

**CONFORMED COPY**

**LOAN NUMBER 7176-PE**

# **Loan Agreement**

**(Rural Education Project)**

**between**

**REPUBLIC OF PERU**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated December 5, 2003**

**LOAN NUMBER 7176-PE**

**LOAN AGREEMENT**

AGREEMENT, dated December 5, 2003, between REPUBLIC OF PERU (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;

(B) on May 20, 1982 the Borrower's Congress passed Law No. 23384 (the General Education Law) that recognizes bilingual education as a right for all indigenous peoples in the territory of the Borrower;

(C) on December 15, 1984 the Borrower's Congress passed Law No. 2409 (the Teachers' Law) modified by Law No. 25212 on May 19, 1990, that establishes the necessity of providing adequate pre- and in- service training for teachers;

(D) the Bank has received a letter dated April 25, 2003 from the Borrower describing the Borrower's rural education program to be carried out in the period 2003 through 2013 (the Rural Education Program), of which the Project constitutes the first phase;

(E) the Borrower contracted from the Inter-American Development Bank (IDB) a loan (the IDB Loan) in an amount equivalent to 150 million dollars (\$150,000,000) to assist in partially financing Part B.3 of the Project on the terms and conditions set forth in an agreement (the IDB Loan Agreement) entered into between the Borrower and IDB on September 11, 2002; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

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

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

(a) “*Animadora*” means any of the Borrower’s trained community educators described in MED’s Directive No. 37–UME-GIDEI-88;

(b) “Annual Operations Plan” means any of the plans referred to in Section 3.07 (a) (i) of this Agreement;

(c) “*Centro Amauta*” means any of the MED’s (as hereinafter defined) teacher professional development centers operating in coordination with DRE (as hereinafter defined);

(d) “DRE” means *Dirección Regional de Educación*, any or several of the MED’s (as hereinafter defined) regional education directorates;

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

(f) “FONCODES” means *Fondo Nacional de Compensación y Desarrollo Social*, the Borrower’s compensation and social development fund;

(g) “FONCODES Agreement” means the agreement referred to in Section 3.04 of this Agreement;

(h) “FONCODES Special Account” means the special deposit account referred to in Section 2.02 (b) and paragraph 1 (c) of Schedule 5 to this Agreement;

(i) “Indigenous Peoples Strategy” means the indigenous peoples strategy for Project implementation dated April 9, 2002;

(j) “Infrastructure Subproject” means any civil works to be carried out under Part B.3 of the Project;

(k) “ISP” means *Instituto Superior Pedagógico*, any or several of the Borrower’s superior teaching institutes;

(l) “MED” means *Ministerio de Educación*, the Borrower’s Ministry of Education;

(m) “MED Special Account” means the special deposit account referred to in Section 2.02 (b) and in paragraph 1 (c) of Schedule 5 to this Agreement;

(n) "Operational Manual" means the Project operational manual referred to in Section 3.06 (a) of this Agreement;

(o) "PCU" means the Project coordinating unit referred to in Section 3.03 (a) (ii) of this Agreement;

(p) "Performance Indicators" means the Project performance indicators set forth in the letter from the Borrower to the Bank of even date herewith (Supplemental Letter);

(q) "Procurement Improvement Action Plans" means the MED's and FONCODES's procurement improvement action plans for Project implementation, dated April 25, 2003;

(r) "Project Area" means the area comprised by the Borrower's Departments of Amazonas, Ancash, Ayacucho, Cajamarca, Cusco, Huancavelica, Loreto, Piura, Puno, San Martin and Ucayali, and any other Department which may be acceptable to the Bank in addition to, or in substitution of, the above Departments;

(s) "School Council" means any of the school councils established pursuant to MED's Ministerial Resolution No. 118-2002-ED, dated March 11, 2002;

(t) "School Network Council" means any of the school network councils established pursuant to Ministerial resolution No. 168-2002-ED, dated March 11, 2002;

(u) "Special Account" means the FONCODES Special Account or the MED Special Account;

(v) "Steering Committee" means the Project steering committee referred to in Section 3.03 (a) (i) of this Agreement; and

(w) "UMC" means *Unidad de Medición de la Calidad Educativa*, an administrative unit within MED.

## **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 fifty-two million five hundred thousand Dollars (\$52,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan, and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) Upon receipt of notification from the Bank allowing the establishment of the Special Accounts, the Borrower may open and maintain in Dollars two separate special deposit accounts in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment, for the purposes of Part B.3 of the Project (the FONCODES Special Account) and for Parts A, B.1, B.2, and C of the Project (the MED Special Account). Deposits into, and payments out of, each respective 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, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

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

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

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

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

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

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

### **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 MED, with the participation of FONCODES in respect of Infrastructure Subprojects pursuant to the FONCODES Agreement, all with due diligence and efficiency and in conformity with appropriate managerial, administrative, financial, education, social and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation or restriction to the provisions of paragraph (a) above, the Borrower shall carry out the Project in accordance with: (i) the Indigenous Peoples Strategy; and (ii) the Procurement Improvement Action Plans.

Section 3.02. 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.

Section 3.03. (a) At all times during the execution of the Project, the Borrower (through MED) shall maintain:

- (i) a Project steering committee with membership structure and responsibilities satisfactory to the Bank, including the following responsibilities: (A) to review Project implementation reports and audits; and (B) to approve the Operational Manual, each Annual Operations Plan, and any modification thereof; and
- (ii) a Project coordinating unit responsible for overall Project coordination, supervision, monitoring and evaluation, including: (A) preparing each Annual Operations Plan; (B) issuing Project implementation guidelines; (C) maintaining the Project impact monitoring system; (D) procuring goods and consultants' services for the Project; and (E) preparing FMRs and processing withdrawal applications.

(b) The Borrower shall ensure that PCU is staffed, at all times during the execution of the Project, by core professional staff in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank, and selected in accordance with competitive and transparent procedures satisfactory to the Bank, all as prescribed in the Operational Manual.

Section 3.04. With regard to Part B.3 of the Project, the Borrower (through MED) shall enter into an agreement with FONCODES, under terms and conditions satisfactory to the Bank, for the purposes of ensuring the participation of FONCODES in the implementation of such Part of the Project, said agreement to provide, inter alia:

(a) the transfer to FONCODES of the proceeds of the Loan allocated to Category (1) of the table in Part A.1 of Schedule 1 to this Agreement;

(b) the obligation of FONCODES to carry out Infrastructure Subprojects in accordance with:

- (i) the Operational Manual; and
  - (ii) the applicable Annual Operations Plan; and
- (c) the administration by FONCODES of the FONCODES Special Account in accordance with the provisions of Part B of Schedule 1 to this Agreement.

Section 3.05. The Borrower shall exercise its rights and comply with its obligations under the FONCODES Agreement 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 assign, amend, abrogate, waive or fail to enforce the FONCODES Agreement or any provision thereof.

Section 3.06. (a) The Borrower (through MED) shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, said manual to provide the rules and procedures for the implementation of the Project, in the areas of:

- (i) Project institutional setup, including organization and functions of PCU;
- (ii) Disbursement procedures, internal controls, accounting, auditing and reporting procedures;
- (iii) procurement responsibilities;
- (iv) monitoring and evaluation plans for the Project; and
- (v) procedures for identification, preparation, approval, execution and supervision of Infrastructure Subprojects, including environmental assessment procedures and guidelines, and a list of non-eligible civil works.

(b) If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provisions of this Agreement shall govern.

Section 3.07. (a) The Borrower, through MED, shall:

- (i) not later than December 15 of each year during Project implementation, furnish to the Bank, for its review and approval, a proposed annual operations plan for the following calendar year, such proposed plan to specify: (A) the activities to be



financed out of the proceeds of the Loan during such calendar year, including Infrastructure Subprojects; and (B) the required financial and human resources; and

- (ii) upon the Bank's approval, carry out such Annual Operations Plan in accordance with its terms.

(b) The Bank may refrain from approving any Annual Operations Plan if the Bank has determined that the Borrower is not carrying out the Project as provided in this Agreement and no appropriate remedial actions, satisfactory to the Bank, have been taken therefore.

Section 3.08. The Borrower, through PCU, shall:

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

(b) not later than February 28 and August 30 of each year of Project implementation, starting in August 31, 2004, furnish to the Bank progress reports on the execution of the Project during the preceding calendar semester, of such scope and in such detail as the Bank may reasonably request.

Section 3.09. The Borrower, through PCU, shall:

(a) not later than September 30 of each year of Project implementation, starting in September 30, 2004, hold a Project annual review with the Bank, such review to be based on the reports referred to in Section 3.08 (b) of this Agreement;

(b) if, as a result of any of the above reviews, the Bank shall have reasonably determined that the progress in the execution of the Project or in the achievement of its objectives is not satisfactory, promptly take or cause to be taken all such remedial action, satisfactory to the Bank, as shall be necessary for the efficient execution of the Project or the timely achievement of its objectives.

Section 3.10. The Borrower, through PCU, shall:

(a) not later than January 31, 2006, carry out an assessment of overall Project impact, such assessment to be conducted with the assistance of independent consultants of experience and qualifications satisfactory to the Bank, operating under terms of reference satisfactory to the Bank;

(b) not later than October 31, 2006, furnish to the Bank, for its review and comments, the findings and recommendations of such assessment; and

(c) not later than November 30, 2006, discuss the results of such assessment with representatives of DRE, other regional or provincial offices of MED, FONCODES and school networks and schools in the Project Area, taking into account the Bank's comments thereon.

Section 3.11. (a) Prior to the approval of any proposed Infrastructure Subproject, the Borrower shall ensure that FONCODES follows the environmental procedures and guidelines set forth in the Operational Manual, in order to:

- (i) carry out an environmental screening and assessment of such proposed Infrastructure Subproject; and
- (ii) prepare recommendations for the prevention, mitigation and remediation of any potential environmental damage arising from the implementation of such proposed Infrastructure Subproject.

(b) During the implementation of any Infrastructure Subproject, the Borrower shall ensure that FONCODES carries out the recommendations referred to in subparagraph (a) (ii) above as prescribed in the Operational Manual.

Section 3.12. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower (through MED) shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the continued achievement of Project objectives; 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 MED, shall maintain or cause to be maintained records and 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, through MED, shall:
- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts 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 (6) 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, including as a part of the information to be provided in each such report a management letter concerning internal controls; 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 FMRs or statements of expenditure, the Borrower (through MED) shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and 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 FMRs or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.08 of this Agreement, the Borrower (through MED) 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 forty-five (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 forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Bank**

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

(a) the General Education Law or the Teachers' Law or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;

(b) FONCODES shall have failed to perform any obligation under the FONCODES Agreement;

(c) an extraordinary situation shall have arisen which shall make it improbable that the Rural Education Program will be carried out; and

(d) the IDB Loan Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect the Project materially and adversely; 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;

- (e) (i) Subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw the proceeds of the IDB Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the IDB Loan Agreement; or
  - (B) the IDB 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 the IDB Loan 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.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

- (a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur; and
- (b) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) 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) that the Steering Committee shall have been established;
- (b) that the FONCODES Agreement shall have been entered into;
- (c) that the Operational Manual shall have been approved; and
- (d) (i) that financial management arrangements, satisfactory to the Bank, shall have been established by PCU and become operational; and (ii) that the selection process of the independent auditors referred to in Section 4.01 (b) (i) of this Agreement shall have started.

Section 6.02. The date March 4, 2004, 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 Economy and 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:

Ministry of Economy and Finance  
Jr. Junín 319  
Lima, Peru

Facsimile:

(511) 426-8500 or  
(511) 426-9822

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:

248423 (MCI)  
64145 (MCI)

Facsimile:

(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 PERU

By /s/Jaime Quijandría Salmón  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/David de Ferranti  
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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Infrastructure Subprojects	6,800,000	70%
(2) Goods	6,600,000	80%
(3) Consultants' services	14,675,000	80%
(4) Training	12,500,000	63%
(5) Operating Costs	9,400,000	80% until withdrawals under this Category reach an aggregate amount equivalent to \$3,500,000; 70% until withdrawals under this Category reach an aggregate amount equivalent to \$6,500,000; 60% thereafter
(6) Front-end Fee	525,000	Amounts due under Section 2.04 of this Agreement
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(8) Unallocated	2,000,000	
TOTAL	<u>52,500,000</u>	

2. For purposes of this Schedule, the terms:

(a) "Operating Costs" means reasonable costs, which would not have been incurred absent the Project, for: (i) office equipment and related maintenance of PCU; (ii) refurbishment of office space, office utilities and office supplies of PCU; (iii) travel and per diem of personnel of MED for Project implementation activities; and (iv) salaries of PCU staff; and

(b) "Training" means: (i) training materials and rental of training facilities; and (ii) fees, travel, and per diem of trainers and trainees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$5,000,000, may be made in respect of Categories (2) through (5) of the table set forth in Part A.1 of this Schedule, on account of payments made for expenditures during the twelve months immediately before that date but in any case after January 1, 2003.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

- (a) Infrastructure Subprojects;
- (b) goods under contracts not exceeding \$200,000;
- (c) services provided by consulting firms under contracts not exceeding \$100,000;
- (d) services provided by individual consultants under contracts not exceeding \$50,000; and
- (e) Operating Costs and Training.

under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to improve basic education access and quality in rural areas; (b) to improve teacher quality and motivation; and (c) to strengthen education management.

The Project, which constitutes the first phase of the Rural Education Program, 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: Expanding Education Access for Rural Children

##### 1. Access to Quality Initial Education and Integral Care

(a) Provision of initial education services in the Project Area to children less than 3 years old within a family and community framework by *Animadoras*, including:

- (i) carrying out of baseline studies, and studies on rural families' upbringing practices;
- (ii) detailed design of alternative service delivery models;
- (iii) preparation, publication and distribution of manuals for *Animadoras*, teacher coordinators and parents;
- (iv) production and dissemination of audiovisual educational materials;
- (v) selection and acquisition of other educational materials; and
- (vi) design and printing of training modules for *Animadoras* and teacher coordinators.

(b) Provision of initial education services in the Project Area to children more than 3 years old and less than 6 years old, including:

- (i) carrying out of baseline study for initial education services for children 3 years old and less than 6 years old;
- (ii) improvement of existing educational materials and provision of additional materials;

- (iii) training of initial education teachers and *Animadoras*, teacher coordinators and specialists;
  - (iv) creation of pedagogical support mechanisms;
  - (v) specialized on-the-job technical assistance for *Animadoras* and other educators;
  - (vi) teaching in the children's mother tongue and introduction of Spanish as a second language;
  - (vii) recovery of local experiences relevant to socialization and upbringing; and
  - (viii) development of community programs to increase and qualify demand.
- (c) Carrying out of studies on:
- (i) state of the art initial education programs and projects in rural areas;
  - (ii) socio-linguistic issues of indigenous children less than 6 years old; and
  - (iii) systematization of innovative national and international experience.
- (d) Evaluation of alternative initial education and integral care delivery models developed under this Part A.1 of the Project.

## 2. Secondary Distance Education

- (a) Testing of alternative secondary distance education models aimed at identifying cost-effective models in the Project Area.
- (b) Comparative assessment of the secondary distance education models tested under Part A.2 (a) of the Project with the regular secondary education model in respect of students' attitudinal and behavioral interaction with each such model.
- (c) Participatory analysis of the comparative assessment conducted under Part A.2 (b) of the Project aimed at identifying and selecting models for secondary distance education in the Project Area.

(d) Evaluation of the secondary distance education models selected under Part A.2 (c) of the Project, in respect of student learning outcomes, school and teachers' features, cost-effectiveness, and lessons learned.

Part B: Improving the Quality of Rural Schools

1. Continuous Teacher Training System

Design and implementation of a continuous teacher development system, comprising:

- (a) a revised pre-service training program, including:
  - (i) redefinition of the pre-service teacher training curriculum and adoption of new training and performance standards;
  - (ii) establishment of an ISP accreditation system to assure a rational and efficient institutional framework, and to promote the diversification of ISP;
  - (iii) provision of specialized training to teacher trainers of leading accredited ISP; and
  - (iv) provision of access to updated educational information and best national and international practices through the financing of competitive ISP's innovation initiatives; and
- (b) a revised in-service training program, including:
  - (i) establishment of *Centros Amauta* in the Project Area, aimed at:
    - (A) planning, coordinating, monitoring and evaluating regional in-service training activities;
    - (B) organizing regional in-service training demand and identifying suitable teacher training institutions; and
    - (C) providing technical assistance to schools, school networks, and MED's regional and provincial offices;
  - (ii) teacher training in the Project Area on multi-grade methodologies;
  - (iii) teacher training on bilingual education and Spanish as a second language in 14 indigenous languages; and

- (iv) developing social marketing activities designed to promote teachers' professional standing among the educational community and society at large.

(c) Evaluation of the revised pre-service and in-service training programs developed under this Part B.1 of the Project, including a baseline study.

2. Provision of educational and communications materials

(a) Provision of educational and communications materials to support multi-grade and bilingual education, comprising:

- (i) for Spanish-speaking and vernacular-speaking students in the Project Area:

- (A) design and validation of new educational processes and materials, including self-paced learning processes and materials; and

- (B) distribution of previously validated educational materials, including teacher manuals; and

- (ii) for vernacular speaking students, distribution of previously validated educational materials, including workbooks, teacher guides, bilingual classroom libraries and complementary educational materials in 14 indigenous languages.

(b) Carrying out of studies on:

- (i) systematization of knowledge, practices and histories of indigenous peoples for curriculum diversification and educational material development; and

- (ii) ethnographic issues related to classroom work, children's games and use of free time.

3. Rehabilitation and Equipping of Rural Schools.

(a) Rehabilitation and equipping of approximately 1,900 classrooms, and approximately 1,500 complementary facilities in the Project Area.

(b) Preventive maintenance of the classrooms and complementary facilities rehabilitated under Part B. 3 (a) of the Project.

Part C: Reform of Teacher Policy and Education Management

1. Teacher Policy Reform

(a) Design and implementation in the Project Area of a teacher career development system.

(b) Development and dissemination of guidelines, operating manuals, software and other instruments to share information on the teacher career development system established under Part C.1 (a) of the Project.

(c) Upgrading of MED's teacher management information systems.

(d) Carrying out of national and local workshops to involve teachers and other members of the educational community of the policy reforms pursued under this Part of the Project.

2. Reform of Education Management

(a) Increasing of school autonomy in the Project Area by:

(i) establishing, training and monitoring School Councils and School Network Councils; and

(ii) designing, implementing and disseminating school network institutional development plans, including participatory planning, management monitoring and evaluation instruments.

(b) Establishment and evaluation of rural school networks in the Project Area.

(c) Redefinition and institutional strengthening of DRE, and other regional or provincial offices of MED, in the Project Area in connection with schools, school networks, *Centros Amauta* and the overall education system.

(d) Fostering of community participation in the Project Area, by:

(i) developing and disseminating the concept of educational community involving a variety of stakeholders; and

(ii) incorporating community initiatives into the operation of School Councils, School Network Councils and the design of school network institutional development plans.

3. School Development Fund

Design, establishment and operation of a school development fund, to finance the design and implementation of improvement programs developed and managed by schools and school networks in the Project Area.

4. National Assessment System

Provision of technical assistance to MED for:

- (a) strengthening its technical capacity and promoting an assessment culture;
- (b) developing and administering the year 2004 national assessment in language, mathematics and social skills for primary and secondary education students;
- (c) developing and administering in 2004 a census-based assessment on: (i) mathematics and communication skills for second and sixth grades of primary education, and third and fifth grade of secondary education; and (ii) citizenship education on sixth grade of primary education and fifth grade of secondary education;
- (d) developing and administering in collaboration with the school networks a self-administered census-based application to assess mathematics and communication skills of students enrolled in sixth grade of primary schools, using the item bank developed by the UMC. These tests will be administered in schools of the Project Area in 2006;
- (e) carrying out a longitudinal study aimed at assessing trends in basic education in areas to be defined by the UMC;
- (f) carrying out a study on school effectiveness, aimed at complementing national assessment results and gathering knowledge on educational processes;
- (g) carrying out institutional research using available data; and
- (h) refurbishing of MED's statistical system to ensure timely collection and processing of educational data, and validation of school networks.

5. Policy-oriented Research

Carrying out of studies and strategic analysis in the areas of:

- (a) teacher career development;
- (b) decentralization and school autonomy;



- (c) strategies to provide demand incentives; and
- (d) intercultural components in the classroom.

6. Project Management

Project management by PCU, including the audits referred to in Section 4.01 (b) (i) of this Agreement and Project processes and impact evaluation.

\* \* \*

The Project is expected to be completed by June 30, 2007.

### SCHEDULE 3

#### Amortization Schedule

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

<u>Date Payment Due</u>	<u>Installment Share</u> <u>(Expressed as a percentage)</u>
On each April 15 and October 15	
beginning October 15, 2011 through October 15, 2016	8.33%
on April 15, 2017	8.37%

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

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

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

such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

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

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

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

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

## **SCHEDULE 4**

### **Procurement**

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

##### Part A: General

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

##### Part B: International Competitive Bidding

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

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

##### Grouping of contracts

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

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent but \$50,000 equivalent or more per contract, and not exceeding in the aggregate \$2,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

##### 2. Shopping

Goods and non-consultant services estimated to cost less than \$50,000 equivalent per contract, and not exceeding in the aggregate \$5,470,000 equivalent, may be procured

under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Infrastructure Subprojects shall be procured in accordance with the provisions of Paragraph 3.15 of the Guidelines, as described in more detail in the Operational Manual.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods, services and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to:

- (i) each contract for goods to be procured in accordance with the procedures referred to in Part B.1 above;
- (ii) each contract for goods estimated to cost \$200,000 or more and the first contract to be awarded each year regardless its estimated price to be procured in accordance with the procedures referred to in Part C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts to be procured in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

- (i) prior to the selection of the supplier, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

- (ii) prior to the execution of the contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines) and the following provisions of Sections II and III of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than \$350,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract, and not exceeding in the aggregate \$1,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 to 5.4 of Section V of the Consultant Guidelines, and not exceeding in the aggregate \$13,750,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph.

2. Prior Review

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

(b) With respect to each contract for the employment of consulting firms estimated to cost \$100,000 equivalent or more, the terms of reference, request of proposal, short list of the consulting firms to be invited, and evaluation reports shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) With respect to each contract for the employment of individual consultants estimated to cost \$50,000 equivalent or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than \$50,000 equivalent, the terms of reference shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

Section III. Special Provisions

A. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Guidelines, the following provisions shall govern all procurement of goods under Part C.1 of Section I of this Schedule:

1. No reference value shall be required for publication in the bidding documents.
2. Award of contracts shall be based exclusively on price and, whenever appropriate, shall take into account factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
3. The Borrower shall utilize standard bidding documents satisfactory to the Bank.

B. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Consultant Guidelines, the following provisions shall govern all employment of consultants referred to in Section II of this Schedule:

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
2. No reference value shall be required for publication in the proposal documents.



3. No minimum number of responsive proposals shall be required prior to awarding a contract for consulting services.
  
4. Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participating in the selection process.

## **SCHEDULE 5**

### **Special Accounts**

1. For the purposes of this Schedule:
  - (a) the term “Eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the Project;
  - (b) the term “Eligible Expenditures” means expenditures in respect of the reasonable cost of goods and services and Operating Costs required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means: (a) in respect of the FONCODES Special Account, an amount equivalent to \$700,000 to be withdrawn from the Loan Account and deposited into the FONCODES Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$350,000; until the aggregate amount of withdrawals from the Loan Account of amounts allocated to said Special Account’s Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of \$1,500,000; and (b) in respect of the MED Special Account, an amount equivalent to \$4,000,000 to be withdrawn from the Loan Account and deposited into the MED Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$1,500,000; until the aggregate amount of withdrawals from the Loan Account of amounts allocated to said Special Account’s Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of \$4,500,000.
2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective Special Account of an

amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective 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 respective 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 respective 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 respective 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 any Special Account:

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

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

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

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

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

(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.

