

CONFORMED COPY

CREDIT NUMBER 2886 CHA

Development Credit Agreement

(Seed Sector Commercialization Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 1, 1996

CREDIT NUMBER 2886 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 1, 1996, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to eighty-million dollars (\$80,000,000) (the Loan); and

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

- (a) "CPMO" means the central Project management office referred to in Part A.2 of Schedule 3 to this Agreement.
- (b) "Designated Province" means any of the following provinces, autonomous region and directly administered municipality of the Borrower: Fujian, Gansu, Guangxi, Guizhou, Henan, Hunan, Hubei, Jiangsu, Jiangxi, Shandong, Shanghai, Shanxi, Sichuan and Zhejiang.
- (c) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.
- (d) "MOA" means the Borrower's Ministry of Agriculture, and any successor thereto.
- (e) "NATESC" means the Borrower's National Agricultural Technical Extension Service Center, an agency of the Borrower operating under the supervisory authority of MOA.
- (f) "NCVEACO" means the National Crop Variety Examination and Approval Committee Office, an agency of the Borrower operating under the supervisory authority of MOA.
- (g) "Project Implementation Agreement" means, in respect of each Project Province, the agreement between the Borrower and said Project Province referred to in Part B of Schedule 3 to this Agreement and in Annex 3 to said Schedule.
- (h) "Project Province" means any Designated Province with which the Borrower has entered into a Project Implementation Agreement.
- (i) "Respective Part of the Project" means, in respect of each Project Province, the Subprojects for which it has made Sub-loans under Part B of the Project and the activities under Part C of the Project to be implemented by it.
- (j) "Seed Enterprise" means any enterprise operating in the seed-sector to which a Project Province proposes to make or has made a Sub-loan.
- (k) "Special Account" means the account referred to in Section 2.02(b) of this Agreement.

(l) "Sub-loan" means a loan made or proposed to be made by a Project Province out of the proceeds of the Credit or of the Loan to a Seed Enterprise for a Subproject.

(m) "Subproject" means a specific investment project under Part B of the Project to be carried out by a Seed Enterprise utilizing the proceeds of a Sub-loan.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million eight hundred thousand Special Drawing Rights (SDR 13,800,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a financial institution acceptable to the Association and 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 June 30, 2002 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and 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 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 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 15 and November 15, commencing November 15, 2006 and ending May 15, 2031. Each installment to and including the installment payable on May 15, 2016 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A and C (other than Parts C (1)(b), C(2)(b) and C(4)) of the Project and shall cause the Project Provinces to carry out Parts B, C(1)(b), C(2)(b) and C(4) thereof, all with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and agricultural 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 Project, or cause the Project to be carried out, in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

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 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and Section 9.08 of the General Conditions referred to in Section 1.02(c) of this Agreement, and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are 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 was made; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, and 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 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, including 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; and

(iii) furnish to the Association such other information concerning said records and 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 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 Project 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 the 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

Effectiveness; 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) Project Implementation Agreements have been entered into between the Borrower and at least nine Project Provinces in accordance with the provisions of Part B of Schedule 3 to this Agreement and the Annex to said Schedule 3; and

(b) all conditions precedent to the effectiveness of the Loan Agreement have

been fulfilled, other than those related to the effectiveness of 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 each of the Project Implementation Agreements referred to in Section 6.01(a) of this Agreement has been duly authorized or ratified by the Borrower and the Project Province which is a party thereto and is legally binding upon said parties 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.

Section 6.04. The provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

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/ Russell Cheetham

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

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

| Category | Amount of the Credit Allocated (Expressed in SDR Equivalent) | Amount of the Loan Allocated (Expressed in Dollars) | % of Expenditures to be Financed |
|---|---|--|---|
| (1) Goods (other than seeds) and technical licenses | 9,130,000 | 40,000,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |
| (2) Seeds | | 28,700,000 | 50% |
| (3) Works | 3,910,000 | 10,000,000 | 50% |
| (4) Consultants' services, study tours and training | 760,000 | 1,300,000 | 100% |
| TOTAL | <u>13,800,000</u> ===== | <u>80,000,000</u> ===== | |

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; 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:

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 5,800,000, may be made on account of payments made for expenditures before that date but after October 15, 1995; or

(b) in respect of expenditures under Category (2) required for a Subproject until the Association shall have notified the Borrower of its acceptance of evidence that the seed processing facilities included in said Subproject are operational and a suitable operational plan for said Subproject has been developed.

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 or works under contracts costing less than \$200,000 equivalent each, (b) training and study tours, (c) consultants' services under contracts awarded to firms and costing less than \$100,000 equivalent each, and (d) consultants' services under contracts awarded to individuals and costing less than \$50,000 equivalent each; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower and the Project Provinces in the development of a viable commercial seed sector in which high quality seeds are produced by efficient, commercially viable enterprises in sufficient quantity and variety to satisfy agricultural production needs.

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: Seed Sector Framework

Strengthening the legal framework for the development of the Borrower's seed sector through the preparation of national legislation to facilitate the commercialization of said sector while ensuring quality control of seeds, including laws and regulations in the areas of evaluation and registration of crop varieties, licensing of seed production and commercialization activities, standards for labeling and packaging of seeds, quality control of seeds and intellectual property protection in respect of cultivars; and provision of study tours required therefor.

Part B: Commercialization of Seed Sector Enterprises

Financing, through the provision of Sub-loans by Project Provinces, of specific investment projects to strengthen the organization, management of enterprises involved in seed production and manufacture of seed processing equipment, including upgrading of their production bases, seed stock, storage and processing facilities and internal quality control facilities, expansion of their product mix, implementation of technical assistance programs to strengthen their management, financial operations, seed handling technology, plant operation and management, and marketing and sales strategies, refurbishing of office facilities, and provision of vehicles, tools, equipment, machinery, production inputs and initial seed stocks required therefor.

Part C: Institutional Development

(1) Implementation of a program to strengthen the crop examination and protection capabilities of the following entities, through the restructuring of their organization, and the provision of computer hardware and software, cold store facilities, training and study tours to their staff: (a) NCVEACO and (b) seed administration stations of selected Project Provinces.

(2) Implementation of a program to strengthen the seed quality control and certification capabilities of the following entities, through the construction of laboratories, office facilities, green-houses, and provision of equipment, vehicles, computer software and hardware, and training to their staff:

(a) NATESC and

(b) seed administration stations of selected Project Provinces.

(3) Provision of training to staff of the CPMO in project supervision, monitoring and evaluation and provision of equipment required for project management.

(4) Undertaking by selected Project Provinces of surveys and studies to evaluate the relative productivity of self-pollinating seeds saved by farmers for planting and those supplied by seed production enterprises in order to develop suitable strategies for the production and marketing of self-pollinating seeds.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

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, composition, and resources acceptable to the Association:

1. a central Project leading group, chaired by a Vice Minister of MOA, to be responsible for overall coordination of Project implementation and for resolving at the national level policy issues that may arise under the Project; and

2. a central Project management office within MOA to be responsible for (a) providing assistance to the Project Provinces in developing implementation schedules, (b) coordinating Project activities with line agencies at national and provincial levels, (c) coordinating procurement of goods, and implementation of training and technical assistance under the Project and (d) monitoring and evaluating the Project, and coordinating the preparation of consolidated progress reports and audit reports required to be furnished pursuant to this Agreement.

B. Project Implementation Agreements

1. For the purpose of carrying out Parts B, C(1)(b), C(2)(b) and C(4) of the Project, the Borrower shall allocate an amount of the Credit to the Project Provinces under agreements to be entered into between the Borrower and each Project Province in accordance with the provisions set forth in the Annex to this Schedule.

2. The Borrower shall:

(a) (i) cause each Project Province to perform, in accordance with the provisions of the Project Implementation Agreement to which it is a party, all of its obligations therein set forth; (ii) take or cause to be taken all action 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 Project 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 Project Implementation Agreements or any provision thereof.

C. Institutional Development (Parts A and C of the Project)

The Borrower shall:

(a) prepare, in accordance with guidelines acceptable to the Association and furnish to the Association not later than October 31 in each calendar year a proposed program for the carrying out of (i) study tours included in Part A of the Project, (ii) the training program included in Part C(3) of the Project and (iii) the studies included in Part C(4) thereof, during the following calendar year; and

(b) thereafter carry out such activities, or cause such activities to be carried out, in accordance with such program as shall have been approved by the Association.

D. Monitoring and Reporting

1. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the carrying out of the Project and the achievement of the objectives thereof.

2. The Borrower shall prepare, under terms of reference acceptable to the Association, and furnish to the Association, (a) semiannual reports, not later than March 1 and September 1 in each calendar year, consolidating the results of the monitoring and evaluation activities performed by it pursuant to Part D.1 above and by the Project Provinces pursuant to Part C.5 of Section I of the Annex to this Schedule, during the preceding calendar semester in respect of the Project, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the then current calendar semester and (b) a mid-term report, not later than June 30, 1998, consolidating the results of the monitoring and evaluation activities performed by it pursuant to Part D.1 above and by the Project Provinces pursuant to Part C.5 of Section I of the Annex to this Schedule, during the period preceding the date thereof and setting out the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following such date.

3. After furnishing each report referred to in Part D.2 above, the Borrower shall review the same with the Association, and promptly take all measures required on its part to ensure the continued efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

E. Seed Services Cost Recovery

In order to ensure the full recovery of the recurrent costs of providing seed testing and certification services, crop variety evaluation and registration services and field inspection services, the Borrower shall:

1. develop, on the basis of guidelines acceptable to the Association, a proposed system of fees for such services and furnish to the Association such proposed system not later than December 31, 1997: and

2. introduce such system not later than June 30, 1998 in at least six Project Provinces, taking into account the comments of the Association thereon, with a view to introducing such system nationwide not later than June 30, 2000.

ANNEX TO SCHEDULE 3

PROJECT IMPLEMENTATION AGREEMENTS

For the purposes of Part B of Schedule 3 to this Agreement, the Project Implementation Agreements shall be entered into in accordance with the following provisions.

I. Project Implementation Agreements

A. Eligibility

A Project Implementation Agreement may be entered into with any Designated Province which shall have established, to the satisfaction of the Association that:

1. it has eliminated the regulatory functions of seed producing entities operating within its jurisdiction in respect of quality control of seeds, and has established an appropriate, financially sustainable regulatory system for quality control of seeds by agencies from which said seed producing entities are legally, financially and managerially independent; and

2. it proposes to make at least one Sub-loan which shall have satisfied the eligibility requirements set forth below in Part A of Section II of this Annex.

B. Terms

1. The principal amount of the proceeds of the Credit and of the Loan to be made available to a Project Province under the Project Implementation Agreement to which it is a party shall be the sum of:

(a) 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 to be financed out of the proceeds of the Credit for said Project Province's Respective Part of the Project; and

(b) the equivalent in terms of Dollars (determined on the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services to be financed out of the proceeds of the Loan for said Project Province's Respective Part of the Project.

2. The principal amount referred to in paragraph 1 above shall be recovered by the Borrower in Dollars, with the amount referred to in paragraph 1(a) above being valued in Dollars as of the date or respective dates of recovery by the Borrower.

3. The principal amount referred to in paragraph 1 above shall be recovered by the Borrower over a period of twenty years, inclusive of a grace period of five years.

4. Interest shall be charged on the principal amount referred to in paragraph 1 above withdrawn and remaining unrecovered from time to time at a rate equal to five and one half percent (5.5%) per annum.

5. A commitment fee shall be charged on the principal amount referred to in paragraph 1 above not withdrawn from time to time at a rate equal to three fourths of one percent (0.75%) per annum.

C. Conditions

The Project Implementation Agreements shall contain provisions pursuant to which each Project Province shall provide the following undertakings.

1. Management of Each Project Provinces Respective Part of the Project

In order to facilitate the implementation of its Respective Part of the Project, the Project Province shall maintain throughout the period of Project implementation, with terms of reference, composition, and resources acceptable to the Association:

(a) a Project leading group, chaired by the Vice Governor of the Project Province responsible for agriculture, to be responsible for coordination of Project implementation within its jurisdiction and for resolving at the provincial level policy issues that may arise under the Project; and

(b) a provincial Project management office to be responsible for (i) providing assistance to the Seed Enterprises operating within its jurisdiction in implementing their Subprojects and (ii) liaising with the CPMO and line agencies at the provincial level.

2. General Implementation of the Project Province's Respective Part of the Project

(a) The Project Province shall carry out its Respective Part of the Project with due diligence and efficiency, and in conformity with appropriate economic, financial, administrative, technical and agricultural practices, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor.

(b) The Project Province shall ensure that (i) the goods, works and services required for its Respective Part of the Project to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 4 to this Agreement, (ii) said goods shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the purchaser thereof to replace or repair such goods and (iii) said goods, works and

services shall be utilized exclusively for the purposes of carrying out its Respective Part of the Project.

(c) The Project Province shall enable the Borrower and the Association to examine all goods, facilities, sites and works included in its Respective Part of the Project, the operation thereof and any relevant records and documents.

(d) The Project Province shall at all times operate and maintain any facilities, equipment and other property relevant to its Respective Part of the Project, and promptly, as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, administrative and agricultural practices.

3. Part B of the Project (Commercialization of Seed Sector Enterprises)

(a) The Project Province shall:

(i) make Sub-loans to Seed Enterprises on the terms and conditions set forth in Section II of this Annex;

(ii) exercise its rights in relation to each Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Association, comply with its obligations under the Project Implementation Agreement to which it is a party and achieve the purposes of the Project; and

(iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without the prior approval of the Association.

(b) If any Subproject to which the Project Province proposes to make a Sub-loan would involve the involuntary resettlement of persons, the Project Province shall:

(i) ensure that all such persons shall be resettled in accordance with a resettlement plan which shall have been designed on the basis of policies, planning principles, institutional arrangements and design criteria acceptable to the Association, so as to improve the living standards of said persons; and

(ii) furnish each resettlement plan referred to in subparagraph (i) above involving the resettlement of 200 persons or more, promptly upon its preparation, to the Association for approval and ensure that all said persons shall be resettled in accordance with such resettlement plan as shall have been approved by the Association, and make available to the Association for review, if it shall so request, any other resettlement plan referred to in subparagraph (i) above.

4. Field Crop Inspections

In order to ensure the production of high quality seed within its jurisdiction, the Project Province shall develop, on the basis of guidelines acceptable to the Association and introduce, not later than December 31, 1996, a program of random field crop inspection and packaged seed inspection.

5. Monitoring and Reporting

(a) The Project Province shall maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the carrying out of its Respective Part of the Project (including the Subprojects carried out by Seed Enterprises operating within its jurisdiction) and the achievement of the objectives thereof.

(b) The Project Province shall prepare, under terms of reference acceptable to the Association, and furnish to the Borrower for consolidation in the reports to be furnished by the Borrower pursuant to Part D of Schedule 3 to this Agreement (i) semiannual reports, not later than February 15 and August 15 in each calendar year,

integrating the results of the monitoring and evaluation activities performed by it pursuant to paragraph (a) above, during the preceding calendar semester in respect of the Project, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the then current calendar semester and (ii) a mid-term report, not later than June 15, 1998, integrating the results of the monitoring and evaluation activities performed by it pursuant to paragraph (a) above, during the period preceding the date thereof and setting out the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following such date.

(c) The Project Province shall exchange views with the Borrower and the Association on each report furnished by it pursuant to paragraph (b) above, and thereafter, take all measures required on its part to ensure the continued efficient implementation of its Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Borrower's and the Association's views on the matter.

6. Financial Reporting

The Project Province shall:

(a) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its Respective Part of the Project of its departments or agencies responsible for carrying out its Respective Part of the Project or any part thereof;

(b) have the records and accounts referred to in paragraph (a) above, 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 six 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.

II. Sub-loans

For the purposes of Part C.3 of Section I of this Annex, Sub-loans shall be made in accordance with the following provisions.

A. Eligibility Criteria

1. Each Sub-loan shall be made to a Seed Enterprise, which shall have established to the satisfaction of the Project Province, on the basis of guidelines satisfactory to the Association that:

(a) it is an enterprise duly established as a limited liability company or a company limited by shares pursuant to the Company Law promulgated by the Standing Committee of the National People's Congress of the Borrower on December 29, 1993, and operating in accordance with the laws of the Borrower and has established a suitable benefits system for its employees; and

(b) it is creditworthy and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations, including the Subproject which it proposes to carry out.

2. Each Sub-loan shall be made for a Subproject which is determined, on the basis of an appraisal carried out in accordance with guidelines acceptable to the Association:

(a) to be technically feasible and economically and financially and

commercially viable; and

(b) to be in compliance with environmental standards satisfactory to the Association, and with all applicable laws and regulations of the Borrower relating to health, safety and environmental protection, and, without limitation on the foregoing, if the Subproject would involve the involuntary resettlement of persons, includes a resettlement plan for said persons developed in accordance with the provisions of Part C.3(b) of Section I of this Annex.

3. No expenditures for a Subproject shall be eligible for financing out of the proceeds of a Sub-loan unless the Project Province making the Sub-loan shall have furnished to the Association the appraisal report (including, if applicable, the resettlement plan) for said Subproject and said Sub-loan shall have been approved by the Association.

B. Terms

1. Each Sub-loan shall be denominated and repaid in Dollars. The principal amount of each Sub-loan shall be the equivalent in Dollars (determined on the date or respective dates of withdrawal from the Credit Account or payment out of the Special 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 Subproject for which said Sub-loan is made, and shall be repaid over a period not to exceed twenty years, inclusive of a grace period not to exceed five years.

2. Interest shall be charged on the principal amount of each Sub-loan withdrawn and outstanding from time to time at a rate equal to or greater than six and one half percent (6.5%) per annum.

C. Subproject Implementation

1. Each Sub-loan to a Seed Enterprise for a Subproject shall be made on conditions whereby the Seed Enterprise shall undertake to:

(a) carry out the Subproject with due diligence and efficiency and in conformity with appropriate technical, economical, financial and commercial practices and appropriate health, safety and environmental practices acceptable to the Association, maintain adequate records and provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) if the Subproject involves the involuntary resettlement of persons, the Seed Enterprise shall take and cause to be taken all measures necessary to ensure that all such persons shall be resettled in accordance with the resettlement plan referred to in Part A.2(b) of Section II of this Annex;

(c) (i) procure the goods and services required for the Subproject and to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 4 to this Agreement, (ii) ensure that all farm chemicals required for the Subproject shall be selected exclusively from a list of chemicals acceptable to the Association and shall be used, handled and stored in accordance with guidelines acceptable to the Association, and (iii) utilize all such goods and services exclusively in the carrying out of its Subproject;

(d) enable the Association and the Project Province to inspect the goods, sites, works and plans included in the Subproject, the operation thereof, and any relevant records and documents;

(e) take out and maintain such insurance against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover the hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Seed Enterprise to replace or repair such goods;

(f) have its financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, and furnish to the Association and the Project

Province, as soon as available, but in any case not later than four months after the end of each such year, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(g) provide such information as the Association or the Project Province shall reasonably request relating to the foregoing, to the administration, operations and financial condition of the Seed Enterprise and to the benefits to be derived from the Subproject.

2. The Project Province making a Sub-loan shall suspend or terminate the right of the Seed Enterprise thereof to the use of the proceeds of the Credit upon failure by such Seed Enterprise to perform its obligations under its contract with the Project Province.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent 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.

(c) Notification and Advertising

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

Part C: Other Procurement Procedures

1. Limited International Bidding

Except as provided in Part C.3 of this Section I, (a) germplasm, seed licenses, specialized equipment and pesticides which the Association agrees can only be purchased from a limited number of suppliers, and (b) fertilizer estimated to cost less than \$50,000 equivalent per contract, together, up to an aggregate amount not to exceed \$7,130,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) Except as provided in Part C.5 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) Except as provided in Parts C.3 and C.4 of this Section I, (i) goods (other than germplasm, seed licenses, fertilizer or pesticides) estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,700,000 equivalent, and (ii) market surveys, 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.

3. National Shopping

(a) Germplasm and seed licenses estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, and (b) goods (other than germplasm, seed licenses, fertilizer or pesticides) and market surveys estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,700,000, 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.

4. Direct Contracting

Goods which should be procured as an extension of an existing contract or must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$6,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph 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 each contract for goods or works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Bank shall be used.

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

SCHEDULE 5

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 the Development Credit Agreement.

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

(c) the term "Authorized Allocation" means an amount equivalent to \$6,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of \$7,000,000.

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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan 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 replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account or the Loan Account in accordance with the provisions of Article V of the respective General Conditions and paragraph (a) of Section 2.02 of the Development Credit Agreement or Section 2.02 of the Loan 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 the Development Credit Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account or the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan 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 or the Bank such outstanding amount.

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

(d) Refunds to the Association or the Bank made pursuant to paragraphs 6(a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan

Account (as the case may be) for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement or the Loan Agreement, including the respective General Conditions applicable thereto.

