

CONFORMED

LOAN NUMBER 7190-PA

Loan Agreement

(Education Reform Project)

between

REPUBLIC OF PARAGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 10, 2003

LOAN NUMBER 7190-PA

LOAN AGREEMENT

AGREEMENT, dated September 10, 2003, between the Republic of Paraguay (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated May 28, 2003, describing a program designed to improve the quality, efficiency and access to education (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Bank support the Borrower's execution of the Program through a series of loans over a period of approximately six years to be utilized by the Borrower in the implementation of the Program; and

(C) 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, with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and

the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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) "ACE" means *Asociación de Cooperación Escolar*, a school parents' association;

(b) "Administrative Manual" means the Borrower's manual, satisfactory to the Bank, which sets forth the functions and responsibilities of the PCU including *inter alia*: (i) planning, programming and approving Project expenditures and implementation procedures; (ii) coordination of Project activities with the units and departments within MEC assisting in the implementation of the Project; (iii) planning and management of the procurement and disbursements procedures to be followed under the Project; and (iv) coordination of the contents of the reports and plans to be furnished by the Borrower, through MEC, to the Bank under the Project;

(c) "BCP" means *Banco Central del Paraguay*, the Borrower's Central Bank;

(d) "CDE" means *Consejo Departamental de Educación*, a departmental education council within MEC;

(e) "CDS" means *Comisión Departamental de Supervisión*, a departmental supervision commission within MEC;

(f) "CRA" means *Centro de Recursos de Aprendizaje*, a learning resource center;

(g) "*Departamento*" means department, an administrative subdivision of the Borrower's national territory;

(h) "Eligible ACE's" means a parents' association affiliated with an Eligible School;

(i) "Eligible School" means a public school offering Secondary Education in Paraguay which meets the eligibility criteria set forth in the Operational Manual;

(j) "Eligible Social Community Subproject" or "PSP" means a specific subproject designed under Part B.2 (b) of the Project, which meets the eligibility criteria

set forth in the Operational Manual, including the acquisition and utilization of goods and services required therefor, all for the benefit of an Eligible School;

(k) "Eligible School Development Plan" or "PEI" means a specific institutional plan designed under Part B.2 (a) of the Project, which meets the eligibility criteria set forth in the Operational Manual, including the acquisition and utilization of goods and services required therefor, all for the benefit of an Eligible School;

(l) "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(m) "FY" means the Borrower's fiscal year commencing on January 1 and ending on December 31;

(n) "Guaraní or G\$" means the lawful currency of the Borrower;

(o) "IFD" means *Instituto de Formación Docente*, a teacher training institute;

(p) "Implementation Letter" means the letter of even date herewith from the Borrower to the Bank setting forth the Project monitoring indicators;

(q) "Inter-Institutional Agreement" means any of the agreements referred to in Section 3.01 (b) (i) of this Agreement;

(r) "Law Decree No. 9.470" means *Decreto Ley* No. 9.470 of the Borrower dated July 9, 1945 which established the organization of MEC, as such Law Decree has been amended to the date of this Agreement;

(s) "MEC" means *Ministerio de Educación y Cultura*, the Borrower's Ministry of Education and Culture;

(t) "Operational Manual" means the Borrower's manual, satisfactory to the Bank, which sets forth, *inter alia*: (i) the eligibility criteria for selection of education leaders under Part A.2 (d) of the Project; (ii) the eligibility criteria for selection of the IFDs to participate in the program under Part A.2 (a) of the Project; (iii) the eligibility criteria for the selection of Secondary Education teachers under Part A.2 (b) of the Project; (iv) the eligibility criteria for school development plans and social community subprojects under Part B.2 (a) and (b) of the Project; (v) the eligibility criteria for schools and parents' associations to be selected to participate in the Project under Part B.2 (a) and (b) of the Project; (vi) a model Social Community Subproject Agreement; (vii) a model School Development Plan Agreement; (viii) the eligibility criteria for selection of beneficiaries of the sustainable scholarship program under Part C.1 of the Project and mechanisms for the implementation of such program; (ix) the monitoring indicators of the Project; (x) the environmental mitigation guidelines ("Construction Guides") to be

included in the bidding documents for all works to be carried out under the Project; and (xi) the guidelines to ensure sound disposal of reagents and hazardous materials generated by the science and technology laboratories and science kits under Part B.1 (c) of the Project;

(u) "PCU" means the coordination unit established within MEC pursuant to MEC Ministerial Resolution No. 2664 dated October 24, 1994 and made operative for the Project further to MEC Ministerial Resolution No.353 dated March 20, 2002;

(v) "PEI Grant" means the grant awarded to selected schools to carry out the school development plan (PEI);

(w) "*Proyecto de Reglamentación del Estatuto del Educador*" means the draft MEC ministerial resolution providing revised policies for selection and hiring of MEC personnel, including teachers, school directors, school, state and central level professionals;

(x) "PSP Grant" means the grant awarded to selected schools to carry out the social community project (PSP);

(y) "Secondary Education" means grades ten through twelve in the Borrower's education system, as such classification of grades may be subject to modification from time to time;

(z) "School Development Plan Agreement" means an agreement referred to in Section 3.01 (b) (ii);

(aa) "Social Community Subproject Agreement" means an agreement referred to in Section 3.01 (b) (ii);

(bb) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(cc) "UDE" means *Unidad Departamental de Estadística*, a departmental statistics unit within MEC.

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 twenty four million Dollars (\$24,000,000), 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, scholarships and services required for the Project and to be financed out of the proceeds of the Loan and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

(b) Upon receipt of notification from the Bank allowing the establishment of the Special Account, the Borrower may, for purposes of the Project, open and maintain in Dollars a separate special deposit account in BCP on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (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 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

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

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on 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 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) 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall:

- (i) carry out Parts A, B 1. and 2 (c), C and D of the Project through MEC; and
- (ii) carry out Part B.2 (a) and (b) through MEC, with the participation of Eligible Schools and Eligible ACEs (as referred to in paragraph (b) below)

all with due diligence and efficiency and in conformity with appropriate technical, administrative, financial, educational and environmental practices, and in accordance with the Administrative Manual, Operational Manual and the plans referred to in Section 3.06 of this Agreement, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of carrying out each Eligible School Development Plan and Eligible Social Community Subproject, the Borrower, through MEC, shall: (i) enter into an agreement (the Inter-Institutional Agreement) with an Eligible School under terms and conditions satisfactory to the Bank, including the obligation of said Eligible School to carry out a School Development Plan or Social Community Subproject, as the case may be, in cooperation with the corresponding Eligible ACE; (ii) through said Eligible School, enter into an agreement (the School Development Plan Agreement or the Social Community Subproject Agreement, as the case may be) with the corresponding Eligible ACE (legally represented by such association president) under terms and conditions satisfactory to the Bank, including *inter alia* the obligation of said Eligible School and Eligible ACE to jointly carry out Part B. 2 (a) and (b) of the Project, as the case may be, as set forth in the Operational Manual and to maintain records and accounts, in a manner acceptable to the Bank to enable the Borrower to comply with its obligations under Section 4.01 and 4.02 of this Agreement; and (iii) make available on a grant basis to the corresponding Eligible ACE and Eligible School an amount not to exceed \$2,500 equivalent per School Development Plan or per Social Community Subproject, as the case may be, to carry out Part B. 2 (a) and (b), as the case may be, of the Project.

(c) The Borrower shall exercise its rights, and carry out its obligations under each Inter-institutional Agreement, School Development Plan Agreement and Social Community Subproject Agreement in such a manner as to protect the interests of the Borrower and the Bank and the accomplish the purposes of the Project. Except as the Bank shall otherwise agree, the Borrower shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Inter-Institutional Agreement, School Development Plan Agreement or Social Community Subproject Agreement or any provision thereof.

(d) Except as the Bank shall otherwise agree, the Borrower shall not amend, abrogate, suspend, waive or fail to enforce the Operational Manual or the Administrative Manual or any provision thereof. In case of any conflict between any such manual and this Agreement, the terms of this Agreement shall prevail.

Section 3.02. Without limitation to the provisions of Section 3.01 (a) above, the Borrower shall:

(a) make available to MEC, an amount in Guaraníes, equivalent to at least: (i) three hundred thousand Dollars (\$300,000) for Project Year 1; (ii) eight hundred and fifty Dollars (\$850,000) for Project Year 2; and (iii) one million three hundred and fifty

thousand (\$1,350,000) for Project Year 3, as counterpart funds for the Project during Project implementation;

(b) not later than June 15 of each year during Project implementation, starting in September 30, 2003, furnish to the Bank, for its review, a copy of the Borrower's budget proposal for MEC; and

(c) within thirty days after the date in which the Borrower's budget for MEC is legislatively approved each calendar year, furnish to the Bank a copy of such approved budget.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the works, goods 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

Section 3.05. The Borrower shall: (i) operate and maintain during Project implementation the PCU with functions and responsibilities satisfactory to the Bank as set forth in the Administrative Manual, including, *inter alia*, the responsibility to coordinate and oversee the implementation of the Project; (ii) ensure that the PCU is at all times headed by an executive coordinator and assisted by staff in adequate numbers including, *inter alia*, a technical coordinator, a finance coordinator and a procurement coordinator, all hired through competitive processes and operating under terms of reference with qualifications and experience satisfactory to the Bank. Turnover of PCU staff shall be duly justified by the Borrower, and said justification shall be satisfactory to the Bank.

Section 3.06. The Borrower shall not later than September 30 of each year during Project implementation, starting in February 28, 2004, prepare and furnish to the Bank for approval an annual implementation plan, of such scope and in such detail as the Bank may reasonably request, with respect to the activities to be carried out under the Project during the twelve months following the date of presentation of such plan.

Section 3.07. 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 March 31 in each year of Project implementation (beginning on March 31, 2005), 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 period 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 April 30 in each year of Project implementation (beginning on April 30, 2005), 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.

Section 3.08. The Borrower shall ensure that construction of prototype schools under Part C. 3 of the Project shall only take place on land where no resettlement action is required.

Section 3.09 Within twelve months from the date of this Agreement, the Borrower shall ensure that MEC converts the *Proyecto de Reglamentación del Estatuto del Educador* into a formal, binding regulation, and thereafter enforces its terms.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through MEC, shall establish and 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 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 statements of expenditure, the Borrower shall:
- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - (iii) enable the Bank's representatives to examine such records; and
 - (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.07 of this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

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

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 Borrower shall have furnished to the Bank evidence that the necessary counterpart fund amounts needed for the Project for the first year of implementation have been made available to MEC;

(b) the PCU has been fully staffed and is operational as set forth in Section 3.05 of this Agreement;

(c) the Borrower shall have adopted the Operational Manual and the Administrative Manual in a manner satisfactory to the Bank;

(d) the independent auditors referred to in Section 4.01 of this Agreement have been appointed by the Borrower as provided in said Section; and

(e) the financial management system referred to in Section 4.01 (a) of this Agreement has been established in form and in substance satisfactory to the Bank and become operational.

Section 5.02. The date December 9, 2003, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
(*Ministerio de Hacienda*)
Chile 128 casi Palma
Asunción, Paraguay

Facsimile: 595 (21) 448-283

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 Asunción, Paraguay, as of the day and year first above written.

REPUBLIC OF PARAGUAY

By /s/ Dionisio Borda

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ David de Ferranti

Regional Vice President
Latin America and the Caribbean

HONORARY WITNESS ON BEHALF OF THE
REPUBLIC OF PARAGUAY

By /s/ Nicanor Duarte Frutos

President of the Republic of Paraguay

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works	3,800,000	90%
(2) Goods (except as covered under Categories 5 and 6 below)	10,700,000	90%
(3) Consultants' services, including audits (except as covered under Categories 5 and 6 below)	2,950,000	90%
(4) Training	2,800,000	85%
(5) Goods and services for School Development Plans under Part C.2 (a) of the Project financed in part through PEI Grants	230,000	90%
(6) Goods and services for Social Communities Subprojects under Part C.2 (b) of the Project financed in part through PSP Grants	230,000	90%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(7) Scholarships under Part C.1 of the Project	2,160,000	100% until \$300,000 equivalent is disbursed from the Loan under this category; 90% thereafter
(8) Operating Costs	290,000	90 %
(9) Premia for Interest Rate Caps and Interest Collar	- 0 -	Amount due under Section 2.09 (c) of this Agreement
(10) Unallocated	840,000	
TOTAL	<u>24,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "Operating Costs" means reasonable recurrent Project expenditures, which would not have been incurred absent the Project, including expenditures incurred during Project implementation related to office rent, office materials and supplies, transportation, communication; and

(b) the term "Training" means the reasonable cost of rental of training rooms, per-diem and transport of trainers and trainees in Paraguay for workshops and seminars and abroad for study tours; the cost of tuition, travel, room and board for graduate level studies abroad; and costs related to thesis preparation and printing and other training materials and supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$2,000,000, may be made on account of payments made for expenditures before that date but after January 1, 2003.

Furthermore, no withdrawals shall be made in respect of payments for expenditures under Category (7) of the table in paragraph 1 of this Schedule until the mechanisms for the scholarship program under Part C. 1 of the Project shall have been finalized in a manner satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods, works and services according to paragraph D.2 of Schedule 4 to this Agreement, operating costs and training under such terms and conditions as the Bank shall specify by notice to the Borrower.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the Borrower's: (a) management and efficiency of the education system; and (b) educational outcomes and equity in opportunity at the Secondary Education level.

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: Improved Tools for Planning and Management of the Education System

1. Strengthening MEC's management capacity to improve the effectiveness of the education sector in Paraguay, through:

(a) the enhancement of macro and micro planning, management and supervision capacity through: (i) the provision of technical assistance to MEC for the establishment of an improved administrative model and development of compatible information systems; (ii) the provision of training to MEC staff on the improved administrative model; (iii) the provision of necessary equipment, furniture and software for upgrading of the CDEs, UDEs and CDSs; (iv) the provision of software and printing materials for operation of the improved administrative model, including publication of financial and human resource management handbooks; and (v) the acquisition of vehicles for the central MEC, the PCU and CDEs;

(b) the design and implementation of a certification system for MEC professionals, including administrative staff and teachers, through: (i) the provision of technical assistance to design the certification system; (ii) the carrying out of regional workshops to discuss the design with key stakeholders; and (iii) the provision of equipment and materials for implementation of the system;

(c) the design of an accreditation system for IFDs through: (i) the provision of technical assistance for the design of the accreditation system; and (ii) the carrying out of validation workshops with key stakeholders;

(d) the expansion of the student performance assessment system for Secondary Education students in the areas of language, mathematics and critical thinking through: (i) the provision of technical assistance to design, validate and apply the system; (ii) the acquisition of equipment to implement achievement tests; (iii) the provision of training to MEC's staff, including UDEs and school principals and teachers, in the application and analysis of achievement tests; and (iv) the dissemination of test results to

key stakeholders, including parents, students, principals, supervisors, teachers and regional authorities; and

(e) the implementation of a national education communications plan to reach a diversity of stakeholders through: (i) the provision of technical assistance to finalize the implementation strategy for the communications plan; (ii) the provision of training to carry out the plan, especially in rural areas; (iii) the provision of funds for the design of media messages, and printing and dissemination costs thereof, as well as of necessary equipment for dissemination purposes; and (iv) the carrying out of workshops.

2. Supporting the development of MEC' s human resources through:

(a) the design of a continuous teacher training system, through: (i) the provision of technical assistance to refine the pre-service curriculum and program structure; (ii) the organization of in-service training programs for teachers; (iii) the carrying out of workshops with national partners and international experts to validate the program; (iv) the provision of CRAs and libraries for five IFDs; and (v) the provision of training for teacher trainers;

(b) the provision of training to selected Secondary Education teachers to improve teaching and learning outcomes through: (i) the carrying out of workshops and seminars; (ii) the provision of technical assistance for the design of training programs; (iii) the acquisition of materials for training modules; and (iv) the provision of funds for monitoring of the training programs;

(c) the provision of specialized training to MEC education professionals through: (i) the carrying out of workshops designed to strengthen the CDEs and CDSs, especially by working in a participatory manner with schools; (ii) the provision of training to departmental and central level MEC staff to prepare them to work with schools on improved forms of school management and supervision, on the design and implementation of the PEIs, on the PSPs and the CRAs; and (iii) the carrying out of bi-annual workshops to train school principals and supervisors on the new participatory and learning-driven managerial skills and techniques associated with the PEIs, CRAs, PSPs, and collaboration with ACEs; and

(d) the implementation of a graduate leadership program for selected key public education leaders, consisting of: (i) an initial 11-month core program in Paraguay; (ii) an 11-month diversified phase, with possible study in a foreign university; and (iii) a final seminar in Paraguay.

Part B: Secondary School Improvements

1. Support MEC in its efforts to improve Secondary Education performance standards through the provision of selected quality inputs for teaching and learning, including:

(a) (i) textbooks in the areas of natural and social sciences; (ii) modules for language and literature, mathematics, arts and physical education; (iii) orientation handbooks on textbook selection, use and local development and (iv) technical assistance to train teachers in the selection and proper use of textbooks;

(b) the provision of CRAs for selected Secondary Education schools through: (i) construction or rehabilitation of about 75 CRAs including acquisition of visual and information equipment, library books and operational handbooks; (ii) provision of technical assistance and funds for a study tour to visit model learning centers in order to finalize the design of the CRAs; (iii) publication and dissemination of an operation manual; and (iv) the carrying out of monitoring and evaluation of the use of the CRAs by central and departmental level MEC staff; and

(c) the improvement of science teaching and learning through: (i) the acquisition of three science and technological laboratories for the prototype Secondary Education schools to be constructed under Part C.3 of the Project; (ii) the acquisition of about 25 science kits for selected schools; (iii) the provision of training to teachers on utilization of the science laboratories and kits ; and (iv) the carrying out of monitoring and evaluation of the use of the science laboratories and kits by central and departmental level MEC staff.

2. Support the MEC in its efforts to increase Secondary Education schools' efficiency and relevance through:

(a) the design and implementation of school development plans (PEIs) to carry out demand-driven investments for institutional planning purposes at the school level, through: (i) the provision of technical assistance for the design of the PEIs; (ii) the provision of training to central and departmental-level trainers to work with schools in the development of the PEIs; (iii) the carrying out of school training workshops for local stakeholders; (iv) the provision of funds for designing and printing costs of operational handbooks; (v) the carrying out of monitoring visits; and (vi) the provision of PEI Grants to finance the implementation of PEIs.

(b) the design and implementation of social community subprojects (PSPs) consisting of demand-driven investments for productive purposes at the school level, through: (i) the provision of technical assistance and training to selected school representatives and students to design and select subprojects; (ii) the provision of funds to design and print operational handbooks; (iii) the carrying out of monitoring visits; and (iv) the provision of PSP Grants to finance the implementation of PSPs; and

(c) the provision of technical assistance and training to ACEs and school leaders to strengthen their management capacity in school activities, including: (i) training of departmental-level ACE promoters; (ii) training of approximately 600 ACE

members and school leaders; (iii) acquisition of training guides, materials and operational handbooks; and (iv) monitoring visits by central and departmental level MEC staff.

Part C: Mechanisms to Provide Equitable Access to Secondary Education

Support MEC in its effort to increase access to secondary education, giving preference to low-income families, through the establishment of innovative strategies including:

1. the design and implementation of a sustainable scholarship program to benefit selected low-income students in six *Departamentos*, namely: San Pedro, Caaguazú, Itapúa, Alto Paraná, Guairá and Central through: (a) the provision of technical assistance to finalize design of the program and establish evaluation criteria for the same; (b) the provision of training to about 100 education professionals to carry out the application of indirect income tests and home visits; (c) the provision of funds for printing and distribution of operational manuals and related materials; (d) the provision of funds for operating costs; and (e) the provision of individual scholarships;
2. the design and implementation of an alternative Secondary Education program to provide flexible opportunities to low-income students in rural and urban areas, initially located in the departments of San Pedro, Cordillera, Caaguazú and Central, including on a pilot basis marginal urban areas of Asunción, through: (a) the provision of technical assistance to finalize the design of the program and establish evaluation criteria for the same; (b) the provision of training to about 60 school teachers to be trained as tutors for the program; (c) the provision of funds for study tours to observe similar programs in Brazil and other neighboring countries in the region; (d) the provision of funds for printing and distribution of training materials; (e) the provision of funds for operating costs; and (f) the acquisition of education material kits; and
3. the construction of prototype schools in marginal urban areas in Caaguazú, Fernando de la Mora and Luque through: (a) the provision of technical assistance to establish architectural and engineer designs of the prototype schools; (b) the financing of the construction of the prototype schools; and (c) the provision of necessary furniture and equipment for the prototype schools.

Part D: Project Management

Strengthening the PCU to carry out its obligations under the Project (including its financial and procurement responsibilities) through the provision of technical assistance (including audits), office equipment (as necessary), operating costs, and training of PCU staff.

* * *

The Project is expected to be completed by December 31, 2006.

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, 2008 through November 15, 2025	2.78 %
On May 15, 2026	2.70 %

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

(a) Grouping of contracts

To the extent practicable, contracts for works and goods shall be grouped in bid packages estimated to cost each more than the equivalent of \$3,000,000 or \$250,000, respectively.

(b) Two-stage bidding procedure

The bidding procedure for textbooks shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Guidelines.

(c) Preference for domestically manufactured goods and domestic contractors

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

(a) Works estimated to cost less than \$3,000,000 equivalent per contract, up to an aggregate amount not to exceed \$190,000 equivalent, may be procured under

contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,840,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) Procurement of goods and works under this Part shall be carried out using standard bidding documents acceptable to the Bank.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$430,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, at the Borrower's option, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$110,000 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.

4. Community Participation

Goods and services required for Part B.2 (a) and (b) of the Project shall be procured in accordance with procedures acceptable to the Bank.

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

With respect to: (i) each contract for goods and works to be awarded under Part B.1 of this Section; (ii) first three contracts per year for works to be awarded under Part C.1 (a), estimated to cost an equivalent of \$3,000,000 or less; (iii) first three contracts per year for goods to be awarded under Part C.1 (b), estimated to cost an equivalent of \$250,000 or less; (iv) first two contracts per year for goods to be awarded under Part C.2 of this Section, estimated to cost an equivalent of \$50,000 or less; and (v) first two contracts per year for works to be awarded under Part C.3 of this Section, estimated to cost an equivalent of \$250,000 or less, the procedures set forth in paragraphs 2 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 Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision 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 for technical assistance under the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits under Part D of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for specialized advisory services under the Project, up to an aggregate amount of \$1,150,000, tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms for: (i) the design and construction drawings for new schools and centers; (ii) supervision of construction; (iii) definition and installation of MIS; and (iv) technical assistance under the Project, estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 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 the equivalent of \$25,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works, scholarships 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 the amount of \$2,300,000 to be withdrawn from the Loan Account and deposited into the Special Account 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 \$1,000,000 until 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 \$ 3,500,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the 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 Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

(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 Account;

(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, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to

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

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

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

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