

CONFORMED COPY

LOAN NUMBER 3414 CR

(Basic Education Rehabilitation Project)

between

REPUBLIC OF COSTA RICA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 9, 1991

LOAN NUMBER 3414 CR

LOAN AGREEMENT

AGREEMENT, dated December 9, 1991, between REPUBLIC OF COSTA RICA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower intends to contract from Inter-American Development Bank (IDB) a loan (the IDB Loan) in an amount equivalent to \$28,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the IDB Loan Agreement) to be entered into between the Borrower and IDB; 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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Annual Work Plan" means a plan containing the activities to be carried out under the Project in the respective subsequent calendar year, scheduled by month, and the respective budget for the carrying out of such activities;

(b) "Banco Central" means the Central Bank of the Borrower;

(c) "Colones" means the currency of the Borrower;

(d) "IIMEC" means Instituto de Investigacion para el Mejoramiento de la Educacion Costarricense, the Research Institute for the Improvement of Education in Costa Rica;

(e) "Management Information System" means a system involving computer hardware and software (at both central and regional levels) for data entry and processing of information concerning the MEP's (as hereinafter defined) personnel management, budgetary and financial control, education statistics and education evaluation, supervision and administration;

(f) "MEP" means Ministerio de Educacion Publica, the Borrower's Ministry of Public Education;

(g) "MEP Decree" means the decree, satisfactory to the Bank, to be issued by the Borrower providing for the regionalization and decentralization of the Borrower's education sector;

(h) "PCU" means the project coordination unit to be established within MEP pursuant to the provisions of Section 6.01 (b) of this Agreement;

(i) "Project Account" means the project account to be established by the Borrower, through MEP, pursuant to the provisions of Section 3.01 (b) of this Agreement; and

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

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of twenty-three million dollars (\$23,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Banco Central in dollars a special deposit account 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 December 31, 1997 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 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 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. The Minister of Public Education of the Borrower or such other person or persons as such Minister shall appoint in writing are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and

Article V of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MEP, with due diligence and efficiency and in conformity with appropriate educational, administrative, engineering, financial and economic practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) hereof, the Borrower shall: (i) maintain in Banco Central a separate account, in Colones, in the name of MEP (the Project Account), for the exclusive purpose of making payments out of such account to meet expenditures incurred in respect of the Project; and (ii) replenish the Project Account, every three-month period, with an amount in Colones sufficient, in the opinion of the Bank, to finance the counterpart expenditures for the Project for each following six-month period, out of the Borrower's own resources other than the Loan or the IDB Loan.

Section 3.02. The Borrower, through MEP, shall:

(a) furnish to the Bank, by not later than June 30 in each year, starting in 1993, a report, in form and substance satisfactory to the Bank, containing an assessment of the progress in the carrying out of the Project in the preceding fiscal year;

(b) furnish to the Bank, by August 31 in each year, starting in 1992, the proposed Annual Work Plan for the following fiscal year, for the Bank's review and comment;

(c) review, by September 30 in each year, starting in 1992, together with the Bank, such proposed Annual Work Plan and the progress in the carrying out of the Project, in accordance with terms of reference satisfactory to the Bank, such review to include, inter alia: (i) an analysis of the Borrower's performance and budget allocation in respect of the Project in the previous year; and (ii) an analysis of the progress achieved in the decentralization of the activities carried out by MEP; and

(d) immediately thereafter, revise such Annual Work Plan, taking into account the Bank's comments thereon.

Section 3.03. The Borrower shall, in respect of houses to be constructed under Part A.6 of the Project, take all action necessary to ensure that such houses shall be occupied by either: (i) teachers holding qualification certificates or university teaching degrees (not less than diplomado), satisfactory to the Bank; or (ii) other teachers, provided, however, that such other teachers, prior to occupying any such house, shall have entered into a formal agreement with the Borrower, through MEP, assuming the obligation to undertake certification training course, preferably outside the teachers working hours, such formal agreement to be satisfactory to the Bank.

Section 3.04. The Borrower shall, in respect of the land for each construction site required for the carrying out of Parts A.5, A.6 and A.7 of the Project, provide to the Bank evidence, satisfactory to the Bank, as part of the Annual Work Plan, that it holds a legal title to such land or that it has a right to build thereon.

Section 3.05. The Borrower shall: (a) by not later than August 31 in each year, starting in 1992, furnish to the Bank a proposed plan for the implementation of the teacher certification and upgrading programs under Part A.3 of the Project;

(b) review, together with the Bank, during each Project implementation review to be carried out in accordance with Section 3.02 (c) above, such proposed plan; and

(c) immediately thereafter, revise such plan, taking into account the Bank's comments thereon.

Section 3.06. The Borrower shall, throughout the duration of the Project, maintain the PCU, within MEP, with functions, structure, staff, and characteristics satisfactory to the Bank.

Section 3.07. The Borrower, through MEP, shall: (a) furnish to the Bank, by not

later than a date twenty-eight months after the Effective Date, terms of reference for a mid-term Project implementation review for comments, and incorporate therein the Bank's comments, in a manner satisfactory to the Bank; (b) carry out, by not later than a date thirty months after the Effective Date, such mid-term Project implementation review, in accordance with the terms of reference referred to in paragraph (a) above, in a manner satisfactory to the Bank; and (c) prepare, within three months of completion of such mid-term Project implementation review, an action plan, satisfactory to the Bank, taking into account the results of such review, and implement the same, in a manner and in accordance with a time frame satisfactory to the Bank.

Section 3.08. The Borrower shall: (a) by not later than June 30, 1992, furnish to the Bank terms of reference, satisfactory to the Bank, for the carrying out of the study referred to in Part B.5 of the Project;

(b) by not later than June 30, 1993, carry out and furnish to the Bank the study referred to in paragraph (a) above;

(c) by not later than September 30, 1993, prepare and furnish to the Bank a plan of action, satisfactory to the Bank, based on the recommendations of the study referred to in paragraph (a) above; and

(d) thereafter, carry out such plan of action in accordance with a time frame satisfactory to the Bank.

Section 3.09. The Borrower shall present to the Bank, by not later than September 30, 1992, a list containing the types and timing of the student testing and evaluation activities referred to in Part B.4 of the Project, to be performed by MEP, such list to be satisfactory to the Bank.

Section 3.10. The Borrower shall: (a) by not later than June 30, 1992, furnish to the Bank terms of reference, satisfactory to the Bank, for the study referred to in Part C.1 of the Project;

(b) by not later than the date in which the review referred to in Section 3.07 of this Agreement shall take place, furnish to the Bank, for comments, the results of such study; and

(c) thereafter, carry out the recommendations of such study, in accordance with a time frame satisfactory to the Bank.

Section 3.11. The Borrower shall: (a) furnish to the Bank, by not later than the date in which the review referred to in Section 3.07 of this Agreement shall take place, the preliminary results of the study included in Part C.3 of the Project; and

(b) thereafter, finalize the carrying out of such study, in accordance with a time frame satisfactory to the Bank.

Section 3.12. Without limitation to the obligation included in Section 3.01 above, the Borrower shall allocate in its annual budget for the years 1992 through 1996, for expenditures for basic education, amounts satisfactory to the Bank, such amounts to be, in relation to the total amount allocated for education in the Borrower's annual budgets, equivalent to the following minimum ratios:

- (i) 51.0% for calendar year 1992;
- (ii) 52.5% for calendar year 1993;
- (iii) 53.3% for calendar year 1994;
- (iv) 54.4% for calendar year 1995; and
- (v) 53.8% for calendar year 1996.

For the purposes of this Section, the term "basic education" means the education provided for in the schools of the Borrower's territory, in grades 1 through 6 (primary education) and in grades 7 through 9 (academic program).

#### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account and the Project Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (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.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) That the conditions for the first disbursement under the IDB Loan Agreement shall not have been met by May 31, 1992, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (i) Subject to subparagraph (ii) of this Section:

- (A) the right of the Borrower to withdraw the proceeds of the IDB Loan or any other loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the relevant agreement; or
- (B) the IDB Loan or any such other loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(c) The MEP Decree shall have been amended, abrogated or waived, without the agreement of the Bank.

(d) Any of the parties to the contract entered into between the Borrower, through MEP, and IIMEC, dated April 30, 1991, for the design and implementation of the student testing and evaluation activities under Part B.4 of the Project, shall have failed to comply with its respective obligations thereunder.

(e) The agreement entered into among the Borrower and Universidad de Costa Rica, Universidad Nacional Autonoma and Universidad Nacional de Educacion a Distancia, dated September 17, 1991, or any agreement entered into between the Borrower and any other university located in the Borrower's territory, for the carrying out of Part A.4 (i) of the Project, shall have been amended, abrogated or waived, without the agreement of the Bank.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified: that any of the events specified in paragraphs (a), (b), (c), (d) or (e) of Section 5.01 of this Agreement shall occur subject, in the case of Section 5.01 (b), to the proviso of Section 5.01 (b) (ii) of this Agreement.

#### ARTICLE VI

##### Effective Date; Termination

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

(a) the IDB Loan Agreement has been entered into by the parties thereto;

(b) the Borrower has established PCU and has appointed, for PCU, a director, an architect or engineer, a procurement specialist, a computer specialist, an accountant and two educators and necessary support staff, all with qualifications and under terms of employment satisfactory to the Bank; and

(c) the Borrower has opened the Project Account and has deposited in such account an amount in Colones equivalent to at least \$300,000.

Section 6.02. The date March 9, 1992 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance 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:

Ministerio de Hacienda  
Avenida Central - Calle 20  
Apartado Postal 5016  
1000 - San Jose, Costa Rica

Telex:

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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

REPUBLIC OF COSTA RICA

By /s/ Gonzalo Facio Segreda

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ S. Shahid Husain

Regional Vice President  
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works under Parts A.5, A.6 and A.7 (limited to the new regional center in Puntarenas and the existing regional centers in San Jose and Limon)	8,500,000	78%
(2) Equipment, furniture and vehicles	1,500,000	100% of foreign expenditures and 85% of local expenditures



(3) Training, and training materials	7,000,000	100%
(4) Technical assistance (including consultants' services and studies)	400,000	100%
(5) Incremental Operating Costs	3,000,000	100% until withdrawals have reached the equivalent of \$1,300,000; 70% thereafter, until withdrawals have reached the equivalent of \$2,500,000; and 25% thereafter
(6) Unallocated	2,600,000	
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TOTAL	23,000,000	=====

2. For the purposes of this Schedule:

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

(c) "Incremental Operating Costs" means the incremental salaries for teachers who completed the training program included in Part A.4 of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$1,000,000, may be made in respect of Categories (1), (2), (3) and (4) on account of payments made for expenditures before that date but after July 6, 1991;

(b) under Part A.7 of the Project, until evidence, satisfactory to the Bank, has been provided that: (i) the MEP Decree has been duly published in form and substance satisfactory to the Bank; (ii) the functions and authority of the regional centers referred to in Part A.7 of the Project have been established, in a manner satisfactory to the Bank; and (iii) staff, which shall include (in each case), among others, a regional director and the heads of the teacher training, curriculum, statistics management, and budget divisions, in quantity and with skills and experience satisfactory to the Bank, have been appointed in respect of each of the six regional centers referred to in Part A.7 of the Project;

(c) under Part C.3 of the Project, until the Borrower has furnished to the Bank: (i) terms of reference, satisfactory to the Bank, for the evaluation of the computer-assisted learning program to be carried out under Part C.3 of the Project; (ii) an implementation plan, satisfactory to the Bank, for the carrying out of a computer-assisted learning program for secondary education, satisfactory to the Bank; and (iii) an evaluation, satisfactory to the Bank, of the effectiveness of the computer-assisted learning program for primary education presently being carried out in public schools located in the Borrower's territory; and

(d) under Part A.4 (i) of the Project, with respect to each university participating in the carrying out of such Part of the Project, until the Borrower has: (i) furnished to the Bank evidence, satisfactory to the Bank, that each such

university has the capacity of carrying out such Part of the Project; and (ii) entered into an agreement, satisfactory to the Bank, providing for the participation of each such university in the carrying out of such Part of the Project.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to:

- (a) improve the quality and efficiency of the provision of basic education;
- (b) strengthen the planning and administration capacity of MEP; and
- (c) assist the Borrower in improving the quality and effectiveness of its secondary education program.

The Project supports MEP's Plan General de Educacion for the years 1990 through 1994 and 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: Basic Education Quality Improvement

1. Development of a new school curriculum for first through ninth grades, aimed at: (i) adapting the course content and curriculum programs to reflect regional and local realities; (ii) integrating new subject areas including, inter alia, ecology, health/nutrition, family life, public safety and civic values; (iii) applying more interactive student/teaching/learning strategies; and (iv) monitoring students and undertaking periodic student achievement testing.
2. Enhancement of student motivation and achievement through the preparation, publication, validation, printing and/or distribution of: (i) textbooks, workbooks and teacher manuals; (ii) supplementary materials including, inter alia, library books, posters, maps and science equipment; and (iii) distance education materials via radio, audio cassettes and television.
3. Introduction of a comprehensive teacher training program aimed at: (i) providing introductory courses for secondary school graduates entering the teaching profession; and (ii) improving and enhancing the skills of teachers, school principals and supervisors.
4. Provision of in-service training through: (i) certification programs for graduates of secondary school and for uncertified teachers; and (ii) upgrading courses for teachers working in first through ninth grades of academic schools.
5. (i) Rehabilitation of about 2,300 classrooms; and (ii) construction and replacement of about 240 classrooms; at the primary level, including the provision and utilization of furniture, equipment and sanitary installations.
6. Construction of about 110 houses for teachers in marginal areas of the Borrower's territory, aimed at attracting teachers to such areas.
7. Construction and equipping of four new regional centers, located in Liberia, Puntarenas, San Carlos and Perez Zeledon, and remodelling of two of the six existing regional centers, located in San Jose and Limon.
8. Preservation and maintenance of public schools, including the provision and utilization of furniture and equipment.

#### Part B: Strengthening of Sector Planning and Management

1. Strengthening of the planning and management capacity of the MEP's central offices, located in San Jose.
2. Assistance to the Borrower in carrying out its decentralization policy in respect of education, by the installation of an effective management information system at central and regional levels.
3. Provision of computers and formulation of staff development programs for MEP, (inter alia, in the areas of personnel management, financial and budgetary control, and educational planning).

4. Development of an evaluation unit in MEP (the functions of which would include student testing and evaluation activities).

5. Carrying out of a study on the utilization of school time in the Borrower's territory.

Part C: Secondary Education Quality Improvement

1. Carrying out of a study of the secondary education system to determine means and policies for improving the quality, efficiency and relevance of secondary education.

2. Carrying out of pilot programs to promote modern trends in interactive learning and enhanced student performance by, inter alia, the provision of computers, the revision of curricula, and the training of teacher and administrators in approximately 20 selected secondary academic schools.

3. Carrying out of a study on the achievement of students attending the schools referred to in paragraph 2 above, as compared with the achievements of students attending other schools.

\* \* \*

The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning on March 15, 1997 through March 15, 2008	960,000
On September 15, 2008	920,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum)

applicable to the Loan on the day of prepayment multiplied by:

Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

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

###### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for: (i) civil works; and (ii) school furniture, computer equipment and educational materials and equipment; shall be grouped into bid packages estimated to cost the equivalent of more than \$1,500,000 and more than \$200,000, respectively.

3. All procurement of goods and works, whether or not international competitive bidding applies, shall take place using standard bidding documents which are satisfactory to the Bank.

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Costa Rica may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

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

###### I. Works

1. Works or groups of works estimated to cost the equivalent of less than \$1,500,000 per contract, but more than the equivalent of \$50,000 per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally in accordance with procedures satisfactory to the Bank.

2. Except as provided in paragraph 3 below, works or groups of works estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$7,110,000 for works or group of works under Parts A.5 (ii) and A.6 of the Project, and to \$2,000,000 for works or group of works under Part A.5 (i) of the Project, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three contractors eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Works or group of works under Part A.5 (i) of the Project, estimated to cost the equivalent of \$15,000 or less per contract, may be procured under contracts awarded after direct negotiations with contractors, in accordance with procedures acceptable to the Bank, provided, however, that the aggregate amount of such contracts shall not

exceed the equivalent of \$3,500,000.

## II. Goods

1. Goods or groups of goods estimated to cost the equivalent of \$25,000 or more per contract, but less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$800,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Goods or groups of goods estimated to cost less than the equivalent of \$25,000 per contract: (i) up to an aggregate amount equivalent to \$200,000, for goods other than short anthologies and basic equipment under Part A.4 of the Project; (ii) up to an aggregate amount equivalent to \$250,000, for short anthologies to be printed under Part A.4 of the Project; and (iii) up to an aggregate amount equivalent to \$60,000 for basic equipment under Part A.4 of the Project may be awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

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

#### 1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract awarded pursuant to Part A hereof, each contract for civil works estimated to cost the equivalent of \$200,000 or more, and the first contracts awarded pursuant to Part C.I.1 (irrespective of the amount) and Part C.II.1, respectively, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

### SCHEDULE 5

#### Special Account

#### 1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits 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 in 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the Eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for

cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

