

Page 1

CONFORMED COPY

LOAN NUMBER 4586-AR

Loan Agreement

(Second Secondary Education Project - Province of Buenos Aires)

between

INTERNATIONAL BANK FOR RECONSTRUCTION

AND DEVELOPMENT

and

PROVINCE OF BUENOS AIRES

Dated June 15, 2001

LOAN NUMBER 4586-AR

LOAN AGREEMENT

AGREEMENT, dated June 15, 2001, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the PROVINCE OF BUENOS AIRES (the Borrower).

WHEREAS (A) the Argentine Republic (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

WHEREAS (B)

by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through October 6, 1999, (the General Conditions) constitute an integral part of this Agreement.

Page 2

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)

"Construction Schedule" means the schedule for construction, expansion and rehabilitation of school spaces in selected EGB3 Schools (as hereinafter defined);

(b)

"DGCyE" means Dirección General de Cultura y Educación, the Borrower's General Directorate of Culture and Education;

(c)

"EGB" means Educación General Básica, the mandatory education cycle of grades 1 through 9 being phased-in in the Borrower's territory pursuant to the Guarantor's Ley Federal de Educación (Federal Education Law) of April 14, 1993 and the Borrower's Ley Provincial de Educación (the Borrower's Education Law) of December 22, 1994;

(d)

"EGB3" means the last three years of EGB (grades 7 through 9);

(e)

"Eligible Categories" means categories (1), (2), (3) (4) and (5), set

forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f)

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

(g)

"Financial Procedures Manual" means the administrative and financial manual referred to in Section 3.06 (d) of this Agreement;

(h)

"Full Day Schedule" means Jornada Completa, the program introduced by the Borrower pursuant to Provincial Resolution No. 3085/00 dated June 18, 2000 which increased the number of hours of instruction at EGB3 level, from about 750 to 1,200 hours per year;

(i)

"Innovative School Subprojects" means any of the projects referred to in Part C (b) of the Project;

(j)

"Monitoring Indicators" means the indicators set forth in annex I to the letter of even date with this Agreement from the Borrower to the Bank;

(k)

"Operational Manual" means the manual for the implementation of the Project referred to in Section 3.03 of this Agreement;

(l)

"PCU" means the Project Coordination Unit (Unidad Ejecutora del Proyecto) established by the Borrower within DGCyE pursuant to the Ministerial Resolution No. 259 of November 9, 1994;

(m)

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

(n)

"Project Supervisory Council" means the council referred to in Section 3.06 (e) of this Agreement, composed by: (i) the administrative sub-secretary; (ii) the sub-secretary of education, assisted by: (A) the provincial director for planning; (B) the provincial director of higher education and teacher training; and (C) pedagogic specialists; and (iii) the Project Coordinator (as hereinafter defined);

(o)

"School and Parents' Guide" means the guide for parents, teachers and school directors, referred to in Section 3.07 of this Agreement, for the implementation of the Full Day Schedule;

(p)

"Selected EGB3 Schools" means the public schools at EGB3 level in the territory of the Borrower which are eligible to receive financing under the Project in accordance with the criteria and methodology set forth in annex II to the letter of even date with this Agreement from the Borrower to the Bank;

(q)

"SIS" means Sistema de Información Socio-Educativa, the Borrower's social and educative information database created pursuant to Provincial Resolution No. 13252, dated December 7, 1999; and

(r)

"Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

ARTICLE II

Page 3

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to fifty-six million nine-hundred ninety thousand Dollars (\$56,990,000).

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: (a) the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan; and (b) the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be January 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 the amount of five-hundred sixty-nine thousand Dollars (\$569,900). On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

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

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

(b)

For the purposes of this Section:

(i)

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

(ii)

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

(iii)

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

(iv)

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

(c)

The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d)

Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest

rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in  
Page 4

arrears on April 15 and October 15 in each year.

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

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, through DGCyE, with due diligence and efficiency and in conformity with the Provincial Resolution No. 3085/00 dated June 18, 2000, and with appropriate financial, administrative, engineering, environmental, and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the works, goods 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. Without limitation to the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with an operational manual, satisfactory to the Bank (the Operational Manual), said manual to include, inter alia:

- (a) scheduled local workshops and training sessions at Selected EGB3 Schools;
- (b) the terms of reference, functions and responsibilities for PCU staff;
- (c) the administrative rules and procedures for planning, preparing, proposing, financing, supervising, and carrying out the Innovative School Subprojects;
- (d) the standard outline terms of reference for consultants' services to be procured under the Project;
- (e) the criteria and procedures for the review and approval of loan withdrawal applications to the Bank, in conformity with the instructions that the Bank may give to the Borrower in this respect;
- (f) the environmental criteria for selection of the sites for construction of new schools, as well as mandatory safeguards for any action which could possibly have a negative impact on natural habitats and cultural property; and
- (g) the schedule for construction, rehabilitation and equipment of the Selected EGB3 Schools.

Section 3.04. The Borrower shall:

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

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

Section 3.05. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring Indicators, the carrying out of the Project, and the achievement of the objectives thereof, and shall by February 28 and August 31 of each year of Project execution, provide the Bank with semi-annual progress reports on the execution of the Project, in a format acceptable to the Bank, and including the Monitoring Indicators referred to above; and

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by not later than February 28, 2003, a mid-term implementation review report, 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

Page 5

thereof during the period following such date.

Section 3.06. The Borrower, through DGCyE shall:

(a) maintain within the DGCyE, during the execution of the Project, a unit (the PCU) for the overall management, coordination and monitoring and evaluation of the Project with functions and responsibilities acceptable to the Bank;

(b) ensure that the PCU is headed, at all times during the execution of the Project, by a project coordinator (the Project Coordinator) with qualifications and experience acceptable to the Bank;

(c) cause the PCU to have key staff with functions, experience, responsibilities, and qualifications acceptable to the Bank, in adequate numbers;

(d) ensure that the PCU prepare, under terms of reference acceptable to the Bank, adopt, and update on a regular basis a manual for the implementation of financial procedures; and

(e) appoint and maintain during the execution of the Project a Project Supervisory Council, with membership satisfactory to the Bank, to be responsible for: (i) the monitoring and evaluation of the implementation of the Full Day Schedule; and (ii) the delivery of the semi-annual progress reports referred to in Section 3.05 of this Agreement.

Section 3.07. The Borrower, through DGCyE, shall prepare a pedagogical and technical information guide on the Full Day Schedule (the School and Parents' Guide) for the Selected EGB3 Schools, satisfactory to the Bank, said guide to include, inter alia: (a) objectives of the Full Day Schedule; (b) action plans for the implementation of the Full Day Schedule; (c) methodology of teachers and school directors' training and evaluation of the results of such schedule in teaching and management; (d) guidelines for curricular changes; (e) school level monitoring indicators; and (f) available resources and schedule of approximate delivery to Selected EGB3 Schools.

Section 3.08 The Borrower, through DGCyE, shall prepare and maintain, within SIS, a database, satisfactory to the Bank, in order to provide statistical, management and pedagogic information on improvement of school performance of Selected EGB3 Schools located in poor areas of the Borrower's territory.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall 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 Account 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 statement of expenditures, the Borrower shall:

Page 6  
Account were made on the basis of Project Management Reports or statement of expenditures, 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);

(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 six months after the Effective Date, 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 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 45 days after the end of each calendar quarter, a Project Management Report for that period.

#### ARTICLE V

##### Effective Date; Termination

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

(a)

the Operational Manual has been adopted by DGCE;

Page 7

(b)

the School and Parents' Guide has been made available for dissemination in sufficient quantities;

(c)

the list of all equipment bids and their specifications, evaluated by an independent consultant satisfactory to the Bank, and the Construction Schedule have been prepared and approved by DGCE;

(d)

the statistical database referred to in Section 3.08 of this Agreement has been prepared; and

(e)

the Financial Procedures Manual has been adopted by the PCU.

Section 5.02. The date September 17, 2001 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 General Director of DGCE 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:

Dirección General de Cultura y Educación

Calle 13 entre 56 y 57

1900 - La Plata

Argentina

Fax: (221) 483-8969

For the Bank:  
International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  
Fax: (202) 676-1464

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 city of Buenos Aires, Argentina, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Myrna Alexander  
Acting Regional Vice President  
Latin America and the Caribbean  
PROVINCE OF BUENOS AIRES

By /s/ Carlos Ruckauf  
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

Page 8

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:

Amount of the Loan Allocated

% of Expenditures

Category

(Expressed in Dollars)

to be Financed

(1)

Civil Works

37,000,000

65%

(2)

Goods

9,000,000

100% of foreign

expenditures, 100%

of local expenditures

(ex-factory cost), and

65% for other items

procured locally

(3)

Consultants' Services,

3,300,000

100%

Training and Audits

(4)

Grants for Innovative

1,200,000

100% of amounts

School Subprojects

disbursed



(5)  
Project Administration  
950,000  
100%

(6)  
Front-end Fee  
569,900  
Amount due  
under Section  
2.04 of this  
Agreement

(7)  
Unallocated  
4,970,100

TOTAL  
56,990,000

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor;

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

(c)  
the term "Project Administration" means the expenditures of the PCU, required by DGCyE for the implementation of the Project, including, but not limited to: (i) international and domestic travel and per diem for staff of the PCU; (ii) office supplies, materials and equipment; (iii) services rendered by public utilities; and (iv) rental of office space for the PCU.

3.

Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in aggregate not exceeding the amount of \$11,400,000 may be made in respect of Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of this Schedule, on account of payments made for expenditures incurred within 12 months prior to 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 for: (a) goods and works under contracts not subject to prior review under the provisions of paragraph 2 of Part D of Section I of Schedule 4 to this Agreement; (b) consulting firms under contracts costing less than \$100,000 equivalent; and (c) individual consultants under contracts costing less than \$50,000.

B.

Special Account

1.

The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in Banco de la Provincia de Buenos Aires on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

Page 9

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)

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 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 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 the 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 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

Page 10  
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 the term "Authorized Allocation" means the amount of \$6,000,000 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, the Authorized Allocation shall be limited to the amount of \$2,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$13,400,000.

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 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 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 Special Account's Eligible Categories.

2.

Each application for withdrawal from the Loan Account for deposit into the 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 Special Account an amount equal to the lesser of: (a) the amount so requested; and Page 11

(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 Special Account, shall not exceed the amount of \$12,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in increasing access to quality education, and improving the quality and equity of secondary education services by supporting the implementation of the Full Day Schedule in Selected EGB3 Schools.

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:

Expansion of Access to Secondary Education

Construction of new EGB3 schools and expansion and rehabilitation of school spaces in Selected EGB3 Schools.

Part B:

Pedagogical Improvement of Teaching and Relevance of Learning

1.

Support of teacher's capacity building in Selected EGB3 Schools.

2.

Rehabilitation of information and communication technology laboratories, science laboratories, language laboratories, and libraries in Selected EGB3 Schools.

3.

Acquisition of educational resources for Selected EGB3 Schools such as textbooks, libraries, laboratories equipment, audiovisual materials, teacher guides, specific hardware and educational software.

4.

(a)

Provision of in-service training for teachers, administrative teams and school management personnel of Selected EGB3 Schools with respect to the utilization of new educational resources for laboratory equipment installation and use; and (b) provision of training to teachers in Selected EGB3 Schools in the use of new educational materials and new technologies and to prepare them for the curricula changes related with the Full Day Schedule.

5.

Provision of technical assistance and training for teachers, administrative teams and school management personnel of Selected EGB3 Schools, linked to the development and management of Innovative School Subprojects.

Part C:

Decentralization of Secondary School Management

Institutional strengthening to facilitate the transition to the Full Day Schedule at Selected EGB3 Schools through:

(a)

provision of training to school directors, administrative teams, and school management personnel;

(b)

financing, on a grant basis, school projects to be carried out by Selected EGB3 Schools, based on diagnosis of the school situation and aiming to solve learning and teaching problems; and

(c)

establishment and operation of an incentive program for Selected EGB3 Schools, based on improvement of school performance indicators.

Part D:

Project Administration

Strengthening of the institutional capacity of the DGCyE and the PCU.

\*\*\*

The Project is expected to be completed by July 31, 2004.

SCHEDULE 3

Page 12

Amortization Schedule

Date Payment Due

Payment of Principal

(Expressed in Dollars)\*

April 15, 2006

2,850,000

October 15, 2006

2,850,000

April 15, 2007

2,850,000

October 15, 2007

2,850,000

April 15, 2008

2,850,000

October 15, 2008

2,850,000

April 15, 2009

2,850,000

October 15, 2009

2,850,000

April 15, 2010

2,850,000

October 15, 2010

2,850,000

April 15, 2011

2,850,000

October 15, 2011

2,850,000

April 15, 2012

2,850,000

October 15, 2012

2,850,000  
March 15, 2013  
2,850,000  
October 15, 2013  
2,850,000  
April 15, 2014  
2,850,000  
October 15, 2014  
2,850,000  
April 15, 2015  
2,850,000  
October 15, 2015  
2,840,000

---

\*

The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

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

##### 2.

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

##### (a)

##### Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$350,000 equivalent or more each.

##### (b)

##### Preference for Domestically Manufactured Goods

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

##### Part C:

##### Procurement Procedures

##### 1.

##### National Competitive Bidding

Works estimated to cost the equivalent of \$350,000 or more per contract shall, and goods estimated to cost less than \$350,000 equivalent but more than \$100,000

Page 13

equivalent, up to an aggregate amount not to exceed \$4,000,000 equivalent, may, be procured under contracts awarded in accordance with the provisions of paragraphs 3.3. and 3.4 of the Guidelines.

##### 2.

### Shopping

Goods estimated to cost less than \$100,000 equivalent up to an aggregate amount not to exceed \$800,000 equivalent may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3.

### Procurement of Small Works

Works estimated to cost less than \$350,000 equivalent per contract, up to an aggregate amount not to exceed \$15,300,000 equivalent, 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

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (a) each contract for works estimated to cost the equivalent of \$750,000 or more; and (b) each contract for goods procured in accordance with paragraph 1 of Part B of this Section; and (c) the first contract for goods procured in accordance with the provisions of paragraph 1 of Part C of this Section.

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

Except as otherwise provided in Part C of this Section, consulting firms' services estimated to cost \$200,000 equivalent or more shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

##### Part C:

## Other Procedures for the Selection of Consultants

### Individual Consultants

Tasks that meet the requirements set forth in paragraph 5.1 of the Consultant

Page 14

Guidelines may 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: (i) the employment of consulting firms estimated to cost the equivalent of \$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 to the Consultant Guidelines shall apply.

(b)

With respect to each contract for the employment of: (i) individual consultants estimated to cost the equivalent of \$50,000 or more; and (ii) individual consultants contracted as key staff of the Project Coordination Unit pursuant to the provisions of Section 3.05 (b) of this Agreement, regardless of the cost of the corresponding contract, the qualifications, experience, TORs 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, provided that the terms of reference for the respective assignments are subject to the prior review and approval by the Bank.