

CONFORMED COPY

CREDIT NUMBER 2954 CHA

Development Credit Agreement  
(Fourth Basic Education Project)

between

PEOPLE'S REPUBLIC OF CHINA  
and  
INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 26, 1997

CREDIT NUMBER 2954 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 26, 1997, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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

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 thereto 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."

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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 Province, an amount of the Credit allocated by the Borrower to said Project Province and to be utilized by said Project Province for purposes of carrying out its respective Education Program.

(b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) "CEP" means the Chinese Experts Panel, established by SEDC under Part C(2) of the Project, and to be maintained pursuant to the provisions of Part A.2 of Schedule 4 to this Agreement.

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

(e) "Education Program Implementation Agreement" means, in respect of each Education Program, the agreement, referred to in Part D.2 of Schedule 4 to this Agreement, to be made between the Borrower and the Project Province which proposes to carry out said Education Program, as the same may be amended from time to time.

(f) "Non-Project Counties" means those counties in a Project Province (other than Project Counties) designated as poor counties under the Borrower's National 8-7 Poverty Reduction Plan, and selected in accordance with guidelines acceptable to the Association.

(g) "Non-Project Counties Program" means, in respect of a Project Province, the program referred to in Part B.10 of the Annex to Schedule 4 to this Agreement, to be carried out by said Project Province pursuant to the provisions of said Part.

(h) "Project Counties" means, in respect of each Project Province, those counties in said Project Province in which said Project Province proposes to carry out an Education Program; and "Project County" means any of the Project Counties.

(i) "Project Provinces" means, collectively, the Qinba Provinces and following additional Provinces of the Borrower: Guizhou, Hainan, Heilongjiang, Hunan, Shanxi and Yunnan, and "Project Province" means any of the Project Provinces.

(j) "Qinba Provinces" means the following Autonomous Region and Provinces of the Borrower: Ningxia, Shaanxi and Sichuan; and "Qinba Province" means any of the Qinba Provinces.

(k) "RMB" means the currency unit of the Borrower.

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

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

(n) "Student Assistance Program" means, in respect of each Project Province, the student assistance program, referred to in Part A(3) of the Project, to be included in said Project Province's Education Program and established and operated pursuant to the provisions of Part B.2 of the Annex to 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 sixty one million five hundred thousand Special Drawing Rights (SDR 61,500,000).

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 a special deposit account in dollars in a commercial bank 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 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), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing November 1, 2007 and ending May 1, 2032. Each installment to and including the installment payable on May 1, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part C of the Project through SEDC, and cause the Project Provinces to carry out Parts A and B thereof, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and education practices and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the actions set forth in Schedule 4 to this Agreement in order to ensure the proper implementation of the Project.

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

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the objectives 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 six 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 Province pursuant to the provisions of Part B.9 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:

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account 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 Province shall have failed to perform any of its obligations under the Education Program Implementation Agreement 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 Province will be able to perform its obligations under the Education Program Implementation Agreement 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) Education Program Implementation Agreements have been made between the Borrower and each of the Project Provinces; and

(b) the Student Assistance Program of each of the Qinba Provinces has been established in accordance with the provisions of Part B.2 of the Annex to Schedule 4 to this Agreement and funds in amounts acceptable to the Association have been deposited in the student assistance account referred to in said Part.

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 Education Program Implementation Agreements with each of the Project Provinces has been duly approved by the Borrower and the Project Province which is a party thereto, 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

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

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jean-Michel Severino

Regional Vice President  
East Asia and Pacific

#### SCHEDULE 1

##### 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) Civil works for the Education Program:		
(a) of each	21,490,000	70%

	of the Designated Provinces		
	(b) of each of the other Project Provinces	18,670,000	60%
(2)	Goods	16,210,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3)	Consultants' services	720,000	100%
(4)	Training and study tours	4,410,000	100%
	TOTAL	<u>61,500,000</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;

(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; and

(c) the term "Designated Provinces" means, collectively, the following Project Provinces: Guizhou, Ningxia, Sichuan, Shaanxi and Yunnan.

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 6,100,000 may be made on account of payments made for expenditures before that date but after (a) January 1, 1997 in respect of Category (4), and (b) March 15, 1997 in respect of Category (1).

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$200,000 equivalent each (other than those referred to in Section I, Part D.2(c) of Schedule 3 to this Agreement); (b) works under contracts costing less than \$200,000 equivalent each (other than those referred to in Section I, Part D.2(a) of Schedule 3 to this Agreement); (c) consulting services under contracts awarded to consulting firms costing less than \$100,000 equivalent each; (d) consulting services under contracts awarded to individual consultants costing less than \$50,000 equivalent each; and (e) training (including study tours); all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in (1) providing quality universal primary education to children in poor and minority areas of the Project Provinces, with particular attention to girls and children from minority communities, (2) expanding the provision of quality junior secondary education in such areas, and (3) strengthening institutional capabilities to deliver primary and junior secondary education efficiently and effectively in such areas.



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:

Carrying out, in the Project Provinces, of programs to improve the delivery of education at primary and junior secondary schools, consisting of one or more of the following activities:

- (1) upgrading, expansion, construction, repair and maintenance of primary and junior secondary schools;
- (2) provision and maintenance of instructional equipment and materials (including culturally appropriate books and materials in local languages) and furniture to such schools, provision of training to staff in instructional equipment utilization and establishment, on a pilot basis in one Project Province, of a textbook rental scheme to assist in reducing the costs of textbooks for poor children and in enhancing the efficient use of educational resources;
- (3) establishment of a student assistance program to assist poor children in defraying schooling related costs, including school fees and textbooks;
- (4) development and implementation of in-service training programs to upgrade the professional skills of primary and junior secondary school teachers, technical and administrative staff and principals of such schools, as well as their trainers, with a particular focus on bilingual, science and multigrade teaching skills, and management and development of culturally appropriate curricular materials;
- (5) development of a teacher services network to support the professional development of village level teachers, through carrying out of village-level needs assessments, and, on the basis of these assessments, development of programs to address teachers' needs, and provision of staff, equipment and materials to selected schools to serve as hubs of the network;
- (6) development of programs to improve normal school training, such programs to focus on upgrading the teaching skills of normal school teachers, provision of instructional equipment and materials; and
- (7) dissemination of the results of experimental programs designed to improve the efficient and effective delivery of quality education to poor and minority communities and to reduce the number of school dropouts among girls and children from minority populations resulting from culturally inappropriate curricular material and teaching methods.

Part B:

- (1) Development and implementation in the Project Provinces of management training programs for school administrators, with a particular focus on programs for administrators of schools serving minority populations, and training programs in Project implementation for local staff responsible for Project implementation and supervision.
- (2) Development and introduction in the Project Provinces of an education management information system, including the provision of equipment and training required therefor.

Part C:

Strengthening by the Borrower of institutional capabilities in respect of the delivery of education, through the:

- (1) development and implementation of education management training programs for provincial-level education administrators and of training programs in management of the Project for provincial-level staff responsible for Project implementation and supervision; and

(2) establishment, staffing and operation of a panel of experts to assist in overseeing and assessing the Project and to provide technical advice on Project implementation.

\* \* \*

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

### SCHEDULE 3

#### 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 (the Guidelines) and the following provisions of this Section.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

##### (a) Grouping of contracts

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

##### (b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. Works

##### (a) National Competitive Bidding

Except as provided in Parts C.1(b) and C.1(c) of this Section I, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

##### (b) Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$60,000,000 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 Association, 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.

##### (c) Force Account

Minor repairs and works which meet the requirements of paragraph 3.8 of the Guidelines, and cost in the aggregate an amount not to exceed \$25,500,000 equivalent,

may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

2. Goods

(a) National Competitive Bidding

Except as provided in Part C.2(b) of this Section I, goods (other than books) estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$32,000,000 equivalent, and books, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) National Shopping

Goods (other than books) estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$5,100,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the following contracts, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply:

(a) in each calendar year, the first two contracts for works procured by each Project Province in accordance with the provisions of Part C.1(a) of this Section I for which invitations to bid are issued in that calendar year;

(b) each contract for works estimated to cost the equivalent of \$200,000 or more; and

(c) the first two contracts for goods procured by each Project Province in accordance with the provisions of Part C.2(a) of this Section I, and thereafter, each contract for goods estimated to cost the equivalent of \$200,000 or more.

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 the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2

thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

Individual Consultants

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

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

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

2. Prior Review

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

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

3. Post Review

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

SCHEDULE 4

Implementation Program

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

A. Project Management

In order to ensure the proper carrying out of the Project, the Borrower shall maintain throughout the period of Project implementation, with terms of reference, membership and other resources acceptable to the Association:

1. a Project office within SEDC, which shall report to a Vice Chairman of SEDC, to be responsible for coordination and oversight of the Project at national, provincial and local levels, implementation of Part C of the Project, supervision of procurement under the Project, and preparation of the reports referred to in Part B of this Schedule; and

2. the CEP with responsibility for (a) providing technical advice to Project Provinces on the development and implementation of their Education Programs, and to SEDC on the development and implementation of training programs under Part C of the Project, and (b) assisting in carrying out the monitoring activities referred to in Part B of this Schedule.

B. Monitoring and Reporting

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

1. maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, (a) progress in the carrying out of the Project, (b) progress in the carrying out by each Project Province of its respective Non-Project Counties Program, and (c) the impact of the Project on the educational achievement of primary and junior secondary school students in the Project Provinces;

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

(a) an annual report, not later than April 1 in each calendar year, summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.1 above in respect of the preceding calendar year, consolidating the reports furnished to it by each Project Province pursuant to Part B.7(a) of the Annex to this Schedule, and setting forth proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of the Project; and

(b) a mid-term report, not later than June 30, 2000, summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.1 above from the inception of the Project, consolidating the reports furnished to it by each Project Province pursuant to Part B.7(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 of each Project Province's respective Non-Project Counties Program; and

3. exchange views with the Association on each report furnished by the Borrower pursuant to Part B.2 above, and thereafter, take all such measures in relation thereto, as shall have been agreed between the Borrower and the Association.

C. National Management and Teacher Training Programs

The Borrower shall:

(a) prepare, in accordance with guidelines satisfactory to the Association, and furnish to the Association not later than October 31 in each calendar year for review and approval, a proposed action plan for the carrying out of Part C of the Project during the following calendar year; and

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

D. Education Program Implementation Agreements

1. Each Project Province shall furnish to the Association for its prior approval, the program which it proposes to include in the Project as its Education Program. Each such program shall qualify as an Education Program eligible for financing out of the proceeds of the Credit only if and to the extent the Association shall have notified the Borrower and said Project Province of the Association's approval of said program.

2. For the purposes of the carrying out by each Project Province of its respective Education Program, the Borrower shall allocate to said Project Province an amount of the Credit, under an agreement to be entered into by the Borrower and said Project Province, in accordance with the provisions set forth in the Annex to this Schedule.

3. The Borrower shall:

(a) (i) cause each Project Province to perform, in accordance with the provisions of the Education Program 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 Education Program Implementation Agreements 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 Education Program Implementation Agreements or any provision thereof.

#### ANNEX to SCHEDULE 4

For the purposes of Part D.2 of Schedule 4 to this Agreement, the Education Program Implementation Agreements shall include the following provisions.

##### A. Terms

1. The principal amount of the Allocated Amount which shall be recovered by the Borrower from each Project Province:

(a) shall be the equivalent in terms of 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 Province's respective 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 Part A.1(a) of this Annex.

2. The amount referred to in Part A.1(b) of this Annex shall be recovered by the Borrower over a period of seventeen (17) years, inclusive of a grace period of five (5) years.

3. Interest shall be charged on the amount referred to in Part A.1(b) of this Annex and withdrawn and remaining unrecovered from time to time, at a rate equal to or less than one and two-tenths of a percent (1.2%) per annum.

4. Each Project Province shall undertake to make available to each of its Project Counties part of the proceeds of its Allocated Amount either on a grant basis or on other terms whereby:

(a) the amount so made available which shall be recovered by said Project Province from said Project County shall be the equivalent in RMB (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 the part of said Education Program to be carried out in said Project County and to be financed out of the proceeds of the Credit;

(b) the principal amount so made available shall be recovered by said Project Province over a period of not less than the number of years which said Project Province shall have in which to repay its Allocated Amount to the Borrower under Part A.1 of this Annex, inclusive of a grace period of not less than the number of years of grace granted to said Project Province pursuant to Part A.2 of this Annex; and

(c) interest, if any, shall be charged on the principal amount so made available and withdrawn and remaining unrecovered from time to time, at a rate which shall not exceed the rate of interest payable by said Project Province pursuant to Part A.3 of this Annex.

##### B. Conditions

###### Implementation

1. Each Project Province shall undertake to carry out its respective 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. Without limitation upon the foregoing, each Project Province shall establish under its Education Program, and thereafter at all times operate, on the basis of guidelines acceptable to the Association, the student assistance program referred to in Part A(3) of the Project. Under said program said province shall maintain a student assistance account in a commercial bank, into which funds to be utilized in providing student assistance shall be deposited. Each Project Province other than a Qinba Province shall furnish said program (including the proposed amount to be deposited initially into said account) to the Association not later than August 1, 1998 for its comments, and establish said program and deposit said initial amount in said account, not later than September 1, 1998, taking into account the comments of the Association on the matter.

3. Each Project Province shall undertake to:

(a) prepare, in accordance with guidelines satisfactory to the Association, and furnish to the Borrower and the Association not later than 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, said plan to include a proposed construction and maintenance program and training program, as well as a financing plan therefor, and a program to ensure the participation of village-level education committees in the implementation of the Project; and

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

4. Each Project Province shall undertake to:

(a) procure the goods, works and services required for its 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 Province to replace or repair such goods;

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

(d) enable the Association and the Borrower to examine such goods and all facilities, sites and works included in its 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 Education Program, and promptly, as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, administrative and education practices.

#### Management

5. In order to facilitate the implementation of its Education Program, each Project Province shall undertake to maintain 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 office, headed by a director of the Provincial Education Commission, which shall report to the Governor of said Project Province and to the SEDC, to be responsible for planning and coordinating the implementation of its Education Program; and

(b) within each of its Project Counties, a project office, headed by a director of the Education Bureau, which shall report to the Magistrate of said county, to be responsible for supervising the carrying out of those activities under its Education Program which are to be carried out in said Project County.

#### Monitoring

6. Each Project Province shall undertake to maintain operational procedures adequate to enable said Project Province to monitor and evaluate, in accordance with indicators acceptable to the Association, (a) progress in the carrying out of its Education Program, (b) the impact of said Education Program on the educational achievement of its primary and junior secondary school students, and (c) progress in the carrying out of its Non-Project Counties Program.

#### Reporting

7. Each Project Province shall undertake to prepare, in accordance with guidelines acceptable to the Association, and furnish to Borrower:

(a) an annual report, not later than March 1 of each year, for consolidation in each report to be furnished by the Borrower to the Association pursuant to the provisions of Part B.2(a) of Schedule 4 to this Agreement, summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.6 of this Annex in respect of the preceding fiscal year, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of its Education Program; and

(b) a mid-term report, not later than March 1, 2000 for consolidation in the report to be furnished to the Association pursuant to the provisions of Part B.2(b) of Schedule 4 to this Agreement, summarizing the monitoring and evaluation activities carried out by it pursuant to Part B.6 of this Annex from the inception of the Project, and setting forth any proposed measures, indicated by said monitoring and evaluation activities, to further the objectives of its Education Program and its Non-Project Counties Program.

#### Consultation

8. Each Project Province shall undertake to exchange views with the Borrower and the Association on each report furnished by it pursuant to Part B.7 of this Annex, and thereafter, take all such measures in relation thereto, as shall have been agreed among the Borrower, the Association and said Project Province.

#### Financial Reporting

9. Each Project Province 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 Education Program of its departments or agencies responsible for carrying out said Education Program or any part thereof;

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

#### Non-Project Counties Program

10. Each Project Province, other than a Qinba Province, shall undertake to carry out a program, acceptable to the Association, designed to ensure the continued achievement, in its Non-Project Counties of educational targets acceptable to the Association, throughout the period of Project implementation.



## Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means 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 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 \$6,500,000 to be withdrawn from the Credit Account and deposited in 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 \$4,000,000 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 20,000,000.

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 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;

(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 pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) 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.

