

**LOAN NUMBER 7144-DO**

# **Loan Agreement**

**(Early Childhood Education Project)**

**between**

**DOMINICAN REPUBLIC**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated December 6, 2002**

**LOAN NUMBER 7144-DO**

**LOAN AGREEMENT**

AGREEMENT, dated December 6, 2002, between DOMINICAN REPUBLIC (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

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

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

(a) “DGEI” means *Dirección General de Educación Inicial*, the Directorate General of Initial Education within SEE (as defined below);

(b) “Early Childhood Education” means the integrated care and education services provided to children ages zero to four, and to those children age five enrolled in Preprimary Education (as defined below) in accordance with Law No. 66/97 (as defined below);

(c) “Early Childhood Education Subproject” means any of the investments referred to in Part C.2 of the Project;

(d) “Eligible Entity” means an entity vested with legal personality which is legally authorized to operate in the Borrower’s territory and meets the criteria set forth in the Operational Manual to carry out an Early Childhood Education Subproject;

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

(f) “Implementation Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Project indicators;

(g) “Law No. 66/97” means *Ley* No. 66/97 of the Borrower dated April 9, 1997, duly published in the official gazette on April 16, 1997 which established, *inter alia*, the Borrower’s education system and its role, functions and responsibilities in the education sector, as said Law has been amended to the date of this Agreement;

(h) “OCI” means *Oficina de Cooperación Internacional*, the Office of International Cooperation within SEE;

(i) “Operating Costs” means reasonable recurrent expenditures that would not have been incurred by the PCU absent the Project, such as transportation and per-diem costs of its staff, office rent and utilities, operation and maintenance of office equipment financed with the proceeds of the Loan, and non-durable goods, all needed for the supervision of the Project;

(j) “Operational Manual” means the manual referred to in Section 3.04 of this Agreement;

(k) “PCU” means the unit referred to in Section 3.07 (a) (ii) of this Agreement;

(l) “Preprimary Education” means the care and education services provided to children age five in accordance with Law No. 66/97;

(m) “SEE” means *Secretaría de Estado de Educación*, the Borrower’s Secretariat of State of Education;

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

(o) "Subproject Agreement" means any of the agreements referred to in Section 3.05 (a) of this Agreement.

## **ARTICLE II**

### **The Loan**

Section 2.01. 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 forty two million Dollars (\$42,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, consultants' services, training and Operating Costs for Parts A.1, A.3 (a), B, C and D of 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.

(b) The Borrower may, for the purposes of the Project open and maintain in Dollars a separate special deposit account in its Central Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008 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. 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.

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: (a) 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 (b) 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 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 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.

### **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:

(a) carry out Parts A, B, C.1 and D of the Project through SEE with due diligence and efficiency and in conformity with appropriate administrative, technical, financial, educational and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project; and

(b) (i) cause each Eligible Entity to carry out the corresponding Early Childhood Education Subproject (pursuant to the corresponding Subproject Agreement) with due diligence and efficiency and in conformity with appropriate administrative, technical, financial, educational and environmental practices; (ii) in accordance with each said agreement, take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each Eligible Entity to perform its obligations under the corresponding Subproject Agreement; and (iii) not take or permit to be taken any action which would prevent or interfere with the carrying out of the corresponding Early Childhood Education Subproject.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods (including the procurement of non-durable goods under Operating Costs), works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan 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 3.04. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall carry out Parts A, B, C.1 and D of the Project, and cause each Eligible Entity to carry out the corresponding Early Childhood Education Subproject, all in accordance with a manual (the Operational Manual), acceptable to the Bank, said manual to include, *inter alia*: (i) a construction manual (which manual includes, *inter alia*, provisions for erosion control, pollution control, solid waste management, protection of cultural property, occupational health guidelines, first aid instructions, and restriction on the use of child labor); (ii) a manual for the regional model centers referred to in Part A.1 of the Project (which manual includes, *inter alia*, the criteria for selecting the sites for the construction of said centers, the criteria for the employment of teachers and administrative staff for said centers under Part A.2 of the Project and the description of the functions of said centers); (iii) the criteria for selecting the sites for the construction of classrooms under Part A.3 of the Project (including the construction design specifications); (iv) the criteria for selecting the classrooms to be renovated/remodeled under Part B.4 of the Project; (v) the environmental guidelines and procedures to be followed by the Borrower in the environmental screening of physical infrastructure under the Project other than physical infrastructure under Early Childhood Education Subprojects as provided in (vi) herein); (vi) a manual for Early Childhood Education Subprojects (which manual includes, *inter alia*, the criteria for selecting Eligible Entities and approving Early Childhood Education Subprojects, the cut-off date for the approval of Early Childhood Education Subprojects and the environmental guidelines and procedures to be followed by the Borrower in the environmental screening of Early Childhood Education Subprojects which involve the construction of physical infrastructure); (vii) the Project financial management, disbursement and procurement procedures (including the standard bidding documents and standard bid evaluation forms); and (viii) OCI's organizational structure, functions and responsibilities.

(b) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.05. (a) For purposes of carrying out Early Childhood Education Subprojects, and upon approval of an Early Childhood Education Subproject by SEE, the

Borrower shall make available, on a grant basis, a portion of the Loan proceeds allocated under Category (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement to the corresponding Eligible Entity pursuant to an agreement (the Subproject Agreement) to be entered into between the Borrower and said Eligible Entity on terms and conditions satisfactory to the Bank, including, *inter alia*, the obligation of:

- (i) said Eligible Entity to:
  - (A) carry out said Early Childhood Education Subproject in accordance with the provisions of this Agreement and the Operational Manual, and to finance with said entity's own resources (either in cash or in-kind) at least 30% of the cost of the corresponding Early Childhood Education Subproject;
  - (B) (1) maintain a financial management system (including records and accounts and any other information and/or documentation as the Bank may request from time to time), all in accordance with accounting standards acceptable to the Bank consistently applied, adequate to reflect its operations and financial condition and register separately the operations, resources and expenditures related to the carrying out of the corresponding Early Childhood Subproject; and (2) furnish to the Borrower the documentation referred to in (1) herein so as to enable the Borrower to comply with its obligations under Sections 4.01 and 4.02 of this Agreement;
  - (C) comply with the obligations referred to in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of said Early Childhood Subproject;
  - (D) take or permit to be taken all action to enable the Borrower to comply with its obligations under Section 3.06 of this Agreement; and
  - (E) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the corresponding Subproject Agreement or any provision thereof; and



- (ii) the Borrower to:
  - (A) suspend in whole or in part the right of the Eligible Entity to make withdrawals under the corresponding grant in case said Eligible Entity has failed to comply with any of its obligations under the corresponding Subproject Agreement; and
  - (B) terminate the corresponding Subproject Agreement in case the suspension mentioned in (A) herein shall continue for a period of sixty days after notice thereof shall have been given by the Borrower to said Eligible Entity.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under each Subproject Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate (other than as provided in paragraph (a) (ii) (B) herein), waive or fail to enforce any Subproject Agreement or any provision thereof.

Section 3.06. If the environmental screening of a particular civil work under Parts A.1, A.3 (a) or B.4 of the Project or of an Early Childhood Education Subproject identifies a potential negative environmental impact, the Borrower shall, prior to the carrying out of said civil work or Early Childhood Education Subproject, as the case may be, take or cause to be taken, all mitigatory measures recommended by said environmental screening, in a manner and on terms acceptable to the Bank.

Section 3.07. (a) The Borrower shall:

- (i) (A) operate and maintain at all times during Project implementation, the OCI with a structure (which structure shall reflect the operation and maintenance of a procurement unit and a financial unit), functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the OCI to coordinate, administer, supervise, monitor and evaluate the carrying out of the Project; and (B) establish, and thereafter maintain at all times during Project implementation, a procurement monitoring system, and a management information system for Early Childhood Education Subprojects, both acceptable to the Bank; and

- (ii) restructure under the OCI, and thereafter operate and maintain at all times during Project implementation, the Project coordination unit (the PCU) with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility of the PCU to assist the OCI in the discharge of its functions and responsibilities.

(b) The Borrower shall ensure that the PCU is, at all times during Project implementation, headed by a Project manager, and assisted by at least four technical coordinators in the areas of education, educational infrastructure, Project monitoring and evaluation and administration and finance, and by other adequate professionals and administrative staff, all with qualifications and experience acceptable to the Bank.

Section 3.08. The Borrower shall:

(a) maintain or cause to be maintained policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the annex to the Implementation Letter, the carrying out of the Project and the achievement of the objective thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, each January 31 and July 31 during Project implementation, starting with the report due not later than July 31, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of presentation of the pertinent report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the following calendar semester; and

(c) review with the Bank by March 31, 2006 (the mid-term review), or such later date as the Bank shall request, the pertinent reports referred to in paragraph (b) of this Section, and, thereafter, take, and/or cause to be taken, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said reports and the Bank's views on the matter.

Section 3.09. For purposes of carrying out the procurement assessments under Part D.2 of the Project, the Borrower shall: (a) not later than December 31 of each year of Project implementation, starting in the year 2003, employ consultants with procurement qualifications and experience acceptable to the Bank and under terms of reference satisfactory to the Bank; (b) not later than two months after the end of each calendar semester during Project implementation, starting in the first calendar semester of the year

2004, prepare and furnish to the Bank a report of such scope and in such detail as the Bank shall have reasonably requested setting forth the results and/or recommendations, as the case may be, of the pertinent procurement assessment of those Early Childhood Education Subprojects carried out or being carried during the calendar semesters prior to the date of presentation of the pertinent report; and (c) if deemed appropriate by the Bank, immediately thereafter implement or cause to be implemented the recommended actions set forth in the pertinent report, as the case may be.

Section 3.10. The Borrower shall not later than November 30 of each year of Project implementation, starting in the year 2003, prepare and furnish to the Bank a procurement plan, acceptable to the Bank, which plan shall be considered an update of the procurement plan for the previous calendar year, and shall include, *inter alia*, the Project activities to be carried out during the calendar year following the presentation of said plan, and a timetable for the carrying out of said activities.

## **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 four 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, including as part of the information to be provided in each report a management letter concerning the Borrower's internal controls; 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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the 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 Borrower's progress reporting obligations set out in Section 3.08 of this Agreement, the Borrower shall prepare in accordance with guidelines acceptable to the Bank and furnish to the Bank a financial monitoring report, in form and substance acceptable 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 planned and actual 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 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; and 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**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that Law No.66/97 or any provision thereof shall have been amended, suspended, abrogated, repealed, waived or not enforced in such a manner so as to affect materially and adversely, in the opinion of the Bank, the ability of: (a) the Borrower to carry out Parts A, B, C.1 and D of the Project; and/or (b) any Eligible Entity to carry out its corresponding Early Childhood Education Subproject.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in Section 5.01 of this Agreement shall occur

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) the Operational Manual has been adopted by the Borrower in a manner acceptable to the Bank;
- (b) the PCU has been restructured and staffed, as provided in Section 3.07 (a) (ii) and (b) of this Agreement;

(c) the procurement monitoring system and the management information system referred to in Section 3.07 (a) (i) (B) of this Agreement have been established in a manner acceptable to the Bank; and

(d) the auditors referred to in Section 4.01 (b) (i) of this Agreement have been contracted in accordance with terms of reference acceptable to the Bank.

Section 6.02. The date March 6, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Technical Secretary of the Presidency of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Secretariado Técnico de la Presidencia  
Palacio Nacional  
Avenida México  
Santo Domingo, República Dominicana

Facsimile:

(809) 695-8432

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 Santo Domingo, Dominican Republic, as of the day and year first above written.

DOMINICAN REPUBLIC

By /s/ Rafael Calderón Martínez

Authorized Representative

By /s/ Milagros Ortiz Bosch

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marco Mantovanelli

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Parts A.1, A.3 (a) and B.4 of the Project	14,600,000	80%
(2) Goods (excluding goods under Early Childhood Education Subprojects)	8,900,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 80% of local expenditures for other items procured locally
(3) Consultants' services (excluding consultants' services under Early Childhood Education Subprojects)	4,960,000	80%
(4) Training (excluding training under Early Childhood Education Subprojects)	3,150,000	80%
(5) Works, goods, consultants' services and/or training, as the case may be, under Early Childhood Education Subprojects	5,100,000	80%
(6) Operating Costs	600,000	80%



<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars</u>	<u>% of Expenditures to be Financed</u>
(7) Front-end fee	420,000	Amount due under Section 2.04 of this Agreement
(8) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(9) Unallocated	<u>4,270,000</u>	
TOTAL	<u>42,000,000</u>	

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 those for consultants’ services) incurred by the Borrower and/or Eligible Entities to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable) and rental of training facilities and equipment under the Project.

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 to exceed \$4,200,000, may be made in respect of Categories (1) through (6) set forth in the table in paragraph 1 of this Schedule on account of payment made for expenditures incurred within twelve months before the date of this Agreement; and

(b) payments made for expenditures under Category (5) set forth in the table in paragraph 1 of this Schedule with respect to an Early Childhood Education Subproject unless the corresponding Subproject Agreement has been signed by the parties thereto.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods estimated to cost less than \$250,000 equivalent each; (b) contracts for works estimated to cost less than \$3,000,000 equivalent each; (c) contracts for the employment of consulting firms estimated to cost less than \$75,000 equivalent each; (d) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each; and (e) Training and Operating Costs as set forth in Categories (4) and (6) of the table in paragraph 1 of this Schedule, respectively, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to increase the access to, and strengthen the quality of, Early Childhood Education in the Borrower's territory with a particular focus on the poor.

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 Preprimary Education Services

1. Construction of physical infrastructure for purposes of establishing a regional model center in each of the Borrower's seventeen (17) education regions, each center to include, *inter alia*: (a) four classrooms with visual observation facilities and equipped with furniture and pedagogical materials; (b) an educational resource center for learning as described in Part B.6 below; (c) a kitchen; (d) two bathrooms for children and one bathroom for adults; (e) an administrative office; and (f) a room to store food, didactic materials and equipment, for the provision of Preprimary Education.
2. Employment of teachers and administrative staff for each of the regional model centers referred to in Part A.1 above.
3. (a) Construction of 600 classrooms for Preprimary Education in areas selected by the Borrower in accordance with criteria set forth in the Operational Manual, including the acquisition and utilization of pedagogical materials and school furniture for each classroom; and (b) employment of teachers for said classrooms.

#### Part B: Improvement of Quality of Early Childhood Education

1. Carrying out of a program which consists of, *inter alia*: (a) the establishment of pedagogical groups (which groups to be comprised of at least fifty percent (50%) of all teachers providing Preprimary Education) and the provision of training (through the carrying out of, *inter alia*, workshops, study tours and seminars) to said groups of teachers, school directors and administrative staff of SEE (including school directors and administrative staff of the regional model centers referred to in Part A.1 above) with respect to, *inter alia*, the implementation of the Preprimary Education curriculum, the design of new teaching materials and the use and maintenance of the education resource centers for learning mentioned in Part A.1 above.

2. Design and implementation of a pedagogical model in each of the regional model centers referred to in Part A.1 above and in at least fifty percent (50%) of the Preprimary Education classrooms in the Borrower's territory, which model will address matters such as the implementation of the Preprimary Education curriculum, dissemination of pedagogical standards developed by said centers with respect to teaching methodology, learning, organization of classroom space and time, evaluation process of teachers and students, and parent and community relations.

3. (a) Carrying out of a survey in all Preprimary Education classrooms in the Borrower's territory to determine the needs of said classrooms with respect to educational materials; and (b) as a result of the survey referred to in (a) herein, acquisition and distribution of educational materials to all Preprimary Education classrooms in need of said educational materials to implement the Preprimary Education curriculum.

4. Renovation/remodeling of about 600 Preprimary Education classrooms (which renovation/remodeling may consist of the installation of an appropriate ventilation, lighting and sanitary facilities) selected by the Borrower in accordance with the criteria set forth in the Operational Manual.

5. Carrying out of social mobilization campaigns which consist of, *inter alia*, the carrying out of television and radio announcements, stakeholder workshops, door-to-door visits and consultative events, all for purposes of: (a) instilling educationally appropriate practices in fathers, mothers and/or guardians of poor children ages zero to five, including but not limited to hygiene, health, nutrition, and overall physical and emotional development of a child; and (b) strengthening the role of parent committees in the operation and administration of Preprimary Education schools selected by the Borrower in accordance with the criteria set forth in the Operational Manual.

6. Establishment of an educational resource center for learning in each of the regional centers mentioned in Part A.1 above (which educational resource center includes, *inter alia*, a technology area with Internet access and equipped with computers and printers, a library with educational texts, an audio-visual station equipped with instructional videos for improving teaching practices, and didactic materials, all for purposes of providing Early Childhood Education).

#### Part C: Institutional Strengthening in the Education Sector

1. Design and implementation of a program for cross-sectoral coordination in the delivery of Early Childhood Education, through the consolidation of the role of the OCI, the strengthening of the role of DGEI with respect to its structure, technical-pedagogical capacity and management capacity, and the creation of an efficient, sustainable and participatory management culture for the provision of Early Childhood Education.

2. Carrying out of investments for purposes of improving the quality of Early Childhood Education, including but not limited to training programs for parents, guardians and caregivers of children ages zero to five living in poor communities, early stimulation programs (*programas de estimulación temprana*), non-formal child care arrangements, construction of workplace day care centers, social marketing/educational campaigns to promote the importance of child development and proper health and nutrition for young children, and any other investment for said purposes acceptable to the Bank.

Part D: Project Administration

1. Strengthening of the PCU to assist the OCI in the monitoring and supervision of the Project.

2. Design and carrying out of assessments to evaluate Project implementation, including the carrying out of procurement assessments of Early Childhood Education Subprojects.

3. Carrying out of Project audits as referred to in Section 4.01 (b) (i) of this Agreement.

\* \* \*

The Project is expected to be completed by December 31, 2007.

### 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</u> <u>(Expressed as a %)</u>
On each April 15 and October 15 Beginning April 15, 2008 through April 15, 2019	4.17%
On October 15, 2019	4.09%

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

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

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

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

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

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

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## **SCHEDULE 4**

### **Procurement**

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

##### Part A: General

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

##### Part B: International Competitive Bidding

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

2. 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 and works shall be grouped in bid packages estimated to cost \$250,000 equivalent or more and \$3,000,000 equivalent or more, respectively.

(b) Preference for Domestically Manufactured Goods

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

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,460,000 equivalent, may be procured under



contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$3,000,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) Procurement of goods and works under this Part shall be carried out using standard bidding documents acceptable to the Bank.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$4,100,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the Borrower or the Eligible Entity's option, as the case may be, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods under Early Childhood Education Subprojects which should be procured as an extension of an existing contract and costing \$2,000 equivalent or less in the aggregate under each Early Childhood Education Subproject, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 (a) of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$3,600,000 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 as provided in Section 3.10 of this Agreement, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods and works to be awarded under Part B of this Section; and (ii) the first two contracts for goods and works to be awarded each calendar year during Project implementation under Part C.1 (a) and (b) of this Section, respectively, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods and works to be awarded each calendar year during Project implementation under Parts C.2 and C.4 of this Section, respectively, the following procedures shall apply:

- (i) prior to the selection of any supplier or contractor under said Parts, the Borrower shall provide to the Bank a report on the comparison and evaluation of the quotations received;
- (ii) prior to the execution of any contract under said Parts, 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.

(c) With respect to all contracts for goods under Part C.3 of this Section, the following procedures shall apply:

- (i) prior to the execution of any contract under said Part, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

- (ii) 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 1997 and revised in September 1997, 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

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.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Consultants' services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,350,000 equivalent, 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

Consultants' services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,120,000 equivalent, 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

Consultants' services for specialized Project activities, as approved by the Bank, and tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$5,720,000, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time as referred to in Section 3.10 of this Agreement).

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$75,000 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: (i) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more; and (ii) each contract for the employment of key staff for the PCU (as determined by the Bank), the report on the comparison of qualifications and experience of candidates and the 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.

(c) With respect to each contract for the employment of individual consultants estimated to cost less than \$50,000 equivalent (with the exception of each contract for the employment of key staff for the PCU as provided in paragraph (b) above), the terms of reference of the consultants shall be furnished to the Bank for its

prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works, services and Operating Costs required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means the amount of \$2,100,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 until the Bank has determined, based on the level and frequency of the withdrawals, that a higher amount is necessary.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

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

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

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

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

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

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

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

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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