

CONFORMED COPY

CREDIT NUMBER 2831 CHA

Development Credit Agreement
(Third Basic Education Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 17, 1996

CREDIT NUMBER 2831 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 17, 1996, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) 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; and

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

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or

services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "Allocated Amount" means, in respect of each Project Province, an amount of the Credit allocated by the Borrower to said Project Province and to be utilized by said Project 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) "CEP" means the Chinese Experts Panel, established by SEDC under Part D(3) of the Project, and to be maintained pursuant to the provisions of Part A.2 of Schedule 4 to this Agreement.

(d) "Education Program" means, in respect of each Project Province, the activities under Parts A, B and C of the Project which are to be carried out by said Project Province utilizing the proceeds of its respective Allocated Amount.

(e) "Education Program Implementation Arrangements" means, in respect of each Education Program, the arrangements, referred to in Part D.1 of Schedule 4 to this Agreement, to be made between the Borrower and the Project Province which proposes to carry out said Education Program, as the same may be amended from time to time.

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

(g) "Non-Project Counties" means the counties in the Borrower's Provinces of Hebei, Gansu and Anhui (other than Project Counties) designated under the Borrower's National 8-7 Poverty Reduction Plan.

(h) "Non-Project Counties Program" means, in respect of each Project Province, the program referred to in Part B.10 of the Annex to Schedule 4 to this Agreement, to be carried out by such Project Province pursuant to the provisions of said Part.

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

(j) "Project Provinces" means, collectively, the following Provinces of the Borrower: Anhui, Fujian, Gansu, Henan, Hebei, Jilin and Qinghai; and "Project Province" means any of the Project Provinces.

(k) "Qinghai" means the Borrower's Province of Qinghai.

(l) "SEdC" means the Borrower's State Education Commission, and any successor thereto.

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

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-seven million three hundred thousand Special

Drawing Rights (SDR 67,300,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain a special deposit account in dollars in a financial institution and on terms and conditions, both 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, 2001 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 canceled; 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 15 and August 15 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 15 and August 15 commencing August 15, 2006 and ending February 15, 2031. Each installment to and including the installment payable on February 15, 2016 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 through SEDC, and cause the Project Provinces to carry out Parts A, B and C thereof, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and education practices and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(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 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 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.

Section 3.03. For the purpose of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

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 eight months after the end of each such year, (A) 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 (B) consolidated copies of the audit reports furnished to the Borrower by each Project Province pursuant to the provisions of Part B.9 of the Annex to Schedule 4 to this Agreement; 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:

(a) of this (i) maintain or cause to be maintained, in accordance with paragraph 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 Project Province 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 Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Project 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 Section 5.01(a) 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 event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions, namely that Education Program Implementation Arrangements have been made between the Borrower and each of the Project Provinces.

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 Project Province which is a party thereto, and are legally binding upon the Borrower and said Project 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.

Section 6.04. The provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

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 (MCI) or
64145 (MCI)

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/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell J. Cheetham

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
(1) Civil works for:		
(a) Qinghai's Education Program	3,100,000	70%
(b) all other Education Programs	39,630,000	60%
(2) Goods	14,110,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services	1,610,000	100%
(4) Training and study tours	4,100,000	100%
(5) Unallocated	4,750,000	
TOTAL	<u>67,300,000</u> =====	

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, except that withdrawals, in an aggregate amount not to exceed SDR 6,730,000 may be made on account of payments made for expenditures before that date but after: (a) December 1, 1995 in respect of Category (4); and (b) February 15, 1996 in respect of Category (1).

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) goods under contracts costing less than \$300,000 equivalent each, (b) works under contracts costing less than \$300,000 equivalent each (other than those referred to in Section I, Part D.2(b) of Schedule 3 to this Agreement), (c) consulting services under contracts awarded to consulting firms costing less than \$100,000 equivalent each, (d) consulting services under contracts awarded to individual consultants costing less than \$50,000 equivalent each and (e) training; 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 (1) providing universal primary education in poor and minority areas, (2) expanding the provision of lower secondary education in such areas and (3) strengthening institutional capabilities to deliver 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 Project Provinces, of programs to improve the delivery of education at primary and lower secondary schools, consisting of the:

- (1) upgrading, construction, repair and maintenance of primary and lower secondary schools, and provision of tent structures and related facilities for schools for nomadic children;
- (2) provision and maintenance of instructional equipment, furniture and library books to such schools;
- (3) development and implementation of in-service training programs to upgrade the professional skills of school teachers and administrators, as well as the trainers thereof, with a particular focus on programs to strengthen the teaching skills of bilingual teachers of minority children and the professional skills of principals and other administrators of schools serving such children, in management and development of culturally appropriate curricular materials;
- (4) undertaking of studies to develop suitable mechanisms for assessment of pupil achievement; and
- (5) establishment of a student assistance program to assist poor children in defraying schooling related costs, including school fees and textbooks.

Part B: Management Development

- (1) Development and implementation in each of the Project Provinces of management training programs for school administrators, with a particular focus on programs for administrators of schools serving minority populations, and training programs in Project implementation for staff responsible for Project implementation and supervision.
- (2) Development and introduction in each of the Project Provinces of an education management information system, including the provision of equipment and training required therefor.

Part C: Dissemination Program

Development and carrying out in each of the Project Provinces of pilot programs designed to introduce innovative teaching programs, with a particular focus on instruction in the language of minority populations and curricula relevant to such populations, and of policy-oriented research programs designed to develop and test ways to improve the efficient delivery of quality education to poor and minority

communities and to reduce the number of school dropouts among girls and children from minority populations resulting from culturally inappropriate curricular material and teaching methods.

Part D: National Program

Strengthening by the Borrower of institutional capabilities in respect of the delivery of education, through the:

- (1) development and implementation of education management training programs for education administrators and of training programs in management of the Project for staff responsible for Project implementation and supervision;
- (2) development and implementation of programs to train teacher trainers for teacher training programs to be carried out under Part A of the Project;
- (3) establishment, staffing and operation of a panel of experts to assist in overseeing the Project, in developing and assessing programs proposed for inclusion under Part C of the Project, in supervising the implementation of Dissemination Programs, and in developing economically optimal and efficient student assistance programs; and
- (4) development and implementation of programs to evaluate and disseminate the experience gained from Dissemination Programs carried out under Part C of the Project.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods (other than books) estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$20,000,000 equivalent, and

books, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Except as provided in paragraph 3 of this Part, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods (other than books) estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$5,700,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and cost less than \$40,000 equivalent per assignment, up to an aggregate amount not to exceed \$28,000,000 equivalent, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the following contracts, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply:

(a) the first two contracts for goods procured by each Project Province in accordance with the provisions of Part C.1 of the Project and thereafter each contract for goods estimated to cost the equivalent of \$300,000 or more;

(b) in each fiscal year, the first two contracts for works procured by each Project Province in accordance with the provisions of Part C.1 of this Section I for which invitations to bid are issued in that fiscal year; and

(c) each contract for works estimated to cost the equivalent of \$300,000 or more.

3. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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, such contracts shall be based on 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, other standard forms acceptable to the Association shall be used.

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 consulting 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

In order to ensure the proper carrying out of the Project, the Borrower shall maintain throughout the period of Project implementation, with terms of reference, membership and other resources acceptable to the Association:

1. a Project unit within SEdC, which shall report to a Vice Chairman of SEdC, and shall supervise the implementation of Part D of the Project, and prepare the reports referred to in Part B of this Schedule; and

2. CEP with responsibility for (a) providing technical advice to Project Provinces on the implementation of their Education Programs, and to SEdC on the development and implementation of training programs under Part D of the Project, (b) assisting in carrying out the monitoring activities referred to in Part B of this Schedule, (c) reviewing programs proposed for inclusion under Part C of the Project, (d) supervising the carrying out of Dissemination Programs, in accordance with the provisions of Part E of this Schedule, (e) assisting in the development of economically optimal and efficient student assistance programs and (f) providing advice to the Project Provinces on ways to ensure parental participation in the implementation of the Project and reporting on the progress of such participation.

B. Monitoring and Reporting

Without limitation upon the provisions of Section 9.06 of the General Conditions, the Borrower shall, through SEdC:

1. maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators (including literacy and numeracy indicators) acceptable to the Association, (a) progress in the carrying out of the Project, (b) progress in the carrying out by each Project Province of its respective Non-Project Counties Program and (c) the impact of the Project on the educational achievement of primary and lower secondary school students in the Project Provinces;

2. prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association:

(a) an annual report, not later than April 1 in each fiscal year (commencing in fiscal year 1997), summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.1 above in respect of the preceding fiscal year, consolidating the reports furnished to it by each Project Province pursuant to Part B.7(a) of the Annex to this Schedule, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Project; and

(b) a mid-term report, not later than October 31, 1998, summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.1 above from the inception of the Project, consolidating the reports furnished to it by each

Project Province pursuant to Part B.7(b) of the Annex to this Schedule, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Project and of each Project Province's respective Non-Project Counties Program; and

3. exchange views with the Association on each report furnished by the Borrower pursuant to Part B.2 above, and thereafter, take all such measures in relation thereto, as shall have been agreed between the Borrower and the Association.

C. National Management and Teacher Training Programs

The Borrower shall:

(a) prepare, in accordance with guidelines satisfactory to the Association, and furnish to the Association not later than October 15 in each fiscal year for review and approval, a proposed action plan for the carrying out of Parts D(1) and D(2) of the Project during the following fiscal year; and

(b) thereafter carry out such action plan as shall have been approved by the Association.

D. Education Program Implementation Arrangements

1. For the purposes of the carrying out by each Project Province of its respective Education Program, the Borrower shall allocate to said Project Province an amount of the Credit, under arrangements to be made between the Borrower and said Project Province, in accordance with the provisions set forth in the Annex to this Schedule.

2. The Borrower shall:

(a) (i) cause each Project Province to perform, in accordance with the provisions of the Education Program Implementation Arrangements to which said Project Province is a party, all of the obligations of said Project 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 Project 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 any of the Education Program Implementation Arrangements or any provision thereof.

E. Dissemination Programs

1. A program referred to in Part C of the Project to be carried out by a Project Province shall qualify as a Dissemination Program eligible for financing out of the proceeds of the Credit only if:

(a) said Project Province shall have demonstrated to the satisfaction of the Borrower, through CEP, 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) the implementing agency has the organization, management and resources and required for the proper carrying out of said program;

(iv) said Project 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 Project Province of the Association's approval of said program and action plan.

2. The Borrower shall, through the CEP, supervise the carrying out of each Dissemination Program in accordance with policies and procedures acceptable to the Association.

ANNEX
to
SCHEDULE 4

For the purposes of Part D.1 of Schedule 4 to this Agreement, the Education Program Implementation Arrangements shall include the following provisions.

A. Terms

1. The principal amount of the Allocated Amount which shall be recovered by the Borrower from each Project Province:

(a) shall be the equivalent in SDR (determined on the date or respective dates of withdrawal from the Credit 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 Project Province's respective Education Program to be financed out of the proceeds of the Credit; and

(b) shall be recovered by the Borrower in dollars in an amount equal to the equivalent (determined as of the date or respective dates of repayment) of the amount referred to in Part A.1(a) of this Annex.

2. The amount referred to in Part A.1(b) of this Annex shall be recovered by the Borrower over a period of twenty (20) years, inclusive of a grace period of five (5) years.

3. Interest shall be charged on the amount referred to in Part A.1(b) of this Annex and withdrawn and remaining unrecovered from time to time, at a rate equal to one and two-tenths of a percent (1.2%) per annum.

4. Each Project Province shall undertake to make available to each of its Project Counties part of the proceeds of its Allocated Amount either on a grant basis or on other terms whereby:

(a) the amount so made available which shall be recovered by said Project Province from said Project County shall be the equivalent in Yuan (determined on the date or respective dates of withdrawal from the Credit 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 Project County and to be financed out of the proceeds of the Credit;

(b) the principal amount so made available shall be recovered by said Project Province over a period of not less than the number of years which said Project Province shall have in which to repay its Allocated Amount to the Borrower under Part A.2 of this Annex, inclusive of a grace period of not less than the number of years of grace granted to said Project Province pursuant to said Part A.2; and

(c) 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 the rate of interest payable by said Project Province pursuant to Part A.3 of this Annex.

B. Conditions

Implementation

1. Each Project Province shall undertake to carry out its respective 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.

2. Each Project Province shall undertake to carry out its respective Dissemination Program in accordance with such action plan as shall have been approved by the Association pursuant to Part E.1(b) of Schedule 4 to this Agreement.

3. Each Project Province shall undertake to:

(a) prepare, in accordance with guidelines satisfactory to the Association, and furnish to the Borrower and the Association not later than October 15 in each fiscal year for review and approval, a proposed action plan for the carrying out of its Education Program during the following fiscal year; and

(b) thereafter carry out such Education Program in accordance with such action plan as shall have been approved by the Borrower and the Association.

4. Each Project Province shall undertake to:

(a) procure the goods, works and services required for its 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 Project Province to replace or repair such goods;

(c) utilize such goods, works and services exclusively for the purposes of carrying out its Education Program;

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

(e) at all times operate and maintain any facilities, equipment and other property relevant to its Education Program, and promptly, as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, administrative and education practices.

Management

5. In order to facilitate the implementation of its Education Program, each Project Province shall undertake to maintain the following offices throughout the period of implementation thereof, with terms of reference, membership, staffing and other resources satisfactory to the Association:

(a) a provincial project office, headed by a director, which shall report to a Vice Governor of said Project Province and to the SEdC, to be responsible for planning and carrying out its Education Program; and

(b) within each of its Project Counties, a project office, headed by a project management officer, which shall report to the County Magistrate of said county, to be responsible for supervising the carrying out of those activities under its Education Program which are to be carried out in said Project County.

Monitoring

6. Each Project Province shall undertake to maintain operational procedures adequate to enable said Project Province to monitor and evaluate, in accordance with indicators (including specific numeracy and literacy performance indicators) acceptable to the Association, (a) progress in the carrying out of its Education Program, (b) the impact of said Education Program on the

educational achievement of its primary and lower secondary school students; and (c) progress in the carrying out of its Non-Project Counties Program.

Reporting

7. Each Project Province shall undertake to prepare, in accordance with guidelines acceptable to the Association, and furnish to Borrower:

(a) an annual report, not later than March 1 of each fiscal year, for consolidation in each report to be furnished by the Borrower to the Association pursuant to the provisions of Part B.2(a) of Schedule 4 to this Agreement, summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.6 of this Annex in respect of the preceding fiscal year, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of its Education Program; and

(b) a mid-term report, not later than October 1, 1998, for consolidation in the report to be furnished to the Association pursuant to the provisions of Part B.2(b) of Schedule 4 to this Agreement, summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.6 of this Annex from the inception of the Project, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of its Education Program and its Non-Project Counties Program.

Consultation

8. Each Project Province shall undertake to exchange views with the Borrower and the Association on each report furnished by it pursuant to Part B.7 of this Annex, and thereafter, take all such measures in relation thereto, as shall have been agreed among the Borrower, the Association and said Project Province.

Financial Reporting

9. Each Project Province shall undertake to:

(a) 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 its Education Program of its departments or agencies responsible for carrying out said Education Program or any part thereof;

(b) 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;

(c) furnish to the Borrower, as soon as available, but in any case not later than six (6) months after the end of each such year, for consolidation and forwarding to the Association pursuant to the provisions of Section 4.01(b) of this Agreement, 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

(d) furnish to the Borrower and/or the Association such other information concerning said records, accounts and the audit thereof as the Borrower (or the Association, as the case may be) shall from time to time reasonably request.

Non-Project Counties Program

10. Hebei, Gansu and Anhui Provinces shall each undertake to carry out a program, acceptable to the Association, designed to ensure the continued achievement, in its Non-Project Counties of educational targets acceptable to the Association, throughout the period of Project implementation, together with a financing plan for such program.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) , (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$4,500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 25,000,000.

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

3. After the 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;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in

respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) 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.

