

CONFORMED COPY

CREDIT NUMBER 3213 CHA

Development Credit Agreement

(Higher Education Reform Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 29, 1999

CREDIT NUMBER 3213 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 29, 1999, 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;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to twenty million dollars (\$20,000,000) (the Loan); and

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made; 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 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country 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) "FILO" means the Foreign Investment and Loan Office within MOE.

(b) "HEAP" means the Higher Education Advisory Panel established under Part C(3) of the Project.

(c) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(d) "MOE" means the Borrower's Ministry of Education, and any successor thereto.

(e) "Partner Institution" means, in respect of a Project University, one (or more) university or institution, selected by agreement between the Borrower and the Association, with which said Project University shall develop collaborative arrangements under Part B of the Project in accordance with the provisions of paragraph 3(a) of Schedule 4 to this Agreement.

(f) "Project Universities" means, collectively, the universities and institutions, selected by agreement between the Borrower and the Association, included in Parts A and B of this Agreement; and "Project University" means any of the "Project Universities".

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 thirty-six million eight hundred thousand Special Drawing Rights (SDR 36,800,000).

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 may, for the purposes of the Project, open and maintain a special account in dollars in a commercial bank and 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 July 31, 2005, 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 and 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 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), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15, 2009, and ending February 15, 2034. Each installment to and including the installment payable on February 15, 2019, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on

which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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 Parts A and B of the Project through the Project Universities, and Part C thereof through MOE, with due diligence and efficiency and in conformity with appropriate administrative, educational, financial and technical practices, and shall provide, 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 in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods 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 purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the 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 designed to ensure the continued achievement of the Project objectives; 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 six months after the end of each such year, 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 and 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 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

Effective Date; Termination

Section 5.01. 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 all conditions precedent to the effectiveness of the Loan Agreement, except only the effectiveness of this Agreement, have been fulfilled.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Sanlihe, Beijing 100820

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/ Liu Xiaoming

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Michel Severino

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and Loan Proceeds

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
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(1) For Part A of
the Project:

(a) Goods expenditures, 100% of local expenditures	32,370,000	19,800,000	100% of foreign
	(ex-factory cost) and 75% of local expenditures for other items procured locally		

	(b) Training	960,000	--	100%
(2)	For Part C of the Project			
	(a) Training and study tours	960,000	--	100%
	(b) Consultants' services	2,510,000	--	1005
(3)	Fee Section 2.04 Loan Agreement	--	200,000	Amount due under of the
	TOTAL	36,800,000 =====	20,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods and services supplied from said region shall be deemed to be "foreign expenditures"; 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 and the Bank may require withdrawals from the Credit Account and the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$200,000 equivalent each; (b) consultants' services under contracts awarded to consulting firms and costing less than \$100,000 equivalent each; (c) consultants' services under contracts awarded to individual consultants and costing less than \$50,000 equivalent each; and (d) training and study tours, regardless of the cost thereof; all under such terms and conditions as the Association and the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in improving the quality and relevance of undergraduate basic science and engineering programs through integrated reforms activities in curriculum and teaching methodology.

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: Teaching and Learning Reforms

Improvement of the quality and relevance of science and engineering programs in the Project Universities and the effectiveness of the teaching and learning processes applied in these programs through the following curriculum and teaching reforms:

(1) Renewal and restructuring of academic programs through the:

(a) development of mechanisms to obtain feedback from graduates and their employers on the relevance of academic programs, such mechanisms to include the creation and strengthening of alumni organizations and external and industrial

advisory committees;

(b) development of institutional arrangements to ensure continuous updating and improvement of program-specific curricula, such arrangements to consist of faculty committees to be responsible for curriculum development on the basis of feedback from students, graduates and employers, and introduction of the results of the latest scientific research in the first two years of undergraduate science and engineering programs; and

(c) reorganization of academic programs, consisting of: (i) strengthening of the applied aspects of science and engineering subjects; (ii) introduction of broad-based employer-assisted interdisciplinary courses; and (iii) introduction of a process of ongoing evaluation and upgrading of the structure and content of said programs.

(2) Reform of educational processes through the:

(a) (i) development and adoption of interactive student-centered learning strategies, including introduction of group-work activities among students; (ii) introduction of incentives for faculty to adopt such strategies, such as annual rewards for excellence in teaching; (iii) piloting of continuous teaching performance evaluation systems; and (iv) dissemination to other universities of the lessons learned from these activities;

(b) introduction of measures to improve access of students to science laboratories, computers and libraries, and to improve the quality and relevance of, experimental work, including (i) renovation and equipping of laboratories; (ii) provision of training to students in the use of laboratory equipment; and (iii) introduction of open-ended, design-oriented projects in laboratories;

(c) development and implementation in scientific laboratories of procedures designed to ensure safe implementation of laboratory experiments and environmentally sound handling and disposal of chemicals; and adoption and implementation of laboratory instructions and manuals on such procedures; and

(d) development and adoption of student-centered testing and evaluation strategies, including flexible course credit systems.

(3) Enhancement of the student learning environment to encourage greater self-directed learning through the:

(a) provision of appropriate learning-support services, including access to computer-based learning resources, improved library literature and open-access learning centers;

(b) updating of textbooks and other instructional materials, including computer-aided instruction materials; and

(c) reduction of traditional lecture class time in order to increase time available for self study and computer and laboratory work.

(4) Upgrading of the skills of teachers and staff in order to facilitate their adoption of new learning strategies through the:

(a) design and provision of training in learning, teaching and evaluation methodologies and dissemination to other universities of lessons learned in respect of the application of such methodologies; and

(b) provision of training to laboratory staff in the safe use of laboratory equipment and the sound environmental handling and disposal of chemicals.

Part B: Dissemination of Curriculum and Teaching Reforms

(1) Dissemination by Project Universities to their Partner Institutions of the reforms implemented under Part A of the Project, through the establishment of collaborative arrangements with such Partner Institutions, such arrangements to include, inter alia: (a) provision of training to staff of Partner Institutions in

science and engineering subjects and teaching methods; (b) carrying out of faculty exchange programs, to provide faculty of Partner Institutions with access to equipment and educational resources of the Project Universities; (c) sharing of resources and experiences between staff of the Project Universities and those of the Partner Institutions in respect of institutional management; (d) undertaking of joint research programs; and (e) development and use of electronic educational materials and electronic communication between teaching staff of Project Universities and students of Partner Institutions.

(2) Establishment of a system of annual rewards to Project Universities for excellence in the implementation of cooperative arrangements with Participating Institutions.

Part C: Institutional Strengthening

(1) Enhancement of the Borrower's institutional capabilities in respect of planning and administration of higher education, through the carrying out of a program of: (a) staff training in Project oversight and financial and procurement management; (b) policy-based research studies in the areas of textbook renewal, examination systems, graduate tracking, assessment methodologies, financing systems, and management and instructional software; and (c) coordinated development of textbooks and electronic materials for use by universities throughout the Borrower's territory.

(2) Dissemination of the lessons learned from the implementation by Lanzhou University in the Borrower's Province of Gansu of its pilot student financial assistance program.

(3) Establishment and operation of a higher education advisory panel to provide technical guidance in Project implementation and to assist the Borrower in monitoring and evaluation of the Project.

* * *

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

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

1. Goods shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, in September 1997 and in January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. For the purposes of the procurement of goods to be financed in whole or in part out of the proceeds of the Credit, the references in paragraphs 1.6 and 1.8 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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

(a) 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 (excluding the Hong Kong Special Administrative Region).

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$7,500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 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 each contract to be procured under international competitive and national competitive bidding procedures in accordance with the provisions of Part B and Part C.1, respectively, of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and in January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provision of the following Parts of this Section II.

2. For the purposes of the procurement of consultants' services to be financed in whole or in part out of the proceeds of the Credit, the references in paragraph 1.10 of the Consultant Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

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

1. Project Management

(a) 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:

(i) FILO, to be responsible for overall Project coordination, management, monitoring and evaluation;

(ii) HEAP, to be responsible for providing technical and policy advice to FILO, Project Universities and Partner Institutions on Project implementation issues and assisting FILO in monitoring and evaluating Project implementation; and

(iii) a Project implementation office in each Project University, to be

responsible for coordinating and managing the implementation of
Project activities by said university.

(b) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall develop, under guidelines acceptable to the Association, guidelines for the financial management of the Project, and shall furnish the same to the Association for its review. Thereafter, the Borrower shall promptly furnish to each Project University such guidelines as shall have been approved by the Association, and shall ensure that the financial management of the Project shall be undertaken in accordance with said guidelines.

2. Annual Action Plans

The Borrower shall:

(a) prepare, in accordance with guidelines acceptable to the Association, not later than November 1 in each calendar year, a proposed action plan for the carrying out of the Project during the following calendar year, said action plan to be based in part on individual action plans prepared by each Project University for the purpose; and

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

3. Collaborative Arrangements between Project Universities and Partner Institutions

In order to ensure the proper implementation of Part B of the Project, the Borrower shall ensure that:

(a) each Project University shall develop, in accordance with guidelines acceptable to the Association, collaborative arrangements with its Partner Institution or Partner Institutions, as the case may be, setting forth the specific areas of collaboration between said university and institutions, including a program and guidelines for training, faculty exchanges, joint research, and development of electronic communication between said university and institutions, as well as a financing plan for said collaboration; and

(b) no procurement for any activities to be carried out by a Project University under Part A of the Project shall be initiated unless and until said university shall have entered into the collaborative arrangements with its Partner Institution or Partner Institutions referred to in subparagraph (a) of this paragraph.

4. Monitoring and Reporting

(a) The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate, on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) The Borrower shall prepare, under terms of reference acceptable to the Association, and furnish to the Association:

(i) semi-annual reports, not later than May 1 and November 1 in each calendar year, summarizing the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph, in respect of the preceding calendar semester, and setting forth physical and financial progress in Project implementation, both cumulatively, and in respect of said preceding calendar semester;

(ii) an annual report, not later than April 1 in each calendar year, summarizing the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph, in respect of the preceding calendar year, and setting forth proposed measures, indicated by said monitoring and evaluation activities, to ensure the continued implementation of the Project

and achievement of the objectives thereof; and

(iii) a mid-term report, not later than June 30, 2002, summarizing the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph, from the inception of the Project, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to ensure the completion of the Project and achievement of the objectives thereof; and

(c) After furnishing each report referred to in subparagraph (b) of this paragraph, the Borrower shall review said report with the Association, and promptly take all measures required to ensure the efficient continued implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$7,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into 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 \$5,000,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR 18,000,000.

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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the 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 or the Loan Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the 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 from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto;

(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 or to the Bank pursuant to Section 3.01 of the Loan Agreement, 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 or the Loan Account pursuant to the provisions of Section 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 or the Bank) 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 or the Bank 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 or the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement or the Loan Agreement, including the General Conditions applicable thereto.

