

CONFORMED COPY

LOAN NUMBER 7032-PAN

Loan Agreement

(Second Basic Education Project)

between

REPUBLIC OF PANAMA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated January 24, 2001

LOAN NUMBER 7032-PAN

LOAN AGREEMENT

AGREEMENT, dated January 24, 2001, between the REPUBLIC OF PANAMA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS by an agreement dated April 3, 1996 between the Borrower and the Bank (the Basic Education Project Loan Agreement), the Bank agreed to make a loan to the Borrower in a principal amount of \$35,000,000 to assist in financing the Basic Education Project on terms and conditions set forth in the Basic Education Project Loan Agreement;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) "Basic Education" means the public education services provided in the Borrower's territory for Pre-School Education (as defined hereinafter), for Primary Education (as defined hereinafter), and for Lower Secondary Education (as defined hereinafter);

(b) "CEFACEI" means a Centro Familiar y Comunitario de Educación Inicial, any one of the Borrower's Community and Family Centers for Initial Education;

(c) "CEFACEI Program" means Programa del Centro Familiar y Comunitario de Educación Inicial, the Borrower's program to operate Community and Family Centers for Initial Education established pursuant to the Borrower's Decree No.266 of October 6, 1995;

(d) "Construction Implementation Agreement" means the agreement to be entered into between the Borrower and the Construction Implementing Entity (as defined hereinafter) pursuant to Section 3.05 of this Agreement;

(e) "Construction Implementing Entity" means the entity referred to in Section 3.05 (a) of this Agreement;

(f) "Eligible Categories" means categories (1), (2), (3), (4), and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(h) "Home-Based Initial Education Program" means Programa de Educación Inicial en el Hogar (Programa Madre a Madre), MIEDUC's program to train parents in better child education methods;

(i) "IFARHU" means Instituto para la Formación y Aprovechamiento de Recursos Humanos, the Borrower's Institute for Human Resources Development, established pursuant to Decree No.1, published in the Borrower's Official Gazette of January 12, 1965;

(j) "IFARHU Agreement" means the agreement to be entered into between the Borrower and IFARHU pursuant to Section 3.04 of this Agreement;

(k) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank which sets forth the Project monitoring indicators referred to in Section 3.09 of this Agreement;

(l) "Lower Secondary Education" means Educación Pre-media, the public education services provided in the Borrower's territory for the seventh through ninth grades of schooling;

(m) "MIEDUC" means Ministerio de Educación, the Borrower's Ministry of Education;

(n) "Operational Manual" means the manual referred to in Section 3.11 of this Agreement;

(o) "Pre-School Education" means Educación Pre-Escolar, the public education services provided in the Borrower's territory for children aged four and five years old;

(p) "Primary Education" means Educación Primaria, the public education services provided in the Borrower's territory for the first through sixth grades of schooling;

(q) "PCU" means the unit within MIEDUC established under Ministerial Resolution No. 768 of July 1, 1997 to be amended as required under Section 5.01 (e) of this Agreement;

(r) "Project Management Committee" means the Borrower's Project management committee referred to in Section 3.07 of this Agreement;

(s) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(t) "Revolving Fund" means the fund referred to in Section 3.01 (b) of this Agreement and established by the Borrower in the Banco Nacional de Panama, under the Basic Education Project;

(u) "Secondary Education" means Educación Media, the Borrower's public education services provided in the Borrower's territory for the tenth through twelfth grades of schooling; and

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

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to IFARHU and the Construction Implementing Entity, as the case may be.

## 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 thirty-five million Dollars (\$35,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and consultants' services required for Parts A.1, A.3, A.4, B, and C of the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be June 30, 2005 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 per cent (1%) of the amount of the Loan. Such fee shall be payable not later than sixty (60) days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty-five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 (b) 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, at a rate for each Interest Period equal to the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

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

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

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

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

outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

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

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower and the Bank hereby agree that unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.10. The Minister of Education and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end: (i) shall carry out Parts A.1, A.3, B and C of the Project through MIEDUC; (ii) shall carry out Part A.4 of the Project through MIEDUC with the assistance of the Construction Implementing Entity; and (iii) shall cause IFARHU to carry out Part A.2 of the Project, all with due diligence and efficiency and in conformity with appropriate financial, administrative, environmental, technical and educational practices, 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) above, the Borrower shall operate and maintain throughout the course of project implementation, the Revolving Fund with at least \$250,000 equivalent in counterpart funds for the Project for purposes of the implementation of the Project.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' and other 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.

(b) The Borrower, through MIEDUC, shall, not later than March 31 of each year, starting as of March 31 2002, throughout the course of Project implementation, furnish to the Bank a report, of such scope and in such detail as the Bank shall request, by auditors acceptable to the Bank, on the compliance with the procurement procedures for the Project during the year in question.

Section 3.03. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall provide, through MIEDUC, evidence satisfactory to the Bank, by no later than January 31 of each year during Project implementation, starting as of January 31, 2001, that sufficient resources have been allocated in the Borrower's annual budget to cover all the counterpart funding requirements under this Project for the year in question.

Section 3.04. (a) For the purposes of Section 3.01 (a) (iii) above, the Borrower, through MIEDUC, shall enter into an agreement with IFARHU (the IFARHU Agreement), under terms and conditions satisfactory to the Bank, providing, inter alia, for: (i) the transfer of non-Loan proceeds counterpart funds to IFARHU on a grant basis and the provision of facilities, services and other resources to IFARHU, required to enable IFARHU to carry out Part A.2 of the Project; and (ii) the obligation of IFARHU to carry out such Part of the Project in accordance with the terms and conditions set forth in this Agreement and in the Operational Manual, including the obligation to keep separate records and accounts of operations, services, and expenditures related to such Part of the Project and to provide to the Borrower the information necessary to enable the Borrower to comply with its obligations under Sections 4.01 and 4.02 of this Agreement.

(b) The Borrower, through MIEDUC, shall exercise its rights and carry out its obligations under the IFARHU 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, terminate, waive or fail to enforce the IFARHU Agreement or any provision thereof.

Section 3.05. (a) For the purposes of Section 3.01 (a) (ii) above, the Borrower, through MIEDUC, shall enter into an agreement with an entity selected by MIEDUC and acceptable to the Bank, (the Construction Implementation Agreement), under terms and conditions satisfactory to the Bank, providing, inter alia, for : (i) the transfer of Loan proceeds to the Construction Implementing Entity on a grant basis and the provision of facilities, services, and other resources to the Construction Implementing Entity required to enable the Construction Implementing Entity to assist MIEDUC in carrying out Part A.4 of the Project; and (ii) the obligation of the Construction Implementing Entity to carry out such Part of the Project in accordance with the terms and conditions set forth in this Agreement and in the Operational Manual, and to provide the Borrower with the information necessary to enable the Borrower to comply with its obligations under Sections 4.01 and 4.02 of this Agreement.

(b) The Borrower, through MIEDUC, shall exercise its rights and carry out its obligations under the Construction Implementation 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, terminate, waive or fail to enforce the Construction Implementation Agreement or any provision thereof.

Section 3.06. The Borrower, through MIEDUC, shall maintain, during the course of Project implementation, the PCU with the responsibility for the management, coordination, monitoring, supervision and evaluation of the Project, with a structure and functions satisfactory to the Bank, and staff (including a Project coordinator and a procurement specialist) with qualifications and experience satisfactory to the Bank.

Section 3.07. The Borrower, through MIEDUC, shall establish not later than six months after the Effective Date, and thereafter maintain, during the course of Project implementation, a Project management committee (the Project Management Committee) within MIEDUC, to assist the PCU in monitoring, supervising, and evaluating the Project, such committee to have a structure and functions satisfactory to the Bank, and to include among its members: the Borrower's Vice-Minister of Education, the PCU Project coordinator, the Borrower's General Director of Education and heads of the units in MIEDUC involved in the implementation of the Project.

Section 3.08. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 3.09. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the Implementation Letter, 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 January 31 of each year throughout the course of Project implementation, starting as of January 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar year preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by not later than March 31 of each year throughout the course of Project implementation, or such later date as the Bank shall request, starting as of March 31, 2002 the relevant 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.

Section 3.10. The Borrower, through MIEDUC, shall: (a) prepare by not later than December 15 of each year throughout the course of Project implementation, starting as of December 15, 2001, an action plan satisfactory to the Bank, said plan to include the annual work program for the implementation of the Project for the following calendar year; and (b) thereafter carry out, or cause to be carried out, said plan in accordance with its terms.

Section 3.11. The Borrower, through MIEDUC, shall carry out the Project, or shall cause the Project to be carried out, in accordance with an operational manual satisfactory to the Bank, said manual to provide key instruments for the execution and coordination of the Project, including: (a) procurement and financial management procedures; and (b) strategies to address, in a culturally appropriate manner, indigenous peoples concerns in the implementation of the Project, ensure adequate participation of indigenous peoples communities both as participants and beneficiaries of the Project, and introduce appropriate curricula to facilitate literacy and acquisition of basic educational skills for children of indigenous peoples communities while preserving their cultural values and identities. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

#### ARTICLE IV

##### Financial Covenants

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

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than 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 Project Management Reports or 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 Project 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 provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than June 30, 2001, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. The Borrower shall not later than 60 days after the Effective Date contract the auditors referred to in Section 4.01 (b) of this Agreement under terms and conditions satisfactory to the Bank.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) the IFARHU Agreement and the Construction Implementation Agreement, as the case may be, have been entered into between the respective parties thereto;
- (b) the Borrower has provided evidence that the financial management system referred to in Section 4.01 of this Agreement is in place and operational;
- (c) the Borrower has issued the Operational Manual;
- (d) the Borrower has furnished to the Bank evidence satisfactory to the Bank that the Borrower is authorized to continue to operate the Revolving Fund throughout the course of Project implementation; and
- (e) the Borrower has furnished to the Bank evidence satisfactory to the Bank that the PCU is authorized to remain operational throughout the course of Project implementation.

Section 5.02. The date March 5, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10 of this Agreement, 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Economía y Finanzas  
Dirección de Crédito Público  
Via España, Calle 52  
Edificio OGAWA 4 Piso  
Panamá, República de Panamá

Facsimile:

(507) 223-1405

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

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

REPUBLIC OF PANAMA

By /s/ Norberto R. Delgado Durán

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Claudia Costin

Acting Regional Vice President  
Latin America and the Caribbean

AGREED:

CONTRALORIA GENERAL DE LA REPUBLICA

By /s/ Alvin Weeden Gamboa  
Authorized Representative

#### SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the



proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works	10,000,000	80%
(2) Goods (other than educational materials)	8,640,000	100% of foreign expenditures and 90% of local expenditures
(3) Educational materials, including printing services	7,000,000	100% of foreign expenditures and 90% of local expenditures
(4) Consultants' services, training and audits referred to in Part C.3 of the Project	4,300,000	100%
(5) Operating costs	1,700,000	80%
(6) Unallocated	3,360,000	
TOTAL	35,000,000	

2. For the purposes of this Schedule:

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

(c) the term "educational material" means textbooks, teachers' and students' guides and library books to be provided by the Borrower under the Project;

(d) the term "training" means the expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including travel costs and per diem of trainees, study tours, rental of facilities and equipment, and training materials; but excluding consultant fees;

(e) the term "operating costs" means expenditures incurred by the Borrower in operational, maintenance (including maintenance of vehicles and PCU computer equipment), travel and per diem costs for PCU staff, and administrative costs (including employment of administrative PCU staff) that would not have been incurred absent the Project; and

(f) the term "printing services" means the expenditures incurred by the Borrower for the printing and production of printed educational and training materials under the Project.

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

(a) payments made for expenditures prior to the date of this Agreement; and

(b) any Category set forth in the table in paragraph 1 of this Schedule unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods; (b) works; (c) consultant services of firms; (d) individual consultant services; (e) training activities; and (f) operating costs, that are not subject to prior review by the Bank pursuant to Sections I and II, Part D.2, of Schedule 4 to this Agreement under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in the Banco Nacional de Panama, on terms and conditions satisfactory to the Bank.

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

(a) until the Bank shall have received (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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 (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

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

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

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

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

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

for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account  
When Withdrawals Are Not Made  
On the Basis of Project Management Reports

1. For the purposes of this Annex the term "Authorized Allocation" means the amount of \$2,700,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

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

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

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

Annex B to SCHEDULE 1

Operation of Special Account  
When Withdrawals Are Made  
On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed \$7,200,000.

## Description of the Project

The objectives of the Project are to: (a) improve the quality and efficiency of Basic Education in the territory of the Borrower and, in particular, to improve equity of access to Basic Education; (b) expand the coverage of Pre-school Education through community-based non-formal education models; and (c) strengthen the planning, supervision and policy-making capacity of MIEDUC.

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: Improvement of Quality and Efficiency of Basic Education

1. Provision of: (a) reading and other educational materials to all students attending Primary Education (multigrade classes and bilingual courses taught in Spanish language and an indigenous peoples' communities native language) and Lower Secondary Education schools; and (b) appropriate related training to teachers of such schools.
2. Carrying out of an expanded scholarship program for Primary Education and Lower Secondary Education students selected on the basis of poverty criteria (including students from rural backgrounds and/or members of indigenous peoples communities).
3. Design, operation, equipping and testing on a pilot basis a distance learning Basic Education model (Telebasica) for Lower Secondary Education in poor rural areas where there are no Secondary Education schools.
4. Rehabilitation and maintenance of existing educational infrastructure in geographic areas selected by the Borrower.

### Part B: Expansion of Non-Formal Pre-School Education Program

1. Expansion of the coverage of Pre-School Education through the implementation of the CEFACEI Program and the Home-Based Initial Education Program in selected communities, including communities in rural, marginal urban and indigenous areas.
2. Provision of training to the community educators of CEFACEI, the parent leaders participating in the Home-Based Initial Education Program, as well as to the supervisors of such leaders.
3. Study and implementation of improvements to the Home-Based Initial Education Program by, for example, studying and testing the possibility of introducing indigenous language materials and promoting the involvement of fathers and other members of the community.

### Part C: Institutional Strengthening

1. Provision of technical assistance and training to strengthen MIEDUC's planning, administrative and financial management, supervision and policy-making capacity at central, regional and provincial levels, through, for example, providing support to workshops with central, regional and provincial education officials to define the operational structure and functions to be performed at each level, and to expand community participation in the management of schools.
2. Provision of technical assistance to support: (a) the ongoing implementation of a management information system for the MIEDUC to improve sector planning and personnel management and establish linkages between the various levels of administration of the public education sector; and (b) the implementation of a national assessment system to measure student achievement levels at the third and sixth grade levels of schooling.
3. Supervise, administer, and audit the Project.

\* \* \*

The Project is expected to be completed by December 31, 2004.

## 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.

Payment Date	Installment Share (Expressed as a %)
On each April 15 and October 15	
Beginning October 15, 2005 through April 15, 2015	5%

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

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

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

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

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

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

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

#### SCHEDULE 4

#### Procurement

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

Part A: General

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

Part B: International Competitive Bidding

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

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

(a) Two-stage Bidding Procedure

The bidding procedure for textbooks, teachers' and students' guides and library books shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Guidelines.

(b) Preference for Domestically Manufactured Goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$9,800,000 equivalent, and goods estimated to cost less than \$250,000, up to an aggregate amount not to exceed \$9,760,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,430,000 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

Textbooks selected by MIEDUC in consultation with the Bank, under contracts estimated to cost \$4,440,000 equivalent or less in the aggregate, and works in isolated rural areas where effective competition is not possible under contracts estimated to cost \$30,000 equivalent or less, per contract, up to an aggregate amount not to exceed \$200,000 equivalent, 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 less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation 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 procured in accordance with Part B.1 above and the first two contracts procured in accordance with 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 contracts for computers, training materials, printing and distribution services, and school furniture to be procured in accordance with the procedures referred to in Part C.2 above and with respect to contracts for textbooks and works estimated to cost less than \$30,000 to be procured in accordance with the procedures referred to in Part C.3 above, the following procedures shall apply:

(i) prior to the execution of the first two contracts each year under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of the first two contracts each year procured under shopping procedures, contracts for works procured under direct contracting, and contracts for books procured under direct contracting, 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 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 \$40,000 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. Quality-based Selection

Services for the implementation of the Project other than services for supervision of works and financial and procurement audits up to an aggregate amount of \$1,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

#### 2. Selection Under a Fixed Budget

Services for supervision of works, financial and procurement audits and training

up to an aggregate amount of \$4,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection

Services for supervision of works, financial and procurement audits and training estimated to cost less than \$200,000 equivalent per contract up to an aggregate amount of \$4,000,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and estimated to cost \$50,000 equivalent or less, up to an aggregate amount of \$1,000,000 shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) 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 the equivalent of \$50,000 or more and for those to be employed by the PCU, regardless of the cost of the contract, 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) With respect to each contract for the employment of individual consultants estimated to cost less than \$50,000 equivalent, the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 to any other provisions set forth in this Schedule or the Guidelines, the following principles of procurement shall expressly govern all procurement of goods and works referred to in Part B.1 of Section I of this Schedule:

1. Foreign bidders shall not be required to:

- (a) have a local representative for purposes of submitting bids;
- (b) be registered with local authorities as a prerequisite for bidding; and
- (c) be associated with local contractors or suppliers.

2. Bids may be:



(a) submitted at any reasonable time before bid opening, either by mail or courier or in person; and

(b) accompanied by a bid security in the form and amount specified in the standard bidding documents.

3. No provisional award shall be made at the time of bid opening.

4. No minimum number of bids shall be required as a condition to award a contract.

5. Contracts shall be awarded to the bidder whose bid has been evaluated as the lowest responsive bid, in accordance with criteria clearly set forth in the standard bidding documents.

6. After contract award, performance securities shall be provided within the time period, and in form and amount specified in the standard bidding documents.

B. In addition and without limitation to any other provisions set forth in this Schedule or the Guidelines, the following principles of procurement shall expressly govern all procurement of goods and works referred to in Part C.1 of Section I of this Schedule:

1. Bids may be:

(a) submitted at any reasonable time before bid opening, either by mail or courier or in person; and

(b) accompanied by a bid security in the form and amount specified in the standard bidding documents.

2. No provisional award shall be made at the time of bid opening.

3. No minimum number of bids shall be required as a condition to award a contract.

4. Contracts shall be awarded to the bidder whose bid has been evaluated as the lowest responsive bid, in accordance with criteria clearly set forth in the standard bidding documents.

5. Contracts for civil works shall provide for mobilization advances, whenever appropriate.

6. After contract award, performance securities shall be provided within the time period and in the form and amount specified in the standard bidding documents.

7. Price adjustment provisions, acceptable to the Bank, may be included in work contracts.

C. In addition to and without limitation to any other provisions set forth in this Schedule or the Consultant Guidelines, the following principles of procurement shall expressly govern all procurement of consultants' services referred to in Section II of this Schedule:

1. Foreign consultants shall not be required to:

(a) be locally registered as a condition of participation in the selection process;

(b) give any participation in or share of any consulting contracts to any local firm or person for the purposes of participating in the selection process or receiving an award, except in connection with a joint venture arrangement where: (i) a sufficient number of capable domestic firms or individual consultants exist to allow a foreign consultant reasonable freedom of choice; (ii) the contribution of either party to the joint venture arrangement will not be constrained by any prescribed manner or extent of participation; and (iii) the foreign consultant is not required to associate itself with any specific named domestic firms or individual consultants;

(c) furnish any certificate issued by a local authority about their legal capacity or tax status for the purposes of submitting a proposal; and

(d) personally submit their proposals.

2. Consultants shall be selected from a short list of firms invited to submit proposals on the basis of terms of reference, employment conditions and evaluation criteria clearly set forth in the respective letter of invitation.

