

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N027 CHA

Interim Fund Development Credit Agreement

(National Rural Water Supply Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association

Dated August 14, 1997

Interim Fund Credit Number N027 CHA

Interim Fund Development Credit Agreement

AGREEMENT, dated August 14, 1997, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Administrator pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association adopted on June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution, the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

(C) the Project will be carried out by the Borrower and by Hebei Province, Hubei Province, Jiangxi Province, Nei Mongol Autonomous Region and Yunnan Province (the Project Provinces) with the Borrower's assistance and, as part of such

assistance, the Borrower will make available to the Project Provinces the proceeds of the Interim Fund Credit as provided in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) The term "Association", wherever used in the General Conditions, means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement", "Credit and Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund" Credit and "Interim Fund Credit Account", respectively;

(c) A new paragraph, number 15, is added to Section 2.01 to read as follows:

"15. "Participating Country" means any country that meets the requirements set forth in Section 5(e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5(c) of said Resolution; and "Participating Countries" means, collectively, all such countries;

(d) The last sentence of Section 3.02 is deleted.

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

"Except as the Administrator 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 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 Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit, or (c) at any time, the Administrator determines, with respect to any contract to be financed out of the proceeds of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and Appropriate action satisfactory to the Administrator to

remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Interim Fund Credit shall be cancelled."

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 wherever used in this Agreement:

(a) "AWP" means the consolidated annual work plan for the implementation of the Project in each calendar year, prepared by NPO (as hereinafter defined) on the basis of, among others, annual work plans prepared by the Project Provinces (as hereinafter defined), and including resettlement inventories and action plans as may be required by the Resettlement Policy Framework (as hereinafter defined), and approved by the Administrator pursuant to paragraph 1(c) of Schedule 3 to this Agreement;

(b) "CPOs" means the project offices in the Project Counties (as hereinafter defined) referred to in Part A of Schedule 1 to the Project Agreement (as hereinafter defined); and "CPO" means any of the CPOs;

(c) "Category" and "Categories" means one or more categories set out in the table in paragraph 1 of Schedule 1 to this Agreement;

(d) "Design Manual" means the "China Rural Water Supply Engineering and Construction Technical Manual" containing technical standards for the design of rural water supply investments, dated January 1989, and referred to in paragraph 1(b) of Part B of Schedule 1 to the Project Agreement, as the same may be revised by agreement between the Borrower, the Administrator and the Project Provinces;

(e) "National Program" means Part C.1(a) of the Project;

(f) "NPO" means the National Project Office referred to in paragraph 1 of Schedule 3 to this Agreement;

(g) "PPOs" means the project offices in the Project Provinces, referred to in Part A of Schedule 1 to the Project Agreement; and "PPO" means any of the PPOs;

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

(i) "Project Counties" means the counties in each Project Province selected by agreement among the Borrower, the Administrator and the Project Provinces to participate in the Project;

(j) "Project Provinces" means the following Provinces and Autonomous Region of the Borrower and any successor thereto: Hebei Province, Hubei Province, Jiangxi Province, Nei Mongol Autonomous Region and Yunnan Province; and "Project Province" means any of the Project Provinces;

(k) "Provincial Parts of the Project" means Parts A, B, C.1(b) and C.2 of the Project;

(l) "Resettlement Policy Framework" means the "Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons" of April

30, 1997, approved by the Borrower and the Project Provinces, which sets out the policies and procedures governing land acquisition, resettlement and compensation for the implementation of the Project, and the reporting and monitoring arrangements to ensure compliance with such policies and procedures;

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

(n) "Yuan" and "Y" mean the currency of the Borrower.

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to fifty one million four hundred thousand Special Drawing Rights (SDR 51,400,000).

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Administrator 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 Interim Fund Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank, on terms and conditions satisfactory to the Administrator, 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, 2003 or such later date as the Administrator shall establish. The Administrator 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 Interim Fund 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 Interim Fund 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 Interim Fund Credit withdrawn and outstanding from time to time.

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each June 15 and December 15, commencing December 15, 2007 and ending June 15, 2032. Each installment to and including the installment payable on June 15, 2017

shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Administrator may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Administrator of the development of the Borrower's economy, modify the terms of 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 Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund 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 Administrator 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 Administrator 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 Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, 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 Administrator 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:

(i) shall carry out Part C.1(a) of the Project (the National Program) with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project; and

(ii) without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause the Project Provinces to perform all of their respective obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Administrator 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.

(c) For the purpose of implementing the Provincial Parts of the Project, the Borrower shall make a portion of the proceeds of the Interim Fund Credit available to each Project Province on terms and conditions and in accordance with arrangements satisfactory to the Administrator, which shall include the following:

(i) the amount so made available to each Project Province shall be the sum of: (A) amounts allocated and withdrawn from the following Categories: (I) for Hebei Province, Category (1)(a); (II) for Hubei Province, Category (1)(b); (III) for Jiangxi Province, Category (1)(c); (IV) for Nei Mongol Autonomous Region, Category (1)(d); and (V) for Yunnan Province, Category (1)(e); and (B) other amounts allocated to and withdrawn on account of said Project Province's respective part of the Provincial Parts of the Project.

(ii) the Project Provinces shall pay to the Borrower a commitment charge at a rate equal to one-half of one percent (0.5%), on their respective portion of the proceeds of the Interim Fund Credit not withdrawn from time to time;

(iii) the Project Provinces shall pay to the Borrower a service charge at the rate of three percent (3%) per annum on their respective portion of the proceeds of the Interim Fund Credit withdrawn and outstanding from time to time; and

(iv) the Project Provinces shall repay their respective portions of the proceeds of the Interim Fund Credit over a period of seventeen (17) years, including a five (5) year grace period, in dollars in an amount equivalent at the time of withdrawal from time to time of the respective SDR amounts from the Interim Fund Credit Account.

Section 3.02. Except as the Administrator 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 Interim Fund 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 without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator 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 Administrator, a plan designed to ensure the continued achievement of the Project objectives; and

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

Section 3.04. The Borrower and the Administrator 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) in respect of the Provincial Parts of the Project shall be carried out by the Project Provinces pursuant to Section 2.03 of the Project Agreement.

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 National Program of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

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

(ii) furnish to the Administrator, 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 Administrator shall have reasonably requested; and

(iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Interim Fund 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 Administrator has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Administrator'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 Administrator

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) any Project Province shall have failed to perform any of its obligations under the Project Agreement; and

(b) as a result of events which have occurred after the date of the Interim Fund 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 Agreement.

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

ARTICLE VI

Effective Date; Termination
Designation of Administrator

Section 6.01. 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 Administrator, namely, that the Project Agreement has been duly authorized or ratified by each Project Province, and is legally binding upon each Project Province in accordance with its terms.

Section 6.02. 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 6.03. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of the date notified by the Administrator to the Borrower.

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 and Administrator:

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

as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association

By /s/ Yukon Huang

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Interim Fund Credit

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

Category	Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works under Parts A, B.3 and C.1(b) of the Project in:		
(a) Hebei Province	3,500,000	33%
(b) Hubei Province	5,700,000	42%
(c) Jiangxi Province	5,000,000	42%
(d) Nei Mongol Autonomous Region	3,700,000	45%
(e) Yunnan Province	3,400,000	36%
(2) Goods for Parts A, B and C.1(b) of the Project:	24,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), 75% of local expenditures for other items procured locally
(3) Consultants' services for Parts B.1 and C.1(b) of the Project	300,000	100%
(4) Training and study tours for Parts A, B and C.1 of the Project	2,000,000	100%
(5) Incremental Costs	200,000	100%
(6) Unallocated	2,800,000	100%
TOTAL	51,400,000	

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;

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

(c) the term "Incremental Costs" means the cost of travel, accommodation, meals and printing of survey materials incurred by CPOs in connection with the carrying out of surveys under Parts B.1 and C.2 of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, and

(b) payments made for expenditures under Category 1, unless the AWP for 1998 has been approved by the Administrator, in accordance with paragraph 1(c) of Schedule 3 to this Agreement.

4. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for expenditures for:

(a) goods under contracts costing less than \$500,000 equivalent each;

(b) works under contracts costing less than \$2,500,000 equivalent each and force account;

(c) consultants' services under contracts with firms or individuals costing less than \$100,000 and \$50,000 equivalent, respectively; and

(d) training and Incremental Costs; all under such terms and conditions as the Administrator shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to improve access to safe water for the rural population and the health and sanitation practices of the rural poor in the Project Provinces through: (i) the construction of safe water supply systems; (ii) the provision of related health education; (iii) the provision of sanitation information and demonstration facilities; and (iv) the strengthening of water supply, sanitation and health education management.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Administrator may agree upon from time to time to achieve such objectives:

Part A: Water Supply

Construction of piped water supply systems, rain water collectors, wells with handpumps and related facilities under investment programs in the Project Counties.

Part B: Sanitation and Health Education

1. Carrying out of a study of the hygiene practices of the population in the Project Counties, through the provision of consultants' services.

2. Improving water related health and sanitation practices of the rural population, through provision of health education to:

(a) key community leaders and health practitioners at the provincial, county and village levels; and

(b) the population of the Project Counties.

3. Construction of demonstration household and village school sanitation facilities in villages in the Project Counties.

Part C: Project Management

1. Strengthening the management, design, supervision, monitoring and reporting capacity of: (a) the National Project Office, and (b) project offices in the Project Provinces and Project Counties, through the provision of consultants' services, training, equipment and the carrying out of works.

2. Carrying out of baseline and follow-up surveys in villages of the Project Counties to measure and evaluate access to safe water as well as sanitation and health behavior and practices, through the provision of consultants' services.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Implementation Program

1. The Borrower shall maintain the NPO staffed with qualified personnel in adequate number and with functions and responsibilities satisfactory to the Administrator which shall include the following:

(a) the NPO shall be responsible for the overall coordination and supervision of Project execution;

(b) the NPO shall appraise all investments under the investment programs under Part A of the Project with an estimated value of more than Yuan 3,000,000, and review in particular the quality of the engineering and financial preparation and the overall design and feasibility of such proposed investments;

(c) the NPO, shall by November 30 of each year, starting in 1997, prepare and furnish to the Administrator for its review and prior approval, an AWP to be carried out during the following calendar year.

(d) the NPO shall design, analyze and consolidate the outputs resulting from the carrying out by the Project Provinces of Parts B.1 and C.2 of the Project and shall furnish such consolidated outputs to the Administrator for review and comments by: (i) January 1, 1998 for baseline surveys carried out by the Project Provinces in pursuance of Part B.5 of Schedule 1 to the Project Agreement; and (ii) April 30, 1998 for hygiene practices studies carried out by Project Provinces in pursuance of Part B.6 of Schedule 1 to the Project Agreement.

2. Any revision to an AWP shall be submitted to the Administrator for its review and prior approval.

3. The Resettlement Policy Framework shall not be modified or revised without the prior concurrence of the Administrator.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 2 to the Project Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, by March 15 and August 31 of each year, starting August 31, 1998, for the immediately preceding six (6) month period ending December 31 and June 30, respectively (and in the case of the first report to be submitted in pursuance of this paragraph (b), for the two immediately preceding six (6) month periods) a consolidated semi-annual report integrating the information provided in the reports submitted by the PPOs pursuant to paragraph 7 of Part B of Schedule 1 to the

Project Agreement;

(c) prepare under terms of reference satisfactory to the Administrator and furnish to the Administrator by March 15, 2000, a consolidated report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph 4, on 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

(d) review with the Administrator, by such later date as the Administrator shall request, the report referred to in subparagraph (c) of this paragraph 4, 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 report and the Administrator's views on the matter.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Subject to the eligibility restrictions set forth in Section III of this Schedule, goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Except as provided in Part C.2 below, works estimated to cost equivalent of \$400,000 or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works/ Force Account

Works estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$60,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) domestic contractors with the capability and resources to effectively carry out the contract, and for contracts estimated to cost more than \$100,000 equivalent per contract from three (3) contractors from at least two different counties, in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of

agreement acceptable to the Administrator, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully. As an alternative to the procedure set out in this paragraph 2 and without prejudice to the abovementioned aggregate amount of \$60,000,000 equivalent, works that meet the requirements of paragraph 3.8 of the Guidelines and costing less than \$20,000 equivalent per assignment, may, with the Administrator's prior agreement, be carried out by force account in accordance with the provisions of said paragraph 3.8, up to an aggregate amount equivalent to \$10,000,000.

3. National Shopping

Goods for Part B.2 of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 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 Administrator 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 Administrator 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 Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods to be procured in accordance with Part B of Section I of this Schedule, and (ii) the first contract for works under Part A of the Project for each Project County but only if such contract is procured in accordance with Part C.1 of Section I of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for goods under Part B.2 of the Project for each Project Province, (ii) the first contract for works under Part A of the Project for each Project County but only if such contract is procured in accordance with Part C.2 of Section I of this Schedule, and (iii) a maximum of ten (10) contracts per year for works procured in accordance with Part C.2 of Section I of this Schedule and selected at the discretion of the Administrator in addition to the works contracts that are subject to prior review in pursuance of paragraph 2(b)(ii) of this Part D, the following procedures shall apply:

(i) prior to the selection of any supplier or contractor under shopping procedures, the Borrower shall provide to the Administrator a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Administrator 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

Consultants' services shall be procured in accordance with the provisions of the

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

Part B: Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services under Part C.1 of the Project estimated to cost less than \$100,000 equivalent per contract, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services under Part C.1 of the Project which are estimated to cost less than \$100,000 equivalent per contract, shall, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraph 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for the study of hygiene practices and procurement document review under Parts B.1 and C.1 of the Project, respectively, 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 C: Review by the Administrator 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 Administrator 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 Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) 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 Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

Section III. Eligibility Restriction

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures for goods and works provided by nationals of, and produced in or supplied from, Participating

Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods and works from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.10 of the Consultant Guidelines, only firms that are registered or incorporated in, and individuals and personnel who are nationals of, Participating Countries shall be eligible to compete for services financed out of the proceeds of the Interim Fund Credit.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3, 4 and 5 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 Interim Fund Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Interim Fund Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Administrator 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 Interim Fund Credit Account plus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 15,000,000.

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 Administrator 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 Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Administrator from the Interim Fund Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower

shall, at such time as the Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund 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 Administrator, 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 Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator 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 Interim Fund Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories for the Special Account, minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Interim Fund Credit Account of the remaining unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator 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 Administrator 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 Administrator, refund to the Administrator such outstanding amount.

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

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Interim Fund Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

