

CONFORMED COPY

CREDIT NUMBER 3165 CHA
LOAN NUMBER 4436 CHA

Project Agreement

(Anning Valley Agricultural Development Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

and

SICHUAN PROVINCE

Dated March 11, 1999

CREDIT NUMBER 3165 CHA
LOAN NUMBER 4436 CHA

PROJECT AGREEMENT

AGREEMENT, dated March 11, 1999, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and SICHUAN PROVINCE (Sichuan).

WHEREAS: (A) by the Development Credit Agreement of even date herewith between People's Republic of China (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty-one million four hundred thousand Special Drawing Rights (SDR 21,400,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Sichuan agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by the Loan Agreement of even date herewith between the Borrower and the Bank, the Bank has agreed to make available to the Borrower an amount equal to ninety million Dollars (\$90,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Sichuan agrees to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Sichuan, in consideration of the Association's entering into the Development Credit Agreement with the Borrower and the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Loan Agreement and in the General Conditions (as so defined in the Development Credit Agreement and the Loan Agreement, respectively) have the respective meanings therein set forth, and, wherever used in this Agreement (except in Section 5.04 hereof), references to the Association, the Credit and the Credit Account shall also be deemed to be references to the Bank, the Loan and the Loan Account, respectively, (except in Part A.2 of Section I and Section II of Schedule 1 to this Agreement).

ARTICLE II

Execution of the Project

Section 2.01. (a) Sichuan declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and agricultural practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and Sichuan shall otherwise agree, Sichuan shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 1 to this Agreement.

Section 2.03. (a) Sichuan shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions referred to in Section 1.01 of the Development Credit Agreement and in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions referred to in Section 1.01 of the Loan Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions referred to in Section 1.01 of the Development Credit Agreement and Section 9.08 of the General Conditions referred to in Section 1.01 of the Loan Agreement and without limitation thereto, Sichuan shall:

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

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

Section 2.04. (a) Sichuan shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) Sichuan shall promptly inform the Association of any condition, which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by Sichuan of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Sichuan 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 Sichuan responsible for carrying out the Project or any part thereof.

(b) Sichuan shall:

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

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year 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.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which both the Development Credit Agreement and the Loan Agreement become effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of Sichuan thereunder shall terminate on the earlier of the following two dates:

(i) the date on which both the Development Credit Agreement and the Loan Agreement shall have terminated in accordance with their terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement or the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify Sichuan of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions applicable to the Loan Agreement or the Development Credit Agreement.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such

party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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)

For the Bank:

International Bank for Reconstruction
and Development
1818 H Street, N. W.
Washington, D.C., 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Sichuan:

37 Nan Xin Street
Chengdu 610016
Sichuan Province
People's Republic of China

Cable address:

Chengdu 0439

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Sichuan may be taken or executed by any Vice Governor thereof or such other person or persons as any Vice Governor shall designate in writing, and Sichuan shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

Section 5.04. As long as the Bank has not given notice to the contrary to Sichuan and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of Sichuan to consult with, and to furnish information, documents, plans, reports, records and statements to, the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to, Sichuan shall be satisfied to the extent such obligations are fulfilled by the Association; and

(c) all actions taken (including the giving of approvals or granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Loan Agreement, and in the name and on behalf of both the Association and the Bank.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Jean-Michel Severino

Authorized Representative

SICHUAN PROVINCE

By /s/ Li Zhaoxing

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works 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 and September 1997 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. For the purposes of the procurement of goods or works to be financed in whole or in part out of the proceeds of the Credit, 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 and works 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 and works 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 works shall be grouped in bid packages estimated to cost the equivalent of \$10,000,000 or more each, and contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$200,000 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 (except for the Hong Kong Special Administrative Region).

(c) Notification and Advertising

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

Part C: Other Procurement Procedures

1. Goods

(a) Limited International Bidding

Laboratory and office equipment estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

(b) National Competitive Bidding

With the exception of the equipment referred to in paragraphs (a), (c) and (d) of this Section 1 of Part C, goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$13,700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) National Shopping

The following goods estimated to cost less than \$50,000 per contract may be procured on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines: (i) equipment required for Parts C, D, E and F of the Project, up to an aggregate amount not to exceed \$4,000,000 equivalent; (ii) breeding stock, seeds and fruit seedlings, up to an aggregate amount not to exceed \$12,200,000; and (iii) fertilizer and chemicals up to an aggregate amount not to exceed \$600,000.

(d) Direct Contracting

The initial stock of production materials for drying centers, reeling mills and agro-processing plants, up to an aggregate amount not to exceed \$10,900,000 equivalent may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

2. Works

(a) National Competitive Bidding

Works estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$66,400,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of Small Works

Works estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$14,700,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors 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 Association, 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.

(c) Force Account and Community Participation

Works costing less than \$200,000 per assignment, which meet the requirements of paragraph 3.8 of the Guidelines, up to an aggregate amount not to exceed \$27,700,000

in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines or by the use of community members hired in accordance with procedures acceptable to the Association.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$200,000 or more and to be awarded pursuant to Part B (international competitive bidding), Part C.1.(a) (limited international bidding) or Part C.2(a) (national competitive bidding) of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply, provided that, with respect to national competitive bidding procedures under Part A of the Project, such procedures shall only apply to the first three contracts and to all contracts estimated to cost the equivalent of \$3,000,000 or more.

(b) With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more and to be awarded pursuant to Part C.1(d) (direct contracting) of this Section I, the following procedures shall apply:

(i) prior to the execution of any contract procured under direct contracting procedures, Sichuan shall provide to the Bank a copy of the specifications and the draft contract; and

(ii) 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 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 Section II.

2. For the purposes of the procurement of consultants' services to be financed in whole or in part out of the proceeds of the Credit, 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: 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 Under a Fixed Budget

Services for crop, fruit and livestock applied research, field demonstration and data collection may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 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.

3. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines 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 Bank 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) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (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 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 the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 2.01 (b) of this Agreement.

Part A: Project Management

1. In order to ensure the proper carrying out of the Project, Sichuan shall at all times continue to maintain, with terms of reference and resources acceptable to the Association, and with competent staff in adequate numbers:

(a) a Project Management Office at the provincial level to be responsible for the overall coordination and supervision of Project implementation, including procurement of goods and services and monitoring and evaluation of the progress of the Project;

(b) a Project Management Office in each prefecture and county involved in Project implementation, to be responsible for coordination and supervision of the Project activities included within said office's jurisdiction;

(c) Project leading groups at the provincial, prefectural and county levels, to include (i) at each level, representatives of technical bureaus; (ii) at the provincial level, representatives of the Provincial Women's Federation, and (iii) at the prefectural level, of the Poverty Alleviation Office and the Nationalities Affairs Commission, to provide guidance to their respective Project Management Offices on Project coordination and the resolution of Project implementation issues;

(d) a science and technology committee, to provide overall guidance on the technical aspects of the agricultural, horticultural, sericulture and livestock production activities under Parts B, C, D and E of the Project; and

(e) the Anning River Basin Water Resources Management Committee, to promote the involvement of a wide range of stakeholders in the water allocation and water management decision-making process.

2. Sichuan shall, through the PPMO, prepare in accordance with guidelines acceptable to the Association and, not later than December 1 in each year, furnish to the Association for its review:

(a) an annual work plan for the next calendar year for the main infrastructure works under Parts A.1, A.2 and A.3 of the Project;

(b) an annual work plan for the next calendar year for the carrying out of the minor canal systems, land reclamation and land development programs referred to in paragraph 3 of Part A of this Schedule 2; and

(c) a status report on the collection rate for user charges for the water provided under each of Parts A.1, A.2 and A.3 of the Project.

3. Sichuan shall ensure that action plans acceptable to the Association for the carrying out of minor canal systems, land reclamation and land development programs under the Manshuiwan subcomponent in Liangshan Prefecture under Part A.1 of the Project and under the Huangqiao subcomponent in Miyi County under Part A.2 of the Project shall be funded adequately and carried out in a timely fashion.

4. (a) Sichuan shall, promptly upon completion of the facilities to be constructed under Part A of the Project, establish and collect from users of the water delivered through said facilities, water charges sufficient to cover (i) the operation and maintenance costs of such facilities as they are required, and (ii) a reasonable portion of the cost of replacement of structures, equipment and installation in respect of said facilities.

(b) Sichuan shall review annually and adjust as necessary the above charges in consultation with the Association, so as to continue to give effect to the provisions of paragraph (a) above.

5. Sichuan shall prepare, in accordance with guidelines acceptable to the Association, plans for the operation and maintenance of the facilities constructed under Parts A.1, A.2 and A.3 of the Project, furnish such plans to the Association not later than June 30, 2000, and thereafter implement such plans, taking into account the Association's comments on such plans.

6. Sichuan shall ensure that, not later than December 1 in each year, an annual plan of overseas training and study tours under the Project for the next calendar year

shall be furnished to the Association for its approval prior to implementation of the plan.

7. Sichuan shall ensure that:

(a) all agrochemicals used under the Project shall be selected from a list acceptable to the Association; and

(b) the storage, handling, distribution and use of such agrochemicals shall be consistent with guidelines acceptable to the Association.

8. Sichuan shall take and cause to be taken all measures necessary to ensure that the Project shall be carried out in accordance with the Minority Nationality Development Plan. 9. Sichuan shall ensure that the duration of land use rights necessary to enable Project activities to be properly implemented shall be specified in written contracts with all farmers carrying out activities under the Project.

Part B: Dam Safety

In order to ensure the safety of the existing or partially constructed Daqiao Dam in Mianning County and the Shengli, Yuejin and Pingdi Dams in Renhe County and their associated structures (together, the Existing Dams) and the Huangqiao Dam in Miyi County and its associated structures (the Huangqiao Dam), all to be constructed under Part A of the Project, Sichuan shall take the following actions:

1. Sichuan shall undertake, on the basis of guidelines acceptable to the Association and complete, not later than June 30, 2000, a program of remedial works on the Existing Dams.

2. Sichuan shall convene as necessary the Dam Safety Review Panel, with membership, terms of reference and resources acceptable to the Association (the Panel), to be responsible for reviewing the adequacy of the design and construction of the Huangqiao Dam and the adequacy of remedial works to be carried out on the Existing Dams and for periodic inspections of the Huangqiao Dam and the Existing Dams.

3. Sichuan shall ensure that the Panel shall, on the basis of guidelines acceptable to the Association:

(a) undertake periodic reviews of the Huangqiao Dam and the design thereof, throughout the period of design and construction thereof, and of the Existing Dams during the period in which remedial works thereon are being carried out;

(b) undertake periodic reviews in order to identify any deficiencies in the condition of the Huangqiao Dam or the Existing Dams, or in the quality and adequacy of the maintenance or methods of operation thereof, which may endanger the safety of the Huangqiao Dam or the Existing Dams, and of persons and property located downstream from said dams and promptly rectify any such deficiencies; and

(c) prepare and furnish to Sichuan and the Association, upon completion of each said review, a report of the results of said review, together with any recommended changes to be introduced into the design, construction or operation of the Huangqiao Dam or the Existing Dams.

4. Promptly upon receipt of each report furnished by the panel to Sichuan, Sichuan shall introduce the changes recommended by said report, taking into account the comments of the Association on the matter.

Part C: Sub-Projects

1. Sichuan shall make Sub-loans in accordance with procedures, and on terms and conditions, satisfactory to the Association, which shall include those set forth in Sections 2 and 3 of this Part C.

2. Each Sub-loan shall be made:

(a) exclusively to an enterprise selected by agreement between the Association and Sichuan, which enterprise shall have established to the satisfaction

of Sichuan, on the basis of guidelines acceptable to the Association, that:

(i) it is an entity possessing legal person status, with authority to borrow and carry out the Sub-project;

(ii) it is creditworthy and has a sound financial structure, and its financial performance for the three years preceding its application for Sub-loan has been satisfactory; and

(iii) it has the organization, management, staff and other resources required for the efficient carrying out of its operations;

(b) on the same terms as those applicable to loans for similar goods and works made by the Agricultural Bank of China; and

(c) on conditions whereby the enterprise to which a Sub-loan is made shall undertake to:

(i) carry out its operations, including its respective Sub-project, with due diligence and efficiency and in accordance with sound financial, managerial, and agroprocessing practices, and appropriate health, safety and environmental practices acceptable to the Association, and provide promptly as needed the funds, and other resources required for the purpose, and maintain adequate records and accounts;

(ii) procure the goods and works required for its respective Sub-project in accordance with the provisions of Schedule 1 to this Agreement, and utilize said goods and works exclusively in the carrying out of said Sub-project;

(iii) enable the Association to inspect the goods and the sites and works included in its respective Sub-project, the operation thereof and any relevant records and documents;

(iv) at all times maintain and operate its equipment and facilities, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and agroprocessing practices; and

(v) furnish to the Association all such information as the Association may reasonably request relating to the foregoing and to the administration, operations and financial condition of said enterprise.

3. Each Sub-loan shall be made to an enterprise for a Subproject which Sichuan shall have determined, on the basis of an appraisal (including an environmental impact assessment) carried out in accordance with guidelines acceptable to the Association, meets the following requirements:

(a) said Subproject is technically feasible, and economically and financially and commercially viable;

(b) said Sub-project is: (i) in compliance with environmental standards satisfactory to the Association and with all applicable laws and regulations of the Borrower relating to health, safety and environmental protection; and (ii) has been developed in accordance with the recommendations of an environmental impact assessment which has been approved by the environmental protection bureau responsible for the locality in which said Subproject is located;

(c) if any Sub-project for which Sichuan proposes to make a Sub-loan would involve the involuntary resettlement of persons, Sichuan shall ensure that all persons shall be resettled prior to implementation of such Sub-project in accordance with a resettlement plan approved by the Association, which shall have been designed on the basis of policies, planning principles, institutional arrangements and design criteria

acceptable to the Association, so as to improve the living standards and production levels of said persons; and

(d) the initial stock of production materials under a Sub-project under Part F of the Project shall not be financed from a Subloan until the enterprise to which the Subloan is made shall have prepared an operational plan satisfactory to the Association for such Sub-project and shall have installed all equipment necessary for such Sub-project.

4. Sichuan shall exercise its rights in relation to each Sub-project in such manner as to protect the interests of the Borrower, the Association and Sichuan, comply with its obligations under this Agreement and achieve the purposes of the Project.

Part D: Resettlement

Sichuan shall take and cause to be taken all measures necessary to ensure that the Project shall be carried out in accordance with the Resettlement Action Plans, and shall ensure that any proposed revision of either of the Resettlement Action Plans shall be furnished to the Association for its prior approval.

Part E: Monitoring and Evaluation

1. Sichuan shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out 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, semi-annual reports, not later than March 1 and September 1 in each year, beginning September 1, 1999, integrating the results of the monitoring and evaluation activities carried out by it pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the dates of such reports 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 dates;

(c) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2001, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 Association, by September 30, 2001, or such later date as the Association shall request, the report referred to in paragraph (c) of this Section, 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 Association's views on the matter.

