

CONFORMED COPY

LOAN NUMBER 7194-CHA

Loan Agreement

(Basic Education in Western Areas Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 11, 2003

LOAN NUMBER 7194-CHA

LOAN AGREEMENT

AGREEMENT, dated November 11, 2003, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (Bank).

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

(B) The Borrower, the United Kingdom Department for International Development (DFID), and the Bank have entered into an arrangement of even date herewith (Tripartite Arrangement) under which DFID has: agreed to make a grant to the Borrower in an amount not exceeding thirty-four million four hundred thousand Dollars (\$34,400,000) (DFID Grant) to assist the Borrower in reducing the cost of the Loan; appointed the Bank as administrator (Administrator) of the DFID Grant; and agreed to transfer the proceeds of the DFID Grant to the Administrator from time to time and in accordance with the provisions of the said arrangement, which proceeds are to be used to prepay part of the principal amount of the Loan, on the terms and conditions set forth in said arrangement, and the Borrower has confirmed its concurrence with the Loan prepayment arrangements set forth therein;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (General Conditions), with the modifications set forth below, constitute an integral part of this Agreement:

(a) Section 5.02 of the General Conditions is modified to read as follows:

"Section 5.02. (a) Upon the Borrower's request and on such terms and conditions as shall be agreed upon between the Bank and the Borrower, the Bank may enter into special commitments in writing to pay amounts to the

Borrower or others in respect of expenditures to be financed out of the proceeds of the Loan notwithstanding any subsequent suspension or cancellation by the Bank or the Borrower.

- (b) The terms and conditions referred to in Section 5.02(a) shall include that the Bank will enter into a special commitment provided that: (i) the amount for which the special commitment is being requested has been included in the First Projected Disbursement or the Subsequent Projected Disbursement for the Relevant Six-Month Period (as such terms are defined in the Loan Agreement), as the case may be; and (ii) the amount of monies in TF Number TF052350 (as such term is defined in the Loan Agreement) is not less than the amount of the First DFID Deposit or the Subsequent DFID Deposit for the Relevant Six-month Period, as the case may be.”

(b) Section 3.05 (a) of the General Conditions is modified hereby by adding a new subparagraph (iii) therein to read as follows:

“or (iii) a portion of the principal amount of the Loan pursuant to the provisions set forth in Schedule 3, Amortization Schedule, to the Loan Agreement.”

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

(a) “Allocated Amount” means, in respect of each Project Province, an amount of the Loan proceeds allocated by the Borrower to said Project Province pursuant to the provisions of paragraph 2(c) of Schedule 5 of this Agreement and to be utilized by said Project Province for purposes of carrying out its Education Program.

(b) “Category” means a category of item set forth in table 1 in paragraph 1 of Schedule 1 to this Agreement.

(c) “CEP” means the Chinese Experts Panel, to be established under Part B.2 of the Project and the provisions of paragraph 1(b) of Schedule 5 to this Agreement.

(d) “Education Program” means a program to be carried out under Parts A, B.1 and/or C of the Project, which satisfies the requirements set forth or referred to in paragraph 2 of Schedule 5 to this Agreement and which is to be carried out by a Project Province utilizing the proceeds of its Allocated Amount; and “Education Programs” means, collectively, all such programs.

(e) “Ethnic Minorities Education Strategy” means the Ethnic Minorities Education Strategy dated July 17, 2003, adopted by each Project Province, providing procedures, rules, and guidelines for: (i) the informed involvement of ethnic minorities, through a process of informed consultation, in the design and implementation of their Respective Part of the Project in locations in which such people reside or which they use for their livelihood; and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of said implementation, as such strategy may be amended from time to time with the prior agreement of the Bank.

(f) “First DFID Deposit” means the amount of the first deposit of DFID Grant proceeds determined in accordance with Section 2.01(c) of the Tripartite Arrangement and to be deposited into TF052350 pursuant to said Section 2.01(c).

(g) “First Projected Disbursement” means the amount of the first projected disbursement determined in accordance with Section 2.01(b) of the Tripartite Arrangement.

(h) “Gansu” means the Province of Gansu, and any successor thereto.

(i) “Guangxi” means the Guangxi Zhuang Autonomous Region, and any successor thereto.

(j) “Implementation Agreement” means, in respect of each Project Province, the agreement entered into between the Borrower and said Project Province in accordance with the provisions of paragraph 2(d) of Schedule 5 to this Agreement and the Annex thereto, as the same may be amended from time to time with the approval of the Bank.

(k) “MOE” means the Borrower’s Ministry of Education, and any successor thereto.

(l) “Ningxia” means the Ningxia Hui Autonomous Region, and any successor thereto.

(m) “Project Counties” means, collectively, the counties that will carry out the Education Program, or part thereof, within any of the Project Provinces; and a “Project County” means any of the Project Counties.

(n) “Project Provinces” means, collectively, the Borrower’s: (i) Provinces of Gansu, Sichuan and Yunnan; and (ii) Guangxi Zhuang Autonomous Region and Ningxia Hui Autonomous Region, and any successor thereto; and “Project Province” means any of the Project Provinces.

(o) “Relevant Six-Month Period” means the six-month period: (i) used to estimate the aggregate amount of the Loan to be disbursed on account of the Project (including deposit into and replenishments of the Special Account, direct payments on contracts and special commitments to be issued by the Bank) as such aggregate amount is to be determined by the Borrower and the Bank pursuant to Section 2.01(b) and/or 2.01(g) of the Tripartite Arrangement; and (ii) for which the amount of money to be deposited by DFID is notified pursuant to Section 2.01(c) and/or 2.01(h) of the Tripartite Arrangement.

(p) “Respective Part of the Project” means, in respect of each Project Province, the Education Program to be carried out within its respective territorial jurisdiction and which Education Program has been approved by the Bank to be eligible for financing out of the proceeds of the Loan.

(q) “Sichuan” means the Province of Sichuan, and any successor thereto.

(r) “Special Accounts” means the five (5) accounts referred to in Section 2.02(b) of this Agreement; and “Special Account” means, individually, any of the Special Accounts.

(s) “Subsequent DFID Deposit” means the amount of any of the deposits of DFID Grant proceeds determined in accordance with Section 2.01(h) of the Tripartite Arrangement and to be deposited into TF Number TF052350 pursuant to Section 2.01(d) of the Tripartite Arrangement.

(t) “Subsequent Projected Disbursement” means the amount of any of the projected disbursements determined in accordance with Section 2.01(g) of the Tripartite Arrangement.

(u) “TF Number TF052350” means Trust Fund Number TF052350, which trust fund is established and maintained by the Bank pursuant to the terms and conditions of the Tripartite Arrangement.

(v) “Yunnan” means the Province of Yunnan, and any successor thereto.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to the Provinces of Gansu, Sichuan and Yunnan; and Guangxi Zhuang Autonomous Region and Ningxia Hui Autonomous Region.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred million Dollars (\$100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan, in respect of the fee referred to in Section 2.04 of this Agreement and any premium of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

(b) The Borrower shall, for purposes of withdrawing proceeds of the Loan allocated to Categories (1), (2), (3) and (4) set forth in paragraph 1 of Schedule 1 to this Agreement, open and maintain in Dollars, the following five (5) separate special deposit accounts, in one or more commercial banks acceptable to the Bank, and on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment:

- (i) one such account for purposes of carrying out Gansu's Education Program (Gansu's Special Account);
- (ii) one such account for purposes of carrying out Sichuan's Education Program (Sichuan's Special Account);
- (iii) one such account for purposes of carrying out Yunnan's Education Program (Yunnan's Special Account);
- (iv) one such account for purposes of carrying out Guangxi's Education Program (Guangxi's Special Account); and
- (v) one such account for purposes of carrying out Ningxia's Education Program (Ningxia's Special Account).

Deposits into and payments out of each Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall pay a front-end fee in an amount equal to one percent (1%) of the principal amount of the Loan set forth in Section 2.01 of this Agreement (the front-end fee).

(b) The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of six hundred fifty-six thousand Dollars (\$656,000) representing sixty-five and six tenths of one percent (65.6%) of the front-end fee.

(c) (i) Subject to subparagraph (ii) of this paragraph, the Borrower agrees that the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the balance of the front-end fee, or a portion thereof, in an amount equal to one percent (1%) of the undisbursed balance of the DFID Grant in the event that DFID, for any reason, shall have failed to deposit into TF Number TF052350, any portion of the proceeds of the DFID Grant in accordance with the provisions of the Tripartite Arrangement or DFID shall have taken action to terminate the Tripartite Arrangement pursuant to Section 6.02 thereof. The said withdrawal and payment of the balance of the front-end fee, or portion thereof, shall be made upon the expiration of fourteen (14) calendar days' notice given by the Bank to DFID and the Borrower of DFID's said failure to deposit or said action to terminate the Tripartite Arrangement. The said undisbursed balance of the DFID Grant shall be determined by the Bank at the time of DFID's said failure to deposit the proceeds of the DFID Grant, or at the time of DFID's said action to terminate the Tripartite Arrangement, as the case may be.

(ii) Subparagraph (i) of this paragraph shall not apply and the Bank shall not be entitled to withdraw from the Loan Account and pay to itself the balance of the front-end fee, or a portion thereof, if prior to the expiration of said fourteen (14) calendar days' notice: (A) the Borrower establishes to the satisfaction of the Bank that adequate funds in an amount equal to the undisbursed balance of the DFID Grant are available to the Borrower from other sources on terms and conditions similar to those of the

Tripartite Arrangement; or (B) the Borrower establishes to the satisfaction of the Bank that adequate funds in an amount equal to the undisbursed balance of the DFID Grant are available to the Borrower from its own resources and are set aside under arrangements satisfactory to the Bank to make the prepayment arrangements on terms and conditions similar to those set forth in the Tripartite Arrangement; or (C) the Borrower cancels the undisbursed amount of the proceeds of the Loan.

Section 2.05. (a) Subject to the provisions of paragraph (b) of this Section, the Borrower shall pay to the Bank, a commitment charge on an amount equal to sixty-five million six hundred thousand Dollars (\$65,600,000) less sixty-five and six tenths of one percent (65.6%) of the Loan withdrawn from time to time, at a rate equal to: (i) eighty-five one-hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to, but not including, the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (0.75%) per annum thereafter.

- (b) (i) Subject to subparagraph (ii) of this paragraph, if DFID for any reason fails to deposit into TF Number TF052350 (DFID's Non-deposit) any portion of the proceeds of the DFID Grant in accordance with the provisions of the Tripartite Arrangement or if DFID shall have taken action to terminate the Tripartite Arrangement pursuant to Section 6.02 thereof, upon the expiration of fourteen (14) calendar days' notice given by the Bank to DFID and the Borrower of DFID's Non-deposit or said action to terminate the Tripartite Arrangement, the Borrower shall pay on each payment date following such notice, said commitment charge calculated on the principal amount of the Loan not withdrawn from time to time after the date of DFID's Non-deposit or after the date of DFID's action to terminate the Tripartite Arrangement, as the case may be.
- (ii) Subparagraph (i) of this paragraph shall not apply and the Borrower shall continue to pay to the Bank a commitment charge calculated in accordance with the provisions of subparagraph (a) of this Section if prior to the expiration of said fourteen (14) calendar days' notice: (A) the Borrower establishes to the satisfaction of the Bank that adequate funds in an amount equal to the undisbursed balance of the DFID Grant are available to the Borrower from other sources on terms and conditions similar to those of the Tripartite Arrangement; or (B) the Borrower establishes to the satisfaction of the Bank that adequate funds in an amount equal to the undisbursed balance of the DFID Grant

are available to the Borrower from its own resources and are set aside under arrangements satisfactory to the Bank to make the prepayment arrangements on terms and conditions similar to those set forth in the Tripartite Arrangement.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be paid semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

Notwithstanding the foregoing, the Borrower shall not request a Conversion with respect to any principal amount of the Loan withdrawn until prepayment corresponding to the said principal amount, or part thereof, has occurred pursuant to Section 2.02(a) of the Tripartite Arrangement.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7)

of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end: (i) shall carry out Part B.1(c) and B.2 of the Project through MOE; and (ii) shall cause the Project Provinces to carry out Parts A, B.1, and C of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, and technical practices and education, social and environment standards acceptable to the Bank and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out, or cause the Project Provinces to carry out, the actions specified in the Implementation Program set forth in Schedule 5 to this Agreement in order to ensure proper implementation of the Project.

Section 3.02. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 4 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 Bank, and furnish to the Bank 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 Bank, a plan designed to ensure continued achievement of the Project objectives; and

(b) afford the Bank 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 Accounts) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank 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 Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan 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 separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Bank'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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 4 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish, and ensure that each Project Province prepares and furnishes, to the Bank financial monitoring reports, in form and substance satisfactory to the Bank, which set forth sources and uses of funds for the Project, both cumulatively and for the period covered by each said report, showing separately funds provided under the Loan, and explain variances between the actual and planned uses of such funds.

(b) The first such financial monitoring report shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each financial monitoring report shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) 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 Implementation Agreement to which it is a party.

(b) As a result of events that occurred after the date of the Loan 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 Implementation Agreement to which it is a party.

- (c) (i) Subject to subparagraph (ii) of this paragraph, DFID shall have failed to deposit into TF Number TF052350, any portion of the

proceeds of the DFID Grant in accordance with the provisions of the Tripartite Arrangement; DFID shall have failed to perform any of its other obligations under the Tripartite Arrangement; or DFID shall have taken action to terminate the Tripartite Arrangement pursuant to Section 6.02 thereof.

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for prepayment of the Loan in an amount equal to the undisbursed balance of the DFID Grant are available to the Borrower from other sources on terms and conditions similar to those of the Tripartite Arrangement. The said undisbursed balance shall be determined at the time of DFID's said failure to deposit proceeds of the DFID Grant; at the time of DFID's said failure to perform its obligations; or at the time of DFID's said action to terminate the Tripartite Arrangement, as the case may be.

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

ARTICLE VI

Effective Date; Termination

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

(a) Implementation Agreements, satisfactory to the Bank, shall have been executed between the Borrower and the five (5) Project Provinces.

(b) The Tripartite Arrangement, satisfactory to the Bank, has been executed by DFID and the Borrower.

(c) DFID has deposited into TF Number TF052350 an amount equal to the First DFID Deposit.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or

opinions to be furnished to the Bank, namely, that the Implementation Agreement with each of the Project Provinces referred to in Section 6.01(a) of this Agreement has been duly authorized or ratified by the Borrower and said Project Province, and is legally binding upon the Borrower and said Project Province 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.

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 100820
People's Republic of China

Facsimile:

68551125

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zou Jiayi

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures To be Financed</u>
(1) Works	62,960,000	75%
(2) Goods:	21,800,000	100% of foreign expenditures and 100% of local expenditures (ex- factory cost), and 75% of local expenditures for other items procured locally
(3) Consultants' services	140,000	91%
(4) Training and study tours	14,100,000	100%
(5) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09(c) of this Agreement
(6) Fee	1,000,000	Amount due under Section 2.04 of this Agreement
 	<hr/>	
TOTAL	<u>100,000,000</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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be “foreign expenditures”; and

(b) the term “local expenditures” means any expenditures that are not foreign expenditures.

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 exceeding \$10,000,000 may be made in respect of Categories (1) and (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after March 1, 2003, provided that said withdrawals are made through the Special Accounts in accordance with the provisions of Schedule 6 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures:

(a) for works under contracts costing less than \$4,000,000 equivalent each;

(b) for goods under contracts costing less than \$300,000 equivalent each;

(c) for consultants’ services under contracts awarded to consulting firms and costing less than \$100,000 equivalent each;

(d) for consultants’ services under contracts awarded to individual consultants and costing less than \$50,000 equivalent each; and

(e) for training and study tours, regardless of the cost thereof,

all under such terms and conditions as 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 access to and completion of affordable and quality basic education for poor children in the Project Provinces under the Borrower's Nine-year Compulsory Education Plan.

The Project consists of the following parts, subject to such modification thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A: Improving School Facilities

Carrying out programs to improve school facilities, consisting of one or more of the following activities:

1. Construction of new and repairing and upgrading of existing buildings and structures in primary and junior secondary schools.
2. Provision of school furniture, teaching equipment (including, computers and relevant software programs), and library books (including, culturally appropriate books and materials in local languages).

Part B: Strengthening Management and Administration

1. Carrying out programs to strengthen local institutional capacity in carrying out the Project and delivery of education, consisting of one or more of the following activities:

(a) Development of multi-year school development plans (SDPs), using community-inclusive and -participatory methodologies, on a pilot basis in each Project Province; dissemination of the results of such pilot SDPs; and provision of training of provincial staff on the design and implementation of SDPs.

(b) Carrying out of Project implementation monitoring through the provision of: (i) technical assistance on the collection and utilization of education data; (ii) a computerized system for reporting of such data at the county and township levels; and (iii) training for the use of such system.

(c) Strengthening of institutional abilities at the provincial and county levels to implement the Project and administer education policies through the provision of training (including training on civil works supervision, procurement procedures, financial management, school development planning and participatory teaching methods) and study tours.

2. Establishment of a multi-disciplinary panel of experts at the national level to:
(a) provide advice and guidance on various aspects of the Project; and (b) assist in supervising Project implementation.

Part C: Improving Quality of Teaching and Learning

1. Carrying out programs for the training of teachers (with special focus on training of bilingual, minority and female teachers) and school staff, including training in methods of participatory teaching, child-centered curriculum, monitoring and assessment of student learning achievement, multi-grade teaching, continuing education and laboratory training.

2. Carrying out of programs for rural education reform pilot activities, including:
(a) developing strategies to increase girls' enrollment and completion of primary and junior secondary school; (b) developing and using teaching materials in minority languages; (c) increasing local relevant content in the teaching curriculum, and (d) developing means to provide access to education for children previously excluded (including disabled children and children residing in remote areas), and dissemination of the results of said activities.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn two months prior to the first Principal Payment Date (the current billing system pursuant to Section 3(a) of this Schedule), the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding two months prior to the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies. The principal amount of the Loan withdrawn and outstanding two months prior to the first Principal Payment Date shall be the aggregate amount of the Loan withdrawn from the Loan Account up to July 15, 2011, minus the aggregate amounts prepaid by the Borrower up to July 15, 2011, in accordance with Section 2.02 of the Tripartite Arrangement.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each March 15 and September 15 Beginning September 15, 2011 through September 15, 2022	4.17%
On March 15, 2023	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn two months prior to the first Principal Payment Date, the total principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn two months prior to the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) To the extent that any proceeds of the Loan shall have been withdrawn in the six-month period commencing on the date falling two (2) months prior to the first Principal Payment Date and ending on the date falling four (4) months after the first Principal Payment Date or in any subsequent six-month period (in each case commencing on a date falling two (2) months prior to any Principal Payment Date and ending on a

date falling four (4) months after such Principal Payment Date), the Borrower shall repay the Net Repayment Amount (as the term is defined below) in respect of such six (6) month period, if any, on each Principal Payment Date after the period for which such Net Repayment Amount has been determined by the Bank by multiplying the relevant Net Repayment Amount by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling after the period for which such Net Repayment Amount is determined. The repayment amounts so calculated to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies. For purposes of this paragraph the term "Net Repayment Amount" means the aggregate of all withdrawals from the Loan Account made in any six-month period consisting of the two months immediately prior to and the four months immediately following any Principal Payment Date minus the amount prepaid by the Borrower in accordance with Section 2.02 of the Tripartite Arrangement during the same six-month period.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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) 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 (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Administrative Region of the Borrower).

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) School equipment, furniture, books and materials estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$26,980,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Civil works for new construction or repair of school buildings estimated to cost less than \$4,000,000 equivalent per contract, up to an aggregate amount not to exceed \$62,970,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:

- (i) All invitations to prequalify or to bid shall be advertised in a newspaper of national or provincial circulation in the Borrower's country and such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.
- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders shall be required to provide security in an amount sufficient to protect the Borrower or the Project Province, as the case may be, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower or the Project Province, as the case may be.
- (vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to

undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.

- (viii) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$8,240,000 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.

3. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$26,980,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitation to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank 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 Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for civil works procured using the procedures set forth in Part B of this Section I; (b) the first two contracts for civil works each year in each Project Province, which contract is procured using the procedures set forth in Part

C.1 of this Section I; (c) each contract for goods procured using the procedures set forth in Part B of this Section I; and (d) the first contract for teaching equipment and reference books procured by each Project Province using the procedures set forth in Part C.1 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

Consultants' services shall be procured in accordance with the provisions of Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. 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, 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 for rural education reform pilot activities and dissemination of the results of said activities under Part C.2 of the Project that are estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$70,000 equivalent, 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 of individual consultants for rural education reform pilot activities and dissemination of the results of said activities under Part C.2 of the Project that are estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$70,000 equivalent and that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

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 2, 3 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 report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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 5

Implementation Program

Project Management and Implementation at the Central Level

1. The Borrower shall:

(a) maintain throughout the period of implementation of the Project, with composition, terms of reference, staffing and other resources acceptable to the Bank, the Foreign Investment and Loan Office established within MOE, which shall report to a Vice Chairman of MOE; said office to be responsible for: coordinating and overseeing Project implementation at the national, provincial and local levels, implementing Parts B.1(c) and B.2 of the Project; supervising procurement under the Project; and preparing the reports referred to in paragraph 4(b) of this Schedule; and

(b) by January 15, 2004, establish, and maintain throughout the period of implementation of the Project, with composition, terms of reference, staffing and other resources acceptable to the Bank, the Chinese Experts Panel, headed by a chairman, and supported by a specialist in minority education and a core of experts in various disciplines; said CEP to be responsible for: (i) providing technical advice and guidance to the Project Provinces on the development and implementation of their Education Programs and on pedagogical, social, cultural and operational aspects of the Project, and to MOE on the development and implementation of training programs under Part B.1(c) of the Project, and (ii) assisting in the supervision of Project implementation.

Education Programs

2. A program referred to in Parts A, B.1 and C of the Project to be carried out by a Project Province shall qualify as an Education Program eligible for financing out of the proceeds of the Loan only if:

(a) The Project Province shall have demonstrated to the satisfaction of the Borrower, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank, that the following requirements have been met:

- (i) The proposed program shall be economically and financially viable, and technically feasible, and shall have been designed in accordance with education standards acceptable to the Bank.
- (ii) The Project Province shall have the organization, management and resources required for the proper carrying out of the proposed program, and to this end, has established a provincial-level project management office in accordance with the provisions of paragraph 2(a) Section II of the Annex to this Schedule.

- (iii) The Project Province shall have prepared a detailed time-bound action plan for the implementation of its proposed program.
- (iv) With respect to construction proposed under programs under Part A.1 of the Project: (A) the proposed construction shall not include the construction of new primary-level boarding schools or expansion of existing boarding schools to compensate for the closure of village primary schools and teaching points; and (B) the construction proposal shall avoid the acquisition of land or assets of dwellers and the displacement of dwellers.

(b) The Bank shall have notified the Borrower and said Project Province of the Bank's approval of the proposed program.

(c) The Borrower shall have allocated an amount of the proceeds of the Loan to said Project Province to carry out the approved Education Program.

(d) The Borrower shall have entered into an Implementation Agreement with the Project Province to carry out its Education Program and to make available to the Project Province, the latter's respective Allocated Amount: (a) on the principal terms set forth in Section I of the Annex to this Schedule; and (b) on conditions acceptable to the Bank and as set forth in the Implementation Agreement, which shall be entered into between the Borrower and said Project Province in accordance with the provisions set forth in Section II of said Annex.

Implementation Agreement

3. The Borrower shall:

(a) (i) cause each Project Province to perform, in accordance with the provisions of the Implementation Agreement 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 Implementation Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate, or waive any of the Implementation Agreements or any provision thereof.

Monitoring and Reporting

4. The Borrower shall:

(a) (i) maintain policies and procedures adequate to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of Parts B.1(c) and B.2 of the Project and the achievement of the objectives thereof; and (ii) ensure that each Project Province shall maintain policies and procedures, adequate to enable each of them to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of Parts A, B.1 and C of the Project and the achievement of the objectives thereof;

(b) prepare, and ensure that each Project Province prepares, under terms of reference satisfactory to the Bank, and furnish to the Bank, the following reports:

- (i) annual reports, not later than April 15 in each calendar year: (A) integrating the results of the monitoring and evaluation activities, performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of Parts B.1(c) and B.2 of the Project by the Borrower and Parts A, B.1 and C of the Project by each Project Province during the twelve-month period preceding the date of said report and ending on December 31; and (B) setting out the measures recommended to ensure the efficient carrying out of the respective parts of the Project and the achievement of the objectives thereof during the period following such date; and
- (ii) a mid-term report, not later than September 1, 2006, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraphs (a) and (b)(i) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof; and

(c) after furnishing:

- (i) each report referred to in sub-paragraph (b)(i) of this paragraph, review, and cause each Project Province to review, said report with the Bank, and promptly take all measures required to ensure the efficient completion of the respective parts of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter; and

- (ii) the report referred to in sub-paragraph (b)(ii) of this paragraph, review, and cause each Project Province to review, said report with the Bank, by October 15, 2006, or such later date as the Bank shall request, and, thereafter, take all measures required to ensure the efficient completion of the respective parts of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Annex
To
Schedule 5

For purposes of paragraph 2(d) of Schedule 5 to this Agreement, the terms of availability of each Allocated Amount shall be those set forth in Section I of this Annex, and the Implementation Agreements shall be entered into on the conditions set forth in Section II of this Annex.

Section I. Terms of Availability of the Respective Allocated Amount

1. The Borrower shall make part of the proceeds of the Loan available to each Project Province for the carrying out its Education Program, under arrangements satisfactory to the Bank, which shall include the following:

(a) The Borrower shall make the principal amount of the Allocated Amount available to each Project Province in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn.

(b) The Borrower shall recover the principal amount in Dollars so made available, from each Project Province in equal semi-annual installments, over a period of twenty (20) years, inclusive of a grace period of eight (8) years.

(c) The Borrower shall charge interest on such principal amount withdrawn and outstanding from time to time at a rate not exceeding two percent (2%) per annum.

(d) Except as provided in subparagraphs (a) through (c) above, the Borrower shall not charge any other fees whatsoever in connection with making the proceeds of the Loan available to a Project Province; provided, however, that if the Bank shall charge the Borrower: (i) a premium on the prepayment of the principal amount of the Loan; or (ii) a commitment charge of more than 35 basis points during the period set forth in Section 2.05(a)(i) of the Loan Agreement; or (iii) a commitment charge of more than 25 basis points during the period set forth in Section 2.05(a)(ii) of the Loan Agreement, the Borrower may charge such additional costs to the Project Provinces.

Section II. Conditions of the Implementation Agreement

1. Each Implementation Agreement with a Project Province shall contain provisions pursuant to which the Project Province shall be obligated to carry out the actions applicable to it and set forth below.

Management

2. In order to facilitate the implementation of its Education Program, each Project Province:

(a) shall undertake to maintain, throughout the period of implementation thereof, with terms of reference, membership, staffing and other resources satisfactory to the Bank, a provincial project management office, headed by a director of the Provincial Education Bureau, which shall report to the Vice-Governor for Education of said Project Province and to the MOE; said provincial project management office shall be responsible for planning and coordinating the implementation of its Education Program.

(b) shall cause to be maintained within each of the Project Counties within the Project Province's jurisdiction, throughout the period of implementation thereof, with terms of reference, membership, staffing and other resources satisfactory to the Bank, a county project management office, headed by a director of the County Education Bureau, which shall report to the Magistrate of the Project County; said project county management office shall be responsible for supervising the carrying out of those activities under the Education Program within the Project County.

General Implementation

3. Each Project Province shall carry out its Respective Part of the Project with due diligence and efficiency, and in conformity with appropriate administrative, economic, financial, and technical practices and education, social and environment standards acceptable to the Bank and provide, or cause to be provided, promptly as needed the funds, facilities, services and other resources required for said carrying out of the Project.

4. Without limitation to the foregoing, each Project Province shall carry out the following:

(a) Procure goods, works and services required for its Education Program and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 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 the purchaser thereof to replace or repair such goods.

(c) Utilize said goods, works and services exclusively for the purpose of carrying out its Education Program.

(d) Enable the Borrower and the Bank to examine all goods, 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 under the Project and promptly, as needed,

make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, administrative and public health practices.

(f) Implement the Ethnic Minorities Education Strategy in a manner satisfactory to the Bank, to: (i) provide full consultation with and informed participation of ethnic minorities that will be affected by implementation of their Respective Part of the Project; and (ii) ensure that the design and implementation of its Respective Part of the Project adequately addresses the needs, cultural practices and preferences of such communities, and not amend, waive or modify the provisions of said strategy without the prior concurrence of the Bank.

Implementation of Programs under Part C of the Project

5. In implementing an Education Program under Part C.1 of the Project, each Project Province shall provide special training for *daike* (temporary) teachers to upgrade the skills of such teachers in areas, including multi-grade teaching and bilingual education.

6. In implementing an Education Program under Part C.2 of the Project, each Project Province shall:

(a) Select counties in which the Project Province proposes to carry out rural education reform pilot activities according to criteria acceptable to the Bank, including criteria that takes into account the following in the proposed county: (a) the size of the ethnic minority population; (b) status of economic development; and (c) education performance (including the enrollment and drop-out rates of girls and ethnic minority students).

(b) Within six (6) months of the signing of its respective Implementation Agreement, furnish to the Bank for approval a draft time-bound action plan for the carrying out of rural education reform pilot activities (including the dissemination of the results of said activities) and thereafter, carry out said action plan taking into account the Bank's comments thereon.

Financial Reporting

7. In carrying out its Education Program, each Project Province shall:

(a) maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices, the operations, resources and expenditures of said Project Province's departments or agencies that are responsible for carrying out said Education Program or any part thereof;

(b) have the records and accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(c) furnish to the Bank 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 Bank shall have reasonably requested; and

(d) furnish to the Bank such other information concerning said records and accounts and the audit thereof, as the Bank may, from time to time reasonably request.

Annual Action Plan

8. Each Project Province shall:

(a) prepare, in accordance with terms of reference satisfactory to the Bank, and furnish to the Borrower and the Bank by October 31 in each calendar year for review and approval, a proposed action plan for the carrying out of its Education Program during the following calendar 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 Bank.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means, in respect of each of the five (5) Special Accounts, 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 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, in respect of each of the five (5) Special Accounts, the respective amount set forth as the Authorized Allocation for each Special Account in the Annex to this Schedule, to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
2. Payments out of each Special Account shall be made for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested provided that:
 - (i) the amount or total of the amounts so requested has been included in the First Projected Disbursement; and
 - (ii) the amount of monies in TF Number TF052350, is not less than the amount of the First DFID Deposit.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 and subject to the provisions in subparagraph (b)(iii) below, the Bank shall, on behalf of the Borrower, withdraw from 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 Bank from 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.
- (iii) The Bank will deposit into the Special Account the amount requested under subparagraph (b)(ii) above provided that: (A) the amount so requested has been included in the First Projected Disbursement or Subsequent Projected Disbursement for the Relevant Six-month Period, plus additional deposits made by DFID into TF Number TF052350, as the case may be; and (B) the amount of monies in TF Number TF052350, is not less than amount of the First DFID Deposit or Subsequent DFID Deposit for the Relevant Six-month Period, plus additional deposits made by DFID into TF Number TF052350, as the case may be.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into any Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions;

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for said Special Account minus the total amount of all outstanding special commitments entered into by the Bank 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; or

(e) if, at any time, the Bank determines that:

(i) the amount or total of the amounts so requested has not been included in the Subsequent Projected Disbursement for the Relevant Six-month Period; or

(ii) the amount of monies in TF Number TF052350 is less than the amount of the Subsequent DFID Deposit for the Relevant Six-Month Period.

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

6. (a) If the Bank shall have determined at any time that any payment out of any 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into said Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into said 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 Bank shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

**Annex
To
Schedule 6**

<u>Special Account</u>	<u>Eligible Categories</u>	<u>Authorized Allocation (Expressed in US\$)</u>
Gansu's Special Account	(1), (2), (3) and (4)	800,000
Sichuan's Special Account	(1), (2), (3) and (4)	1,700,000
Yunnan's Special Account	(1), (2), (3) and (4)	1,700,000
Guangxi's Special Account	(1), (2), (3) and (4)	1,500,000
Ningxia's Special Account	(1), (2), (3) and (4)	1,000,000