

CONFORMED COPY

CREDIT NUMBER 3097 CHA
LOAN NUMBER 4348 CHA

Project Agreement

(Guangxi Urban Environment Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

GUANGXI ZHUANG AUTONOMOUS REGION

Dated July 31, 1998

CREDIT NUMBER 3097 CHA
LOAN NUMBER 4348 CHA

PROJECT AGREEMENT

AGREEMENT, dated July 31, 1998 among the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and Guangxi Zhuang Autonomous Region (Guangxi).

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 lend to the Borrower an amount in various currencies equivalent to fourteen million nine hundred thousand Special Drawing Rights (SDR14,900,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Guangxi agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(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 seventy-two million dollars (\$72,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Guangxi agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(C) WHEREAS Guangxi, 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 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 5.03 as well as paragraph C(1) of Schedule 2 hereof), reference to the Association, the Credit or the Credit Account shall also be deemed as reference to the Bank, the Loan and the Loan Account, respectively.

ARTICLE II

Execution of the Project

Section 2.01. (a) Guangxi 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:

- (i) carry out Parts D, E(1)(a) and E(2) of the Project;
- (ii) carry out Parts A and E(1)(b) of the Project through Nanning Municipality;
- (iii) carry out Parts B, C(4), C(5) and E(1)(c) of the Project through Guilin Municipality; and
- (iv) carry out Parts C(1), C(2), C(3) and E(1)(d) of the Project through Guilin Prefecture, all with due diligence and efficiency and in conformity with administrative, financial, engineering, and environmental 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 Guangxi shall otherwise agree, Guangxi shall carry out the Project, or carry out the Project through the Project Administrations, 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) Guangxi 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 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) 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, Guangxi shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to Association not later than six (6) months after the Closing Date or such later date as may be agreed for this

purpose between Guangxi and the
the future operation of the Project; and

Association, a plan for

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

Section 2.04. (a) Guangxi 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) Guangxi 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 Guangxi of its
obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Guangxi shall maintain, or maintain through the Project
Administrations, 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 Guangxi responsible for carrying out the
Project or any part thereof.

(b) Guangxi shall, or shall through the Project Administrations:

(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 (6) months after the end of each such
year, the report of such audit by said auditors, of such scope
and in such detail as the Association shall have reasonably
requested; and

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

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
Guangxi 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 terminate; or

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

(b) If the Development Credit Agreement or the Loan Agreement terminates
before the date specified in paragraph (a) (ii) of this Section, the Association shall
promptly notify Guangxi 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
referred to in Section 1.01 of the Development Credit Agreement, or under the General
Conditions referred to in Section 1.01 of the Loan 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 addresses 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Guangxi Zhuang Autonomous Region:

The People's Government of
Guangxi Zhuang Autonomous Region
Minle Road
Nanning
Guangxi, People's Republic of China

Cable address:

8020 Nanning

Telex:

2802966

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

Section 5.03. As long as the Bank has not given notice to the contrary to Guangxi and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of Guangxi 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, Guangxi 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.

Section 5.04. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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/ Jane Loos

Acting Regional Vice President
East Asia and Pacific

GUANGXI ZHUANG AUTONOMOUS REGION

By /s/ Liu Xiaoming

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

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 and September 1997 (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 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) Prequalification

Bidders for pumping stations, sewage treatment plants and interceptor works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower (excluding the Hong Kong Special Administrative Region).

(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. National Competitive Bidding

Works estimated to cost equal or more than \$50,000 equivalent but less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$99,000,000, equivalent, and goods (other than goods required for a Pollution Control Sub-project) estimated to cost equal or more than \$100,000 equivalent but less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$6,900,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

(a) Goods (other than goods required for a Pollution Control Sub-project) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$2,500,000 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.

(b) Goods required for a Pollution Control Sub-project estimated to cost less than \$1,000,000 equivalent per contract, 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.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 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.

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

With respect to each contract for works (excluding Pollution Control Sub-project works) estimated to cost the equivalent of \$2,000,000 or more and to each contract for goods (excluding goods for Pollution Control Sub-projects) estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

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

Section II. Employment of Consultants

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 revised in September 1997 and the following provisions of Section II of this Schedule.

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. Quality-based Selection

Services for the design of systems for the organization, operation, and financial management of sewerage institutions in Nanning Municipality and Guilin Municipality under Part E of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Service Delivery Contractors

Services to be provided by social workers under Parts A(2) and B(2) of the Project shall be procured in accordance with procedures acceptable to the Association.

3. 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 \$200,000 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 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 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

For the purposes of Section 2.01(b) of this Agreement, the Implementation Program shall consist of the provisions set forth or referred to below.

A. Project Management

In order to ensure the proper carrying out of the Project, Guangxi shall:

1. continue to maintain a project office (the Guangxi Urban Environment Project Office, also referred to as 'GUEPO'), with functions satisfactory to the Association, staffed by qualified personnel in adequate numbers, to be responsible for the overall coordination and supervision of Project execution, the supervision of the procurement of goods and services thereunder, the overall assessment of quality and impact of the Project and the preparation and furnishing to the Association of reports and other information thereon; and

2. ensure that each Project Administration shall continue to maintain a project management office (PMO) with functions satisfactory to the Association, staffed by qualified personnel in adequate numbers, to be responsible for: the coordination and supervision of the execution of its Respective Part of the Project; the supervision of the procurement of goods and services under its Respective Part of the Project; and the preparation and furnishing to GUEPO of reports and other information thereon.

B. Resettlement and Environmental Action Plans

1. Guangxi shall take and, where appropriate, shall through the Project Administrations take, all measures necessary to ensure that the Project shall be carried out in accordance with the Resettlement Action Plan and the Environmental Action Plans.

2. Guangxi shall ensure that any proposed revision of the Resettlement Action Plan or the Environmental Action Plans shall be furnished to the Association for prior approval.

C. Financial Arrangements

1. Guangxi shall allocate to each Project Administration an amount of the Credit under arrangements satisfactory to the Association, which shall include, without limitation, the following principal terms:

(a) the principal amount so made available to each Project Administration:

(i) shall be the equivalent in terms of Special Drawing Rights (determined on the _____ date, or respective dates, of withdrawal from the Credit Account) of the value _____ of the currency or currencies so withdrawn on account of said Project _____ Administration's Respective Part of the Project; and

(ii) shall be repaid in a foreign currency selected by Guangxi in amounts _____ equivalent (as of the date, or respective dates, of repayment) to the amount _____ in Special Drawing Rights so made available;

(b) Guangxi shall recover such principal amount over a period of seventeen (17) years, inclusive of a grace period of five (5) years;

(c) Guangxi shall charge a service charge on such principal amount, withdrawn and outstanding from time to time at a rate of three-fourths of one percent (3/4 of 1%) per annum; and

(d) Guangxi shall charge a commitment charge on such principal amount, not

withdrawn from time to time at a rate equal to one-half of one percent (1/2 of 1%) per annum.

2. Guangxi shall allocate to each Project Administration an amount of the Loan under arrangements satisfactory to the Association, which shall include, without limitation, the following principal terms:

(a) the principal amount so made available to each Project Administration: shall be the amount in Dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of said Project Administration's Respective Part of the Project;

(b) Guangxi shall recover such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years;

(c) Guangxi shall charge interest on such principal amount, withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement; and

(d) Guangxi shall charge a commitment charge on such principal amount, not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

3. Guangxi shall cause each Project Administration to:

(a) produce for the fiscal year 1999 and each fiscal year thereafter, total operating revenues related to wastewater operations equivalent to not less than the sum of:

(i) its total operating expenses, including maintenance expenses, related to wastewater operations; and

(ii) its debt service requirements for debts obligations incurred after July 1, 1998;

(b) review, before September 30 in each fiscal year, and on the basis of forecasts prepared by it and satisfactory to the Association, whether it would meet the requirements set forth in subparagraph (a) hereof, in respect of such year and the next following fiscal year and furnish to the Association the results of such review upon its completion; and

(c) if any such review shows that it would not meet the requirements set forth in subparagraph (a) hereof for the fiscal years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

4. For purposes of paragraph C(3) of this Schedule 2:

(a) The term "total operating revenues" means revenues from all sources related to operations.

(b) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding interest and other charges on debt.

(c) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(d) The term "debt" means any indebtedness of the wastewater operation maturing by its terms more than one year after the date on which it is originally incurred.

(e) Debt shall be deemed to be incurred:

(i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of

payment on the date of such contract,
and

agreement or instrument;

(ii) under a guarantee agreement, on the date the agreement providing
for such guarantee has been entered into.

5. Whenever, for the purposes of this Schedule, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

D. Nanning Municipality (Parts A and E(1)(b) of the Project)

1. Guangxi shall through Nanning Municipality implement Part A(2) of the Project in accordance with an action program acceptable to the Association.

2. For purposes of Part E(1)(b) of the Project, Guangxi shall through Nanning Municipality:

(a) by December 31, 1998, employ consultants in accordance with the provisions of Section II of Schedule 1 to this Agreement, to carry out a study on the institutional development of an independent sewerage management entity, including such entity's accounting system, information management system, operational procedure and organizational structure and furnish the interim study results of said study to the Association by September 30, 1999;

(b) by December 31, 1999, prepare and furnish to the Association a time-bound action plan based on the recommendations of said interim study results, including arrangements for the transfer of assets, liabilities and operations to such entity and training for staff; and

(c) thereafter, implement said action plan as agreed with the Association. 3. For the purpose of carrying out Part A(1)(f) of the Project, Guangxi shall through Nanning implement the Nanning Industrial Pollution Reduction Action Plan in a manner satisfactory to the Association.

E. Guilin Municipality (Parts B and E(1)(c) of the Project)

1. Guangxi shall through Guilin Municipality implement Part B(2) of the Project in accordance with an action program acceptable to the Association.

2. For purposes of Part E(1)(c) of the Project, Guangxi shall through Guilin Municipality:

(a) by December 31, 1998, create a sewerage company as a separate legal entity with a charter satisfactory to the Association;

(b) by December 31, 1998, employ consultants in accordance with the provisions of Section II of Schedule 1 to this Agreement, to carry out a study on the institutional development of such sewerage company, including such company's accounting system, information management system, operational procedure and organizational structure and furnish the interim study results of said study to the Association by September 30, 1999;

(c) by December 31, 1999, prepare and furnish to the Association a time-bound action plan based on the recommendations of said interim study results, including arrangements for the transfer of assets, liabilities and operations, to such company and training for staff; and

(d) thereafter, implement said action plan as agreed with the Association.

3. For the purpose of carrying out Part B(1)(e) of the Project, Guangxi shall through Guilin Municipality implement the Guilin Industrial Pollution Reduction Action Plan in a manner satisfactory to the Association.

F. Li River Flow Regulation (Part C of the Project)

1. Guangxi shall by June 30, 1999, establish, and thereafter maintain, a Commission with membership, terms of reference and powers acceptable to the Association to ensure smooth implementation of Part C of the Project and to encourage efficient water use and prescribe river basin management.

G. Sugar Refinery Pollution Abatement (Part D of the Project)

1. Guangxi shall reduce sugar refinery pollution by making Pollution Control Sub-loans and on the terms and conditions set forth or referred to in Schedule 3 to this Agreement.

2. Guangxi shall by October 31, 1998:

(a) establish and, thereafter, maintain the Guangxi Sugar Pollution Control Project Unit, which shall be staffed with members in adequate number and with qualifications and responsibilities satisfactory to the Association, to review, approve and supervise Pollution Control Sub-projects; and

(b) provide adequate funding to said Project Unit for its operation;

3. Guangxi shall:

(a) exercise its rights in relation to each Pollution Control Sub-project in such manner as to protect the interests of the Association and the Borrower and achieve the purposes of the Project; and

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

H. Institutional Development and Training

Without limitation upon paragraphs D(2) and E(2) of this Schedule 2, Guangxi shall, and shall through the Project Administrations, carry out Part E of the Project in accordance with a program acceptable to the Association.

I. Monitoring and Reporting

Guangxi shall:

1. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set satisfactory to the Association, the carrying out of the Project, including the Resettlement Action Plan and the Environmental Action Plans, as well as the achievement of the objectives thereof.

2. prepare, under terms of reference acceptable to the Association, and furnish to the Association, the following reports:

(a) quarterly reports on or about January 31, April 30, July 31 and October 31 in each year, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph I(1) of this Schedule 2, on the progress achieved in the carrying out of the Project during the preceding calendar quarter and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the then current calendar quarter; and

(b) a mid-term report, not later than December 31, 2000, integrating the results of the monitoring and reporting activities performed pursuant to paragraphs I(1) and I(2)(a) of this Schedule 2, 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.

3. after furnishing each report referred to in paragraph I(2) of this Schedule 2, review said report with the Association, and promptly take all measures required to

ensure the efficient completion of the Project (including, when applicable, the carrying out of the Resettlement Action Plan and the Environmental Action Plans) and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Association's views on the matter.

SCHEDULE 3

Pollution Control Sub-loans

A. Terms

1. The principal amount of each Pollution Control Sub-loan financed:

(a) shall be the amount in Dollars (determined as of the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of the Pollution Control Sub-project for which said Pollution Control Sub-loan has been made; and

(b) shall be repaid in Dollars within a period not exceeding 7 years, inclusive of a grace period not exceeding 2 years.

2. Each Pollution Control Sub-loan shall bear interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate equal to the rate applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement, plus a spread of not less than one and one-half percent (1.5%), per annum.

3. The aggregate amount of all Pollution Control Sub-loans made to any one Participating Enterprise shall not exceed the equivalent of \$2,000,000. The amount of any one Pollution Control Sub-loan and the aggregate amount of all Pollution Control Sub-loans made for any one Pollution Control Sub-project shall not exceed 50% of the total estimated cost (excluding the cost of land) of such Pollution Control Sub-project, or the equivalent of \$2,000,000 whichever is smaller.

B. Eligibility and Appraisal

1. Each Pollution Control Sub-loan shall be made only to a Participating Enterprise which:

(a) is an enterprise legal person duly established and operating under the laws of the Borrower; and

(b) shall have established on the basis of guidelines satisfactory to the Association, that it is creditworthy and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations, including the Pollution Control Sub-project.

2. Pollution Control Sub-projects shall be appraised and selected on the basis of financial, technical and environmental requirements acceptable to the Association. Such requirements shall include, without limitation:

(a) Financial: the Participating Enterprise shall demonstrate that: (i) it can maintain a debt service coverage ratio of not less than 1.5 times after the proposed Pollution Control Sub-project has reached full production capacity; and (ii) it has not incurred a loss in more than one out of the past three or two out of the past five fiscal years;

(b) Technical: Pollution Control Sub-projects shall be technically viable based on an assessment of: (i) the Pollution Control Sub-project's impact on the ambient environment; (ii) the Participating Enterprise's record regarding compliance with environmental regulations and standards; and (iii) the Pollution Control Sub-project's technical feasibility and cost-effectiveness; and

(c) Environmental Action Plan: for each Pollution Control Sub-project the Participating Enterprise shall prepare an environmental action plan satisfactory to the Association, including an assessment of the Participating Enterprise's and the Pollution Control Sub-project's adverse impact on the environment and appropriate mitigation measures to be carried out to remedy such impact.

C. Utilization of Pollution Control Sub-loan proceeds

The proceeds of Pollution Control Sub-loans shall be withdrawn only to finance expenditures for materials, equipment, technologies and services, required for a Pollution Control Sub-project, net of taxes.

D. Pollution Control Sub-loan Approval and Other Conditions

1. A Pollution Control Sub-loan shall be made only after the Association has approved such sub-loan.

2. No expenditures for goods or services required for a Pollution Control Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Pollution Control Sub-loan shall have been approved by the Association and such expenditures shall have been made not earlier than 90 days prior to the date on which the Association shall have received the application and information required under paragraph 3(a) of this Schedule 3 in respect of such Pollution Control Sub-loan.

3. Each application for approval by the Association of a Pollution Control Sub-loan shall be in form, satisfactory to the Association, and shall include:

(a) a description of the Participating Enterprise and an appraisal of the Pollution Control Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan;

(b) the proposed terms and conditions of the Pollution Control Sub-loan, including the schedule of amortization thereof; and

(c) such other information as the Association shall reasonably request.

4. Each Pollution Control Sub-loan shall be made on further conditions whereby Guangxi shall obtain, by written contract with the Participating Enterprise, rights adequate to protect the interests of the Association and Guangxi, including:

(a) that the Participating Enterprise shall undertake to:

(i) carry out and operate the Pollution Control Sub-project (including completion of abatement measures and the Pollution Control Sub-project EAP) with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and appropriate safety, health and environmental standards satisfactory to the Association, maintain adequate records and provide, promptly as needed, the funds, facilities and other resources required for the purpose;

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

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

(iv) take out and maintain with responsible insurers such insurance against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods required for the Pollution Control Sub-project to the place of use or on, any indemnity thereunder to be made payable in a currency freely usable by the Participating Enterprise to replace or repair such goods; and

(v) prepare and furnish to Guangxi, as the case may be, for forwarding to the Association, if it shall so request, all such information as the Association or Guangxi shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Participating Enterprise and to the benefits to be derived from the Pollution Control Sub-project; and

(b) provisions to ensure the right of Guangxi to suspend or terminate the right of the Participating Enterprise to the use of the proceeds of the Loan upon failure by such Participating Enterprise to perform its obligations under its contract providing for the Pollution Control Sub-loan.

