

CONFORMED COPY

CREDIT NUMBER 2339 CHA

(Education Development in Poor Provinces Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 10, 1992

CREDIT NUMBER 2339 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 10, 1992, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Provinces of Guizhou, Hubei, Hunan, Shaanxi, Shanxi and Yunnan (the Project Provinces) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to each Project Province a portion of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and the Project Provinces;

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) "Education Action Plans" means the Lower Secondary Education Plan and Primary Education Action Plan (as both terms are hereinafter defined) provided by a Project Province to the Association;

(b) "Lower Secondary Education Action Plan" means the plan to implement the policies, actions and other measures designed by a Project Province (except Guizhou Province) for improving lower secondary education (grades 6 or 7 - 9) in the poorest counties of such Project Province and provided by such Project Province to the Association, including criteria for determining progress made and a system for reporting progress made;

(c) "Primary Education Action Plan" means the plan to implement the policies, actions and other measures designed by a Project Province for improving primary education (grades 1 - 5 or 6) in the poorest counties of such Project Province and provided by such Project Province to the Association, including criteria for determining progress made and a system for reporting progress made;

(d) "Project Agreement" means the agreement between the Association and the Project Provinces, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(e) "Project Provinces" means Guizhou, Hubei, Hunan, Shaanxi, Shanxi and Yunnan Provinces; "Project Province" means any one of such Project Provinces; and

(f) "Special Account" means the account referred to in Section 2.02 (b) of 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 ninety-three million two hundred thousand Special Drawing Rights (SDR 93,200,000).

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 shall, for the purposes of the Project, open and maintain a special deposit account in a bank 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 3 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 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 April 1 and October 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 semiannual installments payable on each April 1 and October 1 commencing April 1, 2002 and ending October 1, 2026. Each installment to and including the installment payable on October 1, 2011 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, without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower through its State Education Commission, shall cause the Project Provinces to perform all their respective obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to the Project Provinces on terms and conditions and in accordance with arrangements satisfactory to the Association.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 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 shall be carried out by the Project Provinces pursuant to Section 2.02 of the Project Agreement.

Section 3.04. Without limitation to any other reporting requirements under this Agreement and the General Conditions, the Borrower shall provide to the Association on an annual basis, aggregated reports of the progress indicators provided by the Project Provinces pursuant to the Education Action Plans.

Section 3.05. The Borrower shall:

(a) participate in a midterm review of the progress of carrying out the Project in each of the Provinces by no later than June 30, 1995;

(b) assist in disseminating lessons and experiences drawn from the studies carried out under Part A.2 of the Project and the higher education reforms carried out under Parts B and E of the Project, to the Project Provinces and to other Provinces in China, including entering into arrangements with a national research institution or university, with qualifications acceptable to the Association, to participate in evaluating such lessons and experiences.

Section 3.06. (a) The Borrower shall, by May 31, 1992, open and maintain, or cause to be opened and maintained, six separate revolving funds, one for the benefit of each Project Province, for purposes of financing local expenditures under the Project, including making an initial deposit from the Borrower's own funds into each revolving fund of an amount equivalent to three months' local expenditures under the Project.

(b) The Borrower shall make deposits, or shall cause deposits to be made, into each such revolving fund on a monthly basis of amounts sufficient to maintain a balance equivalent to the initial deposit. Such deposits shall be made from the Borrower's own funds or the respective Project Province's own funds.

Section 3.07. (a) The Borrower shall select a Project Province for purposes of carrying out Part E of the Project and shall inform the Association of such selection by December 31, 1992.

(b) The Borrower shall cause such Project Province to carry out Part E of the Project, including developing the reform proposal under terms of reference satisfactory to the Association, by the midterm review referred to in Section 3.05 of this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall:

(a) maintain or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting expenditures for which payments are made out of the Special Account;

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

(c) furnish 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

(d) 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.

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 Project Agreement; and

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Project Province will be able to perform its obligations under the Project Agreement.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that 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 Project Agreement has been duly authorized or ratified by each Project Province, and is legally binding upon each such 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

Representatives 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/ Zhu Qizhen

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji

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) Equipment,	28,660,000	100% of foreign

	books and materials under Parts A.3 (c), B.1 and C.2 of the Project		expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2)	(a) Civil works and furniture for primary education under Part A.3 (a) of the Project	40,120,000	70%
	(b) Civil works and furniture for lower secondary education under Part A.3 (a) of the Project	2,920,000	40%
(3)	Consultants' services, studies and overseas training	5,020,000	100%
(4)	Teacher training	3,580,000	50%
(5)	Unallocated	12,900,000	
	TOTAL	93,200,000	=====

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve efficiency and quality of primary and lower secondary schools and student attendance with the aim of achieving an effective nine-year compulsory education system; (b) to support the development and restructuring of higher education and the efficient use of resources by colleges and universities; and (c) to improve provincial education planning, financing and management systems.

The Project consists of the following parts to be carried out by each Project Province in its territory, except Part E of the Project which shall be carried out by a Project Province selected by the Borrower, and is subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Basic Education

1. Carrying out: (a) primary education action plans; and (b) lower secondary education action plans which include:

(i) improving access to education by increasing the number of schools that offer all grade levels, increasing the number of multigrade classes, providing free text books and free tuition to poor children and expanding the tuition exemption programs by which poor families are assisted with the costs of educating their children;

(ii) improving the efficiency of schools in order to reduce student repetition of grades;

(iii) improving resource management in township schools by increasing student-teacher ratios, studying the supply of and demand for teachers over the period 1990-1998, and improving budgeting and teacher workload planning;

(iv) improving teaching methods and qualifications of teachers; and

(v) improving the living and working conditions of minban teachers (community-supported teachers).

2. Carrying out studies to identify problems in meeting the terms of the Education Action Plans and remedial actions required to meet the progress indicators set forth in the Education Action Plans.

3. (a) Construction and rehabilitation of schools with priority given in the following order:

(i) to replacement of condemned buildings;

(ii) to construction of classrooms in areas where per-student space is inadequate;

(iii) to construction of substitute buildings for damaged buildings; and

(iv) to relocation of schools to areas more conducive to promoting student attendance.

(b) Carrying out maintenance of school buildings and equipment.

(c) Furnishing and equipping of schools.

4. Training of teachers through:

(a) training teachers for multigrade schools;

(b) in-service training of science teachers;

(c) training of bilingual teachers in areas with minority students; and

(d) training of minban teachers to improve academic qualifications.

Part B: Higher Education

1. Carrying out pilot projects at selected provincial universities to improve resource utilization, implement institutional reforms and meet labor market requirements.

2. Evaluation of such pilot projects and dissemination of the lessons and experiences drawn from the pilot projects through seminars, workshops and training.

Part C: Planning, Finance and Management Systems

1. Development of computer software to plan and manage the education system at the

provincial level.

2. (a) Technical assistance in establishing, and training county-level staff in the use of, computerized management information systems.

(b) Provision of computers for management information systems.

3. (a) Improving the systems for examining students and assessing student academic achievement.

(b) Overseas training in student assessment techniques and dissemination of techniques to improve student examination results through teacher training local seminars.

Part D: Project Management

1. Training of project staff in administration, bidding and procurement practices, accounting procedures and construction management.

2. Technical assistance through financing a panel of experts to review and monitor project implementation.

Part E: Provincial Higher Education Reforms

Developing a comprehensive proposal of reforms to improve higher education institutions in a Project Province, including the measures required to carry out the reforms.

* * *

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

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1)-(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 \$7,200,000 to be withdrawn from the Credit Account and deposited into 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 into 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 in respect of the respective Parts of the Project 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 for the Special Account, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the respective General Conditions with respect to the respective Parts of 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 for the Special Account 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.

