

CONFORMED COPY

CREDIT NUMBER 1779 CHA

Development Credit Agreement

(Shanghai Sewerage Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 23, 1987

CREDIT NUMBER 1779 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 23, 1987, 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 equivalent to forty five million dollars (\$45,000,000) (the Loan);

(C) the Project will be carried out by the Municipality of Shanghai (hereinafter referred to as Shanghai) with the Borrower's assistance, and, as part of such assistance, the Borrower will make available to Shanghai the proceeds of the Credit as provided in this Agreement;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Shanghai" means the Municipality of Shanghai, a political subdivision of the Borrower, or any successor thereto;

(b) "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 of the Bank, dated January 1, 1985 (as modified), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

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

(d) "Special Account" means the account referred to in Section 2 02 (b) of this Agreement;

(e) "Company" means Shanghai Sewerage Company, a state owned enterprise established pursuant to its Charter;

(f) "Charter" means the Company's Charter, dated March 21, 1987;

(g) "Registration Regulations" means the Provisional Regulations on Registration and Control of Corporations approved by the State Council of the Borrower on August 14, 1985 (State Document No 120-85);

(h) "Transfer and Operations Agreement" means the agreement to be entered into between Shanghai and the Company pursuant to Section 2 09 of the Project Agreement; and

(i) "SSPCC" means the Shanghai Sewerage Project Construction Company referred to in Section 2.02 of the Project Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy-eight million nine hundred thousand Special Drawing Rights (SDR 78,900,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a bank, and on terms and conditions, satisfactory to the

Association Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1993, 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 at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) The commitment charge shall be paid (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 1997, and ending March 15, 2037. Each installment to and including the installment payable on March 15, 2007, shall be one-half of one percent (1/2 of 1%) of such principal amount, and each installment thereafter shall be one and one-half percent (1-1/2%) of such principal amount.

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 the Development Credit Agreement, shall cause Shanghai to perform in accordance with the provisions of the Project Agreement all the obligations of Shanghai therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Shanghai to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available the equivalent of the proceeds of the Credit and the Loan to Shanghai under terms and conditions satisfactory to the Association.

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

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by Shanghai pursuant to Section 2.04 of the Project Agreement.

ARTICLE IV

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) Shanghai shall have failed to perform any of its obligations under the Project Agreement.

(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 Shanghai will be able to perform its obligations under the Project Agreement.

(c) The Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Company to perform any of the obligations under the Transfer and Operations Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Company, or for the suspension of the operations.

Section 4.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified, namely, that:

(a) the event specified in paragraph (a) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraphs (c) or (d) of Section 4.01 of this Agreement shall occur.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower's State Council has approved this Agreement;

(b) the Company has been duly registered in accordance with the Registration Regulations; and

(c) all the conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized or ratified by Shanghai, and is legally binding upon Shanghai in accordance with its terms.

Section 5.03. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section

11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing
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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Han Xu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu

Regional Vice President
Asia

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 such proceeds 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 Dollar Equivalent)	% of Expendi- tures to be Financed
----------	--	---	--

(1) Civil works	23,700,000	10,000,000	40%
(2) Equipment and materials	43,600,000	31,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services and overseas training	3,800,000	_____	100%
(4) Unallocated	7,800,000	4,000,000	
TOTAL	78,900,000	45,000,000	

2. For the purposes of this Schedule

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1 million, may be made in respect of Category (3) on account of payments made for expenditures before that date but after January 1, 1987.

SCHEDULE 2

Description of the Project

The objectives of the Project are (i) to improve environmental quality in Shanghai waterways through the removal of industrial and domestic waste water; and (ii) to establish and develop institutions for providing sewerage services and protecting the environment.

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:

Construction of a link and intercepting sewer system to collect and transport waste water to the estuary of the Changjiang for disposal, including:

1. about 35 km long trunk intercepting sewer, with two pump stations;
2. about 32 km of link sewer, with 8 pump stations;
3. a screening plant;
4. about 2.6 km of outfall tunnels;

5. alteration to about 44 existing pump stations on link sewer system; and
6. provision of vehicles and equipment.

Part B:

Carrying out the following studies:

1. a management and organization study to determine the organizational and staffing needs of the Company;
2. a sewerage tariff study;
3. a river basin management study of the Huangpu River for the purpose of setting up the institutional framework for water resources allocation and waste discharge control; and
4. a study to examine economic ways of rehabilitating the existing sewer-pipe system in Shanghai.

Part C:

Carrying out a comprehensive training program for the staff of the Company and SSPCC.

* * *

The project is expected to be completed by December 31, 1992.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

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

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, China may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

Contracts for: (i) civil works estimated to cost the equivalent of \$3 million per contract, and aggregating not more than \$30 million equivalent; and (ii) equipment estimated to cost the equivalent of less than \$270,000 per contract, and aggregating not more than 5 million, may be procured in accordance with local competitive bidding procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

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

(a) With respect to each: (i) civil works contract estimated to cost the equivalent of more than \$6 million; and (ii) contract for equipment estimated to cost the equivalent of more than \$2 million, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply; provided, however, that where payments for such contract are to be made out of the proceeds of the Special Account, the two conformed copies of the contract required to be furnished to the Association, pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines, shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply; provided, however, that where payments for such contract are to be made out of the proceeds of the Special Account, the two conformed copies of the contract required to be furnished to the Association, pursuant to paragraph 3 of Appendix 1 to the Guidelines, together with the other information specified therein, shall be furnished as part of the evidence to be furnished pursuant to paragraph 5 of Schedule 4 (the Special Account Schedule) to this Agreement.

(c) The provisions of the preceding paragraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained, in accordance with Section 3.01 (c) (ii) of the Project Agreement.

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

Section II. Employment of Consultants

1. In order to assist the Borrower in: (i) carrying out the studies under Part B of the Project; and (ii) Project design and construction, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association.

2. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency", published by the Bank in August 1981.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to SDR 7,500,000 to be withdrawn from the Credit Account or the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 the Association that

the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request, such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement or from the Loan Account in accordance with the provisions of Article V of the Bank's General Conditions and Section 2.02 of the Loan Agreement; or

(ii) the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the amount of any outstanding special commitment entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Credit Account and 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 have been or 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association, deposit into the Special Account (or, if the Association shall so request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account or Loan Account, as the case may be.

