

CONFORMED COPY

LOAN NUMBER 7128-LT

Loan Agreement

(Education Improvement Project)

between

Republic of Lithuania

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 29, 2002

LOAN NUMBER 7128-LT

LOAN AGREEMENT

AGREEMENT, dated July 29, 2002, between The REPUBLIC OF LITHUANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated April 11, 2002 from the Borrower describing a program involving policies and actions designed to achieve reforms in the Borrower's education sector;

WHEREAS (B) 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;

WHEREAS (C) the Borrower through MES intends to receive technical assistance to implement the Project upon terms and conditions set forth in an agreement to be entered into between the MES and the University of Helsinki;

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) "Basic Education" means the education services provided in the Borrower's territory to students grades five through ten of schooling;

(b) "EMP" means the Environmental Management Plan for the Project, satisfactory to the Bank, describing the environmental issues, mitigation, monitoring and institutional measures for the Project;

(c) "Euro" or sign means the lawful currency of the member States of the European Union that have adopted the single currency in accordance with the Treaty Establishing the European community, as amended by the Treaty on European Union;

(d) "HUDF" means the Housing and Urban Development Foundation, a public institution operating pursuant to its by-laws approved by Resolution No. 202 of the Minister of Finance of the Borrower, dated July 29, 1999 and registered in the City of Vilnius on August 5, 1999 (Registration No. VS97-138);

- (e) “MES/Helsinki University Agreement” means the agreement to be entered into by the Borrower through MES and the University of Helsinki to provide technical assistance to MES;
- (f) “MES” means the Ministry of Education and Sciences of the Borrower;
- (g) “MOF” means the Ministry of Finance of the Borrower;
- (h) “Implementation Agreement” means the tripartite agreement to be entered into between the Borrower, MES and HUDF pursuant to Section 3.02 (a) of this Agreement;
- (i) “Operational Manual” means the manual satisfactory to the Bank and adopted by MES and HUDF setting forth the operational and administrative procedures for the implementation of Part C of the Project;
- (j) “Participating Municipality” means the municipality selected by MES according to criteria set forth in the Project Implementation Plan for purposes of carrying out Subproject;
- (k) “Participating County” means a county selected by MES according to the criteria set forth in the Project Implementation Plan for purposes of carrying out a Subproject;
- (l) “Project Implementation Plan” means the document, satisfactory to the Bank, describing the criteria and procedures for implementation of the Project, as the same may be amended from time to time by agreement between MES and the Bank;
- (m) “Policy Analysis Group” means a group of professionals established by MES Minister’s Order No. 419 dated March 19, 2002;
- (n) “Project Coordination Unit” means a unit established to support MES with the coordination and management of the Project;
- (o) “Subproject” means any of the activities that will be implemented by the Municipalities and or Counties in implementing the Project;
- (p) “Subproject Grant Agreement” means the agreement to be entered into between MES, HUDF and the Participating Municipality or Participating County to implement the Subproject in accordance with Section 3.02 (b);
- (q) “Subproject Implementation Agreement” means the agreement to be entered into between MES and the Participating Municipality or Participating County to implement the Subproject;
- (r) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement;

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty nine million Euros (29,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works 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) The Borrower may, for the purposes of the Project open and maintain in Euros two separate special deposit accounts to be designated (the MES Special Account for Parts A, B, D and E of the Project and the HUDF Special Account for Part C of the Project) in the Bank of Lithuania (Central Bank) on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006 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 (290,000). The Borrower agrees 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: (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 other charges shall be payable semiannually in arrears on May 15 and November 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 with due diligence and efficiency and in conformity with appropriate administrative, financial, educational and pedagogical practices, and in accordance with the Project Implementation Plan, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall enter into an Implementation Agreement with MES

and HUDF satisfactory to the Bank to implement, monitor and evaluate the Project.

(b) MES and HUDF shall on behalf of the Borrower enter into a Subproject Grant Agreement with each Participating Municipality and or Participating County to make part of the proceeds of the Loan and MES counterpart funds available to the Participating Municipality and or Participating County on a grant basis to carry out the corresponding activities of Part C of the Project.

(c) MES shall on behalf of the Borrower enter into a Subproject Implementation Agreement with each Participating Municipality or Participating County.

(d) The Borrower shall exercise its rights under each Subproject Implementation Agreement and Subproject Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by

independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Financial Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations, the Borrower shall prepare and furnish to the Bank a financial monitoring report (FMR), 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 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, namely, that:

(a) the Participating Municipalities and/or Participating Counties shall have failed to perform any of their obligations under the Subproject Implementation Agreement and Subproject Grant Agreement;

(b) the HUDF shall have failed to perform any of its obligations under the Implementation Agreement and/or Subproject Grant Agreement;

(c) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Participating Municipalities and/or Participating Counties or HUDF will be able to perform their obligations under their respective Agreements;

(d) The legislation of the Borrower setting up the municipalities and/or counties shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Participating Municipalities and/or Participating Counties to perform any of their obligations under the Subproject Implementation Agreement and or Subproject Grant Agreement;

(e) The MES/Helsinki University Agreement shall have failed to become effective by August 1, 2002, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if MES establishes to the satisfaction of the Bank that similar technical assistance for the Project is available to MES from other sources on terms and conditions consistent with the obligations of MES under this Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of MES to receive technical assistance shall have been

suspended, canceled or terminated in whole or in part,
terms of the MES/University of Helsinki
pursuant to the
Agreement or,

agreed (B) any such loan shall have become due and payable prior to the
maturity thereof.

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

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

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

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

(a) any events specified in paragraphs (a) (b) (d) and (e) Section 5.01 of this
Agreement shall occur; and

(b) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement
shall occur, subject to the proviso of paragraph f (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The date 90 days after the date of this Agreement 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 (MOF) 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:

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 EURO Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) (a) Civil works, Design & Supervision Services for Part C of the project	17,900,000	100%
(b) Small civil works, Design and Supervision Services for Part D of the project	750,000	82%
(2) Goods, Vehicles	7,000,000	100% of foreign expenditures, 100% of local expenditures ex-factory cost 82% of local expenditure for other items procured locally.
(3) Consultants' Services, Seminars and Publishing	830,000	82%
(4) Front end fee	290,000	
(5) Premia for Interest Rate Cap and Interest Rate Collar	0	Amount due under sec 2.09(c) of this Agreement
(6) Unallocated	2,230,000	
TOTAL	29,000,000	

2. For purposes of this Schedule:

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

country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statement of expenditures for: (a) goods under contracts costing less than 115,000 equivalent each; (b) consultants’ services under contracts with consulting firms costing less than 115,000 equivalent each; (c) consultants services under contracts with individuals costing less than 28,500 equivalent each all under such terms and conditions as the Bank shall specify by notice to the Borrower; (d) works under contracts costing less than 850,000 equivalent each; and (e) all seminars and publishing costs.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) payments made for expenditures prior to the date of this Agreement; (ii) Category 1(a) of the table in paragraph 1 of this part unless the Bank is satisfied that the respective Subproject Grant Agreement has been signed by the parties thereto and that the financial contribution amounting to approximately 50% of the total cost of each Subproject for Part C from the Municipality and MES has been fully utilized, and (iii) payments made for expenditures for Category 1(a) of the table in paragraph 1 of this part until an Implementation Agreement satisfactory to the Bank has been entered into and signed by the parties thereto.

SCHEDULE 2

Description of the Project

The objectives of the Project are to enhance and improve the quality of teaching and learning in basic schools, create a modern system of quality education management, and improve energy efficiency and the learning conditions and environment in schools.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Enhancing Quality Learning and Teaching in Basic Schools

1. upgrading of teachers’ skills and knowledge in teaching through training;
2. providing basic education teaching aids to meet the demands of the new curriculum; and
3. creating a community of learners among teachers and students through the use of information and communication technologies and the internet.

Part B: Creating a Modern System of Education Quality Management

1. establishing a Policy Analysis Group (PAG) responsible for developing the internal capacity of MES to conduct policy analysis by provision of technical assistance and training;
2. strengthening education management information systems through provision of upgraded information systems, technical assistance and training;
3. enhancing the national capacity for systematic assessment of students' achievements through technical assistance and training; and
4. establishing a system of internal and external audit of schools through technical assistance and training.

Parts C: Improving of Energy Efficiency, Learning Environment and Conditions in Schools

1. improving the efficiency of engineering networks, through interventions for enhancing the performance of heating and ventilation systems;
2. improving hygiene conditions; and
3. providing handicapped access facilities to enable integration of disabled children into the school system; and refurbishing libraries.

Parts D: Promoting the optimization of the Municipalities' school network by:

1. developing MES capacity to assist local governments to implement a program for optimizing the local government school network;
2. assisting municipalities in the preparation and implementation of school network optimization plans through school closures and amalgamation, and at pilot municipalities retraining of redundant teachers, provision of additional teaching aids and small civil works to enhance school infrastructure of receiving schools;
3. assisting municipalities in organizing student transportation to ensure universal access to basic education; and
4. preparing a uniform monitoring system for accounting of saved funds obtained from energy efficiency and network optimization interventions to be utilized for education quality improvement programs.

Parts E: Supporting Project Management

Strengthening the procurement, financial management and communication capacity of

the PCU.

* * *

The Project is expected to be completed by December 31, 2005.

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 May 15 and November 15 Beginning November 15, 2007 Through November 15, 2018	4.17 %
On May 15, 2019	4.09%

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

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

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

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

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

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

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

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

3. Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost 850,000 equivalent or less per contract, up to an aggregate amount not to exceed 41,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under (a) above shall be those set forth in the Law on the Amendment of the Law on Public Procurement, 13 August, 1996, No. I-1491 (as amended by 3 June, 1999, No. VIII-1210, 21 March, 2000, No. VIII-1577) of the Republic of Lithuania with the following required for compliance with the Guidelines:

(i) no preference of any kind shall be given to national bidders. Any regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Loan;

(ii) When distributing standard bidding documents (SBD):

(A) only those SBDs deemed satisfactory to the Bank shall be distributed to eligible bidders; and

(B) eligible foreign bidders shall be entitled to receive English translated SBDs at no additional cost.

(iii) custom duties may be included in the foreign bidders' bids only for price comparison purposes;

(iv) bid prices, which are defined as disproportionately high or low, shall not be treated as a condition for bid rejection except in justifiable cases with the Bank's prior concurrence;

(v) evaluation of bids shall be based on quantifiable criteria, clearly defined in the bidding document and not the decision of the Evaluation Committee which is based on a majority vote with open ballot; and

(vi) preliminary order of bids and the reasons for bids rejection shall not be communicated to bidders until the official decision for award of contract has been made and approval of the recommendation for award by the Bank in case of prior review.

2. International or National Shopping

(a) International Shopping

Goods estimated to cost 115,000 equivalent or less per contract, up to an aggregate amount not to exceed 440,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) National Shopping

Goods estimated to cost 57,000 equivalent or less per contract, up to an aggregate amount not to exceed 235,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which are of a proprietary nature such as books, publications and software and costing 56,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost 57,000 equivalent or less per contract, up to an aggregate amount not to exceed 2,900,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest evaluated price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and

works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract: (i) for goods and works procured in accordance with international competitive bidding procedures; (ii) the first two contracts procured in accordance with national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts procured in accordance with international shopping procedures; (ii) the first two contracts procured in accordance with national shopping procedures; (iii) the first two contracts procured for small works; and (iv) all contracts procured in accordance with direct contracting procedures, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received, for its review and approval;
- (ii) prior to the execution of any contract procured under direct contracting, the Borrower shall provide to the Bank a copy of the specifications and the draft contract for its review and approval; 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 and January 1999 (the Consultant Guidelines) and the following provisions of Section II 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 for services estimated to cost less than 230,000 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. Least-cost Selection

Services for auditing estimated to cost up to an aggregate amount not exceeding 98,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost 115,000 equivalent or less per contract, to an estimate aggregate 505,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single-Source Selection

Services for assistance in development of optimization of school network and transportation methods which are a continuation of the services under the preparation of the Project and costing 20,800 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.8 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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: (i) the first contract regardless of the cost thereof; (ii) the first two contracts based on the consultants' qualifications, (iii) all contracts based on least cost selection; (iv) all single source contracts; and (v) all quality and cost-based selection contracts of consultants, the procedures set forth in paragraphs 1, 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost above 28,500 equivalent, 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.

(c) Notwithstanding the provisions of sub-paragraph (a) and (b) above, for all contracts not subject to prior review, the short list, Terms of Reference and conditions of the contract shall be furnished to the Bank for its prior review and approval.

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) and (b) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and

setting out the measures recommended to ensure the efficient carrying out of the Project, protection of the environment and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by May 31, 2004, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, 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 report and the Bank's views on the matter.

2. In carrying out Part C of the Project, the Borrower shall ensure:

(a) that the schools to be selected meet the criteria set out in the Operational Manual; and

(b) that all measures necessary and satisfactory to the Bank for the carrying out of the EMP are taken in a timely manner and appropriately documented in the progress reports referred to in paragraph 2(b) of this Schedule; and if necessary, adjustments which the Bank and the Borrower deem appropriate may be made in the EMP to protect human health and the environment.

3. The Borrower shall also:

(a) maintain the PCU with adequate staff and resources to enable the PCU to coordinate Project activities and ensure that Project resources are appropriately managed;

(b) maintain a Policy Analysis Group with adequate staff and resources to monitor, evaluate and report on educational policies, plans and programs and provide reliable and accurate information on the education formulation process;

(c) maintain policies and procedures adequate to monitor and evaluate on an ongoing basis, the carrying out of the Project objectives and achievements;

(d) ensure the PCU's prepares and furnishes to the Bank quarterly reports on Project progress; and

(e) submit to the Bank, not later than December 15 of each year, an Annual Action Plan and a Procurement Plan.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means in the case of the MES Special Account Categories (1)(b), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and in the case of the HUDF Special Account, Category (1) (a) set forth in said table;

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

(c) the term “Authorized Allocation” means with respect to the MES Special Account an amount equivalent to 1,000,000 and in respect to the HUDF Special Account an amount equivalent to 2,000,000, to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of 500,000 in respect of the MES Special Account and an amount equivalent to 1,000,000 in respect of the HUDF Special Account until: (i) with respect to the MES Special, the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of 5,000,000; and (ii) with respect to the HUDF Special Account, the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of 9,000,000.

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

para-graph 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 for (i) Parts A, B, D and E; and (ii) Part C of the Project minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts (i) A, B, D and E; and (ii) Part C of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation for each Special Account. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for (i) Parts A, B, D and E; and (ii) Part C of the Project 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.

