

CONFORMED COPY

CREDIT NUMBER 3241 CHA

Development Credit Agreement

(Pension Reform Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 15, 2000

CREDIT NUMBER 3241 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 15, 000, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and the 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;

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 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) A new paragraph (12) is added to Section 2.01 to read as set forth

below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country 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) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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 wherever used in this Agreement:

(a) "Borrower's Special Account" means the account referred to in Section 2.02(b)(i) of this Agreement.

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

(c) "Heilongjiang" means the Borrower's Province of Heilongjiang, and any successor thereto.

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

(e) "MOLSS" means the Borrower's Ministry of Labor and Social Security, and any successor thereto.

(f) "PIU" means the Project Implementation Unit to be established and maintained by the Borrower in accordance with the provisions of Part A of Schedule 5 to this Agreement.

(g) "PMO" means the Project Management Office to be established and maintained by each Project Entity in accordance with the provisions of Part C.3 of Schedule 5 to this Agreement.

(h) "Project Entities" means, collectively, Heilongjiang and Qingdao; and Project Entity means, individually, either of the Project Entities.

(i) "Project Implementation Arrangement" means, in respect of each

Project Entity, the arrangement to be entered into between the Borrower and said Project Entity in accordance with the provisions of Part C of Schedule 5 to this Agreement, as said arrangement may be amended from time to time, and such term includes all schedules and agreements or arrangements supplemental to the Project Implementation Arrangement; and "Project Implementation Arrangements" means, collectively, all of said arrangements.

(j) "Qingdao" means the Municipality of Qingdao of the Borrower's Province of Shandong, and any successor thereto.

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

(l) "Respective Part of the Project" means, (i) in respect of the Borrower, the activities included in Schedule 2 to this Agreement to be carried out by the Borrower, and (ii) in respect of each Project Entity, the activities included in Schedule 2 to this Agreement to be carried out by said Project Entity.

(m) "Special Accounts" means the accounts 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 three million seven hundred thousand Special Drawing Rights (SDR 3,700,000).

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 the following three special deposit accounts, each in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association: (i) one such account for the purposes of the Borrower's Respective Part of the Project (the Borrower's Special Account); (ii) one such account for the purposes of Heilongjiang's Respective Part of the Project (Heilongjiang's Special Account); and (iii) one such account for the purposes of Qingdao's Respective Part of the Project (Qingdao's Special Account). Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003, 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 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 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 semi-annual installments payable on each May 1 and November 1 commencing November 1, 2009 and ending May 1, 2034. Each installment to and including the installment payable on May 1, 2019 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, without any limitation or restriction upon any of its other obligations under this Development Credit Agreement, shall carry out its Respective Part of the Project through MOLSS, and cause the Project Entities to carry out their Respective Parts of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, economic, and financial practices,

and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall carry out its Respective Part of the Project, and shall cause the Project Entities to carry out their Respective Parts of the Project, all in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

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

Section 3.03. For the purposes of Section 9.06 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, consolidating the plans prepared by the Project Entities and furnished to the Borrower pursuant to each Project Entity's respective Project Implementation Arrangement and Part C.8 of Schedule 5 to this Agreement, designed to ensure the continued achievement of the Project's objectives; 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 Accounts 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 (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish 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.

(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 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(1) of the General Conditions, the following additional events are specified:

(a) Any party to any of the Project Implementation Arrangements shall have failed to perform its obligations thereunder.

(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 party to any of the Project Implementation Arrangements will be able to perform its obligations thereunder.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that any 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 an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that a Project Implementation Arrangement has been executed on behalf of the Borrower and each Project Entity.

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 Implementation Arrangement between the Borrower and each Project Entity has been duly authorized or ratified by the Borrower and said Project Entity and is legally binding upon the Borrower and said Project Entity in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of

Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Sanlihe  
Beijing 100820  
People's Republic of China

Cable address:

FINANMIN  
Beijing

Telex:

22486  
MFPRC CN

For the Association:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Guangyao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang

Authorized Representative

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
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(1) for the Borrower's

Respective Part of the Project			
(a)	Goods	210,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
(b)	Consultants' services and training	160,000	100%
(2) for Heilongjiang's Respective Part of the Project:			
(a)	Goods	1,330,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
(b)	Consultants' services and training	520,000	100%
(3) for Qingdao's Respective Part of the Project			
(a)	Goods	1,040,000	100 of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of local expenditures for other items procured locally
(b)	Consultants' services and training	440,000	100%
	TOTAL	3,700,000	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed "foreign expenditures"; and

(b) the term "local expenditures" means expenditures in the currency of



the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 370,000, may be made on account of payments made for expenditures before that date but after November 1, 1998.

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 \$100,000 equivalent each; (b) training, regardless of the cost thereof; (c) consultants' services under contracts awarded to firms costing less than \$100,000 equivalent each; and (d) consultants' services under contracts awarded to individuals costing less than \$50,000 equivalent each; in each case under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower to reform its pension system through (i) the formulation of a sustainable funding strategy and (ii) the improvement of pension systems in a pilot province and a pilot city, in order to obtain experience and develop a template for the establishment of a national unified pension system.

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 objective:

#### Part A: Policy Development

(1) Carrying out by Heilongjiang of a study of the sustainability of its existing urban enterprise employee pension systems, and by Qingdao of a study of the sustainability of its enterprise employee pension systems, said studies to include: (a) the development of long-term financial projections of the cashflows of said systems; and (b) sensitivity analysis of said systems.

(2) Carrying out by each Project Entity of a study, using modeling techniques, to design funded pension systems for government agencies within its jurisdiction whose employees are not covered by the civil service regime.

(3) Carrying out by each Project Entity of a study to develop policies and procedures to enhance the participation in its pension systems by non-state-owned enterprises operating within its jurisdiction.

(4) Carrying out by Heilongjiang of a study of the coherence of various pension systems with its readjustment funds.

(5) Carrying out by Heilongjiang of a study to assess the implementation of policies and procedures for the unification of contribution rates among the sector-based pension systems.

(6) Carrying out by Heilongjiang of a study to design voluntary supplementary retirement savings accounts.

(7) On the basis of recommendations from the studies carried out by the Project Entities under Part A.2 of the Project, carrying out by the Borrower of a study, using modeling techniques, to design funded pension systems for national government agencies whose employees are not covered by the civil service regime.

(8) Assessment by the Borrower, on the basis of recommendations from the studies carried out by the Project Entities under Part A.3 of the Project, of the suitability of adopting policies and procedures to enhance the participation

in its pension systems by non-state-owned enterprises on a nationwide basis.

(9) Development by the Borrower, on the basis of recommendations from the study carried out by Heilongjiang under Part A.4 of the Project, of national guidelines for pooling of funds at the provincial level.

(10) Carrying out by the Borrower of a study to design voluntary supplementary retirement savings accounts.

(11) Formulation by the Borrower of a policy paper for pension reform, including sequencing of measures for state-owned, collective-owned, private, foreign and joint venture enterprises, the self-employed, public institutions and civil service, respectively.

Part B: Institutional Development

(1) Strengthening by each Project Entity and the Borrower of systems for the administration of its urban retirement pensions, through: (a) carrying out of a user needs assessment for the development of management information systems; (b) provision of equipment and software for pension administration and oversight; and (c) strengthening and implementation of procedures for pension management and oversight in the Project Entities.

(2) Identification by the Borrower and by each Project Entity of personnel skills requirements and, thereafter, development and implementation of training programs to improve the skills of its personnel, including in: (a) pension management and oversight; (b) pension reform policy; (c) financial projections and modeling; and (d) pension asset management.

(3) Establishment, equipping and operation of a unit within MOLSS and each Project Entity to be responsible for coordination and management of its Respective Part of the Project.

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

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

1. Goods shall be procured in accordance with: (a) 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, September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. The references in paragraphs 1.6 and 1.8 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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 (excluding the Hong Kong Special Administrative Region of the Borrower).

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent, but not less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$450,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 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

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (i) each contract for goods estimated to cost the equivalent of \$100,000 or more, and (ii) the first contract for goods procured in accordance with Part C.1 of this Section I, regardless of the value thereof.

(b) With respect to the first contract for goods procured in accordance with Part C.2 of this Section I, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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

Part A: General

1. Consultants' services shall be procured in accordance with: (a) 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 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. The references in paragraph 1.10 of the Consultant Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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

1. Selection Based on Consultants Qualifications.

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and that are estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent, 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) 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 with respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants 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

(a) Subject to the provisions of subparagraph (b) of this paragraph 3, 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.

(b) With respect to each contract referred to in subparagraph (a) of this paragraph 3, the terms of reference 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.

#### SCHEDULE 4

##### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in respect of the Borrower's Special Account, Category 1; (ii) in respect of Heilongjiang's Special Account, Category 2; and (iii) in respect of Qingdao's Special Account, Category 3;

(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, in respect of : (i) the Borrower's Special Account, an amount equivalent to \$100,000; (ii) the Heilongjiang's Special Account, an amount equivalent to \$220,000; and (iii) the Qingdao's Special Account, an amount equivalent to \$180,000; in each case to be withdrawn from the Credit Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 Accounts;

(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 for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for that 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

## SCHEDULE 5

### Implementation Program

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

#### A. Project Management

1. In order to ensure the proper coordination and management of the Project, the Borrower shall establish and thereafter at all times maintain a Project implementation unit within MOLSS, with terms of reference and budgetary resources acceptable to the Association, to be responsible for ensuring overall management of the Project; said PIU shall be managed and staffed with personnel in adequate numbers and with terms of reference, qualifications and experience acceptable to the Association.

2. The Borrower shall: (a) develop not later than June 30, 2000, in accordance with guidelines acceptable to the Association, a procurement training program for staff of its PIU and the PMOs; (b) furnish the same to the Association promptly upon its preparation for the Association's review; and (c) thereafter carry out such training program as shall have been approved by the Association.

#### B. The Borrower's Respective Part of the Project

##### 1. Annual Implementation Plan; Training Programs

(a) The Borrower shall: (i) prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than June 30, 2000, and December 1 of each subsequent year, for the Association's review and approval, an annual plan for the implementation of its Respective Part of the Project during the following calendar year together with a financing plan therefor demonstrating the availability of funds in adequate amounts for the Project during said following year (the plan due on June 30, 2000, to cover implementation during and financing therefor in respect of the year 2000); and (ii) carry out such implementation plan as shall have been approved by the Association.

(b) The Borrower shall ensure that all training under the Project shall be carried out in accordance with a training program acceptable to the Association. To that end, the Borrower shall: (i) develop an annual training plan for the Project, in accordance with guidelines acceptable to the Association and in consultation with each Project Entity, said plan to be developed and furnished to the Association not later than June 30, 2000, and December 1 of each subsequent calendar year, and to cover all training activities under the Project during the following calendar year (the plan due on June 30, 2000 to cover training activities in the year 2000); (ii) thereafter, ensure the implementation of such training plan as shall have been approved by the Association; and (iii) by June 1 of each year update the yearly training plan, furnish said updated plan to the Association for its review and approval, and thereafter carry out all training activities according to such updated training plan.

##### 2. Monitoring and Reporting

The Borrower shall:

(a) 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 and the achievement of the objectives thereof;

(b) prepare, under terms of reference acceptable to the Association, and furnish to the Association:

- (i) semi-annual reports, not later than March 1 and September 1 in each year, beginning September 1, 2000, (A) summarizing the monitoring and evaluation activities performed by it pursuant to subparagraph (a) of this paragraph and (B) consolidating the semi-annual reports furnished by the Project Entities pursuant to Part C.7 of this Schedule, all in respect of the preceding calendar semester and setting forth the physical and financial progress in the implementation of the Project, both cumulatively, and in respect of the said preceding calendar semester, and proposed measures, indicated by said monitoring and evaluation activities, to ensure the continued implementation of the Project; and
- (ii) a mid-term report, not later than September 1, 2001, (A) integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, and (B) consolidating the mid-term reports furnished by the Project Entities pursuant to Part C.7 of this Schedule, all in respect of the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) promptly review with the Association the reports referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter.

## C. The Project Entities' Respective Parts of the Project

### 1. Project Implementation Arrangements

(a) The Borrower shall make available to each Project Entity a portion of the proceeds of the Credit under a Project Implementation Arrangement to be entered into between the Borrower and said Project Entity under terms and conditions which shall have been approved by the Association and which shall include those set forth in paragraphs 2 through 8 below.

(b) The Borrower shall: (i) (A) cause each Project Entity to perform, in accordance with the provisions of the Project Implementation Arrangement to which it is a party, all of its obligations therein set forth; (B) take or cause to be taken all action necessary or appropriate to enable said Project Entity to perform such obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance; and (ii) exercise its rights under each of the Project Implementation Arrangements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any of the Project Implementation Arrangements or any provision thereof.

### 2. Terms of Availability

(a) The principal amount of the proceeds of the Credit to be made available to a Project Entity under the Project Implementation Arrangement to which it is a party 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 on account of the cost of goods and services required for said Project Entity's Respective Part of the Project and to be financed out of the proceeds of the Credit (the Credit Amount).

(b) Each Project Entity's Credit Amount shall be recovered by the Borrower from such Project Entity in semi-annual installments over a period of



not less than seventeen (17) years, including five (5) years of grace.

(c) A service charge shall be charged on each Project Entity's Credit Amount withdrawn and outstanding from time to time at a rate not to exceed three-fourths of one percent (3/4 of 1%) per annum.

(d) A commitment charge shall be charged on the principal amount of the Credit made available to each Project Entity and not withdrawn from time to time at a rate not to exceed one-half of one percent (1/2 of 1%) per annum.

### 3. Project Management

Each Project Entity shall establish and maintain throughout the period of Project implementation, a Project management office, with terms of reference and budgetary resources acceptable to the Association, to be responsible for the management of its Respective Part of the Project; said PMO shall be managed and staffed with personnel in adequate numbers and with terms of reference, qualifications and experience acceptable to the Association.

### 4. Project Implementation

Each Project Entity shall:

(a) prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than June 30, 2000, and December 1 of each subsequent year, for the Association's review and approval, an annual plan for the implementation of its Respective Part of the Project during the following calendar year, together with a financing plan therefor demonstrating the availability of funds in adequate amounts for its Respective Part of the Project during said following year (the plan due on June 30, 2000, to cover implementation during and financing therefor in respect of the year 2000);

(b) thereafter carry out its Respective Part of the Project in accordance with said plan as so approved and with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and technical practices, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project; and

(c) promptly inform the Association of any condition which interferes or threatens to interfere with the progress of its Respective Part of the Project, the accomplishment of the purposes of the Credit, or the performance by said Project Entity of its obligations under the Project Implementation Arrangement to which it is a party.

### 5. Procurement

Except as the Association shall otherwise agree, each Project Entity shall procure the goods and consultants' services required for its Respective Part of the Project and to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 3 to the Development Credit Agreement.

### 6. Financial Covenants

Each Project Entity shall:

(a) maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the carrying out of its Respective Part of the Project;

(b) have its records and accounts, including the records and accounts for its respective Special Account, for each 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 (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

(d) 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; and

(e) for all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, (i) maintain, in accordance with subparagraph (a) of this paragraph, 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 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 subparagraph (a) of this paragraph and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures 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.

## 7. Monitoring and Reporting

Each Project Entity shall:

(a) 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 and the achievement of the objectives thereof;

(b) prepare, under terms of reference acceptable to the Association, and furnish to the Borrower (for forwarding to the Association pursuant to Part B.2 of this Schedule):

(i) semi-annual reports, not later than January 20 and July 20 in each year, beginning July 20, 2000, summarizing the monitoring and evaluation activities performed by it pursuant to subparagraph (a) of this paragraph in respect of the preceding calendar semester and setting forth the physical and financial progress in the implementation of its Respective Part of the Project, both cumulatively, and in respect of the said preceding calendar semester, and proposed measures, indicated by said monitoring and evaluation activities, to ensure the continued implementation of said Project Entity's Respective Part of the Project; and

(ii) a mid-term report, not later than July 20, 2001, integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of its Respective Part of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the period following such date; and

(c) promptly review with the Association the reports referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of its Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter.

## 8. Project Completion

Each Project Entity shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Borrower not later than 7 months before the Closing Date or such later date as may be agreed for this purpose between the Association and such Project Entity, for consolidation and forwarding to the Association pursuant to Section 3.03 of the Development Credit Agreement, a plan designed to ensure the continued achievement of the Project's objectives; and

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

