

CONFORMED COPY

LOAN NUMBER 7343-ES

Loan Agreement

(Excellence and Innovation in Secondary Education (EXITO) Project)

between

REPUBLIC OF EL SALVADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 4, 2006

LOAN AGREEMENT

AGREEMENT, dated, April 4, 2006, between REPUBLIC OF EL SALVADOR (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; the objectives of the Project, as described in Schedule 2 to this Agreement, are to: (a) increase equitable opportunities for the Borrower's young population to complete their secondary education; and (b) improve the quality, relevance and competitiveness of the Borrower's secondary education; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank, dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "*Comités de Convivencia Escolar*" means the Borrower's social environment school councils composed of teachers, students and family education delivery modalities aimed to support the collaboration between families, schools and communities;

(b) "*Cupos*" means the fees for education services to be paid, per Beneficiary enrolled therein, by MINED to the institutions and NGOs, which shall be selected in accordance with the criteria set forth in the Operational Manual;

(c) "Education Grants" means a grant to be made by MINED to: (i) a Grant Beneficiary for the purpose of financing transport costs, uniforms and teaching materials; and (ii) a Secondary School for the purpose of financing the education services to be provided to the Grant Beneficiary enrolled therein;

(d) "EDUCO" means *Programa de Educación con Participación de la Comunidad*, the Borrower's program of community operated schools in the Borrower's rural areas;

(e) "Eligible Categories" means: Categories (1) through (13) as set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the expenditures for works, goods, services, training, administrative costs, Education Grants, Subproject Grants and *Cupos*, referred to in Section 2.02 of this Agreement;

(g) "Environmental Procedures" means the procedures for environmental management for the carrying out of Project infrastructure works;

(h) "FEPADE" means *Fundación Empresarial para el Desarrollo Educativo*, an NGO (as hereinafter defined) operating pursuant to its by-laws and the Borrower's Decree No. 10 granting it juridical status, both published in the Borrower's Official Gazette on April 28, 1987 as amended and published in the Borrower's Official Gazette on September 3, 1996;

(i) "FEPADE Participation Agreement" means the Agreement referred to in Section 3.01 (b) of this Agreement;

(j) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(k) "FISDL" means *Fondo de Inversión Social para el Desarrollo Local*, the Borrower's social investment fund for local development, established and operating pursuant to the provisions of the Borrower's Legislative Decree No. 610, dated October 31, 1990, and published in the Borrower's Official Gazette No. 262, on November 16, 1990, as modified by the Borrower's Legislative Decree No. 826, dated September 19, 1996, and published in the Borrower's Official Gazette No. 184 on October 2, 1996;

(l) "FISDL Participation Agreement" means the Agreement referred to in Section 3.01 (c) of this Agreement;

(m) "FUNDASAL" means *Fundación Salvadoreña de Desarrollo y Vivienda Mínima*, created pursuant Executive Accord No. 768, dated June 16, 1970 and published in the Borrower's Official Gazette No. 111, dated June 19, 1970;

(n) "FUNDASAL Participation Agreement" means the Agreement referred to in Section 3.01 (d) of this Agreement;

(o) "Grant Beneficiaries" means the students attending any of the Borrower's Secondary Schools who are eligible to receive an Education Grant in accordance with the criteria set forth in the Operational Manual;

(p) "HABITAT" means the foundation of public utility created by the Borrower's Executive Decree No. 9, dated February 25, 1987, published in the Borrower's Official Gazette No. 53, dated March 18, 1987;

(q) "HABITAT Participation Agreement" means the Agreement referred to in Section 3.01 (e) of this Agreement;

(r) "ICTs" means Information and Communications Technology;

(s) "Implementation Letter" means the letter of even date herewith, from the Borrower to the Bank, containing the Monitoring Indicators (as hereinafter defined);

(t) "ITCA" means *Instituto Tecnológico Centroamericano*, the Borrower's Central American Technological Institute operating pursuant to the Borrower's Legislative Decree No. 13 published in the Borrower's Official Gazette on November 13, 1972;

(u) "ITCA Participation Agreement" means the Agreement referred to in Section 3.01 (f) of this Agreement;

(v) "Lower Secondary Schools" means the third cycle private and/or public schools that provide education services from grades 7 to 9 in the Borrower's territory;

(w) "MEGATEC" means *Modelo Educativo Gradual de Aprendizaje Técnico y Tecnológico*, the Borrower's technical-technological networks;

(x) "MINED" means *Ministerio de Educación*, the Borrower's Ministry of Education, and its successor thereto;

(y) "Monitoring Indicators" means the indicators to be used in monitoring and evaluating the implementation of the Project, as set forth in the Implementation Letter;

(z) "NGO" or "non-governmental organization" means a non-governmental organization established and operating in the Borrower's territory;

(aa) "Operational Manual" means the manual referred to in Section 3.03 of this Agreement;

(bb) "PAES" means *Prueba de Aptitudes y Aprendizajes para Egresados de Educación Media*, the Borrower's upper secondary student evaluation system;

(cc) "Participating Agencies" means FEPADE, FISDL, FUNDASAL, HABITAT, ITCA and UCA;

(dd) "Participation Agreements" means the FEPADE Participation Agreement, the FISDL Participation Agreement, the FUNDASAL Participation Agreement, the HABITAT Participation Agreement, the ITCA Participation Agreement and the UCA Participation Agreement;

(ee) "Procurement Plan" means the Borrower's procurement plan, dated October 11, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(ff) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Loan Account referred to in Part A.6 of Schedule 1 to this Agreement;

(gg) "Secondary Schools" means the private and/or public schools that provide education services from grades 7 to 12 in the Borrower's territory;

(hh) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(ii) "Subproject Grants" means grants to be made by MINED on a competitive basis to Secondary Schools selected for the purpose of financing youth development projects which meet the criteria set forth in the Operational Manual and in MINED's guide for "*Proyectos Juveniles Concursables*" and "*Escuelas Efectivas*";

(jj) "TIMMS" means Trends in International Mathematics and Science Study (formerly known as Third International Mathematic and Science Study) which was developed by the International Association for the Evaluation of Educational Achievement (IEA) to measure trends in students' mathematics and science achievement;

(kk) "UCA" means *Universidad Centro Americana José Simeón Cañas*;

(ll) "UCA Participation Agreement" means the Agreement referred to in Section 3.01 (g) of this Agreement; and

(mm) "Upper Secondary Schools" means the private and/or public schools that provide education services (*bachillerato*) from grades 10 to 12 in the Borrower's territory.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to eighty five million Dollars (\$85,000,000), 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. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods, services, administrative costs, Education Grants, Subproject Grants and *Cupos*, required for the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be December 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

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

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

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

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, through MINED, all with due diligence and efficiency and in conformity with appropriate administrative, education, environmental, participatory and social standards and 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) above, prior to carrying out any activity under Part B.2 of the Project, the Borrower, through MINED, shall enter into an agreement with FEPADE (the FEPADE Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of FEPADE in the implementation of the scholarship program described in Part B.2 of the Project.

(c) Without limitation to the provisions of paragraphs (a) and (b) above, the Borrower, through MINED, shall enter into an agreement with FISDL (the FISDL Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of FISDL in the carrying out of civil works under Parts A.3 and B.3 of the Project.

(d) Without limitation to the provisions of paragraphs (a), (b) and (c) above, the Borrower, through MINED, shall enter into an agreement with FUNDASAL (the FUNDASAL Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of FUNDASAL in the carrying out of civil works under Parts A.3 and B.3 of the Project.

(e) Without limitation to the provisions of paragraphs (a), (b), (c) and (d) above, the Borrower, through MINED, shall enter into an agreement with HABITAT (the HABITAT Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of HABITAT in the carrying out of civil works under Parts A.3 and B.3 of the Project.

(f) Without limitation to the provisions of paragraphs (a), (b), (c), (d) and (e) above, the Borrower, through MINED, shall enter into an agreement with ITCA (the ITCA Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of ITCA in the implementation of Parts A.1 and A.2 of the Project.

(g) Without limitation to the provisions of paragraphs (a), (b), (c), (d), (e) and (f) above, the Borrower, through MINED, shall enter into an agreement with UCA (the UCA Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of UCA in the implementation of Parts A.1, B.1, and C.1 of the Project.

(h) The Borrower, through MINED, shall exercise its rights and carry out its obligations under the Participation Agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Participation Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works, and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through MINED, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. (a) The Borrower, through MINED, shall carry out its activities under the Project, in accordance with the terms of a manual satisfactory to the Bank (the Operational Manual). Except as the Bank shall otherwise agree, the Borrower shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

(b) The Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of the Project, including, *inter alia*:

- (i) the Environmental Procedures;
- (ii) the duties and responsibilities of FEPADE, FISDL, FUNDASAL, HABITAT, ITCA and UCA in Project implementation;
- (iii) the technical, legal, administrative, financial, procurement and monitoring procedures for Project implementation;

Section 3.04. Without limitation upon the provisions of Section 9.01 of the General Conditions, the Borrower, through MINED, shall during the execution of the Project:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank (the Monitoring Indicators), the carrying out of the Project and the achievement of the objectives thereof;

(b) furnish to the Bank, by not later than February 28 and August 31 of each year during the execution of the Project, a report, in a format satisfactory to the Bank, integrating the results of the monitoring and evaluation activities performed pursuant to the provisions of paragraph (a) of this Section, which reports shall include: (i) a detailed description of Project activities during the period preceding the date of said report; (ii) a detailed progress report, including lessons learned during Project implementation; and (iii) the identification of any issue that may delay Project implementation and setting out measures recommended to solve such issue and ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) periodically review with the Bank the progress in the implementation of the Project, based on the reports referred to in paragraph (b) of this Section, to *inter alia*: (i) assess the results of the inter-institutional mechanisms established pursuant to the provisions of the Participation Agreements; and (ii) evaluate the efficacy of the Project implementation and coordination mechanisms at the central, regional and municipal levels, including the provision of grants to Beneficiaries; and

(d) after said reviews, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through MINED, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower, through MINED, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

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

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.6 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower, through MINED, shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.04 of this Agreement, the Borrower, through MINED, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

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

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 any Participating Agency has failed to comply with any of its obligations under its respective Participation Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01. of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

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 agreements referred to in Section 3.01 (b), (c), (d), (e), (f) and (g) of this Agreement have been executed on behalf of MINED and the respective Participating Agencies; and

(b) the Operational Manual has been adopted by MINED in a manner satisfactory to the Bank.

Section 6.02. The date July 3, 2006 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
Boulevard de los Heroes #1231
San Salvador, El Salvador,
C.A.

Facsimile:
(503) 2225-7491

With a copy to:

MINED
Alameda Juan Pablo II
Plan Maestro, Centro de Gobierno, Edif. A-1
San Salvador, El Salvador

Facsimile:
(503) 2281-0261

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	248423 (MCI) or	(202) 477-6391

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

REPUBLIC OF EL SALVADOR

By /s/ René A. León

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Ulrich Zachau

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Goods (excluding the goods in category 2 below), services (excluding <i>Cupos</i>), training and administrative costs under Parts A.1 of the Project	8,100,000	100%
(2) <i>Cupos</i> and goods under Part A.1(d) of the Project	2,800,000	(a) 100 %
	1,500,000	(b) 50% after (a) above has been fully disbursed and the condition in paragraph 3 (b) below has been complied with
(3) Works, goods, services (excluding <i>Cupos</i>), training and administrative costs (excluding the training and administrative costs in Category 4 below) under Part A.2 of the Project	13,700,000	100%
(4) Training and administrative costs under Parts A.2 (d) and A.2 (e) of the Project	500,000	(a) 100%
	600,000	(b) 50% after (a) above has been fully disbursed; and the condition in paragraph 3 (c) below has been complied with

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(5) Works, goods, services (excluding <i>Cupos</i>), training and administrative costs under Part A.3 of the Project	8,500,000	100%
(6) Goods, services (excluding, <i>Cupos</i>), training and administrative costs (including those under Sub-Project Grants) under Part A.4 of the Project	4,900,000	100%
(7) Goods, services (excluding, <i>Cupos</i>), training and administrative costs under Part B.1 of the Project	2,900,000	100%
(8) <i>Cupos</i> under Part B.1 of the Project	5,000,000	(a) 100%
	4,100,000	(b) 60% after (a) has been fully disbursed; and
	1,200,000	(c) 20% after (b) has been fully disbursed and the condition in paragraph 3 (d) below has been complied with
(9) Education Grants, services (excluding <i>Cupos</i>) and administrative costs under Part B.2 of the Project	800,000	(a) 100%
	1,500,000	(b) 50% after (a) has been fully disbursed; and
	500,000	(c) 30% after (b) has been fully disbursed and the condition in paragraph 3 (e) below has been complied with

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(10) Works, goods, services (excluding <i>Cupos</i>) and administrative costs under Part B.3 of the Project	11,000,000	100%
(11) Services (excluding <i>Cupos</i>), training and administrative costs under Part C.1 of the Project	7,200,000	100%
(12) Goods, services (excluding <i>Cupos</i>), training and administrative costs under Part C.2 of the Project	6,300,000	100%
(13) Goods, training, administrative costs and services (including audits) under Part D of the Project	3,900,000	100%
TOTAL	85,000,000 =====	

2. For the purposes of this Schedule the terms:

(a) "services" means the reasonable expenditures incurred by MINED and/or the Participating Agencies for the hiring of: (i) non-consultants' services, including: printing or reproduction of training materials including logistic services for training events, distribution of goods and *Cupos*; and (ii) consultants' services;

(b) "administrative costs" means the reasonable incremental expenditures incurred by MINED and/or the Participating Agencies, on account of Project implementation, management and monitoring, including, *inter alia*: (i) reasonable costs of travel and per diem related to Project implementation and oversight; (ii) office supplies; (iii) maintenance of equipment; and (iv) salaries of FEPADE's, ITCA's and UCA's staff which would not have been incurred absent the Project; and

(c) "training" means the reasonable and necessary expenditures, as approved by the Bank on the basis of the Procurement Plan, incurred by the Borrower with respect to: (i) rental and services provided in training facilities; (ii) transportation expenses of trainees to the place where training is provided and subsistence expenses for such trainees; (iii) scholarships and fellowships for training courses to be provided in the Borrower's territory or abroad; and (iv) study trips and internships in the Borrower's territory or abroad.

3. Notwithstanding the provisions of paragraph I above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$3,000,000 may be made on account of payments made for expenditures before that date but after January 1, 2006;

(b) payments for Category 2 (b) of the table in paragraph 1 above unless the Borrower has developed and disseminated basic competencies in four core subjects in secondary education and at least 20% of secondary teachers have been certified in basic competencies;

(c) payments for Category 4 (b) of the table in paragraph 1 above unless the Borrower fully sets up one MEGATEC by 2008;

(d) payments for Category 8 (c) of the table in paragraph 1 above unless 60% of students enrolled in accelerated education in 2008 have completed lower and upper secondary by 2010 and PAES results are comparable across accelerated and traditional programs; and

(e) payments for Category 9 (c) of the table in paragraph 1 above unless at least 70% of Beneficiaries who shall have received the Education Grant in 2007 complete the upper and lower secondary cycle by 2010.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of any Category set forth in the table in paragraph 1 of this Schedule unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 of this Agreement.

5. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) works costing less than \$350,000 equivalent per contract; (b) goods and services costing less than \$250,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) training; (f) administrative costs; (g) Educations Grants; and (h) Subproject Grants; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

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

B. Special Account

1. The Borrower may open and maintain in Dollars in its central bank, on terms and conditions satisfactory to the Bank, a special deposit account (the Special Account).

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

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

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

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

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

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.6 of this Schedule I adequately provide the information required for Report-based Disbursements;

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

(c) if the Borrower, through MINED, 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: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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

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

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

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

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

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount of \$5,000,000 to be withdrawn from the Loan Account and deposited into the Borrower's central bank, all pursuant to paragraph 2 of this Annex.

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

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

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

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

**Annex B
to
SCHEDULE 1**

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

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.6 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) increase equitable opportunities for the Borrower's young population to complete their secondary education; and (b) improve the quality, relevance and competitiveness of the Borrower's secondary education.

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: Improving the Quality, Relevance and Competitiveness of Secondary Education

1. Improving learning in core subjects, through, *inter alia*: (a) the development of basic competencies in five core disciplines (Spanish, math, natural science, social science and English) with associated new study plans; (b) the application of basic competencies in Spanish, math, natural science and social science, through, *inter alia*: (i) the training of the teachers and directors of the Borrower's Secondary Schools; (ii) the development and distribution of teaching guides and other teaching materials; and (iii) the update of study plans of pre-service teacher education; (c) the training of teachers, through the development and distribution of teaching and audio-visual materials and updated study plans for pre-service teacher education to teach English; (d) the provision of intensive English courses and the provision of English textbooks; (e) the development of a program, teaching materials, technical assistance and monitoring and evaluation systems for lower performance students; and (f) the provision of equipment of learning resource centers for disabled students.

2. Improving the quality and relevance of secondary education by supporting the development of three technical-technological networks (MEGATEC), through: (a) the establishment of a national technical and technological policy; (b) the harmonization and collective use of school facilities within the MEGATEC, including the expansion, rehabilitation and refurbishing of physical spaces and the provision of new teaching-learning spaces in the technical-technological networks hub; (c) the development of a competency-based approach in technical-technological education and curricular adjustment to coordinate the technical-technological tracks; (d) the development of teacher professional opportunities within the technical-technological networks; (e) the development of a program for academically promising students; and (f) the design and implementation of professional orientation programs in the Borrower's Lower Secondary Schools located within the MEGATEC.

3. Supporting the curriculum development, through: (a) the construction and rehabilitation of technological laboratories in the Borrower's Secondary Schools; (b) the provision of computer and audiovisual equipment; (c) the provision of educational and office productivity software; (d) the design, development and printing of pedagogical guides to support the integration between curriculum and technology; (e) the carrying out of training for the heads of technological laboratories and teachers on the use of pedagogical guides and in general on the use of ICTs for education; and (f) the provision of technical assistance for the design of a base line evaluation study.

4. Improving the teaching-learning environment in the Borrower's schools which are low performing and have high records of violence, through: (a) the establishment *Comités de Convivencia Escolar* in selected Secondary Schools; (b) the provision of technical assistance to support the parents' and students' organizations; (c) the carrying out of training for teachers, students and families on conflict resolution; (d) the development of social environment plans; (e) the organization of extra-curricular and health-related activities; (f) the carrying out of school youth development projects; and (g) the implementation of a monitoring and evaluation system.

Part B: Promoting Broad-Based Coverage in Secondary Education

1. Developing flexible education delivery modalities, including implementing and delivering accelerated, semi-distance and distance education, to benefit the Borrower's young population who did not complete or who are at risk of not completing secondary education, including, *inter alia*: (a) the development of curricular and pedagogical adaptations for the three flexible education delivery modalities, including the development of the web-based platform for distance education; (b) the development and distribution of teaching-learning materials for teachers and students for the flexible education delivery modalities, including audiovisual materials for distance education; (c) the training of teachers in the flexible education delivery modalities; (d) the implementation and development of an information, monitoring and evaluation system for the flexible education delivery modalities; (e) the carrying out of promotion activities to create awareness of the flexible education delivery modalities; and (f) the payment of *Cupos* to providers of the flexible education delivery modalities to be selected in accordance with the criteria set forth in the Operational Manual.

2. Developing and implementing a scholarship program for the Borrower's lower income students, including: (a) the development of instruments for the selection of Beneficiaries and schools; (b) the transfer of yearly Education Grants to the Beneficiaries and to the selected Secondary Schools; and (c) the implementation of a monitoring and evaluation system to evaluate the implementation of the scholarship program.

3. Expanding secondary education coverage, through: (a) the rehabilitation, refurbishing and equipping of classrooms in Upper Secondary Schools prioritizing the low performing ones; and (b) the construction, refurbishing and equipping of new classrooms in selected Upper Secondary Schools.

Part C: Management and Evaluation for Effectiveness

1. Strengthening the monitoring, evaluation, certification and accreditation systems, through: (a) the improvement of the PASS; (b) the development of tests to certify basic technical and English competencies; (c) the development of basic education indicators at the school level; (d) the analysis and dissemination of results and their use for certification purposes; (e) the participation in international academic assessments including TIMSS; (f) the establishment of a methodology for the accreditation of institutions; (g) the establishment of a methodology for teacher evaluation and certification; and (h) the development of institutional capabilities for monitoring, evaluation and accreditation.

2. Improving school management and supervision, through: (a) the provision of technical assistance to school management organizations and supporting teams, including the provision of necessary teaching materials; (b) the development of a quality control and monitoring system in the Borrower's Secondary Schools, including the provision of technical assistance, materials and equipment; (c) the provision of technical assistance, refurbishment and provision of teaching materials in basic EDUCO schools, which will be expanded to Upper Secondary Schools; and (d) the implementation of a monitoring and evaluation system to monitor EDUCO expansion.

3. Carrying out of an impact evaluation study for Parts B.2 and C.2 of the Project.

Part D: Project Administration

1. Strengthening MINED's technical capacity to implement the Project through the provision of technical assistance, training, administrative costs and equipment.

2. Carrying out of the audits referred to in Section 4.01 of this Agreement.

* * *

The Project is expected to be completed by June 30, 2011.

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 February 15 and August 15	
Beginning February 15, 2012 through August 15, 2021	5%

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

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

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

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

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

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

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

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I, IV and V of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Works, Goods and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$5,000,000, and goods estimated to cost less than \$250,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding in a manner consistent with the terms of Standard Bidding Documents satisfactory to the Bank to be used by the Borrower for this purpose (including education services covered by *Cupos*).

2. Shopping. Works estimated to cost less than \$350,000, and goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping (including education services covered by *Cupos*).

3. Community Participation. Goods, works and services required for Part A.4 of the Project may be procured on the basis of community participation in accordance with the following procedures: After a youth development subproject has been approved by MINED, the respective Secondary School will receive the funds from MINED to pay for the mix of inputs required to implement each youth development subproject. The Secondary Schools will follow agreed Shopping or Direct Contracting procedures detailed in MINED's institutional school administration directives ("*Paso a Paso*") described in the Operational Manual.

4. Direct Contracting. Goods and non-consultant services which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

