

CONFORMED COPY

CREDIT NUMBER 2651 CHA

Development Credit Agreement
(Basic Education in Poor and Minority Areas Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 8, 1994

CREDIT NUMBER 2651 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 8, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Allocated Amount" means, in respect of each Participating Province, an amount of the Credit allocated by the Borrower to said Participating Province and to be utilized by said Participating Province for purposes of carrying out its respective Education Program.

(b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) "Education Program" means, in respect of each Participating Province, one (or more) program(s) under Parts A, B and/or C of the Project, which satisfies(satisfy) the requirements set forth or referred to in Part B.2 of Schedule 4 to this Agreement, and which is(are) to be carried out by said Participating Province utilizing the proceeds of its respective Allocated Amount.

(d) "Education Program Implementation Arrangements" means, in respect of each Education Program, the implementation arrangements, referred to in Part B.3 of Schedule 4 to this Agreement, to be entered into between the Borrower and the Participating Province which proposes to carry out said Education Program, as the same may be amended from time to time.

(e) "IAG" means the innovation assessment group referred to in Part A.1(b) of Schedule 4 to this Agreement.

(f) "Innovation Program" means, in respect of each Participating Province, the research programs under Part C of the Project, which satisfy the requirements set forth or referred to in Part C.1 of Schedule 4 to this Agreement, and which are to be carried out by said Participating Province under its respective Education Program.

(g) "Participating Counties" means, in respect of each Participating Province, those counties in said Participating Province in which said Participating Province proposes to carry out an Education Program, and "Participating County" means any of the Participating Counties.

(h) "Participating Province" means a province or autonomous region of the Borrower which satisfies the requirements set forth in Part B.1 of Schedule 4 to this Agreement and to which the Borrower proposes to allocate or has allocated an Allocated Amount.

(i) "SEdC" means the Borrower's State Education Commission.

(j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(k) "Yuan" means the currency unit of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixty nine million two hundred thousand Special Drawing Rights (SDR 69,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in

Dollars a special deposit account in a commercial bank satisfactory to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing February 1, 2005 and ending August 1, 2029. Each installment to and including the installment payable on August 1, 2014 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified

for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall carry out Part D of the Project and cause the Participating Provinces to carry out Parts A, B and C thereof, all with due diligence and efficiency and in conformity with appropriate economic, financial, administrative, technical and education practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall (i) carry out the Project or cause the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, and (ii) take such further actions as are referred to in said Implementation Program, or cause such further actions to be taken, in accordance with the provisions thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records;

and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) Any of the Participating Provinces shall have failed to perform any of its obligations under the Education Program Implementation Arrangements to which it is a party.

(b) As a result of events which have occurred after the date of the Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Participating Province will be able to perform its obligations under the Education Program Implementation Arrangements to which it is a party.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions:

(a) Education Program Implementation Arrangements have been entered into between the Borrower and at least five Participating Provinces, in accordance with the provisions of Part B.3 of Schedule 4 to this Agreement;

(b) the IAG has been established in accordance with the provisions of Part A.1(b) of Schedule 4 to this Agreement and is operational; and

(c) the minority education training center, referred to in Part A.1(c) of Schedule 4 to this Agreement, has been established in accordance with the provisions of said Part and is operational.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that each of the Education Program Implementation Arrangements referred to in Section 6.01 of this Agreement have been duly authorized or ratified by the Borrower and the Participating Province which is a party thereto and are legally binding upon the Borrower and said Participating Province in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Jiechi Yang

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
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(1) Civil works	42,180,000	50%
(2) Goods	15,710,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services	1,400,000	100%
(4) Training	5,340,000	100% of foreign expenditures and 70% of local expenditures
(5) Unallocated	4,570,000	
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TOTAL	69,200,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under (a) contracts for goods and works not exceeding \$300,000 equivalent, (b) contracts for the employment of consulting firms not exceeding \$100,000 and contracts for the employment of individual consultants not exceeding \$50,000 and (c) contracts for training, regardless of the cost thereof, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the (1) achievement of universal primary education in poor and minority areas, (2) expansion of coverage of lower secondary education in such areas and (3) strengthening of institutional capabilities in the delivery of primary and lower secondary education in such areas.

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

Part A: Institutional Development

Carrying out, in each of the Participating Provinces, of programs to improve the delivery of education at primary, lower secondary and teacher training schools, consisting of the:

- (1) upgrading, construction and maintenance of primary and lower secondary schools;
- (2) provision and maintenance of instructional equipment, furniture and books to

such schools;

(3) development and carrying out of pre-service and in-service training programs to upgrade the professional skills of school teachers and administrators, including study tours to strengthen the skills of such persons in girls' education, bilingual education, minority language textbook publishing and utilization of education management information systems; and

(4) reorganization of normal schools which train elementary and lower-secondary school teachers so as to improve the quality and efficient delivery of teacher education provided by said normal schools and upgrade the facilities of said schools, such reorganization to focus on enhancing the relevance of teaching theory to practice, recruitment of local teachers, curriculum upgrading, with particular emphasis on multigrade and multisubject teaching, strengthening teacher training in math, science and language arts, continuing education for teachers and teacher support networks.

Part B: Management Development

Development and carrying out in each of the Participating Provinces of training programs to strengthen the managerial capabilities of school administrators and staff responsible for Project implementation and supervision, and development and introduction in each of the Participating Provinces of an education management information system.

Part C: Innovation Program

Development and carrying out in each of the Participating Provinces of policy-oriented research programs designed to develop and test (1) ways to improve the efficient delivery of quality education to poor and minority communities, (2) minority and bilingual instructional materials, and (3) improved models of pre-service and in-service training.

Part D: National Program

Development and carrying out, by the Borrower, of a program to strengthen institutional capabilities in respect of the delivery of education, including the:

- (1) construction and equipping of a minority education training center;
- (2) establishment, staffing and operation of (a) a panel of experts to assist in overseeing the Project and (b) an innovation assessment group to assist in developing research programs suitable for inclusion under Part C of the Project, in assessing research programs proposed for inclusion under said Part C and in supervising the implementation of Innovation Programs; and
- (3) development and carrying out of education management training programs.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the

original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. To the extent practicable, contracts for equipment and materials shall be grouped into bid packages estimated to cost the equivalent of \$200,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil Works

(a) Local Competitive Bidding. Except as provided in paragraph (b) of this Section 1, civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

(b) Force Account. Works estimated to cost the equivalent of \$40,000 or less per assignment, up to an aggregate amount not to exceed \$24,000,000, may, with the Association's prior approval, be carried out under force account by the use of the personnel and equipment of the Participating Province concerned, in accordance with procedures satisfactory to the Association.

2. Goods

(a) Local Competitive Bidding: Furniture and Books. Except as provided in paragraph (c) of this Section, furniture and books shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

(b) Local Competitive Bidding: Equipment and Materials. Equipment and materials estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$20,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

(c) Local Shopping: Furniture, Equipment and Materials. Furniture estimated to cost the equivalent of \$25,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$1,700,000, and equipment and materials estimated to cost the equivalent of \$25,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$4,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to (i) the first contract for works to be procured by each Participating Province in accordance with the provisions of Part C.1(a) hereof and,

thereafter, each contract for works estimated to cost the equivalent of more than \$300,000 and (ii) each contract for goods estimated to cost the equivalent of more than \$300,000, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. Consultants' service shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01(b) of this Agreement.

A. Project Management; Part D of the Project

1. In order to ensure the proper carrying out of the Project, the Borrower shall:

(a) maintain throughout the period of Project implementation, with terms of reference, membership and resources acceptable to the Association:

(i) a Project leading group, chaired by the Vice Chairman of SEDC, to

be responsible _____ for overall coordination and oversight of the carrying out of the Project; and

(ii) the panel of experts, referred to in Part D(2)(a) of the Project, which will report _____ to the Director of the Foreign Investment and Loan Office of SEDC, and which will _____ be responsible for advising Participating Provinces on the development and carrying _____ of their Education Programs and assisting in carrying out the monitoring activities referred to in Part A.2 of this Schedule;

(b) establish and thereafter maintain throughout the period of Project Implementation, with terms of reference, staffing and other resources acceptable to the Association, the innovation assessment group, referred to in Part D(2)(b) of the Project, which will report to the Director of the Finance Department of SEDC and which will be responsible for reviewing research programs proposed for inclusion under Part C of the Project and supervising the carrying out of Innovation Programs, all in accordance with the provisions of Part C of this Schedule; and

(c) establish and thereafter at all times maintain, with terms of reference, staffing and other resources satisfactory to the Association, the minority education training center referred to in Part D(1) of the Project.

2. Without limitation upon the provisions of Section 9.06 of the General Conditions, the Borrower shall, through the panel of experts referred to in Part A.1(a)(ii) of this Schedule:

(a) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, (i) progress in the carrying out of the Project, (ii) progress in the carrying out of each action plan, referred to in Part B.2(a)(iv) of this Schedule, prepared by a Participating Province and approved by the Association and (iii) the impact of the Project on the educational achievement of primary and lower secondary school students in the Participating Provinces;

(b) prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association:

(i) not later than April 1 in each fiscal year, a report on the monitoring and _____ evaluation activities carried out by (A) the Borrower pursuant to sub-paragraphs _____ (a)(i) and (a)(iii) hereof, and (B) each Participating Province pursuant to Part B.3(b)(vii) of this Schedule, in respect of the preceding calendar year, together with any proposed measures, indicated by said monitoring and evaluation activities, _____ to further the objectives of the Project;

(ii) not later than June 30, 1997, a mid-term report on the monitoring and evaluation _____ activities carried out by (A) the Borrower pursuant to paragraph (a) hereof and (B) _____ each Participating Province pursuant to Parts B.3(b)(vii) and B.3(b)(xi)(C) of this Schedule, from the inception of the Project, together with any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives _____ of the Project and of each action plan, referred to in Part B.2(a)(iv) of this _____ Schedule, prepared by a Participating Province and approved by the Association; and

(iii) not later than December 31, 1999 a report on the monitoring and evaluation _____ activities carried out to date by (A) the Borrower pursuant to paragraph (a)(ii) _____ hereof and (B) each Participating Province pursuant to Part B.3(b)(xi)(C) of this Schedule, together with any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of each action plan, referred to _____ in Part B.2(a)(iv) of this Schedule, prepared by a Participating Province and _____ approved by the Association; and

(c) exchange views with the Association on each said report and measures, and thereafter, take all such measures to further the objectives of the Project and/or of

the action plans to which such report relates, as shall have been agreed between the Borrower and the Association.

3. Without limitation upon the provisions of Part A.1 of this Schedule, the Borrower shall carry out Part D of the Project in accordance with a time-bound action plan acceptable to the Association.

B. Education Program Implementation Arrangements

1. A province or autonomous region of the Borrower shall qualify as a Participating Province only if the Borrower shall have determined, on the basis of guidelines satisfactory to the Association, and the Association shall have agreed, that the (i) population and minority population of said province or autonomous region are both large, and/or number of poor counties therein is high and (ii) educational needs of said province or autonomous region are great.

2. A program referred to in Part A, B or C of the Project to be carried out by a Participating Province shall qualify as an Education Program eligible for financing out of the proceeds of the Credit only if:

(a) said Participating Province shall have demonstrated to the satisfaction of the Borrower, through SEDC, on the basis of an appraisal, carried out in accordance with guidelines satisfactory to the Association, that:

(i) said program is economically and financially viable and technically feasible, and has been designed in accordance with appropriate educational standards and practices;

(ii) said Participating Province has the organization, management and resources required for the proper carrying out of said program, and to this end, has established, with terms of reference, staffing and other resources satisfactory to the Association, (A) a provincial project office, headed by a director, to be responsible for the planning and carrying out of said program and liaising with the Project leading group referred to in Part A.1(a)(i) of this Schedule and (B) within each of its Participating Counties, a project office, headed by a project management officer, to be responsible for the supervision of the carrying out of those activities under said program which are to be carried out in said Participating County;

(iii) said Participating Province has prepared a suitable action plan for the first year of implementation of said program; and

(iv) said Participating Province has developed a suitable time-bound action plan designed to ensure the continued achievement, in its counties (other than those in which it proposes to carry out said program) of educational targets acceptable to the Association, throughout the period of implementation of the Project, together with a financing plan for said action plan;

(b) the Association shall have notified the Borrower and said Participating Province of the Association's approval of said program and the action plans referred to in sub-paragraphs (a)(iii) and (a)(iv) of this Section 2; and

(c) the Borrower and said Participating Province shall have entered into Education Program Implementation Arrangements for said program in accordance with the provisions of Part B.3 of this Schedule and the Association shall have communicated to the Borrower its acceptance of evidence that said Education Program Implementation Arrangements are legally binding upon the parties thereto.

3. For the purposes of carrying out each Education Program, the Borrower shall allocate to the Participating Province which proposes to carry out said Education Program, an amount of the Credit under implementation arrangements, satisfactory to the Association, which shall include the following terms and conditions:

(a) (i) the principal amount of the Allocated Amount which shall be recovered from said Participating Province shall be the equivalent in Dollars (determined on the

date or respective dates of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services for said Education Program to be financed out of the proceeds of the Credit; (ii) the principal amount so made available shall be recovered over a period of not less than twenty (20) years, inclusive of a grace period of five (5) years; and (iii) interest shall be charged on the principal amount so made available and withdrawn and remaining unrecovered from time to time, at a rate less than or equal to one and two-tenths' percent (1.2%) per annum; and

(b) said Participating Province shall undertake to:

(i) carry out said Education Program with due diligence and efficiency, and in conformity with appropriate economic, financial, administrative, technical and education practices, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor;

(ii) without limitation upon the provisions of sub-paragraph (i) hereof: (A) maintain throughout the period of implementation of said Education Program, the provincial and county-level project offices referred to in Part B.2(a)(ii) of this Schedule in accordance with the provisions of said Part; (B) (1) prepare and furnish to the Borrower, not later than October 1 in each fiscal year, for approval in accordance with the provisions of Part C.2 of this Schedule, proposals, of such scope and in such detail as the Borrower or the Association shall reasonably request, for all such research programs which it proposes to carry out as part of its respective Innovation Program during the following fiscal year, together with a time-bound action plan for the carrying out of said research programs and (2) carry out its respective Innovation Program in accordance with such action plan as shall have been approved by the Association pursuant to Part C.1(b) of this Schedule; (C)(1) during the first year of implementation of said Education Program, carry out the same in accordance with the action plan referred to in Part B.2(a)(iii) of this Schedule, (2) prepare and furnish to the Borrower and the Association not later than October 1 in each fiscal year, a proposed action plan for the carrying out of said Education Program during the following fiscal year and (3) thereafter carry out such Education Program in accordance with such action plan as shall have been approved by the Borrower and the Association; (D) make available to each of its Participating Counties part of the proceeds of said Allocated Amount either on a grant basis or on other terms whereby (1) the amount so made available which shall be recovered from said Participating County shall not exceed the equivalent in Yuan (determined on the date or respective dates of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services for the part of said Education Program to be carried out in said Participating County and to be financed out of the proceeds of the Credit, (2) the principal amount so made available shall be recovered over a period of not less than twenty (20) years, inclusive of a grace period of not less than five (5) years and (3) interest, if any, shall be charged on the principal amount so made available and withdrawn and remaining unrecovered from time to time, at a rate which shall not exceed one and two-tenths' percent (1.2%) per annum;

(iii) (A) procure the goods, works and services required for said Education Program to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 3 to this Agreement; (B) insure said goods against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by said Participating Province to replace or repair such goods; and (C) utilize such goods, works and services exclusively for the purposes of carrying out said Education Program;

(iv) furnish to the Association, promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for said Education Program, and any material modifications thereof or additions thereto, in such detail as the Association shall reasonably request;

(v) enable the Association and the Borrower to examine such goods and all facilities, sites and works included in said Education Program, the operation thereof, and any relevant records and documents;

(vi) maintain records and procedures adequate to record and monitor the progress of said Education Program (including the cost and benefits to be derived from it), to identify the goods, works and services financed out of the proceeds of the Credit and to disclose their use in said Education Program, and furnish to the Association all such information as the Association shall reasonably request concerning said Education Program, its cost, and, where appropriate, the benefits to be derived from it, the expenditures of the proceeds of the Allocated Amount and the goods, works and services financed out of such proceeds;

(vii) without limitation upon the provisions of sub-paragraph (vi) hereof: (A) (1) maintain operational procedures adequate to enable said Participating Province to monitor and evaluate, in accordance with indicators acceptable to the Association, (a) progress in the carrying out of said Education Program and (b) the impact of said Education Program on the educational achievement of its primary and lower secondary school students; (2) prepare, in accordance with guidelines acceptable to the Association, and furnish to Borrower: (a) not later than March 15 of each fiscal year, for consolidation in each report to be furnished by the Borrower to the Association pursuant to the provisions of Part A.2(b)(i) of this Schedule, a report on said monitoring and evaluation activities carried out in respect of the preceding calendar year, together with any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of said Education Program; and (b) not later than March 31, 1997 for consolidation in the report to be furnished to the Association pursuant to the provisions of Part A.2(b)(ii) of this Schedule, a mid-term report on said monitoring and evaluation activities carried out from the inception of the Project, together with any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of said Education Program; and (3) exchange views with the Borrower and the Association on each said report and measures, and thereafter, take all such measures to further the objectives of said Education Program as shall have been agreed among the Borrower, the Association and said Participating Province; and (B) (1) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of said Education Program of the departments or agencies of said Participating Province responsible for carrying out said Education Program or any part thereof; (2) have said records and accounts, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; (3) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and (4) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request;

(viii) (A) at the request of the Association, exchange views with the Association with regard to the progress of said Education

Program, the performance of its obligations under said Education Program Implementation Arrangements and other matters relating to the purposes of the Credit; and (B) promptly inform the Association of any condition which interferes or threatens to interfere with the progress of said Education Program, the accomplishment of the purposes of the Credit, or the performance by said Participating Province of its obligations under said Education Program Implementation Arrangements;

(ix) at all times operate and maintain any facilities relevant to said Education Program, and promptly as needed, make all necessary repairs and renewals thereof;

(x) take or cause to be taken, all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for the carrying out of said Education Program and furnish to the Association, promptly upon its request, evidence satisfactory to the Association that such land and rights in respect thereof are available for purposes related to the Project; and

(xi) (A) carry out the action plan, referred to in Part B.2(a)(iv) of this Schedule, prepared by it and approved by the Association, in accordance with the provisions thereof; (B) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, progress in the carrying out of said action plan; (C) prepare, in accordance with guidelines acceptable to the Association, and furnish to the Borrower not later than March 31, 1997 and September 30, 1999, for consolidation in the reports to be furnished to the Association pursuant to the provisions of Parts A.2(b)(ii) and A.2(b)(iii) of this Schedule, a report on said monitoring and evaluation activities carried out to date, together with any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of said action plan; and (D) exchange views with the Borrower and the Association on each said report and measures, and thereafter, take all such measures to further the objectives of said action plan as shall have been agreed among the Borrower, the Association and said Participating Province.

4. The Borrower shall:

(a) (i) cause each Participating Province to perform, in accordance with the provisions of the Education Program Implementation Arrangements to which said Participating Province is a party, all of the obligations of said Participating Province therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Participating Province to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) exercise its rights under each of the Education Program Implementation Arrangements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, not assign, amend, abrogate, or waive said Education Program Implementation Arrangements or any provision thereof.

C. Innovation Programs

1. A research program referred to in Part C of the Project to be carried out by a Participating Province through one of its agencies shall qualify as an Innovation Program eligible for financing out of the proceeds of the Credit only if:

(a) said Participating Province shall have demonstrated to the satisfaction of the Borrower, through IAG, on the basis of an appraisal, carried out in accordance with guidelines satisfactory to the Association, that:

(i) said program (A) is economically and financially viable, technically feasible and replicable in other poor and minority areas, (B) has the potential to add to existing knowledge in the field of education and (C) has been designed in accordance with appropriate educational standards and practices;

(ii) the total estimated cost of the equipment to be procured under said program shall not exceed 40% of the total estimated cost of said program;

(iii) said agency has the organization, management and resources required for the proper carrying out of said program; and

(iv) said Participating Province has prepared a suitable time-bound action plan for the implementation of said program; and

(b) the Association has notified the Borrower and said Participating Province of the Association's approval of said program and action plan.

2. In order to give effect to the provisions of Part C.1 of this Schedule, the Borrower shall, through its IAG:

(a) review each proposal and action plan, furnished to it by a Participating Province pursuant to Part B.3(b)(ii)(B)(1) of this Schedule, for research programs to be carried out under Part C of the Project; and

(b) furnish to the Association not later than December 1 in each fiscal year a report, of such scope and in such detail as the Association shall reasonably request, on those proposals, referred to in paragraph (a) hereof, which shall have been approved by the Borrower.

3. The Borrower shall, through the IAG, supervise the carrying out of each Innovation Program in accordance with policies and procedures acceptable to the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4);

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

(c) the term "Authorized Allocation" means an amount equivalent to \$7,200,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Borrower shall

furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

