



Reykjavík, 31. maí 2024

FAS24020034

Borgarstjórn

Tillaga um lántöku hjá Þróunarbanka Evrópuráðsins, CEB, að fjárhæð 100 milljónir Evra, til að fjármagna viðhaldsátak í skólahúsnæði borgarinnar

Lagt er til að samþykkt verði fyrirbyggjandi drög að lánasamningi að fjárhæð 100 milljónir evra milli Reykjavíkurborgar, kt. 530269-7609 og Þróunarbanka Evrópuráðsins eða Council of Europe Development Bank (CEB). Borgarstjóra verði veitt heimild til að undirritunar og frágangs gagna.

Greinargerð:

Lántakan er til fjármögnunar á viðhaldsátaki í húsnæði grunnskóla, leikskóla og frístundar, sbr. áætlun sem upprunalega var lögð fram í borgarráði þann 4. nóvember 2021. Í íslenskum krónum nemur fjárhæðin um 15 milljörðum króna eða um 50% af þeirri áætlun sem lá fyrir við upphaf verkefnisins. Reykjavíkurborg hóf umfangsmikið viðhaldsátak í skólahúsnæði borgarinnar á árinu 2022 en gert er ráð fyrir að það muni ná yfir næstu fimm ár samkvæmt fjárhagsáætlun til ársins 2028. Á síðustu árum hefur Reykjavíkurborg að mestu fjármagnað fjárfestingar með útgáfu skuldabréfa á innlendum markaði en unnið hefur verið að því að fjölga valkostum í fjármögnun og yrði fjármögnun frá CEB liður í því. CEB lánar eingöngu í evrum en fyrir liggur áhættumat fjármála- og áhættustýringarsviðs vegna þeirrar gengisáhættu sem til staðar er vegna lántöku í erlendri mynt og greiningu á þeim möguleikum sem til staðar eru til að lágmarka þá áhættu, sbr. hjálagða greinargerð og áhættumat. Gert er ráð fyrir að áður en dregið verði á lánið í fyrsta sinn liggja fyrir hvaða leiðir verði valdar í því sambandi.

Einar Þorsteinsson
borgarstjóri

Hjálagt:

Greinargerð og áhættumat, dags. 31. maí 2024

Lánumsókn, dags. 4. mars 2024: Loan Application by City of Reykjavik to the Council of Europe Development Bank (CEB), ásamt fylgigögnum

Drög að lánasamningi: Framework Loan Agreement between Council of Europe Development Bank and City of Reykjavik (LD2188)



Reykjavík



Greinargerð og áhættumat með tillögu um lántöku frá CEB

Vegna tillögu um lántöku hjá Þróunarbanka Evrópuráðsins (CEB) að fjárhæð 100 milljónir evra til að fjármagna viðhaldsátak í skólahúsnæði Reykjavíkurborgar

I. Inngangur

Þann 29. febrúar sl. var í borgarráði samþykkt heimild til borgarstjóra til að sækja um lán að fjárhæð 100 milljónir evra til Þróunarbanka Evrópuráðsins (CEB) til fjármögnunar á viðhaldsátaki í húsnæði grunnskóla, leiksskóla og frístundar.

Samkvæmt reglum CEB þarf lánsúmsókn að fara í gegnum utanríkisráðuneyti aðildarríkis umsækjanda. Þann 4. mars lagði utanríkisráðherra Íslands fram lánsúmsókn fyrir hönd Reykjavíkurborgar og þann 25. mars samþykkti framkvæmdastjórn bankans lánveitinguna. Með lánveitingunni fjármagnar bankinn allt að 50% af kostnaði við verkefnið en undir það fellur meiriháttar viðhald, endurgerð og viðbyggingar. Eftir samþykkt framkvæmdastjórnar hefur borgin átt í viðræðum við bankann um skilmála lánasamnings sem nú liggur fyrir.

II. Verkefnið

Í nóvember 2021 samþykkti Reykjavíkurborg að fara í viðhaldsátak í húsnæði grunnskóla, leikskóla og frístundar. Upphafleg áætlun náði til áraanna 2022-2028 og var áætluð fjárför um 25-30 milljarðar króna, sbr. greinargerð dags. 3. nóv. 2021:

	2022	2023	2024	2025	2026	2027	2028
Áætluð fjárför	4 ma.kr.	4,5 ma.kr.	4,5 ma.kr.	5 ma.kr.	4 ma.kr.	4 ma.kr.	4 ma.kr.

a) Viðhaldsátak í skólum og leiksskólum

Ástand skóla- og leikskólabygginga í Reykjavíkur hefur verið í kastljósinu á undanförunum árum einkum vegna rakaskemmda og stöðu innivistar. Á árunum 2020 og 2021 voru gerðar ítarlegar ástandsúttektir á húsnæði leikskóla, grunnskóla og frístundar í eigu Reykjavíkurborgar eða á alls 136 fasteignum. Ástandsskýrslurnar voru lagðar fram í borgarráði þann 4. nóvember 2021. Á grundvelli þeirra var tekin ákvörðun um að hefja sérstakt viðhaldsátak í skólahúsnæði borgarinnar. Átakið næði til næstu 5 - 7 ára með árlegri endurskoðun á forgangsröðun, umfangi og fjárför. Með erindisbréfi í nóvember 2021 var verkefnið formlega sett af stað með stofnun stýrihóps sem fór yfir niðurstöður greininga og skilgreindi forgangsröðun verka. Samhliða var skrifstofu framkvæmda- og viðhalds á umhverfis- og skipulagssviði falin ábyrgð á viðhaldsframkvæmdum og eignaskrifstofu á fjármála- og áhættustýringarsviði eigendafyrirsvar verkefnisins.

Þann 7. apríl 2022 var skilabréf stýrihópsins lagt fyrir borgarráð með tillögu að forgangsröðun framkvæmda. Til grundvallar er sú ástandsskoðun húsnæði sem fram fór árin 2020 – 2021 og kynnt var í borgarráði í nóvember 2021. Síðan hafa verið gerðar frekari úttektir til að forgangsráða verkefnum, kostnaðarmeta og tímasetja framkvæmdirnar. Eins og áætlanir standa nú er búist við að verkefnið í heild sinni kosti yfir 30 milljarða króna og standi yfir til

ársins 2028. Áætlunin verður endurskoðuð eftir þörfum og mun taka breytingum hvað varðar forgangsröðun, umfang og fjárförf.

Húsnæði leikskóla, grunnskóla og frístundar í eigu Reykjavíkurborgar er alls rúmlega 265 þúsund fermetrar að stærð í 136 eignum. Veginn meðalaldur eignanna er um 46 ár, mishár eftir hverfum borgarinnar.

Í þeirri áætlun sem nú liggur fyrir hefur eignum verið skipt upp í 5 forgangsflokka með hliðsjón af eftirfarandi áherslum:

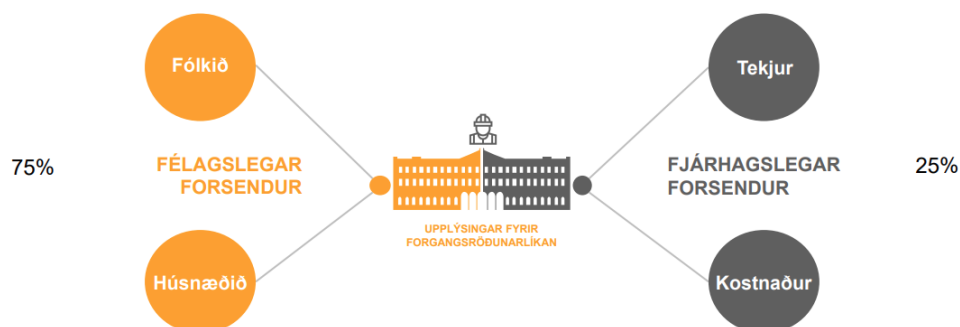
- Að tryggja öryggi notenda
- Að tryggja heilnæmt umhverfi (loft/raki/mygla/hljóðvist)
- Að bæta aðgengi fyrir alla
- Að fyrirbyggja skemmdir mannvirkja
- Hagkvæm nýting fjármuna

Við endanlega forgangsröðun framkvæmda er einnig horft til áforma borgarinnar um breytingar, viðbyggingar og endurnýjunaráform til að tryggja skynsamlega nýtingu fjármuna. Eftir atvikum verði tillögur að frekari útfærslu, samningum eða málsmeðferð varðandi einstök verkefni lögð fyrir borgarráð. Komi önnur verkefni fram á síðari stigum eða ef forsendur breytast kann það að hafa áhrif á forgangsröðun. Við forgangsröðun er einnig tekið tillit til sjónarmiða skóla- og frístundasviðs s.s. vegna mögulegra áhrifa framkvæmda á starfsemi á hverjum stað. Þá er einnig lögð áhersla á að koma í veg fyrir mögulegar skemmdir síðar á húsnæði með fyrirbyggjandi viðhaldsaðgerðum. Eignir kunna því að raðast ofar í forgangi m.t.t. þess.

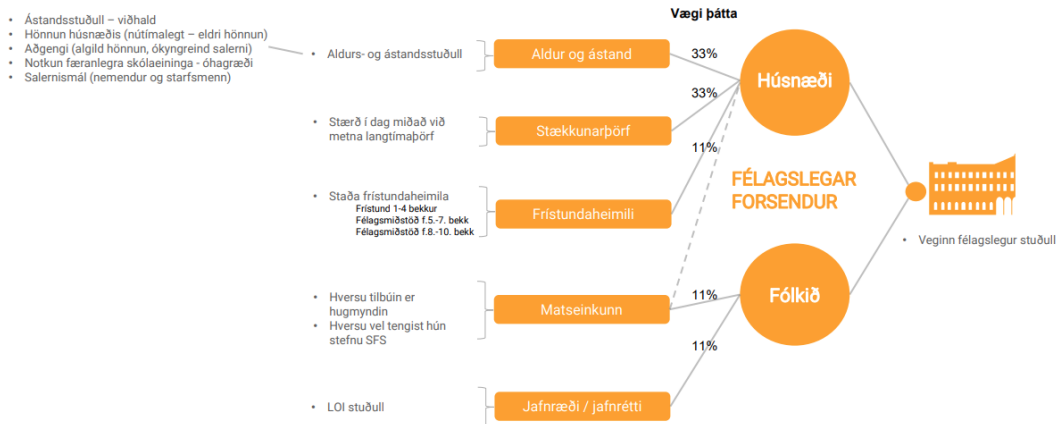
Í forgangi 1 eru 37 eignir, í forgangi 2 eru 25 eignir, í forgangi 3 eru 27 eignir og í forgangi 4 og 5 eru 24 eignir. Forgangsröðunin var unnin í samstarfi við Intellecta ráðgjöf og byggði á því hvernig á að úthluta takmörkuðu fjármagni til innviðaupbyggingar. Aðferðafræðin byggir á tveimur víddum, félagslegri vídd og fjárhagslegri vídd. CEB leggur áherslu á félags- og umhverfislegar forsendur við mat sitt á lánshæfi verkefna og rímar aðferðafræðin vel við stefnu bankans um lánveitingar til framkvæmda.

Eftirfarandi myndir sýna hlutfallegar áherslur við forgangsröðun skv. matslíkani:

Líkanið byggist á félagslegum og fjárhagslegum mælikvörðum



Félagslegar forsendur eru teknar saman í „veginn félagslegan stuðul“ fyrir hvern skóla



b) Fjárhagsáætlun

Fjárhagsáætlun fyrir árin 2024 – 2028 gerir ráð fyrir lántökum að fjárhæð 72 ma.kr. og fjárfesting á þessu sama tímabili er áætluð rúmir 115 ma.kr. Fjármögnun hjá CEB yrði hluti af þessari lántöku.

Eftirfarandi tafla sýnir gildandi fjárhagsáætlun Reykjavíkurborgar tímabilið 2024–2028 og áætlaðar lántökur í þús. króna.

	2024	2025	2026	2027	2028
Lántaka	16.500.000	16.500.000	15.000.000	14.000.000	10.000.000
Fjárfesting í varanl. rekstrarfjármunum	-20.832.000	-23.784.769	-23.146.500	-23.085.500	-18.208.346
Fjárfesting í óefnislegum eignum	-1.935.000	-1.469.231	-644.500	-877.500	-1.039.654
Hlutfall lántöku	72%	65%	63%	58%	52%

Eftirfarandi tafla sýnir heildstætt yfirlit yfir fjárfestingar í meiriháttar viðhaldi, endurbótum og viðbyggingum í grunnskólum og leikskólum í þús. króna. Hér hafa verið dregin saman þau verkefni sem unnt er að heimfæra undir umsókn Reykjavíkurborgar til CEB um lánsfjármögnun og fjárhæðir eins og þær eru áætlaðar.

Verkefni	2023	2024	2025	2026	2027	2028
Skóla- og fristundasvið - Grunnskólar						
Viðhaldsátak í grunnskólum	805.000	300.000	600.000	600.000	300.000	300.000
Endurnýjun skólamötuneyta	30.000	50.000	50.000	50.000	50.000	50.000
Grunnskólar - meiriháttar viðhald	850.000	500.000	500.000	500.000	500.000	500.000
Total Meiriháttar viðhald	1.685.000	850.000	1.150.000	1.150.000	850.000	850.000
Viðhaldsátak í grunnskólum - endurgerð	345.000	700.000	1.400.000	1.400.000	700.000	700.000
Fossvogsskóli	440.000	300.000	0	0	0	0
Hagaskóli - endurgerð	1.350.000	200.000	0	0	0	0
Vörðuskóli - kaup og endurgerð	200.000	200.000	800.000	0	0	0
Endurgerð skólabygginga	170.000	350.000	120.000	220.000	200.000	50.000
Total Endurgerð	2.505.000	1.750.000	2.320.000	1.620.000	900.000	750.000
Hagaskóli - viðbygging/stækkun	0	0	1.500.000	1.500.000	500.000	0
Viðbyggingar og stækkun annarra grunnskóla	0	0	480.000	880.000	800.000	200.000
Total Viðbyggingar	0	0	1.980.000	2.380.000	1.300.000	200.000
Samtals Grunnskólar	4.190.000	2.600.000	5.450.000	5.150.000	3.050.000	1.800.000

Skóla- og fristundasvið - Leikskólar							
Viðhaldsátak í leikskólum		350.000	195.000	90.000	90.000	0	0
Endurnýjun mótuneyta		90.000	50.000	50.000	50.000	50.000	50.000
Endurnýjun starfsmannaáðstöðu		170.000	200.000	200.000	200.000	200.000	200.000
Meiriháttar viðhald		150.000	100.000	100.000	100.000	100.000	100.000
Total	Meiriháttar viðhald	760.000	545.000	440.000	440.000	350.000	350.000
Árborg		5.000	350.000	0	0	0	0
Viðhaldsátak í leikskólum - endurgerð		150.000	455.000	210.000	210.000	0	0
Laugasól		150.000	150.000	0	0	0	0
Endurgerð leikskóla - Brúum bilið		335.000	674.000	120.000	0	0	0
Total	Endurgerð	640.000	1.629.000	330.000	210.000	0	0
Viðbyggingar og stækkun leikskóla - Brúum bilið		1.500.000	2.500.000	1.500.000	0	0	0
Total	Viðbyggingar	1.500.000	2.500.000	1.500.000	0	0	0
Samtals	Leikskólar	2.900.000	4.674.000	2.270.000	650.000	350.000	350.000
	ALLS GRUNN OG LEIK	7.090.000	7.274.000	7.720.000	5.800.000	3.400.000	2.150.000
	UPPSAFNAÐ	7.090.000	14.364.000	22.084.000	27.884.000	31.284.000	33.434.000

Á árinu 2024 er í fjárhagsáætlun gert ráð fyrir að taka allt að 16.500 m.kr. að láni. Undanfarin ár hefur borgin að mestu fjármagnað sig með útgáfu skuldabréfa á innlendum markaði. Þar að auki hafa verið tekin langtímalán hjá Landsbanka og Íslandsbanka. Eftirfarandi tafla sýnir hvernig fjármögnunin hefur farið fram frá og með árinu 2021.

Útgáfa markaðsverð	2021	2022	2023	2024	Samtals	%
RVKN 24 1	4.750	-	-	-	4.750	6%
RVKN 35 1	4.662	639	1.926	3.207	10.433	14%
RVKNG 40 1	5.666	-	-	-	5.666	8%
RVK 32 1	7.436	12.787	4.897	100	25.221	34%
RVKG 48 1	1.214	2.030	4.883	-	8.126	11%
RVK 53 1	-	548	3.217	746	4.511	6%
RVKN 27 1	-	-	-	3.000	3.000	4%
Landsbankinn		6.000			6.000	8%
Íslandsbanki			6.000		6.000	8%
Samtals	23.729	22.004	20.923	7.054	73.709	100%

Eftirfarandi tafla sýnir uppreiknaða stöðu lána miðað við árslok 2023.

Flokkur	Samtals útgæfið 31.12.2023	Vextir	Greiðslutegund	Eftirstöðvar 31.12.2023	Lokagjaldlagi	Vísitölutenging	Hlutfall
RVKN 24 1	4.790.000	3,00%	Kúlubréf	4.782.627	11.5.2024	Óverðtryggt	3,9%
RVKN 35 1	22.600.000	6,72%	Jafnar afborganir	14.167.434	26.3.2035	Óverðtryggt	11,5%
RVKNG 40 1	9.130.000	4,50%	Jafnar afborganir	7.749.680	21.8.2040	Óverðtryggt	6,3%
Íslandsbanki - langtímalán	6.000.000	Breytilegir	Óreglulegt	5.940.000	1.11.2032	Óverðtryggt	4,8%
Landsbanki - langtímalán	4.000.000	Breytilegir	Jafnar afborganir	3.733.333	25.10.2037	Óverðtryggt	3,0%
RVK 32 1	31.773.000	2,50%	Jafngreiðslubréf	28.473.565	21.10.2032	Verðtryggt	23,2%
RVKG 48 1	14.545.000	2,39%	Jafngreiðslubréf	16.599.503	21.10.2048	Verðtryggt	13,5%
RVK 53 1	23.285.000	4,40%	Jafngreiðslubréf	39.325.315	10.12.2053	Verðtryggt	32,0%
Landsbanki - langtímalán	2.000.000	Breytilegir	Jafnar afborganir	2.037.158	25.10.2037	Verðtryggt	1,7%
Jöfnunarsjóður	180.000	2,00%	Jafnar afborganir	149.180	1.1.2037	Verðtryggt	0,1%
* Allar fjárhæðir í þús. króna				122.957.794			

c) CEB bankinn

CEB (Council of Europe Development Bank) eða Þróunarbanks Evrópuráðsins er alþjóðlegur banki sem er í eigu 42 þjóðríkja. Bankinn fjármagnar innviði í þeim löndum sem að honum standa, sérstaklega verkefni sem stuðla að bættum efnahag og félagslegu öryggi. Bankinn hefur lánað Reykjavíkurborg áður en það var í verkefni tengdum einsetningu grunnskóla og breytingum á skólahúsnæði sem þurfti að gera vegna hennar.

III. Lánasamningur

Lánssamningur milli CEB og Reykjavíkurborgar rammur inn skilyrði lántökunnar. Tilgangur lánsins er að fjármagna fjárfestingar vegna viðhaldsátaks í grunn- og leikskólum sem skilgreint er í lánsúmsókn. Fjárhæð lánssamningsins nemur 100 milljónum evra eða um 15 milljarðar

króna. Áætlað er að kostnaður við fjárfestingar vegna viðhaldsátaksins nemi um 30 milljörðum króna og fjármögnun CEB nemi helmingi af þeirri fjárhæð sem er í samræmi við reglur þeirra um hlutfall fjármögnunar.

Gert er ráð fyrir að dregið verði á lánið í áföngum eftir því hvernig kostnaður fellur til við fjárfestingar vegna viðhaldsátaksins. Að lágmarki er hægt að draga á lánið í tveimur hlutum og fyrsti ádráttur getur ekki farið umfram 50% af lánsfjárhæð. Hægt er að fjármagna fjárfestingar frá og með fjárhagsárinu 2023.

Þegar kemur að því að draga á lán þá sendir Reykjavíkurborg beiðni um það til CEB. Í beiðninni koma fram óskir Reykjavíkurborgar um tímalengd lánsins og hvort vextir eigi að vera fastir eða breytilegir. Hámarkslánstími er 23 ár.

Reykjavíkurborg skal skila árlega skýrslum um framgang verkefnisins og svo lokaskýrslu þegar því lýkur. Gert að ráð yfir að fulltrúar CEB komi og skoði framkvæmdir og eins að CEB sé upplýst um meiriháttar breytingar á verkefninu. Jafnframt fær CEB ársreikning og fjárhagsáætlanir Reykjavíkurborgar sendar árlega.

Fjárhagsleg skilyrði lánasamnings (financial covenants) eru eftirfarandi:

- Víxlvanefnd (cross-default). Ef Reykjavíkurborg vanefnir aðrar skuldir telst lántaka hjá CEB líka í vanefnd. Reykjavíkurborg ber að upplýsa CEB um vanefnd.
- Kennitala um skuldaviðmið (financial ratios). Skuldir A hluta fari ekki yfir 100% af tekjum með vísan í sveitarstjórnarlög nr. 138/2011 og reglugerð nr. 502/2012.

Í lánasamningi CEB kemur fram að ef Reykjavíkurborg veitir öðrum lánveitendum veð eða tryggingar þarf að upplýsa CEB um það og getur CEB þá óskað eftir sambærilegum tryggingum. Þetta á ekki við um lántöku til skemmri tíma en 12 mánaða.

IV. Áhættuvarnir

Lánveitingar CEB eru í evrum. Reykjavíkurborg þarf því að skipta evrum í íslenskar krónur til að nýta fjármögnunina í fjárfestingar. Reykjavíkurborg er ekki með tekjustreymi í evrum og því myndast gengisáhætta þar sem ekki eru eignir í evrum á móti skuldum í evrum. Þá áhættu má verja, að öllu leyti eða að hluta, með samningum við innlenda banka eða með því að færa hluta af verðbréfasafni borgarinnar í fjárfestingar í erlendum ríkisskuldabréfum.

Til að verjast gengisáhættu getur borgin gert gjaldmiðla- og vaxtaskiptasamninga við innlenda viðskiptabanka. Þreifingar hafa átt sér stað við viðskiptabanka þar sem miðað hefur verið við samning til 5-7 ára. Í stuttu máli má lýsa gjaldmiðla- og vaxtaskiptasamningum þannig að borgin afhendir í upphafi samnings tiltekna fjárhæð af evrum til banka og fær í staðinn íslenskar krónur miðað við gildandi stundargengi. Á meðan á samningi stendur greiðir borgin afborganir og fasta eða breytilega íslenska vexti til banka en fær á móti greidda vexti og afborganir í evrum frá banka sem ganga á móti greiðslum til CEB. Við lok samningstíma gjaldmiðla- og vaxtaskiptasamnings fær borgin afhentar eftirstöðvar höfuðstóls lánsins í evrum og afhendir banka á móti eftirstöðvar samnings í íslenskum krónum. Eftir að samningstíma er lokið gæti borgin gert gjaldmiðla- og vaxtaskiptasamning að nýju miðað við stundargengi og vaxtakjör sem verða í gildi á á þeim tíma.

V. Mat á gengisáhættu

Gengisáhætta er megináhættan við lánsfjármögnun í erlendri mynt. Í því felst að hækki gengi erlends gjaldmiðils umfram þann vaxtamun sem er á erlendu láni í samanburði við lánskjör á innlendum markaði getur lántaki átt á hættu á greiða meira fyrir erlenda lánið en hið íslenska. Unnt er að fara margar leiðir við mat á gengisáhættu en í þessari umfjöllun er farin sú leið að meta áhrif evruláns á ársreikning borgarinnar og gerður samanburður við lántöku á innlendum markaði í íslenskum krónum. Niðurstöður greiningar eru með eftirfarandi hætti.

a) Áhrif evruláns á ársreikning borgarinnar

Ef borgin tekur óvarið evrulán þá mun gengisflökt hafa áhrif á rekstrarniðurstöðu borgarinnar í gegnum fjármagnsliðinn, en hækkun eða lækkun höfuðstóls vegna gengisbreytinga fer þar í gegn. Þar sem breytingar á höfuðstól vegna gengisflökts eru reiknaðar stærðir hafa þær ekki áhrif á sjóðstreymi fyrir utan afleidd áhrif sem koma fram við greiðslu afborgana og vaxta. Í töflunni hér fyrir neðan er sett fram dæmi þar sem sjá má hver áhrifin á rekstrarniðurstöðu borgarinnar gætu orðið ef gengi evrunnar hækkar á móti krónu á næstu 5 árum, eins og gerist í töflunni á ári t3, fer úr 145 krónum í 190,5 krónur. Höfuðstóll lánsins fer úr 12,6 milljörðum á ári t2 í 15,3 milljarða á ári t3, þrátt fyrir afborgun upp á 6,67 milljónir evra á árinu. Rekstraráhrif þeirrar gengisbreytingar yrðu neikvæð um 3,6 milljarða. Gengið jafnar sig þó árið eftir með tilheyrandi höfuðstólslækkun sem sjást mun í rekstrarniðurstöðunni sem jákvæð áhrif, í þessu dæmi um 2,2 milljarða á ári t4 og aftur um 667 milljónir króna á ári t5.

	EUR höfuðstóll	Gengi evru	Höfuðstóll í ISK
t0	100.000.000	151,00	15.100.000.000,0
t1	93.333.333	147,00	13.719.999.999,5
t2	86.666.667	145,00	12.566.666.665,7
t3	80.000.000	190,50	15.239.999.999,0
t4	73.333.333	160,00	11.733.333.280,0
t5	66.666.667	150,00	10.000.000.000,5

Gengisflökt ætti því að hafa takmörkuð langtímaáhrif á rekstur borgarinnar. Hins vegar, ef gengiskrossinn þróast eingöngu í aðra áttina, þ.e.a.s. ef gengi evrunnar hækkar á hverju ári frá árinu sem evrulánið var tekið og þar til það er gert upp, þá mun sú þróun hafa langtímaáhrif á reksturinn með tilheyrandi neikvæðum áhrifum, en þó ekki sjóðstreymisáhrif, nema þeim sem falla til við greiðslu afborgana og vaxta á greiðsludegi. Að spá fyrir um hvernig gengið þróast á næstu árum er hægara sagt en gert, en áhættugreining þessi sýnir hversu mikið gengið þyrfti að hækka á hverju ári til þess að óvarið evrulán hefði bókhaldslega verri áhrif en sambærilegt íslenskt lán á íslenskum kjörum. Eins er kannað hversu mikið gengi evrunnar þarf að hækka á móti íslenskri krónu til þess að skuldaviðmið borgarinnar fari yfir markmið fjármálastefnu ef fyrirhugað evrulán er ekki varið.

b) Spá um framtíðargengi evrunnar

Til þess að áhættugreiningin geti skilað sínu þarf að spá fyrir um framtíðargengi evrunnar. Ágæt leið til að spá fyrir um gengið er að skoða sögulega þróun þess og vænta þess að sambærileg þróun muni eiga sér stað.

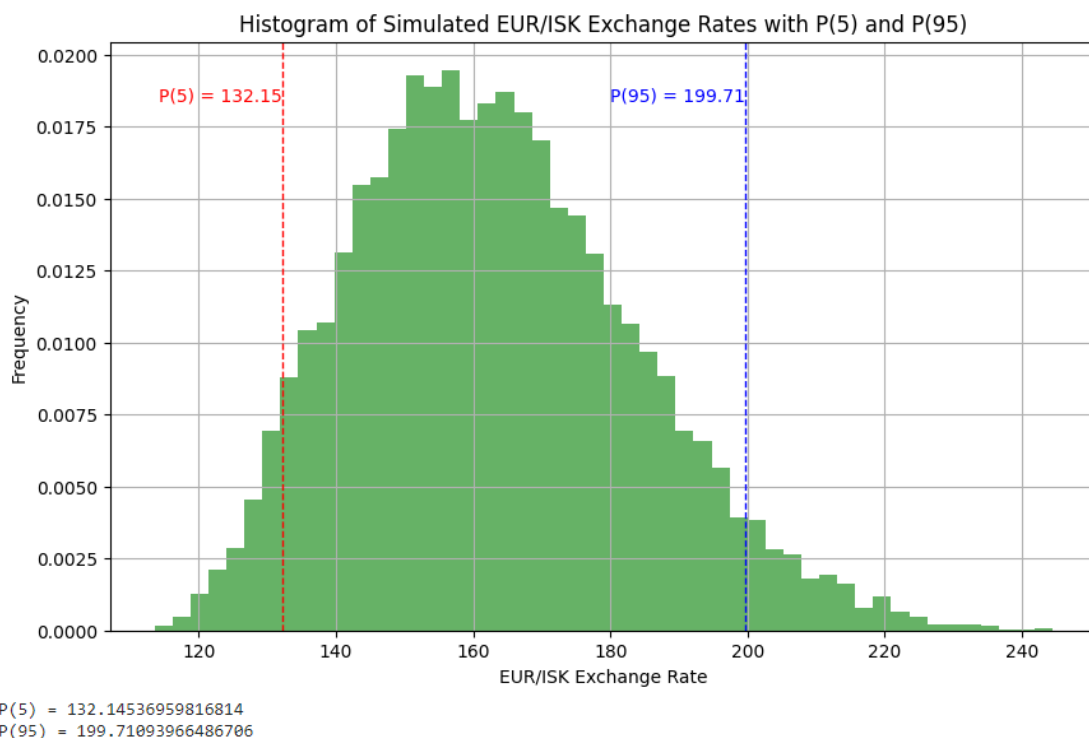
Á myndinni til hliðar má sjá þróun á gengi evrunnar síðustu 5 ár en á þessum 5 árum hefur ýmislegt gengið á – stríð í Evrópu, tíð eldgos, Covid-faraldur og mikill verðbólga. Það má því segja að síðustu 5 ár hafi verið einhvers konar samfellt álagspróf á gengið og því ágætt að horfa á þetta tímabil þegar settar eru fram sviðsmyndir um framtíðarþróun þess. Þess skal þó getið að á þessu tímabili hefur Seðlabanki Íslands stundað töluverð inngríp á gjaldeyrismarkaði til þess að styðja við krónuna. Ef slíkt hefði ekki verið gert má vel ímynda sér að íslenska krónan hefði veikst töluvert meira á þessu tímabili og evran þ.a.l. kostað mun meira.



Evran fór lægst í 133,1 og hæst í 165,8 og er miðgildi 145,5. Sveiflur innan árs geta orðið miklar, en hæsta og lægsta gildi gengistímaraðarinnar átti sér stað innan eins árs. Þegar horft er á tímaröðina sést einnig að hún er ekki línuleg en mikið er um sveiflur á tímabilinu (e. non-linear) og er ekkert sýnilegt trend. Eins er ekki að greina árstíðarsveiflur, tímaröðin er óstöðug (non-stationary) og er ljóst að sum tímabil eru sveiflukenndari en önnur sem segir okkur að dreifnin er ólík eftir tímabilum (e. heteroskedasticity). Aðferðir til að spá fyrir um framtíðarþróun tímaraða sem hafa sér á þennan hátt eru t.d. að setja saman Garch (1,1) líkan, nota Kalman filter og að máta líkindadreifingu við tímaröðina og keyra Monte Carlo hermun til þess að spá fyrir um framtíðarþróun. Allar aðferðirnar voru prófaðar og niðurstöðurnar bornar saman til þess að sjá hver aðferðanna spáði best.

Niðurstaðan var sú að það að máta líkindadreifingu við gögnin og keyra hermun til að spá fyrir um framtíðina kom best út. Af þeim líkindadreifingum sem prófaðar voru passaði Beta dreifingin best við gögnin, svo Weibull dreifingin og næst LogNormal. Sú niðurstaða fékkst með því að framkvæma Kolmogorov-Smirnov (K-S) Test, Anderson-Darling (A-D) Test og bera saman AIC criteriu.

Eins og nefnt var að ofan þá voru töluverð inngrip á gjaldeyrismarkaði af hálfu Seðlabankans á tímabilinu sem gerði það að verkum að hásvæiflan í tímaröðinni varð minni en annars hefði verið. Ekki er hægt að gera ráð fyrir því að Seðlabankinn haldi inngripum áfram og er því sett álag á forsendurnar og opnað á möguleikann að gengið geti farið hærra upp en það hefur gert á þessu 5 ára tímabili. Stikum Beta dreifingarinnar er breytt til að fá ýktari sviðsmyndir og gengi evrunnar er hermt.



Á myndinni að ofan má sjá niðurstöður hermunar á gengi evrunnar á stöplariti, en hermuniin var keyrð tíu þúsund sinnum. Á x-ás stöplaritsins er gengi evrunnar og á y-ás er tíðnin, þ.e.a.s. hversu oft í þessum tíu þúsund keyrslum yfir næstu 5 árin evran tók ákveðin gildi.

Dregnar eru tvær lóðréttar línur í gegnum stöplaritið sem standa fyrir P(5) gildið og P(95) gildið. P(5) gildið er 132,75 krónur, en P(5) segir okkur að 5% skipta í þessum tíu þúsund keyrslum tók evran lægra gildi en 132,75 krónur en það getur farið undir 120 krónur. P(95) gildið er 199,71 krónur og lýsir því að í 95% skipta af þessum tíu þúsund keyrslum tók evran lægra gildi en 199,71 krónur en í 5% skipta var evran hærra gildi en 199,71 krónur, en það getur að hámarki orðið tæplega 250 krónur.

c) Samanburður á lánum

Samanburður á láni í erlendri mynt og láni í krónum er gerð með eftirfarandi hætti. Skoðum dreifinguna sem hermir þróun gengi evrunnar næstu 5 árin og berum saman höfuðstól evruláns til 15 ára með föstum vöxtum næstu 5 árin og höfuðstól sambærilegs íslensks láns með íslenskum vöxtum næstu 5 árin. Gefum okkur að vextir íslenska lánsins séu 6% hærri en vextir evrulánsins. Vaxtamunurinn er margfaldaður við höfuðstól hvers árs til að sjá hvað íslenska lánið kostar aukalega samanborið við evrulánið. Niðurstöður eru í töflu fyrir neðan þar sem dálkurinn „Munur í krónum“ sýnir aukin vaxtagjöld hvers árs í íslenska láninu samanborið við vaxtagreiðslur evrulánsins.

Tímabil	Höfuðstóll ISK láns	Vaxtamunur á milli	
		EUR og ISK láns	Munur í krónum
t0	15.000.000.000,00	6,00%	900.000.000
t1	13.999.999.999,50	6,00%	840.000.000
t2	12.999.999.999,00	6,00%	780.000.000
t3	12.000.000.000,00	6,00%	720.000.000
t4	10.999.999.950,00	6,00%	659.999.997
t5	10.000.000.000,50	6,00%	600.000.000

Næst er skoðað hversu hátt gengi evrunnar þarf að fara á hverju ári til þess að höfuðstóll evrulánsins hækki um sömu tölu og samanlögð uppsöfnuð vaxtagjöld íslenska lánsins eru. Gildi hvernar línu í dálkunum „Gengisbreyting“ og „Uppsafnaður vaxtamunur“ eiga að vera þau sömu. Goalseek fallið í excel var notað til að finna break even gengi evrunnar til að svo sé. Niðurstöður má sjá í töflu fyrir neðan en ef evran fer upp fyrir 159 krónur á t0, 168,74 krónur á t1 o.s.frv. þá verða bókhaldsleg áhrif evrulánsins verri en þess íslenska þ.e.a.s. samtala afborgana, vaxta og eftirstöðva höfuðstóls evrulánsins, sem fer í gegnum fjármagnsliðinn, verður hærri í evrulánu en í því íslenska.

Tímabil	EUR höfuðstóll	150,0		Uppsafnaður vaxtamunur
		Gengi evru	Gengisbreyting	
t0	100.000.000	159,00	900.000.000	900.000.000
t1	93.333.333	168,64	1.740.000.000	1.740.000.000
t2	86.666.667	179,08	2.520.000.000	2.520.000.000
t3	80.000.000	190,50	3.240.000.000	3.240.000.000
t4	73.333.333	203,18	3.899.999.997	3.899.999.997
t5	66.666.667	217,50	4.499.999.997	4.499.999.997

Því næst er litið á spána um hvernig gengið getur þróast á næstu 5 árum. Til hliðar er tafla p-gilda sem lýsir niðurstöðum hermunarinnar. Til upprifjunar þá lýsir P(50) gildið því að í 50% skipta í hermuninni var gengi evru lægra en P(50) gildið og í 50% skipta var gengi evru hærra en P(50) gildið. P(5) gildið lýsir því að í 5% skipta í hermuninni var gengi evru lægra en P(5) gildið o.s.frv..

Niðurstöður sjást í töflu fyrir neðan. Töluverðar líkur eru á að ef upp koma einhver áföll í ytra umhverfi og ekki verði gripið inn í til þess að styðja við íslensku krónuna að gengið fari upp fyrir break even gengið á t1, t2 og t3 en líkurnar á að gengið fari upp fyrir break even minnka þó eftir því sem tíminn líður en það er vegna þess að gengið þarf að hækka umtalsvert til þess að þekja þessar auknu vaxtagreiðslur íslenska lánsins.

Percentile	Exchange Rate
P(5)	132,2
P(10)	137,2
P(15)	141,0
P(20)	144,5
P(25)	147,6
P(30)	150,6
P(35)	153,4
P(40)	156,1
P(45)	158,7
P(50)	161,2
P(55)	163,8
P(60)	166,5
P(65)	169,4
P(70)	172,6
P(75)	176,3
P(80)	180,4
P(85)	185,2
P(90)	191,1
P(95)	199,7

Líkurnar á því eru þó einhverjar og fer það eftir áhættuvilja stjórnenda hvort það að taka óvarið evrulán, miðað við þessa reiknuðu áhættutöku, sé innan marka.

Tímabil	Break even gengi	P gildi hermunar	Líkur á að gengi fari yfir break even
t1	159,0	P(50) = 161,2	50%
t2	168,64	P(65) = 169,4	35%
t3	179,08	P(80) = 180,4	20%
t4	190,50	P(90) = 191,1	10%
t5	203,18	P(96) = 203,2	4%

Til að sjá hversu viðkvæmur höfuðstóll lánsins er fyrir hækkun á genginu þá er í töflunni hér að neðan sýnt hvaða neikvæðu áhrif 2% hækkun á gengi evrunnar, umfram break even gengið, mun hafa á rekstrarniðurstöðu borgarinnar að öllu öðru óbreyttu. Dálkurinn „Hækkun höfuðstóls umfram vaxtamun“ sýnir áhrifin í íslenskum krónum.

Tímabil	EUR höfuðstóll	Gengi evru	Hækkun höfuðstóls umfram vaxtamun
t1	100.000.000	162,18	318.000.000,0
t2	93.333.333	172,02	314.800.000,0
t3	86.666.667	182,66	310.400.000,0
t4	80.000.000	194,31	304.800.000,0
t5	73.333.333	207,25	297.999.998,9

d) Áhrif á skuldaviðmið borgarinnar

Ef gengið fer upp í 245 krónur, sem er hæsta gildið sem hermunnin gaf, mun það hafa töluverð áhrif á höfuðstól evrulánsins. Í töflu fyrir neðan má sjá höfuðstólsáhrif hvers árs miðað við að gengið fari á einhverju árinu upp í 245 krónur og áhrif á skuldaviðmið borgarinnar. Minnt er á að skv. markmiðum fjármálastefnu borgarinnar skal skuldaviðmið A-hluta Reykjavíkurborgar ekki vera hærra en 100% og tekur einn af skilmálum lánsins mið af því. Í töflunni sést að ef gengi evru fer upp í 245 krónur þá brotna skuldaviðmið ekki en þau hækka, en þó ekki svo mikið að viðmiðinu sé ógnað.

Tímabil	EUR höfuðstóll	Gengi evru	Hækkun höfuðstóls umfram vaxtamun	Tekjur	Skuldir og skuldbindingar	Skuldaviðmið skv. áætlun	Skuldaviðmið m/ gengishækkun
t1	100.000.000	245,00	8.600.000.000	191.341.018.000	154.108.055.000	81%	85%
t2	93.333.333	245,00	7.126.666.666	198.663.946.000	164.891.191.000	83%	87%
t3	86.666.667	245,00	5.713.333.333	209.111.027.000	172.241.883.000	82%	85%
t4	80.000.000	245,00	4.360.000.000	219.826.811.000	176.354.750.000	80%	82%
t5	73.333.333	245,00	3.066.666.638	231.132.387.000	173.437.236.000	75%	76%

Virðingarfyllst,

Halldóra Káradóttir
sviðsstjóri fjármála- og áhættustýringarsviðs

Stefanía Scheving Thorsteinsson
áhættustjóri

Bjarki Rafn Eiríksson
skrifstofustjóri fjárstýringar- og innheimtu



MINISTER FOR FOREIGN AFFAIRS
ICELAND

Reykjavik, March 4th, 2024

Re: Loan application by City of Reykjavik to the Council of Europe Development Bank (CEB)

Dear Secretary General,

On behalf of the Ministry for Foreign Affairs, I would like to inform you that City of Reykjavik wishes to apply for a EUR 100 million loan in CEB lines of action "Education and vocational training", to partially finance eligible education infrastructure investments in Reykjavik.

The original of the loan application will be directly delivered to you by our Permanent Representative to the Council of Europe in Strasbourg.

I have the honour to confirm that Iceland approves the above-mentioned project and undertakes to enable project monitoring, including possible site visits, in accordance with the applicable resolutions of the CEB's Administrative Council.

I would be grateful for your support to include this loan application for consideration during the next possible meeting of the Bank's Administrative Council.

Please accept the assurances of my highest consideration,

Þórdís Kolbrún Reykfjörð Gylfadóttir
Acting Minister for Foreign Affairs

H.E. Ms. Marija Pejčinović Burić
Secretary General of the Council of Europe
COUNCIL OF EUROPE
Palais de l'Europe
67075 Strasbourg Cedex, France

Cc: Mr. Carlo MONTICELLI, Governor of the Council of Europe Development Bank

Handwritten text in blue ink, appearing to be a signature or a name, possibly "M. J. ...".



Reykjavík, 29 February 2024

FAS24020034

Bjarni Benediktsson, Minister of Foreign Affairs

C/o Mr. Ólafur Sigurðsson
Iceland's Representative to the AC of CEB
Director, Ministry for Foreign Affairs
E-mail: os@mfa.is

To the kind attention of:
Bjarni Benediktsson, Minister of Foreign Affairs of Republic of Iceland

Dear Minister,

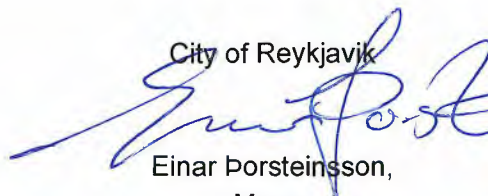
The City of Reykjavík wishes to apply to the Council of Europe Development Bank (CEB) for a EUR 100 million public sector finance facility (PFF) loan for partial financing (up to 50%) of eligible projects under CEB sector lines "Education and vocational training", complying with the eligibility criteria as set out in CEB's Policy for Loan and Project Financing.

We enclose two originals of our loan application, on the basis of which we seek consent of the Icelandic authorities and the submission of the official request through the usual diplomatic channels to the Secretary-General of the Council of Europe, in accordance with the statutes of the CEB.

The contemplated project enables City of Reykjavík and CEB to bring together their respective capabilities for the benefit of Icelandic children and students set in the "Reykjavík Education Policy 2030 - Let the dreams come true".

We would appreciate your support and assistance in directing our application to the relevant authorities at your earliest convenience.

We thank you in advance and remain at your disposal for any additional information.

City of Reykjavík

Einar Þorsteinsson,
Mayor



Enclosed:

Loan Application for EUR 100 million Public Sector Financing Facility (PFF) to Council of Europe Development Bank (CEB), 29 February 2024.

Transcript from the Executives Board meeting journal 29 February 2024.

CITY OF REYKJAVIK**Loan Application****for EUR 100 million Public Sector Financing Facility (PFF)****to****Council of Europe Development Bank (CEB)**

Reykjavík, 29 February 2024

SUMMARY

By this Loan Application, the City of Reykjavik is requesting EUR 100 million Public Sector Financing Facility (PFF) to partially finance education infrastructure investments in line with the objectives set in the “Reykjavik Education Policy 2030 - Let the dreams come true” and the “Maintenance boost scheme for preschools, compulsory schools and recreation centres 2022-2028”.

The CEB team has conducted technical appraisal mission in January, and the below project presentation is based on the conclusions of the joint discussions between the City and the CEB.

This will represent the City’s third operation with CEB: a first CEB loan of EUR 45million EUR was extended to Reykjavik in 1998, followed by a second operation of EUR 26.6 million approved in 2002. Both successfully concluded.

1. PROJECT BACKGROUND

The total population of the City of Reykjavik is about 139,875 as of 2023¹, equivalent to about 36% of population in Iceland (387,7589). The City is divided in 10 districts (see Figure 1). The Greater Reykjavik area (or Capital Area), comprising the City of Reykjavik and surrounding municipalities, has a population of about 252,000 inhabitants. While each municipality in the Capital Area has its local government, the governance structure of the Greater Reykjavik area involves coordination among municipalities, and joint efforts to plan for the overall development of the metropolitan area.

Iceland has seen a significant increase in foreign migration over the last decade, in particular in recent years. In 2022, Iceland received 15,438 foreign migrants, compared to 8,547 in 2021. As of 2023, the percentage of foreign-born population in Iceland is 21%, compared to 11% in 2014. Of the foreign-born population, the main countries of origin are Poland (7.6%), Denmark (1.3%), Lithuania (1.3%), Romania (1.1%), United States (1%), Germany (0.8%) and Philippines (0.8%). The number of Ukrainian in Iceland increased from 510 in 2022 to 2,693 in 2023. The population increase in the City of Reykjavik and surrounding municipalities has been driven by foreign migration in recent years. Of the 15,438 foreign migrants in 2022, 9,623 settled in the Capital Area.

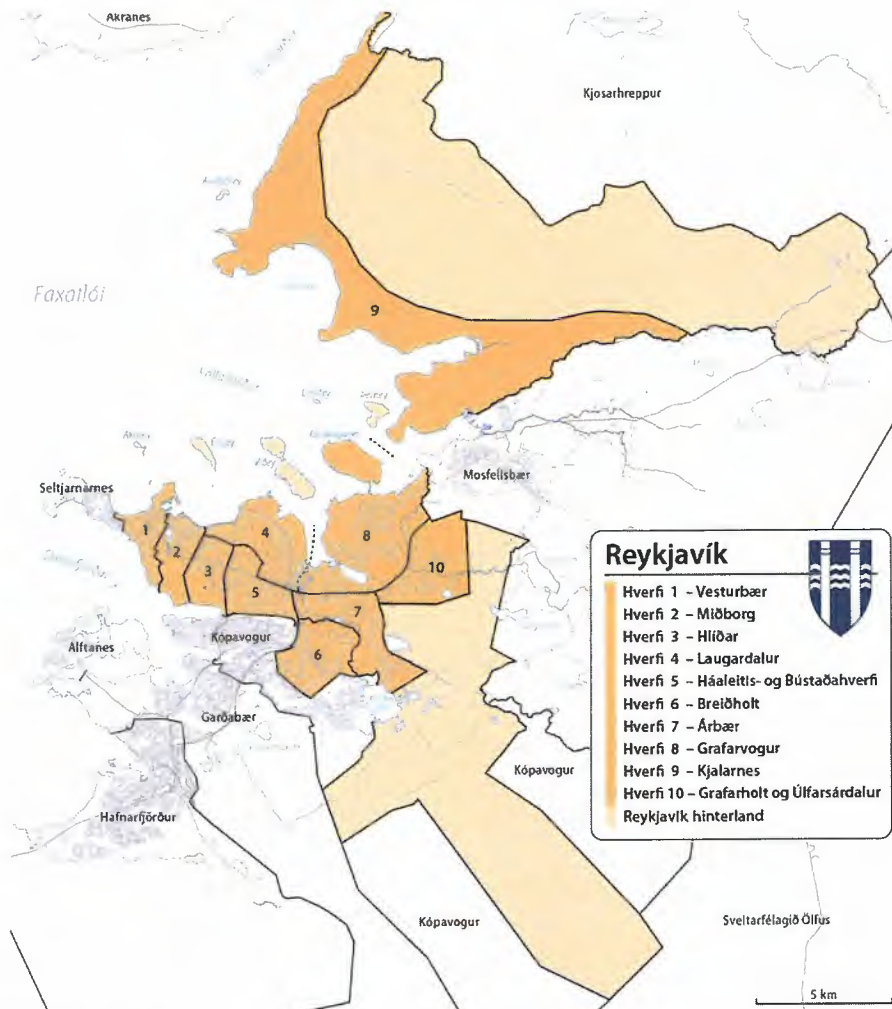
The Green Deal is the main strategy for the City of Reykjavik, setting a vision for 2030. The Green Deal set the following objectives: (i) achieving carbon neutrality by 2040; (ii) promoting green growth, a competitive urban society that attracts people to live, visit and work in the city; and (iii) leaving no one behind, by basing the green transformation on justice, fairness and participation.

The City of Reykjavik has relatively low levels of socio-economic segregation, as most neighborhoods are mixed-income. At the same time, the City of Reykjavik has undergone an increase in urban sprawl over the last decades². This has resulted in a heavy car dependency. One of the objectives of the 2010-2030 Municipal Plan for the City of Reykjavik is reducing car use. To achieve this goal, the Municipal Plan 2010-2030 proposes that at least 90% of all new residential units in the planning period will rise within the current urban area boundaries. The objective is to create a denser, more coherent and environmentally sustainable urban area. As a result, going forward we expect to focus our investments on upgrading and renovating current infrastructure systems to serve existing neighborhoods.

¹ Information based on Statistics Iceland website.

² Information based on NordRegio data.

Figure 1: Districts in Reykjavik City



Overview of the Education Sector

The City of Reykjavik holds primary responsibility for pre-school and compulsory education, including the management of educational institutions, curriculum development, and staff hiring in the city. The national government sets overarching educational policies and standards, but the operation is funded through local income tax. This division of responsibilities between the national and the local governments ensures a localized approach to education that meets the specific needs of Reykjavik's community while aligning services with national educational objectives. The Reykjavik City Department of Education and Youth is responsible for setting and implementing education policy and providing education services, outlined in the "Reykjavik Education Policy 2030 - Let the dreams come true".

Keeping educational facilities in good conditions and safe is one of the strategic priorities for the education sector as identified in our Education Policy for 2030. Other strategic priorities set in the Education Policy for 2030 include: (i) adapting education to evolving service needs due to population shifts; (ii) providing services for non-native Icelandic speakers and refugee children to address educational needs of diverse language backgrounds; (iii) promoting children and adolescents' well-being by tackling issues like bullying, hate speech, and mental health; (iv) ensuring a high proportion of qualified personnel amidst recruitment challenges;

and (v) adapting to new laws to provide integrated education and social services to enhance children's welfare as part of the 'Better City for Children' Initiative. The Education Policy 2030 is implemented through a three-year action plan, initially for 2019-2021, followed by a new plan for 2022-2024. This plan identifies key opportunities, issues, and improvement projects in school and leisure activities.

The City of Reykjavik manages a total of 143 facilities spread over 136 buildings over 265,000 square meters in area. The educational facilities include: (i) 86 pre-schools, (ii) 41 compulsory schools (for children and adolescents between the ages of 6 and 15) and (iii) 16 recreational and after-school facilities³. A total of 22,483 children and adolescents are enrolled in pre-schools and compulsory schools in the City of Reykjavik, including children from migrant families, Ukraine refugees and internally displaced families from volcano-stricken town of Grindavík.

The City of Reykjavik also manages 2 schools that provide services to children with special needs who require higher support level compared to the level offered in general public schools. These schools cater to the needs of children with severe mental and physical disadvantages and whose parents have applied for special school education. While Icelandic laws allow all students to attend the general public schools without segregation due to physical, mental or any other issues, parents and healthcare professionals have evaluated these children and assessed that their requirements regarding education and daily support are best met within these special schools. These schools are attended by pupils from all over the country and receive subsidies from the central government.

The City also provides financial supports to private schools. In Iceland, private schools do not have special admission requirements. The low additional fees charged by private schools are not considered a barrier for majority of households (EUR 200/month). Private schools are required to follow the basic curriculum issued by the City of Reykjavik but can add their own emphasis. The choice between a private or a public school is based on parents' expectations of school emphasis in their curriculum and how the curriculum could favor their child in further education. The quality of teaching and education provided in public schools is equal to education in private schools.

A condition audit of the buildings of pre-schools, compulsory schools and recreational and after-school facilities was carried out in 2020-2021. Every facility was examined and evaluated by a specialist at the City Department of Construction and was graded based on its condition. If needed, a facility was examined by an independent indoor climate specialist. Based on the condition audit, a property maintenance backlog was identified, and in November 2021, the City Council launched the "Maintenance Boost Scheme for the period 2022-2028". The prioritization and the planning of the investments have been done in accordance to the City's "Infrastructure Prioritization Framework" which methodology weighs 75% to the social factors and 25% to financial factor, further bringing at forefront the commitment of the City of Reykjavik to address the most vulnerable students and provide equal education to all.

In conclusion, to partially finance these investments, the City of Reykjavik is seeking EUR 100 million CEB loan.

³ Some recreation centers and after school facilities are located as a part of the school buildings.

2. OBJECTIVES

The PFF objective is to improve the education infrastructure in the City of Reykjavik by co-financing major maintenance, renovation and expansion works of educational facilities, comprising pre-schools, compulsory schools and recreational and after-school facilities, in line with the priorities set in the City's Education Policy 2030.

By improving quality of education infrastructure, Project will contribute to creating favourable conditions for learning for all children in Reykjavik.

3. BENEFICIARIES

Beneficiaries include all school children and adolescents in the City of Reykjavik. A total of 22,483 children and adolescents are enrolled in pre-schools and compulsory schools in the City of Reykjavik in 2023 – 6,872 children are enrolled in pre-schools and 15,611 students in compulsory (primary and lower-secondary) schools. After a period of decline over the period 2015-2020, the number of children in pre-schools has started growing again from 2021.

While many definitions of multiculturalism exist in the education sector, our Department of Education and Youth defines multiculturalism based on the language environment of the pupils. Children and adolescents from homes where one or more language other than Icelandic is spoken are referred to as second language speakers of Icelandic (in Icelandic ÍSAT, *íslenska sem annað tungumál*). On average, about 25% of pupils in public schools are ISAT – e.g. they do not speak Icelandic at home. The share reaches 29% for children in pre-schools (see Table 1 below). Following an increase in migrants, the share of ISAT pupils is estimated to have increased from 21% to 29% in pre-schools and from 11% to 24% in compulsory schools over the period 2015-2023. In addition, multiculturalism is far higher in some schools than others, with the percentage of pupils being defined as ISAT ranging from 5% to as much as 79%.

Table 1: Number of Pupils Enrolled in Pre-Schools and Compulsory Schools, 2023

	Age range	Number of Pupils			ISAT pupils in public schools	
		Public	Private	Total	Number	Share
Pre-schools	1-5	5 679	1 193	6 872	1 650	29%
Compulsory schools						
<i>Grade 1-4</i>	6-9	5 340	499	5 839	1 323	25%
<i>Grade 5-7</i>	10-12	4 518	217	4 735	1 119	25%
<i>Grade 8-10</i>	13-15	4 852	212	5 037	1 020	21%
<i>Sub-total</i>	1-15	<i>14 710</i>	<i>928</i>	<i>15 611</i>	<i>3 462</i>	<i>24%</i>
Total		20 362	2 121	22 483	5 112	25%

Furthermore, approximately 5,000 employees work as teachers across educational institutions, highlighting the significant scale of resources required to provide comprehensive educational services in the City of Reykjavik. The school employees are also expected to benefit from the improved working environment.

Learning Opportunity Index (LOI)

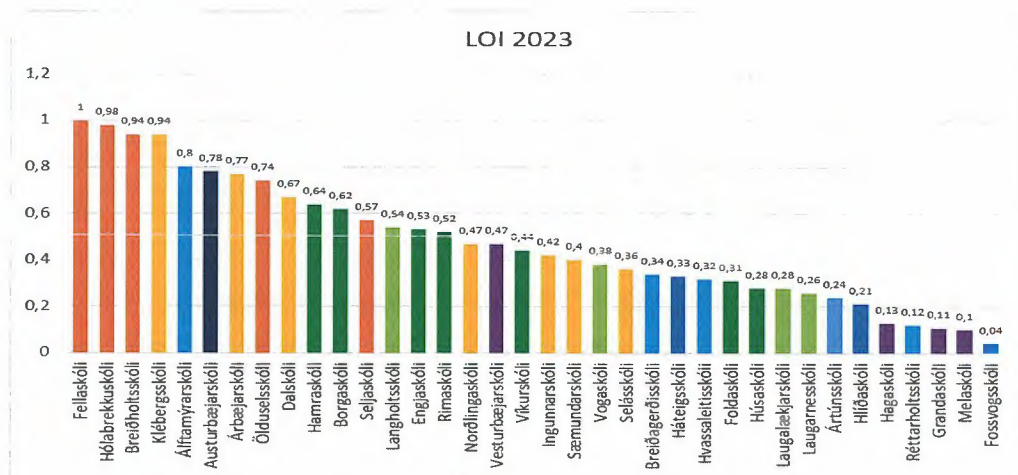
The PISA findings also indicate that immigrant students in Iceland tend to have a more disadvantaged socio-economic profile than non-immigrant students.⁴

Given that Reykjavik neighborhoods tend to be mixed-income, socio-economic disparities are not spatially concentrated at the district-level. To gain information on the geographic distribution of socio-economically disadvantaged students, the Department of Education and Youth has developed an innovative index, the Learning Opportunity Index (LOI), to assess socio-economic vulnerability at the school level, drawing on the experience of the City of Toronto. The objective of the LOI is to track resources channeled to schools with students facing greater external challenges that can impair learning outcomes. The Department of Education and Youth collaborated with Statistic Iceland in the development of the LOI for compulsory schools in Iceland, excluding special needs schools. The City also plans to compute the LOI for pre-schools.

LOI ranks each school based on measures of external challenges affecting student learning outcomes. The LOI is composed of variables that are aggregated in a single index. For each school, the LOI for the year 2023 was calculated based on the background of the families of students who attended that school the year before. The following socio-economic indicators were selected because they had the highest correlation to standardized test scores: (i) median income of the students' families of each school; (ii) share of families with 25% or more of the total income from governmental benefits; (iii) share of immigrant families; (iv) share of families where parents/guardians have completed high-school diploma or less; and (v) share of families where at least one parent/guardian has completed a university degree.

The school with the greatest level of external challenges is ranked number one and is described as the highest on the index (see Figure 2). It is important to acknowledge that the LOI measures relative needs given that students in all schools have some external challenges, even those schools that are ranked very low on the LOI⁵.

Figure 2: LOI for Compulsory Schools, 2023



Note: colors represent different neighborhoods.

⁴ While 25% of all students are considered socio-economically disadvantaged, the corresponding share among students with an immigrant background is 55%.

⁵ Toronto District School Board, "The 2023 Learning Opportunities Index: Questions and Answers".

The findings indicate that there is a significant correlation between the LOI and the percentage of immigrant families within a school based on data provided by Statistic Iceland. Schools with a higher LOI tend to have a higher percentage of ISAT students as defined above.

The objective of the LOI is to track resources channeled to schools with students facing greater external challenges that can impair learning outcomes. In addition, the City provides slightly more funding to cover operational costs to schools with high LOI.

4. PROJECT COMPONENTS AND ACTIVITIES

The works to be co-financed by the CEB loan will comprise major maintenance works financed under the City's Maintenance Boost Scheme, as well as renovation and expansion works in accordance to the will condition assessment of the buildings to be carried out by the City.

Maintenance Boost Scheme

Major maintenance works have been prioritized with the goal of ensuring safe and healthy conditions for pupils and school staff at all times. Prioritization was based on the following factors: (i) ensuring user safety; (ii) ensuring a healthy environment (with a focus on air, moisture, mould and acoustics); (iii) improving access for all; (iv) preventing damage to structures, and (v) efficient use of funds. Green solutions are used as a guide in the selection of materials and for energy-saving measures. The list of educational facilities requiring major maintenance works are expected to be reviewed regularly.

A total of 128 facilities require major maintenance works, including 41 compulsory schools, 71 pre-schools and 16 recreational facilities. Figure 3 below shows the map of the 128 educational facilities included in the maintenance boost scheme.

Figure 3: Map of Properties Included in the Maintenance Boost Scheme



Note: Pre-schools are in red; compulsory schools in green; private pre-schools/schools are in blue.

The City has classified schools requiring major maintenance works based on the urgency of the interventions to develop a timeline for the implementation of the Maintenance Boost scheme. A total of 36 facilities are in the highest priority list, including 18 pre-schools, 13 compulsory schools, and 5 recreational and after-school facilities, spread across 8 districts. Overall, 75% of the facilities in the Priority 1 list are located in 4 districts, namely in Laugardalur District 4 (11 facilities), Háaleiti og Bústaðir District 5 (6 facilities), Breiðholt District 6 (6 facilities) and Grafarvogur District 8 (4 facilities).

Table 2: Maintenance Boost Scheme – Implementation Timeline

Priority	Expected timeline	Number of Facilities			
		Total	Compulsory schools	Pre-schools	Recreational and after-school facilities
Priority 1 Urgent needs for major maintenance works according to condition assessment. Instances of leakage and/or inadequate interior conditions.	2022-24	36	13	18	5
Priority 2. Needs for major maintenance works according to condition assessment.	2024-25	28	10	14	4
Priority 3. Needs for major maintenance works according to condition assessment.	2025-26	27	6	18	3
Priorities 4 and 5. Needs for major maintenance works according to condition assessment.	2026-28	37	12	21	4
Total		128	41	71	16

For primary schools for which a LOI is available, the CEB technical mission assessed the degree of correlation between the prioritization of the facilities based on the urgency of intervention and the LOI, as a measure of the degree of external challenges faced by pupils in each school. On the other hand, the LOI allows tracking works for schools with the highest number of students facing external challenges associated with economic status or the language spoken at home. Major maintenance works for the 5 compulsory schools with the highest LOI are expected to be carried out by 2025 – 3 schools (Álftamýrarskóli, Breiðhoitsskóli and Hólabrekkuskóli) are among the 13 compulsory schools requiring urgent major maintenance works (Priority 1) and 2 schools (Fellaskóli and Klébergsskóli) are among the 10 schools included in Priority 2. The 5 compulsory schools with the highest LOI will benefit from CEB funding for major maintenance works

Renovation works

The City of Reykjavik has identified 22 compulsory schools requiring renovation works, including 2 of the 5 compulsory schools with the highest LOI. In addition, the City is in the process of identifying pre-schools requiring renovation works. The same prioritization criteria used for the maintenance boost scheme are applied to identify educational facilities requiring renovation. All renovations will be carried out in line with the priorities set in the Education

Policy and the Green Plan. School renovation is expected to integrate changes in the design of the physical environment in line with modern teaching methods.

Expansion works

The City has made a separate assessment to identify the need for expansion works in educational facilities. Based on information provided during the CEB's technical review, the City has identified 6 compulsory schools which will require expansion works to accommodate an increase in demand in addition to renovation works. The six compulsory schools requiring expansion works are Laugarnesskóli; Langholtsskóli; Hagaskóli; Melaskóli; Réttarholtsskóli and Laugalaekjarskóli. Reykjavik is also planning expansions works for a number of preschools, and the identification of pre-schools requiring expansion is ongoing.

5. PROJECT MANAGEMENT

The Office of Construction and Maintenance, which is part of the Department of Environment and Planning, is responsible for overall management of works, including planning, implementing and monitoring of maintenance works and expansion and renovation works. The Department of Maintenance which reports directly to the Office of Construction and Maintenance is responsible for carrying out audits and condition assessments. The prioritization is carried out closely with the Department of Education and Youth and the Property Office of the Department of Finance and Risk Management.

We are also currently establishing a Working Group comprising the Office of Construction and Maintenance, the Department of Education and Youth and the Property Office to facilitate coordination. The City has already developed procedures to ensure coordination across departments for the implementation of the project.

When renovation or extension works are already scheduled or are underway, works under the Maintenance Boost Scheme are carried out in parallel to maximize value for money and minimize disruption to school activities through synergies.

A plan to ensure that adequate resources will be allocated in the future to both investments and maintenance of schools and recreational facilities is being prepared to ensure the long-term sustainability of the works is being prepared.

6. PROCUREMENT ASPECTS

Works, goods and services financed by CEB under this Programme Loan shall be procured in line with CEB's Procurement Guidelines and Icelandic procurement legislation, which is in line with EU procurement directive rules.

7. ENVIRONMENTAL AND SOCIAL SAFEGUARDS – CLIMATE CHANGE CONSIDERATIONS

Environmental and social safeguards

The sub-projects do not require an environmental assessment according to Iceland's "Act on the Environmental Assessment of Projects and Programmes"⁶. Schools will be located mainly in urbanized settings and no specific negative impacts on biodiversity or ecosystems are expected. Anticipated potential environmental risks are construction related, such as noise, dust, vibrations, and disruptions in road traffic. Social risks include occupational health and safety as well as community health and safety, particularly for nearby residents. These risks

⁶ <https://www.althingi.is/lagas/nuna/2021111.html>

are expected to be localized and short term, and will be managed by the Borrower and the contractor in line with the Icelandic legislation on the matter.

Within the Municipality, the “Office of Construction and maintenance (SFV)” is in charge of ensuring compliance with the applicable environmental and social legislation. Construction contractors prepare an OHS plan and an environmental and safety policy for the work site and submit it to the construction inspector, who reviews and approves the plans on behalf of the City of Reykjavík.

Regarding consultation with stakeholders, information meetings are held and press releases are published at the start of each project. Information meetings in schools are organised to inform both parents and students regarding the construction works, and the main issue which is commonly raised is the duration of the works and the relocation process. Relocation of students is carried out only when strictly necessary. If that is the case, temporary buildings are selected as close to the school as possible and are adapted to fit the needs of the students.

Gender Aspects

As regards gender, Iceland is amongst the top-performing countries in terms of gender equality. In 2023, the country offered the most gender equal conditions in the world according to the global gender gap index⁷, which benchmarks national gender gaps on economic, political, education, and health-based criteria. The Act on Equal Status and Equal Rights of Gender makes clear that at all levels of education, students shall receive appropriate equality and gender education.

In addition, 60% of the city councilors (13 out of 22) are women, and 58% of the city deputies (14 out of 24) are women. The City has set up a Gender Equality School⁸, whose aim is to provide education, advice and support regarding equality education. The city has staff members dedicated to promoting gender equality in schools and gender-neutral toilets are being installed in school buildings.

Climate Change Aspects

The energy performance of buildings is regulated by the Buildings regulation⁹, which sets maximum values for the heat loss (U-value) of building components. All buildings under the Maintenance Boost Scheme and the renovation and extension plan will either achieve a BREEAM certification or be in line with the Nordic Swan Certification Standard (Svansvottun).

Sustainability aspects of the project are related to: the introduction of mechanical ventilation systems in the buildings, which will drastically reduce the chances of mould formation by ensuring continuous air movement, the connection to a district heating system powered by renewable energy sources and the achievement of green building certifications. No specific just transition component has been identified for this operation.

The City has carried out a climate risk assessment and has identified the following as the main climate change hazards: sea level rise, flooding from water bodies and sewerage systems due to increased precipitation, increased frequency and intensity of storms. Adaptation measures are addressed in the Municipality’s Climate Change Action Plan (2021-2025), in which a set of resilience targets are defined. The city has laid out a plan to adapt to changing weather conditions and increased precipitation through nature-oriented solutions and infrastructure

⁷ [Global gender gap index 2023 | Statista](#)

⁸ [The Gender Equality School | Reykjavík \(reykjavik.is\)](#)

⁹ [Byggingarreglugerð \(byggingarreglugerd.is\)](#)

improvements, such as equipping harbour facilities and coastal areas with infrastructure that lowers the risk posed by sea level rise. With regards to climate adaptation finance, the costs related to resilience measures at city level which, in turn, will also benefit school buildings, are not part of the CEB financing plan, hence no climate adaptation finance can be attributed to the operation.

Paris Alignment considerations.

From a mitigation perspective, the buildings are expected to perform at the level set by the national regulation dedicated to climate-related objectives in buildings, considering that such policy was developed to drive the transition of the building sector toward decarbonization and is aligned with Iceland's NDC (Nationally Determined Contribution). From an adaptation perspective, sea level rise and extreme cold pose a medium-high risk to Reykjavik. The City is aware of such risks and has developed strategies and policies that address such risks and which will result in reduced impacts to school buildings.

8. IMPLEMENTATION SCHEDULE

The PFF will finance the budgetary years 2023 – 2028.

9. SOCIAL VALUE

The Project carries a significant social impact, as it aims to enhance learning environments for all children in Reykjavik, including those from migrant families, Ukrainian refugees, and recently internally displaced families from the volcano-affected town of Grindavík.

More specifically, the major maintenance works are expected to lead to an improvement in the quality, safety and health conditions of educational infrastructure, and contribute to favourable conditions for learning for all children and adolescents enrolled in schools. One of the main expected benefits is an improvement in indoor air quality in educational facilities by improving ventilation systems to reduce the chance of mould formation, with associated health benefits for students. Works are also expected to improve the quality of recreational facilities, providing children and adolescents with improved access to sports and after-school facilities, such as music classes. Accessibility of educational facilities will be enhanced in line with national regulations. Evidence indicates that major maintenance works contribute to favourable conditions for learning by improving the quality of educational infrastructure. In particular, the available literature indicates that four measurable factors (light, air quality, temperature, and acoustics) contribute to favourable conditions for learning¹⁰. All works will also contribute to promote universal access design of educational facilities, by ensuring that all renovated and new constructions have gender-neutral toilets.

Renovation works are expected to lead to better learning spaces in line with modern teaching methods. School renovation works includes the re-organization of the physical space of educational facilities to ensure that it is conducive to expanded opportunities for diverse learning (e.g. by transition from classroom to open, shared spaces) provided that teachers are involved from the outset in the design of the physical environment and trained to make best use of the new spaces. All renovations will be designed with the view of making the school environments more suitable for modern teaching methods in accordance with the City's educational policies. Major maintenance and renovation works will also lead to savings for the City's operations. Works are expected to improve the energy efficiency of buildings and reduce the probability of costly major maintenance in the future.

¹⁰ See CEB publication "[Constructing Education: An Opportunity not to be Missed](#)".

Expansion works will lead to an increase in the capacity of educational facility to accommodate the increase in demand. Expansion works are expected to be concentrated in neighbourhoods where higher than average population growth is expected.

Vulnerability aspects

Based on available empirical evidence, the main vulnerability factors affecting learning outcomes in Iceland are socio-economic background and migrant status. The socio-economic status and the language spoken at home are the two factors that negatively affect students' learning outcomes. The LOI is an innovative measure of the main vulnerability factors affecting children and adolescents' success in schools. The LOI is highly correlated with the percentage of ISAT students (second language speakers of Icelandic).

The availability of the LOI for all compulsory schools will allow tracking the share of financing benefiting compulsory schools with a high LOI (i.e., with children/students facing the highest external challenges to learning). The CEB loan will include the financing of major maintenance works for the 5 compulsory schools with the highest LOI ranking, in line with the city's planned schedule of works. By improving the quality of educational infrastructure, works will contribute to providing favourable conditions for learning for students with a socio-economic disadvantaged background in these 5 schools, in addition to co-financing works in all other schools across the city.

The City of Reykjavik plans to compute the LOI for pre-schools by August/September 2024 subject to receiving the relevant data from Statistics Iceland.

10. PROJECT FINANCING

Eligible costs for CEB loan are EUR 223 million for period 2023-2028. Works will be financed with the CEB loan and the city's budget, including the general maintenance budget and the investment plan for major maintenance and refurbishment projects.

Table 3 provides total projects costs for the investments over the period 2022-28.

Table 3: Total Project Costs, 2022-2028 (€ million)

	2022	2023	2024	2025	2026	2027	2028	22-28	23-28
Maintenance boost scheme	12,5	16,3	9,3	10,6	10,6	8,0	8,0	75	62,8
Renovation works	17,6	21,0	22,5	17,7	12,2	6,0	5,0	102	84,4
Expansion works	0,0	10,0	16,7	23,2	15,9	8,7	1,3	76	75,7
Total	30,1	47,3	48,5	51,5	38,7	22,7	14,3	253	222,9

11. MONITORING AND REPORTING

As agreed with CEB, monitoring reports will be provided at least once a year and prior to any disbursement, with the exception of the first tranche. A list of performance indicators has been discussed and agreed with the CEB, during their appraisal mission. The indicators are tailored to the specific nature of the requested Loan.

12. ADDED VALUE AND CONCLUSION


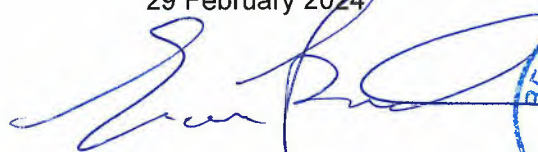
In view of:

- The Project's significant social impact, captured by its overarching objective to enhance learning environments for all children in Reykjavik, including those from migrant families, Ukrainian refugees, and recently internally displaced families from the volcano-affected town of Grindavík.
- The Project alignment with the overall needs of the education sector in Iceland and its response to national and city priorities.
- The added value of the CEB's long-term funding enabling the City of Reykjavik in completing planned investments within the education sector until 2028.

The City of Reykjavik is asking for submission of the Loan Application for EUR 100 million loan to the CEB.

City of Reykjavik,

29 February 2024



Einar Þorsteinsson,
Mayor



Skrifstofa borgarstjóra og borgarritara

Hér með sendist útskrift úr fundargerð borgarráðs frá 29.2.2024 varðandi eftirfarandi mál:

FAS - Heimild til að sækja um og hefja viðræður við Þróunarbanka Evrópuráðsins, CEB, um lánsfjármögnun - til afgreiðslu

Lögð fram svohljóðandi tillaga borgarstjóra, dags. 27. febrúar 2024, ásamt trúnaðarmerktum fylgiskjólum:

Lagt er til að borgarráð veiti borgarstjóra heimild til að sækja um lán að fjárhæð 100 milljónir evra til Þróunarbanka Evrópuráðsins eða Council of Europe Development Bank (CEB) til fjármögnunar á viðhaldsátaki í húsnæði grunnskóla, leikskóla og frístundar, sbr. áætlun sem upprunalega var lögð fram í borgarráði þann 4. nóvember 2021. Í íslenskum krónum nemur fjárhæðin um 15 milljörðum króna eða um 50% af þeirri áætlun sem lá fyrir við upphaf verkefnisins. Verði lánsúmsókn Reykjavíkurborgar afgreidd með jákvæðum hætti verði borgarstjóra veitt heimild til að hefja viðræður um lánskjör og undirbúa drög að gerð lánasamnings. Reykjavíkurborg hóf umfangsmikið viðhaldsátak í skólahúsnæði borgarinnar á árinu 2022 en gert er ráð fyrir að það muni ná yfir næstu fimm ár samkvæmt fjárhagsáætlun til ársins 2028. Á síðustu árum hefur Reykjavíkurborg að mestu fjármagnað fjárfestingar með útgáfu skuldabréfa á innlendum markaði en unnið hefur verið að því að fjölga valkostum í fjármögnun og yrði fjármögnun frá CEB liður í því. CEB lánar eingöngu í evrum en unnið er að því að skoða varnir gagnvart gengisáhrifum í samstarfi við innlenda banka. Niðurstaða viðræðna og drög að lánsamningi verða lögð fyrir borgarráð til samþykktar.

Samþykkt.

Borgarráðsfulltrúar Sjálfstæðisflokksins og Sósíalístaflökks Íslands sitja hjá við afgreiðslu málsins.

Halldóra Káradóttir, Bjarki Rafn Eiríksson, Stefanía Scheving Thorsteinsson og Karl Einarsson taka sæti á fundinum undir þessum lið með rafrænum hætti.

Helga Björk Laxdal
e.u.

Afrit:

Fjármála- og áhættustýringarsvið



To the Mayors Office

Hereby is sent a transcript of the minutes of the Executives Board meeting from 29.2.2024 regarding the following matter:

FAS - Authorization to apply and start negotiations with the Council of Europe Development Bank, CEB, on loan financing - for approval

Submitted the following proposal of the mayor, dated February 27, 2024, along with confidential supporting documents:

It is proposed that the city council authorize the mayor to apply for a loan in the amount of 100 million Euros to the Council of Europe Development Bank (CEB) for the financing of maintenance boost scheme in the premises of compulsory schools, preschools and recreation centers, cf. plan that was originally submitted to the Executive Board on November 4, 2021. In Icelandic ISK, the amount amounts to ISK 15 billion, or about 50% of the original plan for at the start of the project. If the City of Reykjavík's loan application is processed with in a positive way, the mayor will be authorized to start negotiations on loan terms and prepare a draft of the loan agreement. The City of Reykjavík began an extensive maintenance effort in the city's school buildings in 2022, but it is assumed that it will cover the next five years according to the budget until the year 2028. In recent years, the City of Reykjavík has mostly funded investments by issuing bonds on the domestic market but work has been done on expanding financing options, and financing from CEB would be part of it. CEB only lends in Euros, but work is being done to examine protection against exchange rate effects in cooperation with domestic banks. Conclusion of negotiations and draft of loan agreement will be submitted to the Executive Board for approval.

Approved.

City council representatives of the Independence Party and the Socialist Party of Iceland are absent from the reception of the case.

Halldóra Káradóttir, Bjarki Rafn Eiríksson, Stefanía Scheving Thorsteinsson and Karl Einarsson take a seat at the meeting under this section by electronic means.

Helga Björk Laxdal

e.u.

Copy:

Finance and Risk Department

DRAFT 31st MAY 2024

FRAMEWORK LOAN AGREEMENT

between

COUNCIL OF EUROPE DEVELOPMENT BANK

and

CITY OF REYKJAVIK

Educational Infrastructure in Reykjavik

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COUNCIL OF EUROPE DEVELOPMENT BANK, international organisation with its headquarters at 55, Avenue Kléber, 75116 Paris (France) (hereinafter, the **“CEB”** or the **“Bank”**), on the one hand,

and

CITY OF REYKJAVIK, the capital city of Iceland, national registry number 530269–7609, with its seat at Tjarnargata 11, 101 Reykjavik, Iceland (hereinafter, the **“Borrower”** and together with the CEB, the **“Parties”** and each a **“Party”**), on the other hand,

WHEREAS

- (A) Having regard to the loan application submitted by the Republic of Iceland on 7 March 2024 approved by the CEB’s Administrative Council on 25 March 2024,
- (B) Having regard to the Third Protocol dated 6 March 1959 to the General Agreement on Privileges and Immunities of the Council of Europe dated 2 September 1949,
- (C) Having regard to the CEB’s Loan Regulations, as adopted by the CEB’s Administrative Council Resolution 1587 (2016) (hereinafter, the **“Loan Regulations”**),
- (D) Having regard to the CEB’s Loan and Project Financing Policy, as adopted by the CEB’s Administrative Council Resolution 1646 (2022) (hereinafter, the **“Loan Policy”**),
- (E) Having regard to the CEB’s Environmental and Social Safeguards Policy, as adopted by the CEB’s Administrative Council Resolution 1588 (2016) (hereinafter, the **“Environmental and Social Safeguards Policy”**),
- (F) Having regard to the CEB’s Procurement Guidelines, as adopted by the CEB’s Administrative Council Resolution 1655 (2023) (hereinafter, the **“Procurement Guidelines”**),
- (G) Having regard to the CEB’s Data Protection Regulation, as adopted by the CEB’s Administrative Council Resolution 1639 (2022) (hereinafter, the **“Data Protection Regulation”**),
- (H) Having regard to the CEB’s Anti-Corruption Charter, as adopted by the CEB’s Administrative Council Resolution 1628 (2021), and
- (I) Having regard to the CEB’s Policy on Non-compliant/Uncooperative Jurisdictions, as adopted by the CEB’s Administrative Council Resolution 1630 (2021),

HEREBY AGREE AS FOLLOWS:

1. INTERPRETATION

1.1 Definitions

The following terms shall have the meaning indicated below, except as the context requires otherwise:

“Agreement” means this framework loan agreement, including its appendices.

“Allocation” means the commitment of a Tranche by the Borrower to the eligible Components/Planned Works of the Project even if such Tranche has not yet been paid out under the Project.

“Allocation Period” has the meaning specified under Sub-clause 5.2.

“Business Day” means any day on which T2 (the real time gross settlement system operated by the Eurosystem, or any successor system) is open for settlement of payments in Euro.

“Certificate” has the meaning specified under Sub-clauses 4.5 and 6.6(b) and the form stipulated under Appendix 4 hereto.

“Closing Date” means the date specified under Appendix 1 hereto from which no further disbursements under the Loan may take place.

“Completion Report” has the meaning specified under Sub-clause 6.1(b)

“Components/Planned Works” means the Components/Planned Works defined under Appendix 1 hereto.

“Cross-Default Event” has the meaning specified under Sub-clause 6.6(a).

“Currency” means, for the purposes of the Agreement, Euro.

“Day Count Convention” means the convention for determining the number of days between two dates and the number of days in a year specified in the relevant Disbursement Notice.

“Debt Instrument” means (i) any loan or other form of financial indebtedness; (ii) an instrument, including any receipt or statement of account, evidencing or constituting an obligation to repay a loan, deposit, advance or similar extension of credit (including without limitation any extension of credit under a refinancing or rescheduling agreement), (iii) a bond, note, debt security, debenture or similar written evidence of financial indebtedness; or (iv) an instrument evidencing a guarantee of an obligation constituting financial indebtedness of another.

“Default Interest Rate” has the meaning specified under Sub-clause 4.9.

“Disbursement Date” means the date on which a Tranche is scheduled to be disbursed pursuant to the applicable Disbursement Notice.

“Disbursement Notice” has the meaning specified under Sub-clause 4.3(b).

“Disbursement Request” has the meaning specified under Sub-clause 4.3(a).

“Effective Date” means the date of entry into force of the Agreement resulting from Clause 20.

“EU” means the European Union.

“EURIBOR” means the percentage rate quoted by any financial news provider acceptable to the CEB at or about 11.00 a.m. Brussels time on the Interest Determination Date as the Euro wholesale funding rate administered by the European Money Market Institute (or any other entity which takes over the administration of that rate) for the same period as the relevant Interest Period.

If the relevant Interest Period is not the same as a period quoted by the relevant financial news provider, the applicable EURIBOR shall be the percentage rate resulting from a linear interpolation by reference to two (2) EURIBOR rates, one of which is applicable for a period of whole months next shorter and the other for a period of whole months next longer than the length of the relevant Interest Period.

“Euro” and the sign **“EUR”** means the lawful currency of the Member States of the EU which from time to time adopt it as their currency in accordance with the relevant provisions of the Treaty of the EU and the Treaty on the Functioning of the EU or their succeeding treaties.

“European Convention on Human Rights” means the Convention for the Protection of Human Rights and Fundamental Freedoms dated 4 November 1950, CETS No. 5, as amended from time to time.

“European Social Charter” means the European Social Charter dated 3 May 1996, CETS No. 163, as amended from time to time.

“Final Beneficiaries” are specified under Appendix 1 hereto as the group benefitting from the social effects of the Project.

“Financial Ratios” has the meaning specified under Sub-clause 6.6(b).

“Fixed Interest Rate” means the interest rate *per annum* specified in the applicable Disbursement Notice.

“Floating Interest Rate” means the interest rate *per annum* determined by adding or subtracting the Spread specified in the applicable Disbursement Notice to or from, as the case may be, the Reference Rate.

For the avoidance of doubt, when the determination of the Floating Interest Rate results in a negative interest rate (due to a quoted negative Reference Rate, to the operation of a Spread that is subtracted from the Reference Rate or to any other circumstances), the interest to be paid by the Borrower for the Interest Period shall be deemed to be zero.

“Forecasted Expenditure” means the eligible costs planned to be incurred under the Project over the period of one (1) year.

“Group” means the Borrower and all its subsidiaries, agencies and companies consolidated in its financial statements from time to time.

“Incurred Expenditure” means the eligible costs incurred by the Project Implementing Entity.

“Interest Determination Date” means, for the purposes of determination of a Floating Interest Rate, the day falling two (2) Business Days prior to the first day of the Interest Period, unless otherwise specified in the relevant Disbursement Notice.

“Interest Payment Dates” means the dates for the payment of interest corresponding to the relevant Interest Period specified in the applicable Disbursement Notice.

“Interest Period” means the period commencing on an Interest Payment Date and ending on the day immediately prior to the following Interest Payment Date, provided that the first Interest Period applicable to each Tranche shall commence on the Disbursement Date and end on the day immediately prior to the next Interest Payment Date.

“Loan” means the loan granted to the Borrower by the CEB by means of the Agreement.

“Loan Amount” means the amount specified under Sub-clause 4.1.

“Market Disruption Event” has the meaning specified under Sub-clause 4.10.

“Material Adverse Change” means any event which, in CEB’s opinion, (i) materially impairs the Borrower’s ability to perform its financial obligations under the Agreement or materially impairs the Borrower’s business, operations, property or prospects; (ii) adversely affects any Security provided by the Borrower or a third-party to secure the due performance of the Borrower’s financial obligations under the Agreement; or (iii) adversely affects any rights or remedies of the CEB under the Agreement.

“Maturity Date” means the last Principal Repayment Date for each Tranche specified in the applicable Disbursement Notice.

“Modified Following Business Day Convention” means a convention whereby if a specified date would fall on a day which is not a Business Day, such date would be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date would be the first preceding day that is a Business Day.

“Prepayment Confirmation” has the meaning specified under Sub-clause 4.7.

“Prepayment Costs” has the meaning specified under Sub-clause 4.7.

“Prepayment Date” has the meaning specified under Sub-clause 4.7.

“Prepayment Notice” has the meaning specified under Sub-clause 4.7.

“Principal Repayment Date(s)” means the date(s) for the repayment(s) of principal under each Tranche specified in the applicable Disbursement Notice.

“Principal Repayment Period” means with respect of each Tranche the period running from its Disbursement Date to its Maturity Date.

“Progress Report” has the meaning specified under Sub-clause 6.1(a).

“Prohibited Practices” has the meaning specified under Sub-clause 5.8.

“Project” means the eligible investments into education infrastructure set forth under Appendix 1 hereto to be partially financed with the Loan approved by the CEB’s Administrative Council with ref. LD 2188.

“Reference Rate” means EURIBOR for a Floating Interest Rate Tranche denominated in Euro.

“Sanction Lists” means (i) any economic, financial and trade restrictive measures and arms embargoes issued by the EU pursuant to chapter 2 of title V of the Treaty on European Union as well as article 215

of the Treaty on the Functioning of the European Union, as available on the official EU website¹ or on any successor page, as amended and supplemented from time to time; or (ii) any economic, financial and trade restrictive measures and arms embargoes issued by the United Nations Security Council pursuant to article 41 of the UN Charter, as available on the official UN website or on any successor page, as amended and supplemented from time to time.

“Sanctioned Persons” means any individual or entity listed in and/or otherwise subject to one or more Sanction Lists.

“Security” means any agreement or arrangement creating a preferential rank, a preferential right of payment, a collateral or guarantee of any nature whatsoever which might confer enhanced rights upon third parties.

“Spread” means, in connection with Floating Interest Rate Tranches, the fixed-spread to the Reference Rate (being either plus or minus) specified in basis points in the applicable Disbursement Notice.

“Tranche” means an amount disbursed or to be disbursed under the Loan.

1.2 Construction

Unless the context otherwise requires, references to:

- (i) this Agreement shall be construed as references to this Agreement as supplemented, amended or restated from time to time;
- (ii) a Party or any other person includes its successors in title or permitted transferee;
- (iii) "Clauses", "Sub-clauses" and "Recitals" shall be construed as references to clauses, sub-clauses and recitals respectively of this Agreement; and
- (iv) words importing the singular shall include the plural and vice-versa.

1.3 Headings

Headings in this Agreement have no legal significance and do not affect its interpretation.

1.4 Rounding

For the purposes of any calculations referred to in this Agreement:

- (i) all percentages resulting from such calculations other than those determined through the use of interpolation will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (*e.g.*, 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655));
- (ii) all percentages determined through the use of linear interpolation by reference to two (2) relevant Reference Rates will be rounded, if necessary, in accordance with the method set forth in subsection (a) above, but to the same degree of accuracy as the two (2) rates used to make the determination (except that such percentages will not be rounded to a lower degree of accuracy than the nearest one thousandth of a percentage point (0.001%)); and

¹ http://eeas.europa.eu/headquarters/headquarters-homepage/8442/consolidated-list-sanctions_en.

- (iii) all currency amounts used in or resulting from the above calculations will be rounded, unless otherwise specified in the relevant Currency definition, to the nearest two decimal places in the relevant currency (with .005 being rounded upwards (e.g., .674 being rounded down to .67 and .675 being rounded up to .68).

2. CONDITIONS

The Loan is granted under the general conditions of the Loan Regulations and under the special conditions of the Agreement.

3. PURPOSE

The CEB grants the Loan to the Borrower, who accepts it, solely for the purpose of financing the Project as described under Appendix 1.

Any change to the way the Loan is applied that has not received the CEB's prior written approval would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the early reimbursement, suspension or cancellation of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

4. FINANCIAL CONDITIONS

4.1 Loan Amount

The Loan Amount is:

ONE HUNDRED MILLION EUROS
EUR 100,000,000

4.2 Disbursement Amount

The Loan shall be disbursed in a minimum of two 2 Tranches. The amount of each Tranche shall be determined according to the Incurred Expenditure and/or Forecasted Expenditure. The amount of the first Tranche shall not exceed fifty per cent (50%) of the Loan Amount.

4.3 Disbursement Procedure

The disbursement of each Tranche is determined through the following procedure:

(a) Disbursement Request

Prior to each disbursement, the Borrower shall submit to the CEB a disbursement request substantially in the form set out under Appendix 3 hereto (hereinafter, a "**Disbursement Request**").

A Disbursement Request shall specify the proposed:

- (i) Currency(ies) and amount(s) for the Tranche;
- (ii) Disbursement Date; such Disbursement Date shall be a Business Day falling at least five (5) Business Days after the date of the Disbursement Request;

- (iii) Principal Repayment Date(s), including the Maturity Date, taking into account that the Principal Repayment Period for each Tranche shall not exceed twenty-three (23) years;
- (iv) maximum Fixed Interest Rate or maximum Spread to the Reference Rate;
- (v) Interest Period and Interest Payment Dates;
- (vi) Day Count Convention and Business Days; and
- (vii) Borrower's account for payments.

Each Disbursement Request delivered to the CEB shall be irrevocable, unless otherwise agreed in writing by the CEB.

(b) Disbursement Notice

If the CEB receives a Disbursement Request that complies with the Disbursement Request requirements set out in Sub-clause 4.3(a) above, and if all other relevant Disbursement Conditions as defined in Sub-clause 4.5 (*Disbursement Conditions*) below have been fulfilled by the Borrower, the CEB shall deliver to the Borrower a disbursement notice substantially in the form set out under Appendix 3 hereto (hereinafter, a "**Disbursement Notice**"). Each Disbursement Notice shall be delivered at least two (2) Business Days before the proposed Disbursement Date.

A Disbursement Notice shall specify:

- (i) the Currency(ies) and the amount(s) for the Tranche;
- (ii) the Disbursement Date;
- (iii) the Principal Repayment Period and Principal Repayment Date(s), including the Maturity Date;
- (iv) the Fixed Interest Rate or the Spread to the Reference Rate;
- (v) the Interest Period and the Interest Payment Dates;
- (vi) the Day Count Convention and the Business Days; and
- (vii) the Borrower's and the CEB's accounts for payments.

A Disbursement Notice matching the elements included in a Disbursement Request shall constitute an irrevocable and unconditional commitment on the part of the Borrower to borrow from the CEB and on the part of the CEB to disburse to the Borrower the Tranche under the terms and conditions specified in the Disbursement Notice.

Notwithstanding the above, if the CEB has not delivered a Disbursement Notice within twenty (20) Business Days following the receipt of a Disbursement Request, the relevant Disbursement Request shall be deemed as cancelled.

4.4 Disbursement Period

Unless otherwise agreed in writing by the CEB, the Borrower shall not be entitled to:

- (a) the issue of a Disbursement Request for the first Tranche beyond twelve (12) months after the execution of the Agreement by the Parties or beyond twenty-four (24) months after the approval of the loan application by the CEB's Administrative Council, whichever comes earlier;
- (b) the issue of any further Disbursement Request beyond eighteen (18) months after the last disbursement; or
- (c) the issue of any further Disbursement Request beyond the day falling fifteen (15) Business Days before the Closing Date.

4.5 Disbursement Conditions

- (a) Conditions precedent to the Disbursement Request for the first Tranche:
 - (i) Legal opinion in English issued by the City Attorney of the Borrower confirming to the CEB's satisfaction, substantially in the form set out under Appendix 2 hereto, that the Agreement has been duly executed by authorised representatives of the Borrower and that the Agreement is valid, binding and enforceable in accordance with its terms in the Borrower's jurisdiction.
 - (ii) Evidence in English (*e.g.*, statute, resolution, power of attorney, etc.) to the CEB's satisfaction of the person(s) authorised to execute the Agreement and the Disbursement Requests on behalf of the Borrower, together with the authenticated specimen of the signature(s) of such person(s).
 - (iii) A Certificate from the Borrower in the form of Appendix 4 hereto, signed by the person(s) authorised to execute the Disbursement Requests on behalf of the Borrower and dated not earlier than a date falling five (5) Business Days before the Disbursement Request.
 - (iv) Receipt of a Procurement Plan, in the form of Appendix 5 hereto, acceptable to the CEB.
- (b) Conditions precedent to any further Disbursement Request:
 - (i) Evidence in English (*e.g.*, Statute, Resolution, Power of Attorney, etc.) to the CEB's satisfaction of the person(s) authorised to execute the Disbursement Requests on behalf of the Borrower, together with the authenticated specimen of the signature(s) of such person(s).
 - (ii) Progress Report confirming to the CEB's satisfaction the full Allocation of the previous Tranche.
 - (iii) A Certificate from the Borrower in the form of Appendix 4, signed by the person(s) authorised to execute the Disbursement Requests on behalf of the Borrower and dated not earlier than a date falling five (5) Business Days before the Disbursement Request.

4.6 Repayment

On any Principal Repayment Date, the Borrower shall repay the principal of each Tranche due on that Principal Repayment Date in accordance with the terms set forth in the applicable Disbursement Notice.

4.7 Prepayment

- (a) Mechanics

If in any event specified in this Agreement referring to this Sub-clause the Borrower ought to prepay all or part of a Tranche or in the event of voluntary prepayment, the Borrower shall give at least a one (1) month prior written notice to the CEB (hereinafter, the **“Prepayment Notice”**) specifying the amounts to be prepaid, the date on which the prepayment will take place (hereinafter, the **“Prepayment Date”**) and, upon prior consultation with the CEB, the Prepayment Costs. The Prepayment Date shall fall on an Interest Payment Date, unless otherwise agreed in writing by the CEB.

Upon receipt of the Prepayment Notice, the CEB shall send a written notice to the Borrower (hereinafter, the **“Prepayment Confirmation”**), not later than five (5) Business Days prior to the Prepayment Date, indicating the accrued interest due thereon and the Prepayment Costs in accordance with Sub-clause 4.7(b).

A Prepayment Confirmation matching all the elements included in the Prepayment Notice shall constitute an irrevocable and unconditional commitment on the part of the Borrower to prepay the relevant amounts to the CEB under the terms and conditions specified in the Prepayment Confirmation.

If the Borrower partially prepays a Tranche, the prepaid amount shall be applied pro rata to each outstanding principal repayment. In such an event, the Prepayment Confirmation shall accordingly include an adjusted repayment schedule which shall be binding on the Borrower.

(b) Prepayment Costs

The costs resulting from prepayment in accordance with Sub-clause 4.7(a) (hereinafter, the **“Prepayment Costs”**) shall be determined by the CEB on the basis of the costs to it of redeploying the amount to be prepaid from the Prepayment Date to the Maturity Date, including any related costs, such as unwinding any underlying hedging arrangements. The costs of redeployment will be established on the basis of the difference between the original rate and the redeployment rate, which shall be determined by the CEB on the basis of market conditions on the date of the Prepayment Notice.

4.8 Interest Determination

The Borrower shall pay interest on the principal of each Tranche from time to time outstanding during each Interest Period at the Fixed Interest Rate/Floating Interest Rate specified in the applicable Disbursement Notice.

Interest shall (i) accrue from and including the first day of the Interest Period to but excluding the last day of such Interest Period; and (ii) be due and payable on the Interest Payment Dates specified in the applicable Disbursement Notice. Interest shall be calculated on the basis of the Day Count Convention specified in the relevant Disbursement Notice.

In the case of Floating Interest Rate Tranches, the CEB shall determine on each Interest Determination Date the interest rate applicable during the relevant Interest Period in accordance with the Agreement and promptly give notice thereof to the Borrower. Each determination by the CEB shall be final, conclusive and binding upon the Borrower unless shown by the Borrower to the satisfaction of the CEB that any such determination has involved manifest error.

4.9 Default Interest Rate

In the event that the Borrower fails to pay, in full or in part, any amount under the Agreement, and notwithstanding any other recourse available to the CEB under the Agreement or otherwise, the Borrower shall pay interest on such unpaid amounts from the due date until the date of receipt of such

payment by the CEB at the interest rate *per annum* equal to the one-month EURIBOR quoted on the due date plus two hundred basis points (200 bps) (hereinafter, the “**Default Interest Rate**”).

The applicable Default Interest Rate shall be updated every thirty (30) calendar days.

4.10 Market Disruption Event

The CEB shall promptly, upon becoming aware of it, notify to the Borrower that a Market Disruption Event has occurred.

For the purposes of the Agreement, “**Market Disruption Event**” refers to the following circumstances:

- (a) The relevant financial news provider referred to under the EURIBOR definition does not quote any percentage rate or its corresponding screen rate page is not accessible.

Under such a Market Disruption Event, the applicable EURIBOR shall be the percentage rate *per annum* determined by the CEB to be the arithmetic mean of the rates at which loans in Euro, in an amount identical or nearest comparable to the Loan amount in question and for a period identical or nearest comparable to the relative Interest Period, are offered on the Interest Determination Date by three (3) leading banks in the EU interbank market selected by the CEB. If at least two (2) quotations are provided, the applicable EURIBOR for that Interest Determination Date shall be the arithmetic mean of all quotations provided.

If only one (1) or no quotation is provided, the applicable EURIBOR shall be the percentage rate *per annum* determined by the CEB to be the arithmetic mean of the rates at which loans in Euro, in an amount identical or nearest comparable to the Loan amount in question and for a period identical or nearest comparable to the relative Interest Period, are offered on the second Business Day after the beginning of the relevant Interest Period by major banks in the EU interbank market selected by the CEB.

- (b) The CEB determines that it is not possible to determine the applicable Reference Rate in accordance with paragraph (a) above.

Under such a Market Disruption Event, the applicable Floating Interest Rate shall be replaced by the rate that expresses as a percentage rate *per annum* the cost to the CEB of funding the Loan from whatever source the CEB may reasonably select.

- (c) At any time between the delivery of a Disbursement Notice and the Disbursement Date the CEB reasonably determines that there are exceptional and unexpected circumstances of an economic, financial, political or other external nature adversely affecting the CEB’s access to its sources of funding.

Under such a Market Disruption Event, the CEB shall be entitled to cancel at no cost the scheduled disbursement.

In the case of the Market Disruption Events set forth under paragraphs (a) and (b) above:

- (i) If the Borrower so requires, the Parties, acting in good faith, shall enter into negotiations for a period of not more than thirty (30) calendar days in order to agree on an alternative to the applicable EURIBOR. If no agreement is reached, the Borrower shall proceed with prepayment on the next Interest Payment Date in the terms provided under Sub-clause 4.7.

- (ii) The CEB shall have the right, acting in good faith and in consultation with the Borrower to the extent reasonably practicable, to change the duration of any subsequent Interest Period to thirty (30) calendar days or less by sending to the Borrower a notice thereof. Any such change to an Interest Period shall take effect on the date specified by the CEB in such notice.

If the CEB determines that the relevant Market Disruption Event no longer exists, then, subject to any further Market Disruption Event occurring or existing, the Floating Interest Rate and/or Interest Period applicable to any relevant Tranche shall revert, from the first day of the following Interest Period to being calculated in accordance with the Floating Interest Rate and Interest Period specified in the relevant Disbursement Notice.

4.11 Payments

All the amounts due by the Borrower under this Agreement are payable in the Currency of each Tranche to the CEB's account indicated in the applicable Disbursement Notice. Any payment under this Agreement shall be made on a Business Day subject to the Modified Following Business Day Convention. Any payment shall be deemed paid when the CEB has received the amount on its account.

The Borrower or the bank instructed by the Borrower, as the case may be, shall send a written payment notice to the CEB at least five (5) Business Days before payment of any amounts due under this Agreement.

All payments to be made by the Borrower under this Agreement shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

If the CEB receives a payment that is insufficient to discharge all the amounts then due and payable by the Borrower under this Agreement, the CEB shall apply that payment in or towards payment of:

- (i) first, any fees, costs, charges or expenses due but unpaid under this Agreement;
- (ii) secondly, any accrued interest due but unpaid under this Agreement,
- (iii) thirdly, any principal due but unpaid under this Agreement; and
- (iv) fourthly, any other sum due but unpaid under this Agreement.

5. PROJECT IMPLEMENTATION

The Borrower shall implement the Project in accordance with the Agreement.

Failure to comply with the undertakings set forth hereby under Clause 5 would constitute, irrespective of any other applicable provision of the Loan Regulations, an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to (i) the relevant expenditure declared ineligible for Allocation under the Project; and/or (ii) the early reimbursement, suspension or cancellation of the Loan, in whole or in part, under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

5.1 Duty of Care

The Borrower shall apply all care and diligence, and shall exercise all typically used means (including, but not limited to, legal, financial, managerial and technical) required for the proper implementation of the Project.

5.2 Allocation Period

The Borrower shall allocate each Tranche to the Project within twelve (12) months after the relevant Disbursement Date (hereinafter, the **“Allocation Period”**), unless otherwise agreed in writing by the CEB.

If a Tranche disbursed by the CEB is not allocated to the relevant Components/Planned Works under the Project or is only partially allocated to it within the Allocation Period, the Borrower shall proceed with prepayment of the unallocated amounts on the next Interest Payment Date in the terms provided under Sub-clause 4.7.

5.3 Project Costs

The Tranches disbursed under the Loan shall not exceed fifty per cent (50%) of the total eligible costs of the Project specified under Appendix 1 hereto. If the Tranches disbursed under the Loan exceed the above 50% (by reduction of the total eligible costs or otherwise), the Borrower shall proceed with prepayment of the surplus on the next Interest Payment Date in the terms provided under Sub-clause 4.7.

Should the total eligible costs of the Project increase or be revised for whatever reason, the Borrower shall ensure that the additional financial resources for the completion of the Project are available without recourse to the CEB. The plans to finance the increased costs shall be communicated to the CEB without delay.

5.4 Project Specific Undertakings

The Borrower shall ensure that:

- (a) all the land, real property rights and permits required for the implementation of the Project are timely available;
- (b) all assets and plants under the Project are permanently insured, maintained and operated in accordance with international best practices; and
- (c) any other requirement specified in Appendix 1 (**“Specific Conditions”**) hereto is complied with.

5.5 Procurement

Procurement of supplies, works and services to be financed under the Project shall comply with the Procurement Guidelines.

5.6 Environmental and Social Safeguards

The Borrower shall implement the Project in conformity with the requirements set forth in the Environmental and Social Safeguards Policy. In particular, should any of the Project Components/Planned Works carried out under the Project require an Environmental Impact Assessment (EIA) or an Environmental and Social Impact Assessment (ESIA) in accordance with the

Environmental and Social Safeguards Policy, the Borrower shall notify the CEB and ensure that the EIA/ESIA is undertaken in accordance with the requirements of the Environmental and Social Safeguards Policy. The Borrower shall ensure that the relevant EIA/ESIA documentation is made available for the CEB's review upon request.

5.7 Human Rights

The Borrower shall ensure that the implementation of the Project does not give rise to a violation of (i) the European Convention on Human Rights; or (ii) the European Social Charter.

5.8 Integrity

The Borrower undertakes that:

- (a) it will institute and thereafter comply with internal policies, procedures and controls, in line with applicable legislation and international best practices, for the purpose of preventing the Borrower to become, in connection with the implementation of the Project or otherwise, an instrument for money laundering or terrorism financing;
- (b) it will not make any Loan proceeds available to or for the benefit of, directly or indirectly, any Sanctioned Person;
- (c) it will not commit, and no person, with its consent or prior knowledge, will commit, in connection with the implementation of the Project or any Sub-project a Corrupt Practice, a Fraudulent Practice, a Coercive Practice, a Collusive Practice or an Obstructive Practice (hereinafter, together with money laundering, terrorism financing and making available any Loan proceeds to Sanctioned Persons referred to as the "**Prohibited Practices**").

For the purposes of this Agreement:

- (i) A "**Corrupt Practice**" means any act of offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party.
- (ii) A "**Fraudulent Practice**" means any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit, or to avoid an obligation.
- (iii) A "**Coercive Practice**" means any act of impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of any party to influence improperly the actions of a party.
- (iv) A "**Collusive Practice**" means any arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.
- (v) An "**Obstructive Practice**" means, in relation to an investigation into a Coercive, Collusive, Corrupt or Fraudulent Practice, (a) any act of deliberately destroying, falsifying, altering or concealing of evidence material to the investigation; (b) any act of threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; and/or (c) any act intending to materially impede the exercise of the contractual rights of audit or access to information.

The Borrower undertakes to inform CEB if it should become aware of any fact or information suggestive of the commission of any such Prohibited Practice.

The Borrower undertakes:

- (i) to take timely such action as the CEB may reasonably request to investigate and/or terminate any alleged or actual Prohibited Practice;
- (ii) to facilitate any investigation that the CEB may conduct concerning any alleged or actual Prohibited Practice; and
- (iii) to inform the CEB of the measures taken to seek damages from the persons responsible for any loss resulting from any such Prohibited Practice.

The Director of Finance and Risk Management (CFO shall be responsible for contacts with the CEB for the purposes of this Sub-clause.

5.9 Visibility

The Borrower shall inform the Final Beneficiaries that the Project is partly financed by the CEB through appropriate means of communication such as dedicated notices in relevant websites, social media, press releases, brochures or the exhibit of billboards/plates on relevant Project sites/facilities. In any case, information to the Final Borrowers shall display in an appropriate way the CEB's name and logo.

6. MONITORING

6.1 Reporting

(a) Progress Reports

The Borrower shall send to the CEB a progress report (hereinafter, a **"Progress Report"**) (i) once a year, until the completion of the Project; and (ii) prior to every Disbursement Request, except for the Disbursement Request for the first Tranche.

Appendix 5 hereto provides a template specifying the minimum information required by the CEB. Alternative formats containing the same information may also be used.

In case any Sub-project to which the Tranche has been allocated does not comply with the eligibility criteria set forth under Appendix 1 hereto, the Borrower shall timely allocate the relevant amounts to other eligible Sub-projects or otherwise prepay the unallocated amounts to the CEB in accordance with Sub-clause 4.7.

(b) Completion Report

Upon completion of the Project, the Borrower shall submit a completion report (hereinafter, a **"Completion Report"**) including an appraisal of the Project's social impact.

Appendix 5 hereto provides a template specifying the minimum information required by the CEB. Alternative formats containing the same information may also be used.

6.2 Visits

The Borrower undertakes to favourably receive any monitoring/technical/evaluation visits, including by facilitating access to relevant Project sites/contractors, carried out by the CEB's staff members or designated third parties.

6.3 Audit

Should the Borrower fail to comply with any of its undertakings under the Agreement, the Borrower undertakes to favourably receive any on-site audit, carried out by the CEB's staff members or designated third parties, which shall be at the Borrower's expense.

6.4 Project Information

The Borrower shall keep accounting records concerning the Project, which shall be in conformity with international standards, showing, at any point in time, the Project's state of progress, and which shall record all operations made and identify the assets and services partially financed with the Loan.

The Borrower shall deliver to the CEB in a timely manner any information or document concerning the financing or the implementation (including in particular environmental/social and procurement issues) of the Project as the CEB may reasonably require.

The Borrower shall inform the CEB immediately of any event affecting the implementation of the Project, including but not limited to:

- (i) any action or protest initiated or any objection raised by any third party or any complaint received by the Borrower or any litigation that is commenced or threatened against it with regard to procurement or environmental/social or other matters in connection with the Project; or
- (ii) any enactment of or any amendment to any law, rule or regulation (or in the application or official interpretation of any law, rule or regulation) in connection with the Project or this Agreement.

Any event that may have a material adverse impact on the implementation of the Project would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the early reimbursement, suspension or cancellation of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

6.5 Borrower Information

The Borrower shall deliver every year by July 1st, in a form and substance satisfactory to the CEB, a summary of the Borrower's forecasts, annual budget and the related budget implementation and any such information on its general financial situation as the CEB may reasonably require from time to time.

The Borrower shall deliver to the CEB its audited annual consolidated and unconsolidated financial statements no later than by July 1st of the following year.

The Borrower shall inform the CEB of any Material Adverse Change immediately after becoming aware thereof. Any Material Adverse Change would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the early reimbursement, suspension or cancellation of the Loan

under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

6.6 Financial Covenants

(a) Cross-Default

The Borrower shall inform the CEB if any Cross-Default Event occurs. Any Cross-Default Event would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the suspension, cancellation or early reimbursement of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

For the purpose of this Agreement, “**Cross-Default Event**” means a situation in which, following any default in relation thereto, the Borrower is required or is capable of being required or will, following expiry of any applicable contractual grace period, be required or be capable of being required to prepay, repay or terminate ahead of maturity any Debt Instrument or any commitment in connection with any Debt Instrument is cancelled or suspended.

(b) Financial Ratios

The Borrower undertakes to comply and shall ensure that the Total Financial Indebtedness of the Borrower (i.e. Section A on a standalone basis) at the end of the relevant Measurement Period shall not exceed 100% (one hundred per cent) of the Current Revenues of the Borrower in such Measurement Period.

For the purposes of this Sub-Clause, the following definitions apply:

“**Current Revenues**” means the regular income of Section A as described in Article 64 of the Local Authorities Act No. 138/2011 and as further defined in Article 3 of Regulation No. 502/2012.

“**Local Authorities Act No. 138/2011**” means the Local Authorities Act No. 138/2011 of Iceland, as may be amended from time to time.

“**Measurement Period**” means a period of 12 (twelve) months ending 31 December each year.

“**Regulation No. 502/2012**” means the Regulation No. 502/2012 on financial criteria and supervision of municipal finances of the Minister of Transport and Local Government of Iceland, as may be amended and replaced from time to time.

“**Section A**” means the principal fund of the Borrower, whose activities are entirely or partially financed by tax revenue, as defined by Article 60 of the Local Authorities Act No. 138/2011.

“**Total Financial Indebtedness**” means the total debts and commitments of Section A as described in Article 64 of the Local Authorities Act No. 138/2011 and as further defined in Articles 3 and 14 in the Regulation No. 502/2012.

The Borrower shall certify the compliance with the ratio(s) referred to in this Sub-clause 6.6(b) (hereinafter, the “**Financial Ratios**”) by means of the Certificate, in the form included as Appendix 4 hereto (i) before disbursement of each Tranche, as required under Sub-clause 4.5; (ii) together with the annual budget, as required under Sub-clause 6.5 and accompanied by a statement from the Borrower’s external auditors confirming compliance with the Financial Ratios.

Failure to comply with the above provisions would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the suspension, cancellation or early reimbursement of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the*

Bank of undisbursed loans) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

7. PARI PASSU

Failure to comply with the provisions set forth below under Clause 7 would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the early reimbursement, suspension or cancellation of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

7.1 Ranking

The Borrower shall ensure that its payment obligations under this Agreement rank, and will rank, not less than *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations under its Debt Instruments except for obligations mandatorily preferred by law.

7.2 Security

Should a Security be granted for the performance of any of the Borrower's Debt Instruments, the Borrower shall timely inform the CEB of its intentions and shall, if so required by the CEB, provide to the CEB, within the deadline set forth in the CEB's notice, identical or equivalent Security for the performance of its financial obligations under this Agreement. For the purposes of the above, in case the Security intended to be granted is a pledge over revenues of the Borrower for a loan from the Municipality Credit Iceland Plc, the Borrower shall, if so required by the CEB, provide to the CEB, an equivalent Security.

This provision shall not apply to a Security:

- (i) created on property at the time of purchase solely as security for the payment of the purchase price or for the payment of debt incurred for the purpose of financing the purchase of such property; or
- (ii) securing a Debt Instrument maturing not more than one (1) year after the date on which it was originally incurred.

7.3 Clause by Inclusion

Should any of the Borrower's Debt Instruments include a loss-of-rating covenant, a financial ratios covenant or *pari passu* provisions that are not included in the Agreement or that are stricter than any equivalent provision of this Agreement, the Borrower shall so inform the CEB and shall, at the request of the CEB by means of a written notice, execute within the deadline indicated in the CEB's notice, an amendment to this Agreement to provide an equivalent provision in favour of the CEB.

7.4 Prepayment to Third Parties

Should the Borrower voluntarily prepay (for the avoidance of doubt, prepayment shall include a repurchase where applicable) in whole or in part any Debt Instrument and such prepayment:

- (i) is not made within a revolving credit facility which remains open for drawing on the same terms after such prepayment; or

- (ii) is not made out of the proceeds of another Debt Instrument having a term at least equal to the unexpired term of the prepaid Debt Instrument,

the Borrower shall inform the CEB. In such an event, and upon the CEB's request, the Borrower shall prepay to the CEB within two (2) months from any such prepayment the amounts disbursed under the Loan in accordance with Sub-clause 4.7 in such proportion as the prepaid amount bears to the corresponding Debt Instrument.

8. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants that:

- (a) it carries out its activities according to the laws, decrees, regulations and other texts applicable to it; in particular, it complies with the applicable laws on fraud, corruption, money laundering and financing of terrorism;
- (b) it is not and no member of its governing body or none of its officers, directors, agent or employees is a Sanctioned Person or is the subject of a final and irrevocable court ruling in connection with Prohibited Practices perpetrated in the exercise of its professional duties and none of them did or does enter into business relationships with Sanctioned Persons;
- (c) its competent bodies have authorised it to enter into the Agreement and have given the signatory(ies) the authorisation therefor, in accordance with the laws, decrees, regulations and other texts applicable to it;
- (d) the execution and delivery of, the performance of its obligations under and compliance with the provisions of this Agreement do not:
 - (i) contravene or conflict with any applicable law, statute, rule or regulation, or any judgment, decree or permit to which it is subject;
- (e) contravene or conflict with any applicable law, statute, rule or regulation, or any judgment, decree or permit to which it is subject;
 - (i) contravene or conflict with any Debt Instrument or any other agreement binding upon it which might reasonably be expected to give rise to a Material Adverse Change;
- (f) no event or circumstance is outstanding that constitutes a default under any Debt Instrument or any other agreement, which is binding on it or to which its assets are subject, which might reasonably be expected to give rise to a Material Adverse Change;
- (g) no Security has been granted to a third party in breach of Sub-clause 7.2;
- (h) no litigation, arbitration or administrative proceedings of or before any court, arbitral tribunal or agency which might reasonably be expected to give rise to a Material Adverse Change have (to the best of its knowledge and belief) been started or threatened against it; and
- (i) it has received a copy of the Loan Regulations, the Loan Policy, the Environmental and Social Safeguards Policy, the Procurement Guidelines and the Personal Data Protection Regulation and has taken note thereof.

The above representations and warranties are deemed repeated on the date of signature of each Disbursement Request and on the date of each Certificate. Any change in relation to the above representations and warranties must, for the entire Loan period, be notified and any supporting documents provided to the CEB immediately after the Borrower having become aware of the change.

If any of the above representations and warranties is or proves to have been incorrect or misleading in any respect, this would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the suspension, cancellation or early reimbursement of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

9. THIRD PARTIES

The Borrower may not raise any fact relating, within the scope of the use of the Loan, to its relations with third parties in order to avoid fulfilling, either totally or partially, the obligations resulting from the Agreement.

The CEB may not be involved in disputes which might arise between the Borrower and third parties and the costs, whatever their nature, incurred by the CEB due to any claims, and in particular all legal or court costs, shall be at the expense of the Borrower.

10. NON-WAIVER

In no case, including delay or partial exercise, shall it be presumed that the CEB has tacitly waived any right granted to it by the Agreement.

11. TRANSFER

The Borrower may not transfer any of its rights and/or obligations under the Agreement without the prior written consent of the CEB.

The Borrower hereby gives its consent to any transfer by the CEB of all or part of its rights and/or obligations under the Agreement.

12. ILLEGALITY

If it is or becomes unlawful in any jurisdiction for the CEB to make, maintain or fund the Loan or perform any of its obligations under this Agreement, this would constitute an event in the terms of Article 3.3 (h) of the Loan Regulations and may give rise to the suspension, cancellation or early reimbursement of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations.

13. NO HARDSHIP

Each Party hereby acknowledges that any applicable provision pursuant to which a Party may request the other Party to renegotiate the Agreement or may cease to perform its obligations hereunder, in case of a change of circumstances unforeseeable at the time of the conclusion of the Agreement which makes performance excessively onerous for a Party who had not agreed to assume such risk, shall not apply to it with respect to its obligations under the Agreement and that it shall not be entitled to many any claim under such provision.

14. GOVERNING LAW

The Agreement shall be governed by the rules of the CEB as specified in the provisions of Article 1, paragraph 3, of the Third Protocol (dated 6 March 1959) to the General Agreement on Privileges and Immunities of the Council of Europe (dated 2 September 1949) and, secondarily, if necessary, by French law.

15. DISPUTES

Disputes between the Parties shall be subject to arbitration under the conditions laid down in chapter 4 of the Loan Regulations.

The Parties agree not to take advantage of any privilege, immunity or legislation before any jurisdictional or other authority, whether domestic or international, in order to object to the enforcement of an award handed down under the conditions laid down in chapter 4 of the Loan Regulations.

In any legal action arising from this Agreement, the CEB's certificate as to any amount due or interest rate applicable under the Agreement shall, in the absence of manifest error, be *prima facie* evidence of such amount or interest rate.

16. DATA PROTECTION

The processing of any personal data collected under the Agreement shall be carried out by the CEB in accordance with the Data Protection Regulation.

17. NOTICES

Any notice (including any document or communication) to be given or made under or in connection with this Agreement to the CEB or the Borrower shall be in writing and unless otherwise stated, may be made by registered letter, electronic mail or facsimile. Such notice shall be deemed to have been received by the other Party:

- (i) in the case of a hand-delivered or registered letter, on the date of delivery;
- (ii) in the case of electronic mail, only when actually received in readable form and only if it is addressed in such a manner as the other Party shall specify for this purpose;
- (iii) in the case of electronic mail, which contains a Disbursement Notice, sent by the CEB to the Borrower, when the electronic mail is sent; and
- (iv) in the case of a facsimile, on receipt of transmission.

Any notice provided by the Borrower to the CEB by electronic mail shall:

- (i) mention the LD reference in the subject line; and
- (ii) be in the form of a non-editable electronic image (pdf, tif or any other common non editable file format agreed between the Parties) of the notice signed by the person or

persons duly authorised to sign such notice on behalf of the Borrower, attached to the electronic mail.

Without affecting the validity of notices by electronic mail or facsimile made in accordance with this Clause, the following notices shall also be sent by registered letter to the other Party at the latest on the immediately following Business Day:

- (i) Disbursement Requests;
- (ii) any communications in respect of the suspension, cancellation and/or early reimbursement of the Loan or in respect of a Prepayment Notice; and
- (iii) any other communication required by the CEB.

The Parties agree that any above notice (including via electronic mail) is an accepted form of communication, shall constitute admissible evidence in court and shall have the same evidential value as an agreement under hand.

The postal address, fax number and electronic mail address (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication to be given or made under or in connection with this Agreement is:

For the Borrower:

City of Reykjavik (Reykjavíkurborg)
Borgartun 12–14
105 Reykjavik
Iceland

Attention: Head of Treasury and Collection
E-mail: fjarstyring@reykjavik.is

For the CEB:

Council of Europe Development Bank
55 Avenue Kléber
75116 Paris
France

Attention: Head of Projects Division
E-mail: projects@coebank.org

The CEB and the Borrower shall promptly notify the other Party in writing of any change in their respective communication details.

All notices to be given or made under or in connection with the Agreement shall be in English or French or, if in another language, shall be accompanied by an English or French certified translation thereof, when so required by the CEB.

All notices to be given or made by the Borrower under or in connection with this Agreement shall, where required by the CEB, be delivered to the CEB together with satisfactory evidence of the authority of the person or persons authorised to sign such notice on behalf of the Borrower and the authenticated specimen signature of such person or persons.

18. TAXES AND EXPENSES

The Borrower shall pay, to the extent applicable, all taxes, duties, fees and other impositions of whatsoever nature, including stamp duty and registration fees, arising out of the execution, registration, implementation, termination or enforcement of the Agreement and/or any related document as well as of the creation, perfection, registration, enforcement or release of any Security required under the Agreement.

The Borrower shall bear all charges and expenses (including legal, professional, banking or exchange costs) incurred in connection with (i) the preparation, execution, perfection, implementation, termination and enforcement of this Agreement and/or any related document; (ii) any amendment, supplement or waiver in respect of this Agreement and/or any related document; and (iii) the preparation, execution, perfection, management, enforcement and release of any Security required under the Agreement.

Notwithstanding the above, Article 4.7 (*Cost of arbitration*) of the Loan Regulations shall apply regarding the costs of the arbitration set forth under Clause 15.

19. DISCHARGE

After repayment of all outstanding principal under the Loan as well as payment of all interests and other expenses resulting from the Agreement, including in particular those amounts under Sub-clause 4.9 and Clause 18, the Borrower shall be fully released from its obligations arising out of or in connection with this Agreement.

Without prejudice of the above, the Borrower shall nevertheless undertake, for a period not exceeding six (6) years following the receipt of a Completion Report to the CEB's satisfaction confirming to the CEB's satisfaction the full Allocation of all amounts disbursed under the Loan (i) to keep the Project-related documentation; and (ii) to favourably receive any evaluation visits, including by facilitating access to relevant Project/Sub-project sites carried out by the CEB's staff members or designated third parties.

20. ENTRY INTO FORCE

The Agreement shall enter into force upon execution by the Parties.

IN WITNESS THEREOF the Parties have caused the Agreement to be executed in two (2) originals, each of which is equally valid[, and have caused their signatories specified below to initial each page of this Agreement on their behalf]. One (1) original is kept by each of the Parties.

For the Borrower

City of Reykjavik, on [•]

Einar Þorsteinsson/Mayor of Reykjavik

For the CEB

Paris, on [•]

[The Governor/Vice-Governor]

APPENDIX 1

Project Description

I.	LD	2188 (2024)
	Borrower	City of Reykjavik
	Loan Type	Public Sector Financing Facility (PFF)
	Loan Amount	EUR 100,000,000
	Approval by the CEB's Administrative Council	25 March 2024
II.	Sector(s) of action	Education and vocational training
	Components/Planned Works	<p>The components / works planned to be co-financed by the Loan comprise of major maintenance works under the Borrower's maintenance boost scheme, as well as renovation and expansion works in accordance to the condition assessment of the buildings to be carried out by the Borrower.</p> <p>Maintenance works</p> <p>Major maintenance works have been prioritized with the goal of ensuring safe and healthy conditions for pupils and school staff at all times. Prioritization was based on the following factors: (i) ensuring user safety; (ii) ensuring a healthy environment (with a focus on air, moisture, mould and acoustics); (iii) improving access for all; (iv) preventing damage to structures, and (v) efficient use of funds. Green solutions will be used as a guide in the selection of materials and for energy-saving measures. The list of educational facilities requiring major maintenance works are expected to be reviewed regularly.</p> <p>A total of 128 facilities in Reykjavik require major maintenance works, including 41 compulsory schools, 71 pre-schools and 16 recreational facilities.</p> <p>The Borrower has classified schools requiring major maintenance works based on the urgency of the interventions to develop a timeline for the implementation of the maintenance boost scheme. A total of 36 facilities are in the highest priority list, including 18 pre-schools, 13 compulsory schools, and 5 recreational and after-school facilities, spread across 8 districts of Reykjavik.</p> <p>Renovation works</p> <p>The Borrower has identified 22 compulsory schools requiring renovation works, including 2 of the 5 compulsory schools with the highest Learning Opportunity</p>

	<p>Index (the LOI)². In addition, the Borrower is in the process of identifying pre-schools requiring renovation works. The same prioritization criteria used for the maintenance boost scheme describe above are applied to identify educational facilities requiring renovation. All renovations will be carried out in line with the priorities set in the Education Policy and the Green Plan of the Borrower. School renovation is expected to integrate changes in the design of the physical environment in line with modern teaching methods.</p> <p>Expansion works</p> <p>The Borrower has made a separate assessment to identify the need for expansion works in educational facilities. Based on information provided during the CEB’s technical review, the Borrower has identified 6 compulsory schools which will require expansion works to accommodate an increase in demand in addition to renovation works. The Borrower is also planning expansions works for a number of pre-schools, and the identification of pre-schools requiring expansion is ongoing.</p>												
Location	City of Reykjavik, Iceland												
Final Beneficiaries	Beneficiaries include all school children and adolescents enrolled in the pre-school and compulsory schools in the City of Reykjavik.												
Project Total Cost	EUR 223,000,000												
Indicative Financing Plan	<table border="1"> <thead> <tr> <th>Sources</th> <th>Amount (in MMEUR)</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>CEB</td> <td>100</td> <td>45</td> </tr> <tr> <td>City of Reykjavik</td> <td>123</td> <td>55</td> </tr> <tr> <td>Total</td> <td>223</td> <td>100</td> </tr> </tbody> </table>	Sources	Amount (in MMEUR)	%	CEB	100	45	City of Reykjavik	123	55	Total	223	100
Sources	Amount (in MMEUR)	%											
CEB	100	45											
City of Reykjavik	123	55											
Total	223	100											
Eligible Budgetary Years	2023 - 2028												
Closing Date	30 June 2029												

III. Eligibility Criteria	<p>The CEB’s financing for education and vocational training aims to support inclusive, equitable, high-quality education that fosters better learning outcomes and social cohesion. To this end, the CEB finances projects that enable the efficient use of education infrastructure and enable innovative teaching and learning methods.</p> <p>Eligible investments to be financed by the Loan include:</p> <ul style="list-style-type: none"> • Construction and/or expansion, rehabilitation and modernisation of early childhood education
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² The LOI is an innovative index developed by the Borrower which ranks each compulsory school based on external challenges affecting student learning outcomes. It is composed on variables which are aggregated into a single index and allows assess the socio-economic vulnerability at the school level.

	<p>facilities, primary and secondary schools, secondary vocational technical colleges, vocational training centres, establishments of higher education or specialised learning and/or research and development centres.</p> <ul style="list-style-type: none"> • Sports and socio-cultural centres/equipment as well as residence facilities pertaining to such establishments, learning materials, furniture and equipment. • Adaptation of such premises in order to facilitate accessibility for persons with reduced mobility. • Continuing training and lifelong learning programmes for social and education professionals. • Basic infrastructure needed to ensure access to basic services for the education establishments and their beneficiaries, including water supply and wastewater, solid waste collection and treatment, electricity and gas, IT infrastructure and communications facilities (such as telephone, internet, cable, etc.). • Measures to boost energy efficiency and strengthen resilience to a changing climate – including school design that can increase overall community resilience. • Private establishments must be state-approved, with recognition of diplomas and degrees at national level and in compliance with the criteria established for these types of establishment.
<p>Eligible Costs</p>	<p>The eligible expenditures under the Loan include:</p> <ul style="list-style-type: none"> (a) the construction/renovation/modernisation or purchase of buildings directly linked to the Project; (b) the installation of basic infrastructure, such as sewerage, water supply, gas supply, electricity and telecommunications networks, waste disposal and waste water treatment, roads, etc.; (c) the maintenance of the viability and sustainability of the public services; and (d) the purchase of materials, equipment and machinery, including IT equipment and software. <p>The Loan cannot cover staff costs (wages/salaries and other related benefits, such as pension payments),</p>

	<p>financial charges and non-cash items, such as depreciation.</p> <p>Financial costs (payment and/or refinancing of debts, interest charges, acquisition of interest in the capital of an enterprise, etc.) or financial investments cannot be included in the estimated cost of the Project and cannot be financed by the CEB.</p> <p>Value-added tax (VAT) and other tax-related costs are considered as eligible costs if they are non-deductible and non-refundable for the Borrower.</p>
Specific Conditions	<p>1. The Borrower shall ensure that the Loan proceeds are used to finance the major maintenance works in the 5 compulsory schools with the highest LOI in Reykjavik, in line with the planned schedule of works.</p>

IV. Social impact	<p>The Project is expected to have a significant social impact, as it aims to enhance learning environments for all children in Reykjavik, including also those from migrant families, Ukrainian refugees, and recently internally displaced families from the volcano-affected town of Grindavík.</p> <p>More specifically, the major maintenance works are expected to lead to an improvement in the quality, safety and health conditions of educational infrastructure, and contribute to favourable conditions for learning for all children and adolescents enrolled in schools. One of the main expected benefits is an improvement in indoor air quality in educational facilities by improving ventilation systems to reduce the chance of mould formation, with associated health benefits for students. Works are also expected to improve the quality of recreational facilities, providing children and adolescents with improved access to sports and after-school facilities, such as music classes. Accessibility of educational facilities will be enhanced in line with national regulations. Evidence indicates that major maintenance works contribute to favourable conditions for learning by improving the quality of educational infrastructure. In particular, the available literature indicates that four measurable factors (light, air quality, temperature, and acoustics) contribute to favourable conditions for learning³. All works will also contribute to promote universal access design of educational facilities, by ensuring that all renovated and new constructions have gender-neutral toilets.</p> <p>Renovation works are expected to lead to better learning spaces in line with modern teaching methods. School</p>
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³ See CEB publication [“Constructing Education: An Opportunity not to be Missed”](#).

renovation works includes the re-organization of the physical space of educational facilities to ensure that it is conducive to expanded opportunities for diverse learning (e.g. by transition from classroom to open, shared spaces) provided that teachers are involved from the outset in the design of the physical environment and trained to make best use of the new spaces. Based on information provided by the Borrower, all renovations will be designed with the view of making the school environments more suitable for modern teaching methods in accordance with the Borrower's educational policies. Major maintenance and renovation works will also lead to savings for the Borrower's operations. Works are expected to improve the energy efficiency of buildings and reduce the probability of costly major maintenance in the future.

Expansion works will lead to an increase in the capacity of educational facility to accommodate the increase in demand. Expansion works are expected to be concentrated in neighbourhoods where higher than average population growth is expected.

Based on available empirical evidence, the main vulnerability factors affecting learning outcomes in Iceland are socio-economic background and migrant status. The socio-economic status and the language spoken at home are the two factors that negatively affect students' learning outcomes. Given that in Reykjavik, the number of pupils with a migrant background is increasing with above 25% of pupils in public schools are ISAT (they do not speak Icelandic at home). The share of ISAT pupils is estimated to have increased from 21% to 29% in pre-schools and from 11% to 24% in compulsory schools over the period 2015-2023. The number of immigrant students is one of the variables included in the LOI, which identifies the schools with the highest share of students from a disadvantaged socio-economic background and is highly correlated with the percentage of ISAT students.

With the LOI accessible for all compulsory schools, the tracking of financing allocations to schools with elevated LOI rankings will allow the CEB to effectively gauge and assess the social impact of its funding, particularly in schools with high number of pupils with migrant background. It has been agreed with the city counterparts that the CEB loan will be channelled to finance the major maintenance works for the 5 compulsory schools with the highest LOI ranking.

The Borrower also plans to compute the LOI for pre-schools by August/September 2024 subject to receiving the relevant data from Statistics Iceland. This will further refine the allocation of CEB financing to priority pre-schools with high LOI rankings, thereby enhancing the

	<p>efficacy and impact of the educational investments in Reykjavik.</p> <p>Overall, the improved physical condition of the schools and the sufficient and adequate school space is an enabling precondition for successful implementation of the Borrower providing conducive learning environment for all children, as well as for implementing the measures for the children with migrant background, discussed above, further underlying the social value of the project.</p>
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APPENDIX 2

Form of Legal Opinion (Framework Loan Agreement)

[INSERT LETTERHEAD]

Council of Europe Development Bank
55, avenue Kléber
75116 Paris (France)

Attn: Projects Department
Cc: Office of the General Counsel

[INSERT DATE]

Re: **Framework Loan Agreement between the Council of Europe Development Bank and [●](Ref: L/D [●])**

Dear Sir or Madam,

I/We have acted as legal advisor/s as to matters of [INSERT JURISDICTION] law to [●] (the “**Borrower**”) in relation to the Framework Loan Agreement between the Council of Europe Development Bank (the “**CEB**”) and the Borrower dated [●] and effective as of [●] (the “**Agreement**”) and issue this opinion pursuant to Article [●] of the Agreement.

For the purposes of this opinion, I/we have examined a copy of the Agreement and such other documents, acts or treaties as I/we have considered necessary or desirable to examine in order to issue this opinion. In particular, for the purposes of identifying the duly empowered representatives of the Borrower, I/we have examined:

[PLEASE INSERT LIST OF DOCUMENTS]

Terms defined in the Agreement shall have the same meaning herein, unless otherwise specified.

Based on the foregoing, I am/we are of the opinion that:

- a. [INSERT ONLY FOR CORPORATIONS OR SIMILAR ENTITIES] **Status and incorporation.** The Borrower is a [INSERT CORPORATE FORM OF THE BORROWER], duly organised and validly existing under the laws of [INSERT JURISDICTION], having its registered office at [●], and registered with [INSERT THE NAME OF TRADE/COMPANIES REGISTER] under registration number [●].
- b. **Capacity, power and authority.** The Borrower has the legal capacity, power and authority to enter into the Agreement and perform its obligations thereunder.
- c. **Internal authorisations.** All action required from the Borrower for the execution, delivery and performance of the Agreement, including any required authorisation from its competent bodies, has been duly and effectively taken. In particular, no further action is required from the Borrower, apart from execution by a duly

empowered representative of the Borrower, in order to issue a Disbursement Request under the Agreement.

- d. **[Constitutive documents]**. The execution by the Borrower of the Agreement does not, and the performance by the Borrower of the obligations to be assumed by it thereunder will not, violate or conflict with any provision of its [INSERT NAME OF CONSTITUTIVE DOCUMENT] or other constitutive documents of the Borrower.]
- e. **[No insolvency]**. No steps taken to order the commencement of any recovery proceedings or bankruptcy proceedings and/or to appoint a bankruptcy administrator or a liquidator over the Borrower were recorded with [INSERT THE NAME THE COURT/TRADE REGISTRY WHERE SUCH PROCEEDINGS WOULD BE RECORDED], and no termination of operations or dissolution of the Borrower was recorded, as at the date of the [●].]
- f. **Due execution and validity**. The Agreement was duly executed by [INSERT NAME OF THE SIGNATORY/IES] as duly empowered representative(s) of the Borrower and gives rise to legally valid, binding and enforceable undertakings for the Borrower.
- g. **External authorisations, public consents and filings**. No authorisations, consents, licences, exemptions, filings, notarisations or registrations are required in [INSERT JURISDICTION] in connection with the execution, delivery or performance of the Agreement in order to give rise to legally valid, binding and enforceable undertakings for the Borrower and for the Agreement to be admissible in evidence in [INSERT JURISDICTION].
- h. **Tax/Stamp duties**. The execution of the Agreement is not subject to any tax or stamp duties in [INSERT JURISDICTION].
- i. **Choice of law**. The submission by the Borrower to the rules of the CEB as specified in the provisions of Article 1, paragraph 3, of the Third Protocol (dated 6 March 1959) to the General Agreement on Privileges and Immunities of the Council of Europe (dated 2 September 1949) and secondarily to the laws of France is legally valid and binding on the Borrower under the laws of [INSERT JURISDICTION].
- j. **Arbitration**. The submission by the Borrower to the Arbitral Tribunal set forth under Chapter 4 of the CEB's Loan Regulations with respect to any dispute arising out of the Agreement is legally valid and binding on the Borrower. Any award of such Arbitral Tribunal is enforceable in [INSERT JURISDICTION] in accordance with the terms of Article 3 of the Third Protocol (dated 6 March 1959) to the General Agreement on Privileges and Immunities of the Council of Europe (dated 2 September 1949).

Yours faithfully,

[●]

[INSERT NAME(S)/TITLE(S)]

APPENDIX 3

DISBURSEMENT REQUEST (TEMPLATE)

LD [●] – [●] Tranche

With reference to the Framework Loan Agreement dated [●] (hereinafter, the “**Agreement**”) between the Council of Europe Development Bank (hereinafter, the “**CEB**”) and [BORROWER] (hereinafter, the “**Borrower**”), the Borrower hereby requests the CEB, in accordance with Sub-clause 4.3(a) of the Agreement, to proceed with the disbursement of a Tranche under the specific terms and conditions set out below.

Terms defined in the Agreement shall have the same meaning herein, unless otherwise specified.

Currency/Amount ⁴	[●]		
Disbursement Date	[●]		
Principal Repayment Period	[●] years [including a grace period of [●] years]		
Principal Repayment Date(s)	[●]		
Maturity Date	[●]		
Interest Rate	Fixed	Maximum [●] <i>per annum</i>	
	Floating	Reference Rate:	[[●]-month EURIBOR/INSERT ANY OTHER REFERENCE RATE] <i>per annum</i>
		Spread	Maximum [●] basis points
Interest Period	[Quarterly] [Semi-annually] in arrears		
Interest Payment Dates	The interest payment will take place on [●] every year and for the first time on [●]		
Day Count Convention	Modified Following Business Day Convention		
Business Day	[●]		
Borrower’s Account	Beneficiary’s Name	[●]	
	Beneficiary’s Bank	Name	[●]
		City	[●]
		SWIFT	[●]
		IBAN	[●]
		Reference	[●]
	Correspondent Bank (if applicable)	Name	[●]
		City	[●]
		SWIFT	[●]
		IBAN	[●]

[●], on [●].

For the Borrower
[INSERT NAME(S)/TITLE(S)]

⁴ [In case of Sub-Tranches, a separate table shall indicate the Amount, Principal Repayment Period, Principal Repayment Date(s), Interest Rate, Interest Period, Interest Payment Dates for each Sub-Tranche.]

DISBURSEMENT NOTICE (TEMPLATE)

LD [●] – [●] Tranche

In response to your Disbursement Request dated [●] with reference to the Framework Loan Agreement dated [●] (hereinafter, the “**Agreement**”) between the Council of Europe Development Bank (hereinafter, the “**CEB**”) and [BORROWER] (hereinafter, the “**Borrower**”), the CEB hereby notifies to the Borrower, in accordance with Sub-clause 4.3(b) of the Agreement, the terms and conditions of the disbursement of the relevant Tranche.

Terms defined in the Agreement shall have the same meaning herein, unless otherwise specified.

Currency/Amount ⁵	[●]			
Disbursement Date	[●]			
Principal Repayment Period	[●] years [including a grace period of [●] years]			
Principal Repayment Date(s)	[●]			
Maturity Date	[●]			
Interest Rate	Fixed	[●] <i>per annum</i>		
	Floating	Reference Rate:	[[●]-month EURIBOR/INSERT ANY OTHER REFERENCE RATE] <i>per annum</i>	
		Spread	[●] basis points	
Interest Period	[Quarterly] [Semi-annually] in arrears			
Interest Payment Dates	The interest payment will take place on [●] every year and for the first time on [●]			
Day Count Convention	Modified Following Business Day Convention			
Business Day	[●]			
Borrower’s Account	Beneficiary’s Name	[●]		
	Beneficiary’s Bank	Name	[●]	
		City	[●]	
		SWIFT	[●]	
		IBAN	[●]	
		Reference	[●]	
	Correspondent Bank (if applicable)	Name	[●]	
		City	[●]	
		SWIFT	[●]	
		IBAN	[●]	
CEB’s account	Beneficiary’s Name	Council of Europe Development Bank		
	Beneficiary’s SWIFT	CEFPFRPP		
	Beneficiary’s Bank	Name	Deutsche Bank	
		City	Frankfurt (Germany)	
		SWIFT	DEUTDEFF	
		IBAN	DE44 5007 0010 0928 7384 00	

Paris, on [●]

For the CEB
[INSERT NAME(S)/TITLE(S)]

⁵ [In case of Sub-Tranches, a separate table shall indicate the Amount, Principal Repayment Period, Principal Repayment Date(s), Interest Rate, Interest Period, Interest Payment Dates for each Sub-Tranche.]

APPENDIX 4

Form of Certificate

[INSERT LETTERHEAD]

To: Council of Europe Development Bank
From: [BORROWER]
Date: [NOT EARLIER THAN FIVE (5) BUSINESS DAYS BEFORE THE DISBURSEMENT REQUEST]
Subject: Framework Loan Agreement between Council of Europe Development Bank and [BORROWER] dated [●] (the “**Agreement**”).

Dear Sir or Madam,

Terms defined in the Agreement have the same meaning when used in this Certificate. For the purposes of Sub-clause 4.5 and Sub-clause 6.6(b)]of the Agreement, we hereby certify to you as follows:

- (a) No Material Adverse Change has occurred, as compared with the situation at the date of signature of the Agreement;
- (b) No Cross-Default Event has occurred;
- (c) No breach of the Financial Ratios has occurred; [PLEASE ENCLOSE SUPPORTING DOCUMENTATION] [PLEASE ENCLOSE STATEMENT FROM EXTERNAL AUDITOR'S CONFIRMING COMPLIANCE WITH THE FINANCIAL RATIOS, IF APPLICABLE]
- (d) None of the Borrower's Debt Instruments includes loss-of-rating, financial ratios or *pari passu* provisions that are stricter than any equivalent provision of the Agreement;
- (e) The representations and warranties to be made or repeated by us under Clause 8 of the Agreement are true in all respects; in particular, no Security has been granted to a third party in breach of Sub-clause 7.2 of the Agreement; and
- (f) No event or circumstance which could give rise to the early reimbursement, suspension or cancellation of the Loan under the terms of Articles 3.3 (*Early reimbursement of disbursed loans*), 3.5 (*Suspension by the Bank of undisbursed loans*) and 3.6 (*Cancellation by the Bank of undisbursed loans*) of the Loan Regulations has occurred or may reasonably be expected to/is likely to occur.

For the [BORROWER]

[INSERT NAME(S)/TITLE(S)]

APPENDIX 5

Progress Report / Completion Report

TABLE 1: STATE OF ALLOCATION - PROGRESS / COMPLETION REPORT (Template)

To be provided within 12 months following the disbursement date of each tranche

Project: FIP 20874 (2024) - Iceland - "Improving education infrastructure in Reykjavik"

Borrower: City of Reykjavik

CEB Sector of action: Education and vocational training

Reporting Date: DD/MM/YYYY

SUB-PROJECT DESCRIPTION						OUTPUTS						COST & EXPENDITURES																	
Investment Component	Name of the Sub-Project	Location	Type of infrastructure [1]	Works Schedule		Sub-Project Subject to EIA	Total Number of schools built/renovated		Total gross area (sqm)		End beneficiaries (number)		TOTAL ESTIMATED COST (at project approval)	REVISED COST (during implementation)	Committed budget for 2023-2028	Contracted 2023	Contracted 2024	...	Contracted 2028	TOTAL CONTRACTED (Cumulative 2023-2028)	Spent 2023	Spent 2024	...	Spent 2028	TOTAL SPENT (Cumulative 2023-2028)	PROGRESS (Total spent / Total contracted)			
				Start MM/YYYY	End MM/YYYY		Yes/No	Planned	Actual Number (during implementation)	Planned	Actual Number (during implementation)	Planned	Actual Number (during implementation)	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	%
Component 1 - Maintenance Boost Scheme																													
Sub-Project 1																													
Sub-Project 2																													
Sub-Project 3																													
Sub-Project 4																													
Sub-Project 5 ...																													
Sub-total Component 1																													
Component 2 - Renovation of Educational Infrastructure																													
Sub-Project 1																													
Sub-Project 2																													
Sub-Project 3																													
Sub-Project 4																													
Sub-Project 5 ...																													
Sub-total Component 2																													
Component 3 - Expansion of Educational Infrastructure																													
Sub-Project 1																													
Sub-Project 2																													
Sub-Project 3																													
Sub-Project 4																													
Sub-Project 5 ...																													
Sub-total Component 3																													
TOTAL (1 + 2 + 3)																													

[1] K = kindergarten/pre-schools; C = compulsory schools; R = recreational and after-school facilities

Financing Plan at Project Approval	EUR	%
CEB Loan (max 50% of total eligible costs)	100 000 000	45%
City of Reykjavik - Own funds	123 000 000	55%
Other Financing Resources - if any (please specify)		
TOTAL	223 000 000	100%

Financing Plan during Project Implementation	EUR	%
CEB Loan (at Completion: max 50% of the total spent)		
City of Reykjavik - Own funds		
Other Financing Resources if any (please specify)		
TOTAL		

TABLE 2: INDICATORS - PROGRESS / COMPLETION REPORT (Template)

Project: **FIP 20874 (2024) - Iceland - "Improving education infrastructure in Reykjavik"**

Borrower: **City of Reykjavik**

CEB Sector of action: **Education and vocational training**

Reporting Date: **DD/MM/YYYY**

PHYSICAL/SOCIAL OUTPUTS/OUTCOMES	Actual progress during implementation		At Project completion	
	Number of facilities	Number of beneficiary children/pupils/users <i>(as relevant)</i>	Number of facilities	Number of beneficiary children/pupils/users <i>(as relevant)</i>
<i>Pre-schools benefiting from:</i>				
1) major maintenance works				
2) renovation works				
3) expansion works				
<i>Compulsory schools benefiting from:</i>				
1) major maintenance works				
2) renovation works				
3) expansion works				
<i>Compulsory schools in the top 5 LOI ranking benefiting from:</i>				
1) major maintenance works				
2) renovation works				
<i>Recreational and after-school facilities that benefited from:</i>				
1) major maintenance works				
2) renovation works				
3) expansion works				
CLIMATE INDICATORS	Unit	Project Targets	Actual progress during implementation	At Project completion
Average energy performance of buildings renovated	kWh/m2/year	137		
Average energy efficiency improvements in renovated buildings	%	38%		

TABLE 3 - PROCUREMENT PLAN FOR THE YEAR XXXX

Country: **Iceland**

Project: **FIP 20874 (2024) - Iceland - "Improving education infrastructure in Reykjavik"**

Borrower: **City of Reykjavik**

Reporting Date: DD/MM/YYYY

1. Civil Works

1	2	3	4	5	6	7	8	9	10	11	12	13
Ref. No.	Contract Description	Estimated Cost Local currency	Estimated Cost EUR	Financed by	Number of Lots	Procurement Method	Domestic Preference (yes/no) %	Review by the Bank (PRIOR/POST)	Expected Date of Bid Launching	Expected Date of Bid Opening	Expected Date of Bid Evaluation	Expected Date of Contract Signature

2. Goods

1	2	3	4	5	6	7	8	9	10	11	12	13
Ref. No.	Contract Description	Estimated Cost Local currency	Estimated Cost EUR	Financed by	Number of Lots	Procurement Method	Domestic Preference (yes/no) %	Review by the Bank (PRIOR/POST)	Expected Date of Bid Launching	Expected Date of Bid Opening	Expected Date of Bid Evaluation	Expected Date of Contract Signature

3. Services

1	2	3	4	5	6	7	8	9	10	11	12	13
Ref. No.	Description of Assignment	Estimated Cost Local currency	Estimated Cost EUR	Financed by	Number of Lots	Selection Method	Domestic Preference (yes/no) %	Review by the Bank (PRIOR/POST)	Expected Date of Bid Launching	Expected Date of Bid Opening	Expected Date of Bid Evaluation	Expected Date of Contract Signature

NB: In column 5 please specify the financing sources expected to be used, e.g.: CEB, Own Budget, etc.

NB: The column 8 "Domestic Preference" must be filled in only in the case of ICB Procurement Method. In the case of other Procurement Methods, please insert "N/A".

NB: The column 9 "Review by the Bank" will be filled in by CEB.