

CONFORMED COPY

LOAN NUMBER 7010-LE

Loan Agreement

(General Education Project)

between

THE LEBANESE REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated April 7, 2000

LOAN NUMBER 7010-LE

LOAN AGREEMENT

AGREEMENT, dated April 7, 2000, between the LEBANESE REPUBLIC (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined

in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Action Plan" means the action plan set forth in a letter, including the attachment thereto, from the Ministry of National Education, Youth and Sport (hereinafter referred to as "MNEYS") to the Bank of even date herewith regarding the redeployment of teachers;

(b) "CDR" means the Borrower's Council for Development and Reconstruction, a public authority established and operating pursuant to the Legislative Decree No. 5, dated January 31, 1977, as the same may be amended from time to time;

(c) "DGNE" means the Borrower's Directorate General for National Education within MNEYS;

(d) "ECRD" means the Borrower's Educational Center for Research and Development, a public authority established and operating pursuant to Decree No. 2356, dated December 10, 1971, as the same may be amended from time to time;

(e) "Eligible Categories" means the categories (1), (2), (3), (4), (5), (6) and (7) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the expenditures for goods, works, services and training referred to in Section 2.02 of this Agreement;

(g) "Information Management Unit" means the administrative unit to be established within MNEYS, for facilitating access to, interpretation and centralization of data within MNEYS and for facilitating data exchange with ECRD as well as other data users or providers;

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

(i) "PMU" means the Project Management Unit established and operating under the ECRD in charge of the management and coordination of the Project activities to be implemented by the ECRD, CDR and MNEYS;

(j) "Special Accounts" means the accounts referred to in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank;

(k) "Steering Committee" means the committee to be established and chaired by the Minister of National Education, Youth and Sports, in charge of monitoring the global progress of the project and the consistency between the sectoral and macro situation as well as examining possible adjustments to improve the Project impact; and

(l) "Strategic Planning Unit" means the administrative unit to be established within ECRD pursuant to the provisions of paragraph 2 of Schedule 5 to this Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to fifty six million five hundred and seventy thousand United States dollars (US\$56,570,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of interest and other charges in respect of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in

accordance with Section 4.04(c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2005 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 on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

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

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

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

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

(i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

(iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

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

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

Section 2.10. For the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions: (a) CDR is designated as representative of the Borrower in respect of the proceeds of the Loan allocated from time to time to Categories 1, 2(a), 3(a) and 4(a); and (b) ECRD is designated as representative of the Borrower in respect of the proceeds of the Loan allocated from time to time to Categories 2(b), 3(b), 4(b) and 5.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other sources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 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 for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, at all times, maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

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

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

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such

expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 2001, or such later date as the Bank shall agree, to prepare quarterly Project Management Reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

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

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

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

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions; namely that the Borrower has recruited a PMU procurement specialist whose experience and terms of reference shall be satisfactory to the Bank.

Section 5.02. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the

purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Beirut, Lebanese Republic

Facsimile:

961 1 642 762

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

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

THE LEBANESE REPUBLIC

By /s/ Farid Abboud

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Inder K. Sud

Acting Regional Vice President  
Middle East and North Africa

#### SCHEDULE 1

#### Withdrawal of the Proceeds of the Loan

#### A. General

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

Category	Amount of the Loan Allocated (Expressed in United States Dollars)	% of Expenditures to be Financed
(1) Civil Works		

	(i)	Phase 1	12,900,000	80%
	(ii)	Phase 2	14,000,000	80%
(2)	Goods under:			100% of foreign expenditures, 100% of local expenditures, (ex-factory cost); and 80% of local expenditures for other items procured locally
	(a)	Parts (A), (B) and (C) of the Project	13,000,000	
	(b)	Part (D) of the Project	100,000	
(3)	Consultants' services under:			100%
	(a)	Part (A) of the Project	2,200,000	
	(b)	the other Parts of the Project including audit services	6,900,000	
(4)	Training under:			100% of foreign expenditures and 80% of local expenditures
	(a)	Part (A) of the Project	50,000	
	(b)	the other Parts of the Project	1,500,000	
(5)	Incremental Operating Costs		70,000	80%
(6)	Fee		565,700	Amount due under Section 2.04 of this Agreement
(7)	Premia for Interest Rate Caps and Interest Rate Collars		0	Amount due under Section 2.09(d) of this Agreement
(8)	Unallocated		5,284,300	
	TOTAL		56,570,000	

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 or for goods or services supplied from the territory of the Borrower; and

(c) the term "Incremental Operating Costs" means expenditures under Part D of the Project incurred by the PMU in relation to, maintenance of vehicles and equipment, fuel, utility charges, office supplies, international communications, local transport costs and insurance costs.

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; (b) expenditures under Category (1), unless an environmental assessment for each of the school sites has been prepared by the Borrower and found acceptable by the Bank; and (c) expenditures under Category 1(ii), unless: (i) the Borrower has submitted to the Bank a national strategy for education including an action plan for its implementation, acceptable to the Bank; and (ii) the Bank has received evidence satisfactory to the Bank that: (A) the Information Management Unit has been established; (B) implementation of the action plan on financial mechanisms has started; and (C) at least six (6) of the schools under Phase 1 have become operational.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than US\$1,000,000 equivalent each; (b) goods under contracts costing less than US\$200,000 equivalent each; (c) services of consulting firms under contracts costing less than US\$50,000 equivalent each; (d) services of individual consultants under contracts costing less than US\$50,000 equivalent each; (e) training activities costing less than US\$50,000 equivalent; and (f) Incremental Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

#### B. Special Accounts

1. The Borrower shall open and maintain in United States dollars two separate special deposit accounts, the first (Special Account A) in respect of Categories (1, 2(a), 3(a), and 4(a)) and the second (Special Account B) in respect of Categories (2(b), 3(b), 4(b) and 5), in its Central Bank, on terms and conditions satisfactory to the Bank.

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

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

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

3. Payments out of each Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

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

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

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

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit



reports required to be furnished to the Bank pursuant to said Section in respect of the audit of (A) the records and accounts for any Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the said Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

#### Annex A to SCHEDULE 1

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

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means: (i) in respect of Special Account A, an amount equivalent to two million United States dollars (US\$2,000,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to five hundred thousand United States dollars (US\$500,000), until the aggregate amount of withdrawals from the Loan Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of three million United States dollars (US\$3,000,000); and (ii) in respect of Special Account B, an amount equivalent to one million United States dollars (US\$1,000,000) to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to two hundred and fifty thousand United States dollars (US\$250,000), until the aggregate amount of withdrawals from the Loan Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of one million five hundred thousand United States dollars (US\$1,500,000).

2. Withdrawals of a Special Account's Authorized Allocation and subsequent

withdrawals to replenish the said Special Account shall be made as follows:

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

(b) For replenishment of the said Special Account, the Borrower shall furnish to the Bank requests for deposit into the said Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the said 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 said Special Account for Eligible Expenditures. Each such deposit into the said Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the said Special Account's Eligible Categories.

3. The Bank shall not be required to make further deposits into a Special Account, once the total unwithdrawn amount of the Loan allocated to said Special Account's 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 in respect of expenditures to be financed out of the proceeds of the Loan allocated to said Categories, shall equal the equivalent of twice the amount of the said Special Account's Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to said 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 said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

#### Annex B to SCHEDULE 1

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

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the respective Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the said Special Account's Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into any Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the said Special Account, shall not exceed the equivalent of eight million four hundred thousand United States dollars (US\$8,400,000) in respect of the Special Account A and two million four hundred thousand United States dollars (US\$2,400,000) in respect of the Special Account B.

#### SCHEDULE 2

##### Description of the Project

The objective of the Project is to assist the Borrower in improving the

management and institutional capacity of the public education system, promoting equity of educational opportunities and enhancing the quality and efficiency of the public education system.

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

Part A: Upgrading Public Education Facilities

Carrying out a program to upgrade public education facilities by constructing, rehabilitating, extending, furnishing and equipping a total of approximately twenty-four (24) schools and related services, such program to commence with eleven (11) identified schools (Phase 1) and to be concluded with the remaining schools identified in accordance with criteria and procedures agreed upon between the Borrower and the Bank (Phase 2) as set out in the supplemental letter of even date herewith.

Part B: Management and Institutional Development

1. Development of an Education Management Information System (EMIS) within ECRD and establishment of an Information Management Unit within DGNE, through, inter alia, the provision of computer equipment, consultant services and training.
2. Restructuring administrative units and reorganization of key administrative functions within the MNEYS; and the establishment of the Strategic Planning Unit within ECRD through, inter alia, the provision of equipment, consultant services and training.
3. Rationalizing teacher management and school distribution in accordance with transparent and objective measures included in the detailed Action Plan through, inter alia, the provision of consultant services.
4. Launching a pilot experiment to transfer more pedagogical and administrative responsibilities to public school principals and to promote involvement of teachers, parents and local communities through, inter alia, the provision of equipment, consultant services and training.
5. Completion of an operational study and development of an action plan for sustainable and equitable financing mechanisms for the education system through, inter alia, the provision of consultant services and training.

Part C: Quality Enhancement

1. Establishing and implementing a professional development strategy for in service teacher training using various learning mechanisms through, inter alia, the provision of equipment, consultant services and training.
2. Carrying out a program to: (i) reinforce and upgrade the skills of the pedagogic inspectors; and (ii) redefine the functions and enhance the skills of pedagogic and orientation counselors, through the provision of equipment, consultant services and training.
3. Updating the examination system and developing the evaluation mechanisms and instruments through, inter alia, the provision of equipment, consultant services and training.
4. Introduction of new technologies to enhance the teaching and learning process, through the provision of computer equipment, consultant services and training.

Part D: Project Management

Establishment and operation of the PMU including the provision of equipment, consultant services, training and incremental operating support.

\* \* \*

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Amortization Schedule

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

Payment Date	Installment Share (Expressed as a %)
On each August 15 and February 15	
Beginning August 15, 2005 through February 15, 2015	5%

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

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

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

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

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

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

5. If the principal amount of the Loan withdrawn and outstanding from time to time

shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

#### SCHEDULE 4

##### Procurement

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

###### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

###### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

###### 2. Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

###### Part C: Other Procurement Procedures

###### 1. National Competitive Bidding

Works estimated to cost less than US\$3,000,000 equivalent per contract, up to an aggregate amount not to exceed US\$22,000,000 equivalent, and goods estimated to cost less than US\$500,000 equivalent per contract, up to an agreed amount not to exceed US\$3,200,000 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 US\$150,000 equivalent per contract, up to an aggregate amount not to exceed US\$2,400,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

###### 3. National Shopping

Goods estimated to cost less than US\$50,000 equivalent per contract, up to an aggregate amount not to exceed US\$250,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

###### 4. Direct Contracting

Software and office supplies, up to an aggregate amount not to exceed US\$500,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

###### Part D: Review by the Bank of Procurement Decisions

###### 1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with

such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works estimated to cost the equivalent of US\$1,000,000 or more, and with respect to each contract for goods estimated to cost the equivalent of US\$200,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for architectural and engineering services under Part A of the Project, estimated to cost less than US\$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audit estimated to cost less than US\$200,000 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.

2. Selection Based on Consultants' Qualifications

Services for training in relation to EMIS under Part B of the Project estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for training under the Project and for development of pedagogical materials under Part C of the Project which are estimated to cost less than US\$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.

4. Individual Consultants

Services under Part D of the Project and services for evaluating school curriculum and school text books under Part C of the Project shall be procured under

contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

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

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

1. 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) without limitation upon the provisions of Section 9.07 of the General Conditions, not later than May 31 in each Fiscal Year, commencing on May 31, 2001 and until Project completion, prepare and furnish to the Bank for its review, an annual progress report, of such scope and in such detail as the Bank shall reasonably request;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 2003, 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, including the first complete draft of the national long term education strategy; and

(d) review with the Bank, by December 31, 2003, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

2. The Borrower shall establish, not later than December 31, 2000 and maintain thereafter, the Strategic Planning Unit with staff and resources acceptable to the Bank.

3. The Borrower has, not later than April 30, 2001, entered into a contract for the preparation of the study on financing mechanisms for the education system referred to in Part B.5 of Schedule 2 to this Agreement.

4. MNEYS shall maintain arrangements satisfactory to the Bank with CDR pursuant to which CDR shall be responsible, on behalf of the Borrower, for all matters related to the procurement process and withdrawal of loan proceeds with regards to all goods and civil works under Parts A, B and C of the Project and consultant services and training under Part A of the Project.

5. MNEYS shall maintain arrangements satisfactory to the Bank with ECRD pursuant to which ECRD shall be responsible, on behalf of the Borrower, for all matters related to the procurement process and withdrawal of loan proceeds with regards to goods under Part D of the Project and consultant services and training under Parts B, C and D of the Project.

