

CONFORMED COPY

CREDIT NUMBER 2471 CHA

(Effective Teaching Services Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 18, 1993

CREDIT NUMBER 2471 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 18, 1993, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Borrower, through the Borrower's State Education Commission at the national level, and at the provincial level by the Provinces of Anhui, Fujian, Guangdong, Hainan, Hebei, Heilongjiang, Henan, Jiangsu, Jiangxi, Jilin, Liaoning, Shandong, Sichuan and the Guangxi and Nei Mongol Autonomous Regions of the Borrower (the Project Provinces) with the Borrower's assistance, and as part of that assistance, the Borrower will make available a portion of the proceeds of the Credit to each Project Province as provided in this Agreement.

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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) "IAG" means the innovation assessment group established as an independent panel within SEDC;

(b) "IAG Subproject" means an innovative educational subproject to be carried out under Part C.3 of the Project, and which complies with the terms and conditions set forth in Paragraph 4 (b) of Schedule 4 to this Agreement;

(c) "LMS" means lower middle schools;

(d) "PIAs" means the project implementation agreements referred to in Section 3.01 (b) of this Agreement; "PIA" means any one of such project implementing agreements;

(e) "Project Institutions" means 124 LMS teacher training institutions and the provincial level and county level Education Bureaus in the Project Provinces;

(f) "SEdC" means the State Education Commission of the Borrower;

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

(h) "Strategy Statement" means the statement of strategic goals, and methods to achieve those goals, to improve LMS education in China provided by the Borrower to the Association; and

(i) "TIS" means the Teacher Information Systems to be established and maintained pursuant to Paragraph 5 of Schedule 4 to this Agreement.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy-two million one hundred thousand Special Drawing Rights (SDR 72,100,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made, or if the Association shall so agree, to be made, in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; 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 March 1 and September 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 March 1 and September 1, commencing September 1, 2003 and ending March 1, 2028. Each installment to and including the installment payable on March 1, 2013, 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

the Project at the national level through SEDC, and shall cause the Project Provinces to carry out the Project at the provincial and county levels, all with due diligence and efficiency, in accordance with the Strategy Statement and in conformity with appropriate 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 cause the Project to be carried out at the provincial and county levels pursuant to a project implementation agreement (PIA), acceptable to the Association, to be entered into between the Borrower and each Project Province, including the terms and conditions applicable to Project Provinces set forth in the Implementation Program described in Schedule 4 to this Agreement. Except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, fail to enforce, or waive any PIA or any provision thereof.

(c) The Borrower shall onlend a portion of the proceeds required to carry out the Project at the provincial and county levels to each Project Province on terms and conditions satisfactory to the Association, including the following principal terms and conditions: (i) the term for repayment of such proceeds shall not exceed fifteen years, including five years of grace; (ii) a service charge shall be paid on all outstanding amounts of such proceeds from time to time at a fixed rate of 1.5% per annum; and (iii) all foreign exchange risks incurred during the period of repayment by each Project Province shall be paid by such Project Province.

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

Section 3.03. (a) The Association and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project being carried out at the provincial and county levels shall be carried out by the Project Provinces through the PIAs, and by the Borrower in respect of the Project being carried out at the national level.

(b) The Borrower agrees that it shall provide to the Association annual consolidated progress reports with respect to carrying out the obligations referred to in paragraph (a) of this Section by the Project Provinces.

Section 3.04. The Borrower shall provide sufficient resources to improve LMS teacher training consistent with the objectives of the Project, in provinces in China not participating in Project.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, and cause the Project Provinces to maintain, 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 and Project Provinces 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, and cause to be furnished, to the Association, as soon as available, but in any case not later than eight months after the end of each such year, a certified copy of the

report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

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

(ii) retain, or cause to be retained, 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 event is specified, namely that a party to a PIA shall have failed to perform any of its obligations under such PIA.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty 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) the PIA for each Project Province shall have been executed on behalf of such Project Province and the Borrower;

(b) a detailed plan of action, acceptable to the Association, for implementing the first year of Project activities shall have been provided to the Association; and

(c) the Borrower's State Council shall have approved this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the PIAs provided to the Association pursuant to Section 6.01 (a) of this Agreement have been duly authorized

or ratified and executed and delivered on behalf of all parties thereto and are legally binding on the parties thereto in accordance with their respective 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 (RCA),  
82987 (FTCC),  
64145 (WUI) or  
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shahid J. Burki

Acting Regional Vice President  
East Asia and Pacific

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures To be Financed
(1) Equipment and materials under Parts A and B of the Project	54,400,000	100% of foreign expenditures and 55% of local expenditures
(2) Equipment and materials under Part C.3 of the Project	2,300,000	85%
(3) Consultants' services under Parts A, B, C.1, and C.2 of the Project	300,000	100%
(4) Consultants' services and training under Part C.3 of the Project	1,600,000	100%
(5) Training under Parts A, B, C.1 and C.2 of the Project	3,900,000	100% of foreign expenditures and 50% of local expenditures
(6) Unallocated	9,600,000	
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TOTAL	72,100,000	

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 for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 3,600,000 may be made in respect of Categories 2 through 5 on account of payments made for expenditures before that date but after December 31, 1992.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (1) to improve teaching and student learning at lower middle schools (LMS) in China; (2) to improve training of LMS teachers nationwide; (3) to improve management and planning capabilities for teacher selection,

training and assignment at the national, provincial and county levels; and (4) to facilitate innovative and productive activities in teaching and teacher training.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Institutional Strengthening

1. Carrying out civil works for new construction and rehabilitation of LMS teacher training facilities at the Project Institutions.
2. Provision of instructional equipment for teacher training institutions in the Project Provinces and such spare parts and supplies as are required for the repair of such equipment, for a period of two years after acquisition.
3. Training of professional and technical staff in the use of instructional equipment financed under the Project.
4. Provision of books and journals, including foreign language materials in such fields as science, technology and teaching methods, in order to improve the library stock of LMS teacher training institutions in the Project Provinces.
5. Provision of consultants' services, and overseas and in-country training of library staff at educational institutions in the Project Provinces, to improve library services and to disseminate the results of such training to other regional library staff.
6. Carrying out a program of overseas and in-country training of instructors and administrative staff of education institutions in the Project Provinces.

Part B: Strengthening of Management Capabilities

1. Provision of overseas training and in-country training of national-level staff in education planning and project development, preparation, implementation and administration.
2. Provision of consultants' services, overseas and in-country training in management of provincial level education bureau staff in Project Provinces.
3. Provision of office equipment for the provincial level education bureaus in Project Provinces.
4. Establishment of teacher information system (TIS) units at the national, provincial and county levels, and at education institutions in the Project Provinces, including the provision of hardware and software to support TIS, and training of staff in the utilization of hardware and software applications, advanced techniques in programming, computer languages, systems analysis, data collection, processing and presentation.

Part C: Improvements to Teaching and Teacher Training Quality

1. Carrying out overseas study tours in preparation for, and the carrying out of, five teaching methodology core seminars (core seminars) by which selected teacher training and education methods representing best international practices are presented for discussion along with the best Chinese practices in the areas of teaching English, mathematics, biology, physics and chemistry teaching.
2. Dissemination to Project Provinces of the lessons learned in the five areas addressed by the core seminars.
3. Carrying out a program of innovative subprojects, including the provision of equipment and consultants' services, for purposes of improving teaching and teacher training methodology in specialized areas. Specialized areas include, without limitation, minority education, education for disabled students and extraordinary students and development of course materials, at the national, provincial and county levels.



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The Project is expected to be completed by June 30, 1998.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

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

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

###### Part C: Other Procurement Procedures

1. Equipment and materials estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$10,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Equipment and materials estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$5,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Books and publications may be procured on the basis of direct negotiations with publishers or their authorized distributors, in accordance with procedures acceptable to the Association, and on the basis of comparison of at least two price quotations from booksellers.

###### Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) 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 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall

apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

1. In order to assist the Borrower and the Project Provinces in carrying out the Project, the Borrower shall employ or cause to be employed, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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 (Consultants' Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review of approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

## SCHEDULE 4

### Implementation Program

1. The Borrower shall, through SEdC, and shall cause each Project Province to:

(a) implement the Project through Project Institutions and in accordance with annual plans of action satisfactory to the Association, such plans to be provided to the Association for its review and comment by April 1 of each year during Project implementation;

(b) provide competent staff in adequate numbers to implement and monitor the progress of carrying out the Project;

(c) monitor the progress of carrying out the Project in accordance with criteria acceptable to the Association;

(d) carry out, by June 30, 1996, a midterm review, with the Association, of the progress of carrying out the Project; and

(e) thereafter disseminate the lessons learned from innovative teaching methods which have proven to be effective and other significant lessons learned from activities carried out under the Project, among the Project Provinces and to other provinces in China.

2. The Borrower shall cause each Project Province to:

(a) carry out training under Parts A.3, A.5, A.6, B.1, B.2, B.4 and C of the Project in accordance with a plan of action acceptable to the Association; and

(b) retain consultants for purposes of carrying out Parts A.5, B.2, B.4 and C of the Project under terms of reference satisfactory to the Association.

3. The Borrower shall provide, and shall cause each Project Province to provide,

sufficient funding, spare parts and supplies to maintain, in good operating condition, the equipment financed out of the proceeds of the Credit.

4. (a) The Borrower shall maintain for purposes of processing IAG Subprojects, the innovation assessment group (IAG) with composition, functions and budget acceptable to the Association and shall ensure that the IAG has competent staff in adequate numbers.

(b) The Borrower shall ensure that all IAG Subprojects comply with the following terms and conditions:

(i) Eligibility. Institutions and agencies that are eligible to propose and receive funding for an IAG Subproject are:

(A) Project Institutions and education institutions that have participated in previous projects financed in part from the proceeds of Development Credits from the Association; and

(B) agencies of the Education Bureaus of the Project Provinces and of SEDC.

(ii) IAG Subproject Description. IAG Subprojects shall comprise only those activities which shall have been approved by the Association and which shall meet the following criteria:

(A) the objectives and activities to be financed shall be consistent with the objectives of the Project and with the Strategy Statement, and shall develop teacher training in China;

(B) the activities to be financed shall aim toward achieving solutions applicable in a broad context beyond that of the proposing institution's needs;

(C) the proposing institution shall provide all personnel, facilities and counterpart resources required to carry out the IAG Subproject; and

(D) the maximum amount of the proceeds of the Credit that can be used for financing an IAG Subproject shall be the equivalent of \$50,000.

(iii) Procedures for Financing IAG Subprojects. The IAG shall solicit and evaluate proposals, select IAG subprojects for financing under the Project, determine the financing terms, supervise the progress of carrying out IAG Subproject activities, and evaluate the results of such Subprojects, all under procedures acceptable to the Association. Such proposals may be made by any eligible institution and shall include at least a statement of:

(A) an identification of the problem for which educational reform is being sought;

(B) the proposed activities to be financed;

(C) the expected results and the manner in which the educational reforms would be applicable in a broader context beyond the proposing institution;

(D) a budget, including all contributions to the IAG Subproject that shall be made by the proposing institution; and

(E) criteria for monitoring the progress of carrying out the IAG Subproject.

(iv) Association Review. IAG shall submit, by December 31 of each year during implementation of the Project, a description

of proposed IAG Subprojects to be commenced during the following year, to the Association for its review and approval.

5. The Borrower shall establish and maintain at the national level, and shall cause each Project Province to establish and maintain at the provincial and county levels, a Teacher Information System (TIS) acceptable to the Association, including without limitation, the development, under national coordination, of appropriate software applications which take into account differences in local requirements and the need for compatibility among various administrative levels of the education system.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 5 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$6,000,000 (six million dollars) to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

