

CONFORMED COPY

CREDIT NUMBER 2800 CHA

Development Credit Agreement

(Labor Market Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 31, 1996

CREDIT NUMBER 2800 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 31, 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;

(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 equivalent to ten million dollars (\$10,000,000) (the Loan);

(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;

(D) the Project Entities (as defined in Section 1.02(h) of this Agreement) will carry out Part B of the Project, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Project Entities part of the proceeds of the Credit as provided in this Agreement and part of the proceeds of the Loan as provided in the Loan Agreement; 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 and in the Project Agreement of even date herewith among the Association, the Bank and the Project Entities;

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 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) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement.
- (b) "Deyang" means Deyang Municipality in the Borrower's Province of Sichuan.
- (c) "Guangzhou" means Guangzhou Municipality in the Borrower's Province of Guangdong.
- (d) "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" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.
- (e) "MOL" means the Borrower's Ministry of Labor and any successor thereto.
- (f) "National Vocational Skill Testing Guidance Center" means the center within MOL responsible for organizing, coordinating, setting nationwide standards and providing guidance in relation to, vocational skill testing activities throughout the Borrower's territory.
- (g) "Project Agreement" means the agreement among the Association, the Bank and the Project Entities of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.
- (h) "Project Entities" means, collectively, the Project Municipalities and Zhejiang; and "Project Entity" means, individually, any of the Project Entities.
- (i) "Project Municipalities" means, collectively, Deyang, Guangzhou, Shaoxing, Weifang and Wuhan; and "Project Municipality" means, individually, any of the Project Municipalities.

- (j) "Respective Part of the Project" means, in respect of: (i) the Borrower,

Part A of the Project; (ii) each of the Project Municipalities, the activities under Part B of the Project to be carried out by said Project Municipality; and (iii) Zhejiang, the activities under Parts B(2) and Part B(4) of the Project to be carried out by Zhejiang.

(k) "Respective Proceeds of the Credit" and "Respective Proceeds of the Loan" means, respectively, the amounts of the Credit and the amounts of the Loan allocated from time to time in respect of: (i) the Borrower to Category (1); (ii) Deyang to Category (2); (iii) Guangzhou, to Category (3); (iv) Shaoxing, to Category (4); (v) Weifang, to Category (5); (vi) Wuhan, to Category (6); and (vii) Zhejiang, to Category (7).

(l) "Shaoxing" means Shaoxing Municipality in Zhejiang.

(m) "Social Insurance Reform Program" means, in respect of each of the Project Municipalities, the program to be carried out by said Project Municipality under Part B(1) of the Project.

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

(o) "Vocational Training Coordination Committee" means, in respect of each Project Municipality, the committee referred to in Part B(3) of the Project, to be maintained in accordance with the provisions of Part C of Schedule 1 to the Project Agreement.

(p) "Vocational Training Fund" means the vocational training grant facility to be established by each Project Municipality under Part B(3) of the Project pursuant to Part C of Schedule 1 to the Project Agreement.

(q) "Vocational Training Grant" means a grant made or proposed to be made by a Project Municipality out of the proceeds of the Credit and/or of the Loan made available to said Project Municipality by the Borrower through the province in which said Project Municipality is located, to a Vocational Training Provider for a Vocational Training Sub-project.

(r) "Vocational Training Provider" means any vocational training organization to which a Project Municipality proposes to make or has made a Vocational Training Grant.

(s) "Vocational Training Sub-project" means a specific development project under Part B(3)(c) of the Project to be carried out by a Vocational Training Provider utilizing the proceeds of a Vocational Training Grant.

(t) "Weifang" means Weifang Municipality in the Borrower's Province of Shandong.

(u) "Wuhan" means Wuhan Municipality in the Borrower's Province of Hubei.

(v) "Zhejiang" means the Borrower's Province of Zhejiang.

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 thirteen million four hundred thousand Special Drawing Rights (SDR 13,400,000).

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 in

dollars a special deposit account 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, 1999 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 (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date 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 January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 1 and July 1 commencing January 1, 2006 and ending July 1, 2030. Each installment to and including the installment payable on July 1, 2015 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:

(i) shall carry out Part A of the Project, through MOL, with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and labor market practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part of the Project; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement or the Loan Agreement, shall (A) cause each Project Entity to perform in accordance with the provisions of the Project Agreement all of its respective obligations therein set forth, (B) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each said Project Entity to perform such obligations, and (C) not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available to each Project Municipality, through the province in which it is located, and to Zhejiang, its Respective Proceeds of the Credit and its Respective Proceeds of the Loan, on the following principal terms:

(i) the principal amount of said Project Entity's Respective Proceeds of the Credit: (A) shall be the equivalent in terms of Special Drawing Rights (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn, on account of the cost of goods and services required for its Respective Part of the Project 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 subparagraph (A) above;

(ii) the principal amount of said Project Entity's Respective Proceeds of the Loan: (A) shall be the equivalent in terms of dollars (determined on the date or respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn, on account of the cost of goods and services required for its Respective Part of the Project to be financed out of the proceeds of the Loan; and (B) shall be recovered by the Borrower in dollars;

(iii) the Borrower shall recover from said Project Entity the principal amounts referred to in paragraphs (b)(i) and (b)(ii) of this Section over a period of twenty (20) years, inclusive of a grace period of five (5) years; and

(iv) the Borrower shall charge interest on the principal amounts referred to in paragraphs (b)(i) and (b)(ii) of this Section and withdrawn and outstanding from time to time at a rate equal to or less than four percent (4%) per annum.

(c) 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 Part A of 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. (a) For the purposes of Section 9.07 of the General Conditions and Section 9.08 of the General Conditions referred to in Section 1.01 of the Loan Agreement, and without limitation thereto, the Borrower shall:

(i) 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 Borrower's Respective Part of the Project; and

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

(b) The Borrower and the Association hereby agree that each Project Entity shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions and Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions referred to in Section 1.01 of the Loan Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of said Project Entity's Respective Part of the Project, pursuant to Section 2.03(a) of the Project Agreement.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

(ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

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

(ii) retain, until at least one year after the Association has received the audit 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

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 Entity shall have failed to perform any of its respective obligations under the Project Agreement.

(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 a Project Entity will be able to perform its respective obligations under the Project Agreement.

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 all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

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 the Project Agreement has been duly authorized or ratified by each of the Project Entities and is legally binding upon said Project Entity in accordance with its 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 8.01. 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 8.02. 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/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

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 Dollar Equivalent)	% of Expendi- tures to be Financed)
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(1) For Part A
of the

Project:			
(a) Goods	200,000	510,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	460,000	--	100%
(2) For Deyang's Respective Part of the Project:			
(a) Goods	1,440,000	1,340,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	340,000	--	100%
(3) For Guangzhou's Respective Part of the Project:			
(a) Goods	1,840,000	1,660,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	400,000	--	100%
(4) For Shaoxing's Respective Part of the Project:			
(a) Goods	1,700,000	1,630,000	100% of foreign

			expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally	
	(b) Consul- tants' services and training	480,000	--	100%
(5)	For Weifang's Respective Part of the Project:			
	(a) Goods	1,480,000	1,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(b) Consul- tants' services and training	540,000	--	100%
(6)	For Wuhan's Respective Part of the Project:			
	(a) Goods	2,750,000	2,660,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
	(b) Consul- tants' services and training	820,000	--	100%
(7)	For Zhejiang's Respective Part of the Project:			
	(a) Goods	750,000	700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory

cost), and 75%
of local
expenditures
for other items
procured locally

(b) Consul- tants' services and training	200,000	--	100%
	-----	-----	
TOTAL	13,400,000	10,000,000	
	=====	=====	

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; 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:

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,400,000 may be made on account of payments made for expenditures before that date but after July 15, 1995; and

(b) in respect of a Vocational Training Grant unless the Vocational Training Grant has been made in accordance with the procedures and on the conditions set forth or referred to in the Annex to Schedule 1 to the Project Agreement.

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 \$200,000 equivalent each, (b) consultants' services under contracts awarded to firms, costing less than \$100,000 equivalent each, (c) consultants' services under contracts awarded to individuals, costing less than \$50,000 equivalent each, and (d) training, regardless of the cost thereof, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (1) assist the Borrower in reforming its labor policies and legislation to facilitate the development of efficient labor markets and promote labor mobility; (2) improve the delivery in the areas under the jurisdiction of the Project Entities of effective redeployment assistance and training for workers so as to increase labor productivity and mobility; and (3) strengthen the institutional capabilities of agencies of the Borrower and of the Project Entities responsible for managing labor market development.

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: National Legislative and Policy Reforms and Institutional Development

(1) Preparation of national legislation to facilitate the development of an efficient labor market, including laws and regulations in the areas of employment promotion, unemployment insurance, employment services, vocational training and rural

labor mobility.

(2) Development and introduction within MOL of a labor market information system and network control center for the collection and exchange of regional employment data provided through the system developed by each Project Entity under Part B(2) of the Project.

(3) Strengthening of the organization, operation and management of the National Vocational Skill Testing Guidance Center through staff development and provision of technical assistance, including the provision of training equipment and materials required therefor; and development and adoption of occupational standards for selected skills so as to facilitate the testing of vocational skills.

(4) Development and implementation of a training program to improve the skills of MOL staff in respect of labor market policy development and analysis and in respect of computer use.

(5) Undertaking of a review to strengthen the organizational structure for the delivery of employment services at local levels.

Part B: Municipal and Provincial Labor Market Reforms and Institutional Development

(1) Carrying out by each Project Municipality of a social insurance reform program designed to (a) distribute social insurance costs among all enterprises operating within such municipality by enlarging the social security premium pool, (b) expand the coverage of social insurance within such municipality, and (c) improve the efficiency with which the social security system within such municipality is managed and administered.

(2) Development and introduction by each Project Entity of a labor market information system network, including a computer application system with an integrated computer hardware and software and communication system, designed to enable said Project Entity to compile and analyze labor market information, to exchange such information among employers and workers at local levels, to provide such information to MOL and to manage unemployment benefits.

(3) Strengthening of the provision of vocational training services in each Project Municipality by establishing and operating: (a) a vocational skill testing station to provide assistance in testing and certification of vocational skills levels of workers within said municipality, on the basis of the standards developed under Part A(3) of the Project; (b) a committee to be responsible for planning and coordinating all vocational training programs within said municipality's jurisdiction; and (c) a vocational training grant facility, to be managed by said committee, for the financing, through the provision of grants, including Vocational Training Grants, to entities providing vocational training services, of specific in-service training projects designed to further the objectives of the Project.

(4) Development and implementation of a training program to improve the skills of officials of each Project Entity in respect of labor market services.

* * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods 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 computers and vocational training equipment shall be grouped in bid packages estimated to cost \$200,000 equivalent 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

Goods estimated to cost less than \$200,000 equivalent and \$50,000 or more per contract, up to an aggregate amount not to exceed \$3,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,200,000 equivalent, 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.

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 estimated to cost the equivalent of \$200,000 or more, 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

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 thereto 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 individual consultants 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

A. Project Management

In order to ensure the proper carrying out of the Project, the Borrower shall maintain within MOL, throughout the period of Project implementation, an office, with terms of reference, staffing and resources acceptable to the Association, to be responsible for the overall coordination of Project implementation, the supervision of the procurement of goods and services thereunder, the overall assessment of the quality and impact of the Project, the preparation and furnishing to the Association of reports and other information thereon and the provision of guidance to the Project Entities in the implementation of their Respective Parts of the Project.

B. Part A of the Project

1. The Borrower shall carry out:

(a) Part A(1) of the Project in accordance with a time-bound action plan acceptable to the Association;

(b) the training under Part A(4) of the Project in accordance with a training program acceptable to the Association; and

(c) the review under Part A(5) of the Project in accordance with a time-bound action plan acceptable to the Association.

C. Project Monitoring and Reporting

Without limitation upon the provisions of Section 9.06 of the General Conditions and Section 9.07 of the General Conditions referred to in Section 1.01 of the Loan Agreement:

1. The Borrower shall:

(a) employ consultants, not later than April 30, 1996, and in accordance with the provisions of Section II of Schedule 3 to this Agreement, to assist the Borrower in developing indicators for the proper monitoring and evaluation of the carrying out of the Project;

(b) ensure that said indicators shall be prepared and furnished to the Association not later than June 30, 1996;

(c) afford the Association a reasonable opportunity to exchange views with the Borrower on said indicators; and

(d) thereafter, promptly finalize such indicators as shall have been agreed

between the Borrower and the Association.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators referred to in Section 1(d) of this Part C, the carrying out of the Project;

(b) prepare, through the office referred to in Part A of this Schedule, under terms of reference acceptable to the Association, and furnish to the Association: (i) semi-annual reports not later than February 15 and August 15 of each year, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) hereof, on the progress achieved in the carrying out of the Project during the preceding calendar semester, consolidating the reports furnished to the Borrower by each Project Entity pursuant to Part D of Schedule 1 to the Project Agreement, for such semester and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of the objectives thereof; and (ii) a mid-term report, on or about December 1, 1997, integrating the results of such monitoring and evaluation activities to date and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the following period; and

(c) after furnishing each report referred to in paragraph (b) hereof, review said report with the Association, and promptly take all measures required on its part to ensure the continued efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views thereon.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1)(a), (1)(b), (2)(a), (2)(b), (3)(a), (3)(b), (4)(a), (4)(b), (5)(a), (5)(b), (6)(a), (6)(b), (7)(a) and (7)(b);

(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 the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,000,000 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 \$2,000,000 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 \$12,000,000.

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 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 or the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the 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 the Development Credit 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 or the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Loan Account pursuant to the provisions of 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the 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 or the Bank 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 or the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan Account, as the case may be, 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.

