

**LOAN NUMBER 7284-CR**

**Loan Agreement**

**(Equity and Efficiency of Education Project)**

**between**

**REPUBLIC OF COSTA RICA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated June 9, 2005**

**LOAN NUMBER 7284 -CR**

**LOAN AGREEMENT**

AGREEMENT, dated June 9, 2005 between the Republic of COSTA RICA (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; and

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

(b) “CSC” means *Comité Superior Consultivo*, the committee comprised of, *inter alia*, the directors of the curricular, planning, financial and didactic departments of MEP and headed by MEP’s minister, and referred to in Section 3.04 (a) of this Agreement;

(c) “CUE” means *Comité de Unidades Ejecutoras* the committee comprised of one representative of each MEP’s technical units responsible for rural education services, which committee will monitor Project implementation, and referred to in Section 3.04 (b) of this Agreement;

(d) “*Dirección Regional*” means a regional office vested with the administration of MEP’s programs in a given education region;

(e) “Disbursed Amount” means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in said Interest Period;

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

(g) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(h) “Environmental Management Framework” means: (i) the environmental guidelines to be followed by the Borrower during the carrying out of civil works for the Project; and (ii) the resettlement process framework;

(i) “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “ID Subproject” means a project which consists of the carrying out of one or more Project activities under Part A.2 of the Project for the benefit of a particular *Comunidad Educativa* and to be financed with part of the proceeds of the Loan, to be carried out with the procedures set forth in the Operation Manual (as hereinafter defined);

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

(l) “Implementing Technical Units” means MEP’s units in charge of a specific education area, which include, *inter alia*, multigrade education, professional development, indigenous education, on demand subsidies for low income families, education statistics and planning, which shall carry out the Subprojects;

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

(n) “Maturity Fixing Date” means, for each Disbursed Amount, the date on which the amortization schedule for said Disbursed Amount is established, such date being the first day of the Interest Period next following the Interest Period in which said Disbursed Amount is withdrawn;

(o) “MEP” means *Ministerio de Educación Pública*, the Borrower’s Ministry of Education;

(p) “Operational Manual” means the manual referred to in Section 3.02 (b) of this Agreement, as it may be amended by the Borrower from time to time with the Bank’s prior approval;

(q) “*Patronato*” means the organization comprised of parents and families of the students enrolled in a given public schools that supports the education process in said school;

(r) “PCU” means the Project coordination unit within MEP, vested with legal personality pursuant to the Borrower’s Law No. 8321 (*Ley No. 8321* dated October 16, 2002), and referred to in Section 3.03 (a) of this Agreement;

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

(t) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(u) “REQ Subproject” means a project which consists of the carrying out of one or more Project activities under Part A.1 of the Project for the benefit of a particular *Comunidad Educativa* and to be financed with part of the proceeds of the Loan, to be carried out with the procedures set forth in the Operation Manual (as define hereinafter);

(v) “School Council” means a *junta escolar* or *junta administrativa* which is vested with legal capacity and is comprised by community members that have been elected by the municipality with territorial jurisdiction over the public school, and is in charge of administering the school resources in accordance with an annual investment plan and with the approval of the *Dirección Regional*;

(w) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement (it being understood by both the Bank and the Borrower that: (a) said Part B is compatible with the manner in which the Borrower is as of the date of this Agreement applying its *Sistema de Caja Unica*, regulated under articles 66 and 67 of the Borrower's Financial Management and Public Budget Law No. 8131; and (b) for said compatibility to be maintained the Borrower must apply said regime on terms and conditions satisfactory to the Bank; and

(x) “Subprojects” means REQ and/or ID Subprojects.

## **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 thirty million Dollars, as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement 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 June 30, 2011 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee. Such fee shall be payable not later than sixty (60) days after the Effective Date.

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

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

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on 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 provisions of Schedule 3 to this Agreement.

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

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

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

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be

paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. Without limitation upon the provisions of paragraph (a) of Section 2.09 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.11. The Borrower's Minister of Education, and any person or persons whom he or she shall designate in writing, is designated as representative of the Borrower 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.

### **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 through MEP, with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, social and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and

(b) the Borrower shall open and maintain a deposit account in the Borrower's central bank, satisfactory to the Bank, to deposit the counterpart funds 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 may otherwise agree, the Borrower, through MEP, shall:

(a) carry out the Project, in accordance with the Operational Manual, so as to meet the Performance Indicators; and

(b) issue and adopt an operational manual, satisfactory to the Bank, containing, *inter alia*: (i) a detailed procurement plan for the first year of Project implementation; (ii) the Environmental Management Framework; (iii) the Indigenous

Peoples Development Framework; (iv) financial management procedures; and (v) the procedures to be followed for the carrying out of Subprojects.

If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provisions of this Agreement shall prevail.

Section 3.03. (a) The Borrower, through MEP, shall cause the PCU to operate throughout the course of the Project implementation, with functions and responsibilities acceptable to the Bank;

(b) the Borrower, through MEP, shall cause the PCU to ensure that it is staffed at all times during the implementation of the Project, by a core of professional staff in numbers and with experience and qualifications acceptable to the Bank (including, within said staff, a procurement officer and a financial officer); and

(c) the PCU shall be funded by counter-part funds in accordance with the Borrower's public employment framework.

Section 3.04. MEP shall maintain and operate during the implementation of the Project: (a) the CSC; and (b) the CUE, with responsibilities and functions set forth in the Operational Manual.

Section 3.05. 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 3.06. The Borrower through the corresponding *Dirección Regional* in which the Subprojects are implemented, shall:

(a) support the Implementing Technical Units in the preparation of a diagnosis of the region to establish priority areas for the implementation of the Subprojects, after consulting the *Comunidad Educativa*;

(b) support the appropriate Technical Units in the elaboration of the MEP's annual work program; and

(c) assist the Implementing Technical Units to monitor and evaluate the carrying out of the Subprojects in said region.

Section 3.07. With respect to Part A of the Project, the Borrower, through MEP's Implementing Technical Units, shall:



- (a) solicit Subproject proposals;
- (b) approve only those proposals which meet eligibility criteria set forth in the Operational Manual after consulting the relevant Educative Community;
- (c) submit the approved proposals to: (i) the MEP's ministerial office to get the minister's no-objection; and (ii) the Bank to get the Bank's no objection;
- (d) ensure that the amount paid to the providers of the goods, works or consultant services procured to carry out the Subprojects consists of at least thirty five percent paid out of the Borrower's counterpart funds, and at most sixty five percent financed out of the proceeds of the Loan;
- (e) ensure that such goods, works or consultant services are used to carry out the respective Subprojects; and
- (f) propose the amount of funds required for the carrying out of the Subprojects.

Section 3.08. The Borrower, through MEP, shall cause the PCU to:

- (a) not later than November 30, of each year during Project implementation, commencing after the Effective Date, prepare in consultation with CSC and CUE, and furnish to the Bank, for its review and approval, a proposed Project implementation plan, satisfactory to the Bank, such plan to include the Project activities during the calendar year following the date of presentation of said plan; and
- (b) upon the Bank's approval, carry out such Project implementation plan, as approved by the Bank.

Section 3.09. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through MEP, 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;

Section 3.10 The Borrower, through MEP, shall cause the PCU to:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, before the end of February and August of each year until the completion of the Project, beginning in August of the first year of Project implementation, a report on the implementation of the Project during the preceding calendar semester in which the report is furnished to the Bank, each report to detail: (i) the financial and physical progress of the Project; (ii) MEP's institutional performance and achievements under the Project; (iii) the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section; and (iv) the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following the date of the report;

(c) review with the Bank within no more than a month after each such report's preparation, the report referred to in paragraph (b) of this Section; and

(d) 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 each said report and the Bank's views on the matter.

## **ARTICLE IV**

### **Financial Covenants**

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

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.10 of this Agreement, the Borrower, through MEP, shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Operational Manual has been issued and adopted by the Borrower as referred to in Section 3.02 of this Agreement; and

(b) the Project implementation plan for the first year of Project implementation has been approved by the Bank as referred to in Section 3.08 of this Agreement.

Section 5.02. The date September 9, 2005, is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VI**

### **Representative of the Borrower; Addresses**

Section 6.01. The Minister of 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:

Ministerio de Hacienda  
Avenida 2, Calles 1 y 3  
San José, Costa Rica

Cable address:

Telex:

Facsimile:

(506) 255-4874

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 San Jose, Republic of Costa Rica, as of the day and year first above written.

REPUBLIC OF COSTA RICA

By/s/ Federico Zürcher

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By/s/ Jane Armitage

Acting Regional Vice President  
Latin America and the Caribbean Region

**SCHEDULE 1****Withdrawal of the Proceeds of the Loan****A. General**

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

<u>Category</u>	Amount of the Loan Allocated (Expressed in <u>Dollars</u> )	% of Expenditures <u>to be financed</u>
(1) Works, other than for Subprojects	350,000	90%
(2) Goods other than for Subprojects	1,650,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 90% of local expenditures for other items procured locally
(3) Consultants' services (including audits), other than for Subprojects	4,400,000	90%
(4) (a) REQ Subprojects	18,250,000	100% as referred to in Section 3.07 (d) of the Agreement
(b) ID Subprojects	2,750,000	100% as referred to in Section 3.07 (d) of the Agreement
(5) Training, other than for Subprojects	1,950,000	90%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(6) Front-end fee	150,000	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 (c) of this Agreement
(8) Unallocated	<u>500,000</u>	
<b>TOTAL</b>	<b><u>30,000,000</u></b>	

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 “Training” means expenditures (other than for consultants’ services) incurred for: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) training course fees; (iii) training facility and equipment rentals; (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph; and (v) study tours in the Borrower’s territory or abroad; and (vi) reasonable travel, room, board and *per diem* expenditures incurred by the Implementing Technical Unit’s personnel for field visits in connection with the Project’s activities.

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, except that withdrawals, in an aggregate amount not exceeding \$800,000, may be made in respect of Categories (1), (3) and (5) set forth in the table in paragraph 1 of Part A of this Schedule, on account of payments made for expenditures before that date but within 12 months before the date 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 contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) works costing less than \$250,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; and (e) for Subprojects, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in the Borrower's central bank, on terms and conditions satisfactory to the Bank.

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

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

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

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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

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

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

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

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

**Annex A to**

**SCHEDULE 1**

**Operation of Special Account When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$300,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## SCHEDULE 2

### Description of the Project

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

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

#### Part A: Quality and Equity of Rural Education

Carrying out of activities in support of:

1. Quality and equity of the Borrower's education system in rural areas, through:
  - (a) preparation of education quality investments to benefit schools working as a collaboration network, including: (i) the reorganization of existing facilities; (ii) the renovation of dilapidated classrooms; (iii) the construction of new classrooms; (iv) the provision of appropriate furnish and equipment; and (v) the construction of common network facilities such as technology center, technology resources, and cultural, arts and physical education facilities.
  - (b) design and implementation of professional development programs for teachers assigned to rural areas, including: (i) the carrying out of an assessment of the needs and profile of rural teachers to design an updated training curriculum; and (ii) the provision of training to schools' principals, supervisors and academic advisors;
  - (c) the design and use of improved teaching and learning models for rural schools, including: (i) the revision of existing methodologies; (ii) the provision of training for teachers; (iii) the provision of teacher and student materials; and (iv) the application of standardized tests for rural areas; and
  - (d) the promotion of education demand from low income family and students through the equity programs, including: (i) the transfer of Equity Program resources to school councils to reach low income students; and (ii) the provision of training to regional and school actors to increase their capacity to monitor and evaluate the Equity Programs and to reduce the errors of inclusion and exclusion of beneficiaries.

2. Local institutional development and strengthening, through:

(a) strengthening of MEP's regional capacity, including: (i) the provision of training for its regional departments and district supervisors; (ii) the provision of on the job support, equipment, information systems, systematized procedures and tools to support alternative rural education modalities and demand-side equity programs; and (iii) the design and implementation of a system to monitor school improvement planning, execution and evaluation of results;

(b) strengthening of community and school support for education quality, including: (i) the provision of training for School Councils, *Patronatos* and school principals in improvement planning, execution and evaluation of results; (ii) the development of programs to strengthen the impact and cost-effectiveness of MEP transfers to School Councils and *Patronatos*; and (iii) the provision of on the job support, equipment, procedures, and tools to implement a school based monitoring system for key education effectiveness and efficiency indicators;

(c) design and establishment of cooperation networks among education modalities to guarantee coordinated school development plans and coordinated investments to guarantee school access, promotion and retention; and

(d) promotion of school development investments through the transfer of resources to School Councils to finance, *inter alia*, school operating costs and school infrastructure improvements.

Part B: Improved Equity of Education Services

Strengthening of MEP's institutional capacity to reduce equity gaps, through the development and implementation of strategies, tools and institutional improvements to target and monitor education services, including, *inter alia*:

1. the provision of technical assistance to strengthen the capacity of the Implementing Technical Units and deconcentrated organizations that manage MEP's demand based equity programs such as those for scholarships, vouchers, transportation and schools meals; and

2. the development and implementation of an information system that can track the education outputs and outcome indicators across municipalities, communities and schools.

Part C: Improved Institutional Efficiency

Strengthening of MEP's institutional capacity to promote alliances among, central, regional and schools organizations through:

1. the development of inter-departmental integration strategies;
2. the provision of technical assistance and training to support MEP in the coordination, monitoring and evaluation of the activities of the Project, including the Subprojects; and
3. the provision of support for MEP's institutional development, including: (i) the design and implementation of an integrated system for planning, budgeting, monitoring and accountability; and (ii) the design and implementation of a monitoring and evaluation system for inputs, outputs, processes and outcomes of Subprojects.

\* \* \*

The Project is expected to be completed by December 31, 2010.



**SCHEDULE 3****Amortization Schedule**

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

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each March 15 and September 15 Beginning September 15, 2009 through March 15, 2019	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 subparagraph (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 subparagraph 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.

## **SCHEDULE 4**

### **Procurement**

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

##### Part A: General

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

##### Part B: International Competitive Bidding

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

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

##### (a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

##### (b) Preference for Domestically Manufactured

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

Goods estimated to cost less than \$250,000 equivalent per contract, and works estimated to cost more than \$250,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods and works which should be procured as an extension of an existing contract or must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature must be procured from a particular supplier as a condition of a performance guarantee are required to respond to natural disasters, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$250,000 equivalent per contract, may be procured under lump-sum, 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, 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: (i) each contract for goods estimated to cost the equivalent of \$250,000 or more; (ii) the first contract for works to be procured under Part

C.1 of this Section; and (iii) the first contract for goods under Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for small works procured in accordance with the procedures set forth in Part C.4 of this Section; (ii) the first contract for goods procured in accordance with the procedures set forth in Part C.2 of this Section; and (iii) each contract for goods procured in accordance with the procedures set forth in Part C.3 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier or execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

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

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto 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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision 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 estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for the carrying out of audits estimated to cost less than \$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 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.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines: (a) shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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.