between RUSSIAN FEDERATION (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 (the Project), 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 for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this

Agreement:

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

(a) "MOE" means the Borrower's Ministry of Education or any successor thereto;

(b) "MOF" means the Borrower's Ministry of Finance or any successor thereto;

(c) "NTF" means National Training Foundation, a non-profit organization established pursuant to the Resolution of the Government of the Russian Federation No. 1273-P, dated August 12, 1994, operating under the laws and regulations of the Borrower pertaining to non-commercial organizations, and acting on the basis of its Charter registered by the Borrower's Ministry of Justice, dated September 29, 1994, and re-registered by Moscow Registration Chamber on February 28, 2001, (Registration No. 002033537) as the same such Charter may be amended from time to time;

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

(e) "Participating Regions" means the Chuvash Republic, Samara Oblast and Yaroslavl Oblast;

(f) "Project Implementation Agreement" means the agreement to be entered between the Borrower, represented by MOF and MOE, and NTF in accordance with the provisions of Section 3.02 (b) of this Agreement;

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

(h) "Regional Implementation Plans" means the plans agreed between MOF, MOE, and the Participating Regions for the purposes of Parts B and C.2 of the Project, in accordance with the provisions of Section 3.02 (c) of this Agreement, and included in Subsidiary Loan Agreements;

(i) "Regional PIU" means a non-commercial organization founded by the NTF and the education department or ministry of a Participating Region for the purposes of assisting the Participating Region with the carrying out a Regional Implementation Plan under the Project;

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

(k) "Strategic Committee" means the committee to be established by the Borrower through MOE and NTF in accordance with the provisions of paragraph A.1 of Schedule 5 of this Agreement;

(l) "Subsidiary Loan" means any loan provided under the Subsidiary Loan Agreement as defined herein; and

(m) "Subsidiary Loan Agreement" means any agreement entered into pursuant to the provisions of Section 3.02 (c) of this Agreement.

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

## ARTICLE II

## The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to fifty million dollars (\$50,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the effective date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in US dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ( $3/4$  of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total

Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

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

### ARTICLE III

#### Execution of the Project

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

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

(b) cause NTF to perform in accordance with the Project Implementation Agreement all the obligations of NTF therein set forth;

(c) cause the Participating Regions to perform in accordance with the Subsidiary Loan Agreements all the obligations of the Participating Regions therein set forth;

(d) take or cause to be taken all action necessary or appropriate to enable the NTF and the Participating Regions to perform the obligations referred to in paragraphs (b) and (c) of this Section, and not take or permit to be taken any action which would prevent or interfere with such performance; and

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

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

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

(b) through the MOF and MOE, enter into an agreement with NTF (the Project Implementation Agreement), on such terms as shall be acceptable to the Bank, which shall include terms specifying the responsibilities of NTF in respect of coordination of Project activities, accounting, preparation of requests for withdrawals from the Loan Account, procurement and administrative support of the Regional PIUs, and make available to NTF the portion of the proceeds of the Loan corresponding to Parts A and C.1 of the Project on a non-reimbursable basis;

(c) for purposes of Parts B and C.2 of the Project make available the proceeds of the Loan allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to the Participating Regions under agreements (the Subsidiary Loan Agreements) to be entered into between the Borrower, represented by the MOF and MOE, and each such Participating Region not later

than within six (6) months from the date of this Agreement's effectiveness, on terms and conditions satisfactory to the Bank, including, without limitation, the terms and conditions set forth or referred to in the Annex to Schedule 5 to this Agreement, containing a description, satisfactory to the Bank, of the activities to be carried out by the Participating Region pursuant to the Project and undertakings related thereto (the Regional Implementation Plans), and containing other provisions as may be necessary for the implementation of the Project; and

(d) exercise its rights under the Subsidiary Loan Agreements in such a manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Project, and not assign, amend, abrogate or waive any Subsidiary Loan Agreement or any provision thereof without a prior agreement with the Bank.

Section 3.03. 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 3.04. The Borrower shall ensure that the per capita financing schemes for general education expenditures in the Participating Regions are implemented in accordance with the Operational Manual.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

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

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, a financial management system, including records and accounts, and prepare, or cause to be prepared, financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause NTF to:

(i) have its records, accounts and financial statements (balance sheet, statements of sources and uses of funds, and related statements) for each fiscal year audited, in accordance with auditing standards consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in sub-paragraph (i) of this Section for such year so audited, and (B) an opinion on such statements, records and accounts, and report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank shall from time to time reasonably request.

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

NTF to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
  - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
  - (iii) enable the Bank's representatives to examine such records.
- (d) The Borrower shall cause NTF to:
- (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
  - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
  - (iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall prepare, or cause to be prepared, in accordance with guidelines acceptable to the Bank, and furnish to the Bank, or cause to be furnished to the Bank, not later than 45 days after the end of each calendar quarter, a Project management report for such period, acceptable to the Bank, which:

(a) (i) 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 (ii) 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;

(b) (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (ii) explains variances between the actual and previously forecast implementation targets; and

(c) 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.

#### ARTICLE V

##### Remedies of the Bank

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

- (a) Any Participating Region shall have failed to perform any of its

obligations under its respective Subsidiary Loan Agreement.

(b) The Project Implementation Agreement or the Operational Manual, or any provision thereof, shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of the Borrower to carry out the Project; and

(c) NTF shall have failed to perform any of its obligations under the Project Implementation Agreement;

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

(b) the event specified in paragraph and (b) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. 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 Regional PIUs have been legally established and have become operational, with facilities, resources, and staffing satisfactory to the Bank;

(b) the Operational Manual has been adopted by NTF; and

(c) the Project Implementation Agreement has been duly executed by the Borrower and NTF and Subsidiary Loan Agreements have been duly executed by the Borrower and at least two of the Participating Regions.

Section 6.02. 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 Project Implementation Agreement and the Subsidiary Loan Agreements referred to in Section 6.01 (c) of this Agreement have been duly authorized or ratified by the Borrower and the respective Participating Regions, and the same are legally binding upon the MOF, MOE, and the respective Participating Regions in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance or Deputy Minister of Finance responsible for international economic affairs is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Ilyinka Street 9

103097 Moscow  
Russian Federation

Telex:                   Facsimile:  
112008                   (7-095) 925-0889

For the Bank:

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

Cable address:                   Telex:                   Facsimile:  
                  INTBAFRAD                   248423 (MCI) or           (1 202) 477-6391  
                  Washington, D.C.               64145 (MCI)

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

RUSSIAN FEDERATION

By /s/ Yuri V. Ushakov

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes Linn

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Federal Component		
(a) Goods	1,410,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 80% of local expenditures for other items procured locally, including local transportation and



			insurance related to those items
	(b) Consulting Services and Training	7,910,000	100%
	(c) Operating Costs	2,700,000	100%
(2)	Regional Component		
	(a) Samara Oblast		
	(i) Works	1,260,000	80%
	(ii) Goods	12,860,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 80% of local expenditures for other items procured locally, including local transportation and insurance related to those items
	(iii) Consultant Services and Training	2,080,000	100%
	(iv) Operating Costs	600,000	100%
	(b) Yaroslavl Oblast		
	(i) Works	870,000	80%
	(ii) Goods	7,230,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 80% of local expenditures for other items procured locally, including local transportation and insurance related to those items
	(iii) Consultant Services and Training	1,370,000	100%
	(iv) Operating Costs	380,000	100%
	(c) Chuvash Republic		
	(i) Works	470,000	80%
	(ii) Goods	7,750,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 80% of local expenditures for other items procured locally, including local transportation and insurance related to those items
	(iii) Consultant	1,060,000	100%

Services and  
Training

(iv) Operating Costs	400,000	100%
(3) Grants for Dissemination of Best Practices	1,000,000	100%
(4) Unallocated	150,000	
(5) Front-end Fee	500,000	Amount due pursuant to Section 2.04 of this Agreement
TOTAL	50,000,000	

2. For the purposes of this Schedule:

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

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

(c) the term "Operating Costs" means reasonable incremental expenses incurred by the NTF and Regional PIUs on account of Project implementation, management and monitoring set forth in the approved annual budget of the NTF or the Regional PIU, adopted pursuant to the provisions of the Operational Manual, including the cost of: (i) maintenance of office equipment and facilities and minor office renovation; (ii) office goods and supplies; (iii) rent and utilities; (iv) Project management related training, including the cost of training materials; (v) communication; (vi) remuneration of NTF and Regional PIU staff (excluding civil servants); (vii) transportation and travel; and (viii) Project-related auditing services, bank charges and supervision costs;

(d) the term "Grants for Dissemination of Best Practices" means grants to regions wishing to undertake reform efforts connected with the successful lessons of the pilot projects, as referred to in Part E of Schedule 5 to this Agreement; and

(e) the term "Training" means Project related costs and expenses related to study tours, seminars, workshops and other training activities which may be carried out through a consultant services contract, or with the agreement of the Bank, by other means.

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; or (b) payments made for expenditures by any Participating Region under Category (2) unless the Borrower shall have furnished evidence acceptable to the Bank that the Participating Region concerned has achieved satisfactory progress in the achievement of its targets with respect to the per capita financing schemes referred to in Section 3.04 of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, under such terms and conditions as the Bank shall specify by notice to the Borrower, for: (a) goods under contracts not exceeding \$100,000 equivalent each; (b) services of consulting firms under contracts not exceeding \$100,000 equivalent each; (c) services of individual consultants under contracts not exceeding \$50,000 equivalent each, (d) Operating Costs; (e) Training; and (f) Grants under Category (3) of this Schedule.

SCHEDULE 2

Description of the Project

The objective of the Project is to provide assistance to the MOE and competitively selected Regions of the Borrower to reform general and initial vocational education in order to: (i) improve the quality of education; (ii) promote

the efficient and equitable use of scarce public resources for education; (iii) modernize the education system (structure of network and institutions); and (iv) improve the flexibility and market-relevance of initial vocational education.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Federal Level

Assistance in the form of capacity building support (including Grants for Dissemination of Best Practices) to formulate the education reform strategy of the government of the Borrower, through the development of new policies, services and procedures for:

- (i) education policy reform and the dissemination of lessons learnt from successful regional pilots;
- (ii) improvement of quality monitoring and statistics;
- (iii) modern teacher and education management training; and
- (iv) development of core skills and learning materials.

Part B: Regional Pilots

Pilot projects carrying out reforms in general and initial vocational education in three regions: Chuvash Republic, Samara Oblast and Yaroslavl Oblast, through on-lending to Regional administrations, in order to: (i) promote the efficient and equitable use of public resources; (ii) modernize the general education schools network; and (iii) modernize the initial vocational schools network and improve market relevance of vocational education.

Part C: Project Management

1. Support for the federal-level project implementation (through NTF), including operating costs.
2. Support for the Regional PIUs, including operating costs.

\* \* \*

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On each March 15 and September 15 beginning September 15, 2006 through September 15, 2017	2,085,000
On March 15, 2018	2,045,000

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

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods 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 shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

###### (a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$400,000 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

Certain types of goods (teaching and learning materials and equipment, vocational training equipment, furniture, school vehicles, publishing and duplication of Project related materials) estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$14,800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

###### 2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract up to an

aggregate amount not to exceed \$535,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

### 3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract up to an aggregate amount not to exceed \$1,020,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraph 3.5 and 3.6 of the Guidelines.

### 4. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,720,000 equivalent, may be procured under fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings and bills of quantity, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

## 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 each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract to be procured in accordance with the procedures referred to in C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(c) With respect to: (i) the first three contracts for goods to be procured in accordance with the procedures referred to in C.2 above, and (ii) the first three contracts for goods to be procured in accordance with the procedures referred to in C.3 above, 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 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

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

2. The short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

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

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

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

#### 1. Quality-based Selection

Services for administrators training, statistical surveys and policy analysis under Parts A and B of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

#### 2. Least-Cost Selection

Certain services (preparing specifications and drawings for construction works, development of quality tests and regional information network) estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

#### 3. Selection Based on Consultants' Qualifications

Certain services (small local public relations campaigns and surveys, development of specific leaning materials and the like) estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

#### 4. Single Source Selection

Services for educational policy analysis and for monitoring and statistical surveys which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

#### 5. Individual Consultants

Services of local advisors in school restructuring, procurement assistance at the Regional PIU level, and examination of statistics development and quality assurance as well as hiring of members of Expert Councils 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.

6. Public Education, Training and Research Institutions

Services of unique and exceptional nature may be procured from public education, training and research institutions in accordance with the procedures referred to in paragraphs 1-4 above, provided, however, that no suitable alternatives from private sector consultants are available.

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 for estimated to cost the equivalent of \$100,000 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 \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of consulting firms and individual consultants not referred to in paragraphs (b) and (c) above, terms of reference shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

A. Overall Management and Implementation of the Project

1. The Borrower through MOE shall establish a committee (the Strategic Committee) for the purposes of providing oversight over the implementation of the Project, under terms of reference satisfactory to the Bank, with a composition to include the representative of the MOE, as chairman, and representatives of the education department or ministry of a Participating Region, the NTF, and members of selected educational and/or academic institutions.

2. The MOE shall be responsible for the overall management and implementation of the Project, in particular: (a) defining the Project implementation strategy; (b) approving Government documents related to the Project; and (c) approving and

controlling the fulfillment of the Project's work programs and budgets.

3. NTF shall be responsible for general project management, and shall assist the Strategic Committee in the overall coordination of the Project activities, and shall also be responsible for financial management, procurement, disbursement, and preparation of progress reports and annual reports in respect of or related to the Project.

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

B. Annual (Quarterly) Reports and Work Program

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

2. The Borrower shall submit to the Bank, not later than 30 days after the end of each quarter, a quarterly progress report, in a format satisfactory to the Bank, outlining progress made in the implementation of the Project, as well as the problems encountered and how they are being addressed.

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

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

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

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

C. Counterpart Funding Requirements for the Project

Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall ensure that sufficient annual allocations will be made with the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

D. Implementation Plans for the Participating Regions

The Borrower shall, through the MOE and NTF, assist the Participating Regions to implement their respective Implementation Plans in accordance with criteria acceptable to the Bank.

E. Grants for Dissemination of Best Practices

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

2. The items eligible to be financed under the Grants shall be determined by the Borrower in accordance with criteria acceptable to the Bank.

F. Monitoring and Evaluation



The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2004, a report integrating the results of the monitoring and 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 said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by September 1, 2004, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) of this paragraph, 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.

#### Annex to SCHEDULE 5

##### Principal Terms and Conditions of the Subsidiary Loan Agreements

The following terms and conditions of on-lending shall apply for the purposes of the Subsidiary Loan Agreements entered into pursuant to Section 3.02 (c) of this Agreement:

#### 1. Principal Amount of Subsidiary Loans

The Borrower shall make available to the Participating Region the proceeds of the Loan allocated to the Participating Region under the respective categories of the table set forth in paragraph 1 of Schedule 1 to this Agreement. One-half (50%) of such amount shall be on a grant basis and one-half shall be repayable through a Subsidiary Loan. The principal amount of each Subsidiary Loan shall be denominated in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) and be equal to the value of the currency or currencies so withdrawn or paid on account of goods or services financed out of the proceeds of the Subsidiary Loan for the Implementation Plans carried out by the Participating Region concerned.

#### 2. Repayment Term

The Subsidiary Loan shall be repayable by the Participating Region over a period of up to seventeen (17) years, inclusive of a grace period of up to five (5) years.

#### 3. Interest and Other Payments

The Participating Region shall pay: (i) interest on the repayable portion of the Subsidiary Loan withdrawn and outstanding from time to time, at a variable rate equivalent to two and one-half percent (2.50%) above the interest rate determined in accordance with the provisions of Section 2.06 of this Agreement; and (ii) a commitment charge on the repayable portion of the Subsidiary Loan at the rate equal to the rate payable by the Borrower according to Section 2.05 of this Agreement.

#### 4. The Participating Region shall undertake to:

(a) carry out the respective Regional Implementation Plan with due diligence and efficiency and in conformity with appropriate administrative, financial and education practices, and provide, promptly as needed, the funds, facilities, services and other resources required for the Regional Implementation Plan;

(b) introduce changes in the level of per capita financing for general education expenditures as specified for each Participating Region in the Operational

Manual in accordance with criteria acceptable to the Bank;

(c) report to the Bank and the Borrower, annually, on the status of the activities being carried out in the Participating Region under the Project, with reference to the indicators referred to in Paragraph F.1 (a) of Schedule 5 to this Agreement;

(d) maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the activities financed out of the proceeds of the respective Subsidiary Loan, and to record separately the operations, resources and expenditures related to the Subsidiary Loan;

(e) procure, in accordance with the provisions of Schedule 4 to this Agreement, the goods, works and consultants services required under the respective Regional Implementation Plan and to be financed out of the proceeds of the respective Subsidiary Loan;

(f) carry out of the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions in respect of its activities under the respective Regional Implementation Plan;

(g) provide assistance to and cooperate with the NTF with respect to the NTF's procurement, disbursement, accounting and reporting functions under Part B and C.2 of the Project;

(h) give the Borrower the right to suspend or terminate the right of the Participating Region to the use of the proceeds of the Subsidiary Loan upon failure by such party to perform its obligations under the Subsidiary Loan; and

(i) ensure that sufficient annual allocations will be made with the Participating Region's budget for the Borrower's counterpart contribution to the costs of its respective part of Parts B and C.2 of the Project.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$8,000,000.

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

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

follows:

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

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished

to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

