

CONFORMED COPY

CREDIT NUMBER 2898 CHA

Development Credit Agreement

(Vocational Education Reform Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 13, 1996

CREDIT NUMBER 2898 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 13, 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; and

(D) the Project Entities (as defined in Section 1.02 (e) of this Agreement) will carry out Parts A and B of the Project with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Project Entities a portion of the proceeds of the Credit as provided in this Agreement and a portion 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;

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) "Allocated Amount" means, in respect of each Project Entity, an amount of the Credit and the Loan allocated by the Borrower to said Project Entity pursuant to paragraph C.1 of Schedule 4 to this Agreement and to be utilized by said Project Entity for purposes of carrying out its respective Vocational Education Program.

(b) "FILO" means the SEDC's Foreign Investment Loan Office, maintained in accordance with paragraph A of Schedule 4 to this Agreement.

(c) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(d) "PEdC" means, in respect of each Project Entity, the education commission of such Project Entity, and any successor thereto.

(e) "Project Entities" means, collectively, the Borrower's Provinces of Guangdong, Jiangsu, Liaoning and Shandong and the Municipality of Tianjin, and "Project Entity" means any of the Project Entities.

(f) "Project Schools" means, collectively, the secondary vocational and technical schools selected to participate in the Project, and "Project School" means any of the Project Schools.

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

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

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

(j) "Vocational Education Program Implementation Arrangement" means, in

respect of each Vocational Education Program, the arrangements referred to in paragraph C.1 of Schedule 4 to this Agreement, to be made between the Borrower and the Project Entity which proposes to carry out said Vocational Education Program, as the same may be amended from time to time.

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 eight hundred thousand Special Drawing Rights (SDR 13,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project 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, 2002 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 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 May 1 and November 1 commencing November 1, 2006 and ending May 1, 2031. Each installment to and including the installment payable on May 1, 2016 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 Dollars for

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

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

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part C of the Project through SEDC, and cause the Project Entities to carry out Parts A and B thereof, with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and education practices 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 Association shall otherwise agree, the Borrower shall carry out the Project, or cause the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this

Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than eight (8) months after the end of each such year, (A) a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested and (B) consolidated copies of the audit reports furnished to the Borrower by each Project Entity pursuant to the provisions of paragraph B.8 of the Annex to Schedule 4 to this Agreement; and

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

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

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

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

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

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

ARTICLE V

Remedies of the Association

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

(a) Any Project Entity shall have failed to perform any of its obligations under the Vocational Education Program Implementation Arrangement to which it is a party.

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

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

ARTICLE VI

Effective Date; Termination

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

(a) a Vocational Education Program Implementation Arrangement has been entered into between the Borrower and each Project Entity; and

(b) all conditions precedent to the effectiveness of the Loan Agreement shall 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 each of the Vocational Education Program Implementation Arrangements referred to in Section 6.01 (a) of this Agreement have been duly authorized or ratified by the Borrower and the Project Entity party thereto, and are legally binding upon the Borrower and 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.

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

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/ Zhou Wenzhong

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell Cheetham

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 Expenditures to be Financed
(1) Goods			(100% of foreign expenditures, (100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(a) under Part A (4) of the Project	9,970,000	1,530,000	
(b) under Part A (6) of the Project	710,000	6,970,000	
(2) Consultants' services and training	1,050,000		100%
(3) Unallocated	2,070,000	1,500,000	
TOTAL	13,800,000	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 in respect of payments made: (a) for expenditures prior to the date of this Agreement; and (b) for expenditures under Category (1) (a) of paragraph 1 of this Schedule, until the Borrower has employed consultants for the provision of training and technical assistance in the implementation of Part A (3) of the Project in accordance with Section II of Schedule 3 to this Agreement.

4. The Association may require withdrawals from the Credit Account and the Loan Account to be made on the basis of statements of expenditure for expenditures for (a)

goods, under contracts costing less than \$200,000 equivalent each, (b) consultants' services under contracts awarded to 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, in each case under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (1) improve and increase the supply of skilled labor to help meet labor market demands in areas under the jurisdiction of the Project Entities; (2) raise the quality and efficiency of the vocational education and training systems under the Project Entities; and (3) strengthen the capacity of agencies of the Borrower for monitoring, evaluating and disseminating pilot experiences and replication of vocational and technical education.

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: Development of Project Schools for Vocational Education

Carrying out, in selected Project Schools in each of the Project Entities, programs to improve the quality and efficiency of secondary vocational and technical education, consisting of:

- (1) design, testing and implementation of selected new and revised course modules;
- (2) review and upgrading of the system for examination of students' vocational qualifications and certification;
- (3) upgrading of skills and experience of teachers in the fields of electronics, electromechanics, mechanics and machinery and information technology through staff training programs in cooperation with selected overseas vocational educational programs and the provision of consultants' services;
- (4) provision of equipment in support of Part A (3) of the Project;
- (5) upgrading of skills and experience of teachers in the fields of chemical process and construction through staff training programs in cooperation with selected overseas vocational educational programs and the provision of consultants' services;
- (6) provision of equipment in support of Part A (5) of the Project; and
- (7) upgrading of laboratory and workshop facilities of the selected Project Schools through construction of new and rehabilitation of existing buildings.

Part B: Improving Management and Planning of Vocational Education

Enhancing the capacity of the principals and other management staff of Project Schools in planning and management through: (1) provision of management training, overseas study tours and domestic workshops; (2) development of industrial advisory committees to formalize links between industry and Project Schools; and (3) design and implementation of a school-based labor market information system, including the provision of consultants' services and related staff training.

Part C: Project Management Support

Strengthening the capacity of management and staff of Project Entities and Project Schools in project management, through provision of staff training and consultants' services.

* * *

The Project is expected to be completed by June 30, 2002.

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 and revised in January 1996 (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) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(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 more than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$30,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract, up to an aggregate amount not to exceed \$1,900,000 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 and the Bank 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 for goods 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 as shall have been agreed by the Association and the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association and the Bank shall be used.

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

SCHEDULE 4

Implementation Program

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

A. Project Management

In order to ensure the proper carrying out of the Project, the Borrower shall maintain FILO throughout the period of Project implementation as the body with overall responsibility for Project implementation, with terms of reference, membership, staffing and other resources acceptable to the Association.

B. Monitoring and Reporting

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

1. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, progress in the carrying out of the Project and the achievement of the objectives thereof;

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

(a) not later than April 1 in each year, a report integrating the results of the monitoring and evaluation activities carried out by it pursuant to paragraph B.1 above in respect of the calendar year immediately preceding the date of said report, consolidating the reports furnished to it by each Project Entity pursuant to paragraph B.6 (a) of the Annex to this Schedule, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Project; and

(b) not later than December 31, 1998, or such later date as the Association

shall request, a report summarizing the results of the monitoring and evaluation activities carried out by it pursuant to paragraph B.1 above from the inception of the Project, consolidating the reports furnished to it by each Project Entity pursuant to paragraph B.6 (b) of the Annex to this Schedule, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Project; and

3. review with the Association the report furnished by the Borrower pursuant to paragraph B.2(b) above, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

C. Vocational Education Program Implementation Arrangements

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

2. The Borrower shall:

(a) (i) cause each Project Entity to perform, in accordance with the provisions of the Vocational Education Program Implementation Arrangement to which said Project Province is a party, all of the obligations 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 Entity 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 Vocational Education Program Implementation Arrangements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, not assign, amend, abrogate, or waive any of the Vocational Education Program Implementation Arrangements or any provision thereof.

D. Training and Technical Assistance

1. The Borrower shall: (a) carry out training and technical assistance aspects of the Project in accordance with plans satisfactory to the Association; and (b) employ consultants for the provision of training and technical assistance in the implementation of Parts A (3) and A (5) of the Project.

ANNEX
to
SCHEDULE 4

For the purposes of Part C of Schedule 4 to this Agreement, the Vocational Education Program Implementation Arrangements shall include the following provisions:

A. Terms

1. The principal amount of each Allocated Amount provided out of the proceeds of the Credit which shall be recovered by the Borrower from each Project Entity:

(a) shall be the equivalent in SDR (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services for said Project Entity's respective Vocational Education Program to be financed out of the proceeds of the Credit; and

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

2. The principal amount of each Allocated Amount provided out of the proceeds of

the Loan which shall be recovered by the Borrower from each Project Entity:

(a) shall be the equivalent in Dollars (on the date or respective dates of withdrawals from the Loan Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services for said Project Entity's respective Vocational Education Program to be financed out of the proceeds of the Loan; 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 paragraph A.2 (a) above.

3. Each Allocated Amount shall be recovered by the Borrower over a period of twenty (20) years, inclusive of a grace period of five (5) years.

4. Interest shall be charged on the principal amount of each Allocated Amount withdrawn and remaining unrecovered from time to time, at a rate equal to four percent (4%) per annum.

5. Each Project Entity shall undertake to make available to each of the Project Schools within its jurisdiction, to finance in part Project activities carried out by such Project School, a portion of the proceeds of its Allocated Amount on the same terms and conditions set out in paragraphs A.1-A.4 above.

B. Conditions

Implementation

1. Each Project Entity shall undertake to carry out its respective Vocational Education Program with due diligence and efficiency, and in conformity with appropriate economic, financial, administrative, technical and education practices, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor.

2. Each Project Entity shall undertake to:

(a) prepare, and cause each Project School within its jurisdiction to prepare with respect to Project activities to be carried out by said Project School, in accordance with guidelines satisfactory to the Association, and furnish to the Borrower and the Association not later than October 15 in each year for review and approval, a proposed plan for the implementation of its Vocational Education Program for the following year; and

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

3. Each Project Entity shall undertake to:

(a) procure the goods and services required for its Vocational Education Program to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 3 to this Agreement;

(b) insure said goods against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by said Project Entity to replace or repair such goods;

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

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

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

financial, administrative, technical and education practices.

Management

4. In order to facilitate the implementation of its Vocational Education Program, each Project Entity shall undertake to maintain, or cause to be maintained, the following offices throughout the period of implementation thereof, with terms of reference, membership, staffing and other resources satisfactory to the Association:

(a) a Provincial Project Implementation Office (PPIO) to manage the carrying out of the Project within the jurisdiction of the Project Entity; and

(b) with respect to each Project School, a School Project Planning Implementation Office (SPPIO) to coordinate Project activities pertaining to such school, and a School Governing Board (SGB) and School Industrial Advisory Committee (SIAC) to participate in Project implementation.

Monitoring

5. Each Project Entity shall undertake to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, progress in the carrying out of its Vocational Education Program and the achievement of the objectives thereof.

Reporting

6. Each Project Entity shall undertake to prepare with respect to its Vocational Education Program, and shall cause each Project School within its jurisdiction to prepare with respect to Project activities carried out by said Project School, in accordance with guidelines acceptable to the Association, and furnish to the Borrower:

(a) not later than March 1 in each year, a report for consolidation in each report to be furnished by the Borrower to the Association pursuant to the provisions of paragraph B.2 (a) of Schedule 4 to this Agreement, integrating the results of the monitoring and evaluation activities carried out by the Project Entity pursuant to paragraph B.5 of this Annex in respect of the calendar year immediately preceding the date of said report, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Vocational Education Program; and

(b) not later than November 30, 1998, or such later date as the Association shall request, a report for consolidation in the report to be furnished by the Borrower to the Association pursuant to the provisions of paragraph B.2(b) of Schedule 4 to this Agreement, summarizing the results of the monitoring and evaluation activities carried out by the Project Entity pursuant to paragraph B.5 of this Annex from the inception of the Vocational Education Program, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Vocational Education Program.

Consultation

7. Each Project Entity shall undertake to exchange views with the Borrower and the Association on each report furnished by it pursuant to paragraph B.6 of this Annex, and thereafter, take all measures required to ensure the efficient completion of its Vocational Education Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the report and the Borrower's and Association's views on the matter.

Financial Reporting

8. Each Project Entity shall undertake to:

(a) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and

expenditures in respect of its Vocational Education Program of its departments or agencies responsible for carrying out said Vocational Education Program or any part thereof, including separate accounts relating to each Project School;

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

(c) furnish to the Borrower, as soon as available, but in any case not later than six (6) months after the end of each such year, for consolidation and forwarding to the Association pursuant to the provisions of Section 4.01(b) of this Agreement, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to 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 plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 6,000,000.

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

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

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

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; or

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

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

(b) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories for the Project, less the amount of any outstanding special commitment 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 for the Project 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.

