

CONFORMED COPY

CREDIT NUMBER 2518 CHA

(Grain Distribution and Marketing Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 25, 1993

CREDIT NUMBER 2518 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 25, 1993, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to three hundred and twenty-five million dollars (\$325,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) the Association and the Bank have received a letter dated March 12, 1993, from the Borrower's Ministry of Domestic Trade describing a program of actions, objectives and policies designed to achieve reform of the grain sector in China (the Grain Marketing Reform Program), declaring the Borrower's commitment to the execution of the Program; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

(a) "Grain Terminal Company" means each of the Dalian Dayao Bay Beiliang Company Limited and the Yingkou Bayuquan Jinliang Company Limited, each a company established and operating under the laws of the Borrower.

(b) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(c) "MOF" means the Borrower's Ministry of Finance and any successor to it.

(d) "MDT" means the Borrower's Ministry of Domestic Trade and any successor to it.

(e) "Project Implementation Agreements" means the agreements to be entered into by MOF and MDT with each of the Project Provinces in accordance with paragraph A.2 of Schedule 4 to this Agreement.

(f) "Project Province" means each of Anhui, Heilongjiang, Hunan, Jiangsu, Jiangxi, Jilin and Liaoning Provinces, Guangxi Zhuang Autonomous Region and, Nei Mongol Autonomous Region and Beijing Municipality as well as the cities of Harbin, Wuhan and Shenyang.

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

(h) "Subsidiary Loan and Implementation Agreements" means the agreements to be entered into by MOF and MDT with each of the Grain Terminal Companies in accordance with paragraph A.2 of Schedule 4 to this Agreement.

(i) "Environmental Assessment Report" means the Environmental Assessment Report prepared by the Borrower in connection with the Project and dated November, 1992.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and

conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred and eighteen million nine hundred thousand Special Drawing Rights (SDR 118,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank and on terms and conditions satisfactory to the Association, 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, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent ($1/2$ of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 1 and December 1 commencing December 1, 2003 and ending June 1, 2028. Each installment to and including the installment payable on June 1, 2013 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the

amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MDT, the Grain Terminal Companies and the Project Provinces, with due diligence and efficiency and in conformity with appropriate agricultural, commercial, and engineering practices, and shall provide, 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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

Section 3.03. Except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan and Implementation Agreements or any provision thereof.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account 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, a certified copy of 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, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that any party to one of the Subsidiary Loan and Implementation Agreements or of the Project Implementation Agreements shall have failed to perform its obligations thereunder.

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 Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) all of the Subsidiary Loan and Implementation Agreements and all of the Project Implementation Agreements shall have been entered into by the parties thereto;

(b) the Borrower's State Council shall have approved this Agreement; and

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

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Subsidiary Loan and Implementation Agreements and the Project Implementation Agreements have been duly authorized or ratified by all parties thereto and are legally binding upon the parties in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is

hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

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/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gautam S. Kaji

Regional Vice President
East Asia and Pacific

Withdrawal of the Proceeds of the Credit and of the Loan

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expendi- tures to be Financed
(1) Works	33,860,000	102,600,000	24%
(2) Goods			
(a) Newly designed rail wagons	--	34,900,000	100% of foreign expenditures, 100% of local expenditures
(b) Other goods	64,990,000	177,500,000	(ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services and training	16,430,000	--	100%
(4) Unallocated	3,620,000	10,000,000	
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TOTAL	118,900,000	325,000,000	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals may be made on account of payments made for expenditures before that date but after March 31, 1993 in respect of Categories (2) (b) and (3) for consultants' services and related design equipment in an aggregate amount not to exceed SDR 2,900,000; and (b) payments in respect of Category 2 (a) until MDT shall have entered into the maintenance agreement in accordance with paragraph 4 (b) of Schedule 4 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (a) its grain sector reforms aimed at improved policy and institutional environments; (b) developing its physical and commodity markets; and (c) facilitating the expansion and improving the efficiency of its domestic and international grain trade.

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

achieve such objectives:

Part A: Grain Corridor Improvements

1. Expanding and increasing the efficiency of grain flows through the Northeast grain corridor (comprised of Jilin, Liaoning and, Heilongjiang Provinces and Nei Mongol Autonomous Region) by:

(a) Construction and equipping of a grain terminal at Dayao Bay port in Dalian, including one wheat unloading berth, two maize loading berths, and accompanying ship loaders and unloaders, storage facilities, loading and unloading facilities and other site infrastructure.

(b) Construction and equipping of a grain terminal at Bayuquan port in Ying-kou, including one maize loading berth, and accompanying ship loaders, storage facilities, unloading facilities and other site infrastructure.

(c) Construction, rehabilitation and equipping of loading and unloading and storage facilities and other site infrastructure at about 60 intermediate grain depots and about 280 primary depots in the Northeast Corridor.

(d) Acquisition and putting into operation of about 1,400 newly designed rail wagons and about 840 bulk trucks for transport of grain.

2. Expanding and increasing the efficiency of grain flows through the Yangtze River grain corridor (comprised of those portions of Jiangsu, Anhui, Jiangxi, Hubei and Hunan Provinces which are readily accessible by water) by:

(a) Upgrading and equipping of the grain terminal at Zhang-jiagang port in Jiangsu Province, including one berth, and accompanying storage facilities, loading and unloading equipment and facilities and other site infrastructure.

(b) Upgrading and equipping of a grain terminal at Nantong port in Jiangsu Province, including one berth, and accompanying storage facilities, loading and unloading equipment and facilities and other site infrastructure.

(c) Upgrading and equipping of grain berths, loading and unloading equipment and facilities, handling and storage facilities at Chenglingji, Wuhan, Wushi and Tujishan upriver terminals.

(d) Construction, rehabilitation and equipping of loading and unloading and storage facilities and other site infrastructure at intermediate grain depots in the Yangtze River Corridor.

(e) Acquisition and putting into operation of about 10 specialized bulk grain vessels, about 38 newly designed rail wagons and about 133 bulk trucks for transport of grain.

3. Expanding and increasing the efficiency of grain flows through the Southwest grain corridor (comprised of Guangxi Zhuang Autonomous Region and Guizhou and Yunnan Provinces) by:

(a) Upgrading and equipping of the grain terminal at Fangcheng port in Guangxi, and accompanying storage facilities, loading and unloading equipment and facilities and other site infrastructure.

(b) Construction, rehabilitation and equipping of loading and unloading and storage facilities and other site infrastructure at about 11 grain depots in the Southwest Corridor.

(c) Acquisition and putting into operation of about 220 hopper rail wagons and about 90 bulk trucks for transport of grain.

4. Construction and equipping of a bulk grain transfer and storage facility at the Beijing Central Depot to be connected to the bulk wheat terminals in Tianjin and Qinhuangdao via a railway shuttle

service.

Part B: Development of Grain Market Services

1. Developing forward contract markets and futures markets, through provision of computer and telecommunication equipment, training and consultants' services.
2. Establishing and developing the National Grain Economic Information Center under MDT, through provision of computer and related equipment, training and consultants' services.
3. Establishing and equipping training services and providing training related to grain distribution and marketing at the China Training Center for Grain Distribution Management in Nanjing and the Physical Distribution Training and Research Center in Zhengzhou, through provision of equipment, training and consultants' services.
4. Developing management training programs for managers and other project-related staff in the World Bank Project Office established in connection with the Project to provide training in project, engineering and financial management and personnel matters.

* * * * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association and the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.
2. Bidders for all contracts for works in excess of \$2,000,000 shall be prequalified as provided in paragraph 2.10 of the Guidelines.
3. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$200,000 or more.

Part B: Preference for Domestic Manufacturers

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

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Works estimated to cost the equivalent of \$100,000 or less per contract up to an aggregate limit of \$25,000,000 may be carried out by force account or under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association and the Bank.

2. Works for rail sidings and utility construction estimated to cost the equivalent of \$1,000,000 or less per contract up to an aggregate limit of \$35,000,000 may be carried out by the regional railway and utility entities concerned.

3. Items or groups of items for goods estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$15,300,000, and civil works involving smaller structures (such as silos, warehouses, buildings and wharves) estimated to cost \$2,000,000 or less per contract, up to an aggregate limit of \$251,100,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association and the Bank.

4. Items or groups of items for goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$11,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association and the Bank.

Part E: Review by the Association and the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for works estimated to cost the equivalent of more than \$2,000,000 or for goods estimated to cost the equivalent of more than \$200,000, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

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

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account and the Loan Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association and the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association and the Bank on the basis of the "Guidelines for the Use of Consultants by

World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultants Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association and Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and the Bank and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Implementation Program

Part A: Grain Corridor Improvements

1. The Borrower shall onlend a portion of the proceeds of the Credit and of the Loan corresponding to the respective Parts of the Project on the following principal terms and conditions:

(a) repayment within 15 years, including five years' of grace;

(b) interest to be paid at not less than the rate specified in Section 2.05 of the Loan Agreement or such lesser rate as the Association and the Bank may agree in respect of any Grain Terminal Company or Project Province relending to any other entity implementing any part of the Project with funds provided under this Agreement or the Loan Agreement and which is in transition to commercial operations or is newly established, taking into account market rates and capacity to repay;

(c) commitment charges to be paid at the rate of 0.75% per annum; and

(d) on terms that the foreign exchange risk shall be borne by the Grain Terminal Company or Project Province.

2. To this end, and to better ensure the implementation of the Project, the Borrower shall cause MOF and MDT to enter into a subsidiary loan and implementation agreement with each Grain Terminal Company and a project implementation agreement with each Project Province, on terms and conditions satisfactory to the Association and the Bank, under which:

(a) each Grain Terminal Company and each Project Province shall carry out its respective parts of the Project with due diligence and efficiency and in conformity with appropriate commercial, engineering and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such portion of the Project;

(b) the proceeds of the Credit and of the Loan for the respective parts of the Project shall be made available to each Grain Terminal Company and each Project Province on the terms and conditions set forth in paragraph A.1 of this Schedule; and

(c) For the Project Implementation Agreements:

(i) each Project Province shall establish and maintain the provincial level project management office as set out in paragraph C.2 of Schedule 4 to this Agreement; and

(ii) Jiangsu Province shall enter into agreements with Nantong Grain Storage and Transport Company and with Zhangjiagang River and Ocean Cereals and Oils Transit Company, and Guangxi Zhuang Autonomous Region shall enter into an agreement with Fangcheng Grain Storage and Transport Company to provide for the implementation of the up-grading and equipping of the grain terminals at Nantong port, Zhangjiagang port and Fangcheng port, respectively, as contemplated by

paragraph A.2 (a) and A.3 (b) of Schedule 2 to this Agreement
and to provide for the repayment of any proceeds of the
Credit or Loan which are re-lent to them by those Project
Provinces.

3. The Borrower shall ensure that the railway connector spur between Xigongtun and Dayao Bay Port shall be completed by December 31, 1994.

4. The Borrower shall ensure that:

(a) newly designed, system compatible rail wagons, in an adequate number acceptable to the Association and the Bank, shall be acquired by June 30, 1998 in addition to those acquired under Part A of the Project; and

(b) MDT shall enter into an agreement on terms and conditions satisfactory to the Association and the Bank with the Borrower's Ministry of Railways for the maintenance of all such wagons.

5. The Borrower shall ensure that non-state enterprises shall have full access to the facilities to be established and developed under the Project, at not more than the standard published fees (which shall be established without discrimination and without preference or priority to state enterprises).

Part B: Grain Market Services

1. The Borrower shall ensure that all training under Part B of the Project shall be carried out in accordance with programs agreed with the Association and the Bank.

2. The Borrower shall prepare and furnish to the Association and the Bank, for comment, plans for developing the Shanghai Cereal and Oils Exchange Market by December 31, 1993, and another commodities market (to be agreed with the Association and the Bank) by June 30, 1994, into forward contract markets and futures markets under Part B.1 of the Project, including legislative requirements, and after each such date, shall cause the relevant plans to be implemented, taking into account the comments of the Association and the Bank.

3. The Borrower shall ensure that a China Training Center for Grain Distribution Management and a Physical Distribution Research Center are established and maintained as, distinct faculties or departments or institutes at Nanjing College of Foodgrain Economics and Zhengzhou Grain College, respectively, by December 31, 1994.

Part C: Overall Project Implementation

1. The Borrower shall maintain:

(a) the interministerial leading group for the Project, chaired by the State Planning Commission, to provide coordination among the national and provincial government agencies responsible for implementation; and

(b) the MDT leading group for the Project, to formulate policies and plans related to the Project and oversee their implementation, both with composition, functions and responsibilities acceptable to the Association and the Bank.

2. The Borrower shall ensure that the World Bank Project Office in MDT and the Project Management Offices in the Project Provinces shall be maintained with functions and responsibilities acceptable to the Association and the Bank, and shall be staffed by qualified staff in adequate numbers and shall also appoint a training coordinator and a training unit within the World Bank Project Office to establish and implement the training programs referred to in paragraph 4 of Part B of Schedule 2.

3. The Borrower shall cause MDT, by November 30 in each year, to prepare and furnish to the Association and the Bank a detailed annual budget and work plan acceptable to the Association and the Bank, for implementation of the Project during the next calendar year, such plans to include:

(a) training programs consistent with paragraph B.1 of this Schedule; and

(b) those actions recommended in the Environmental Assessment Report prepared by the Borrower, dated November, 1992, which will be carried out in that year.

4. The Borrower shall undertake with the Association and the Bank a review of the progress and prospects for the implementation of the Project and the Grain Marketing Reform Program referred to in Recital (D) of the Preamble to this Agreement, no later than June 30, 1996.

5. Without limitation upon the provisions of Section II of Schedule 3 to this Agreement, the Borrower shall, and shall cause each Grain Terminal Company, each Project Province, and any other agency implementing a portion of the Project to employ international technical advisors in sufficient numbers, and with qualifications, experience and terms of reference acceptable to the Association and the Bank, as necessary to ensure that the implementation of the Project meets applicable international engineering standards for design, construction, supervision and commissioning.

6. The Borrower shall implement a reform of the tariff structures for ports, railways and grain handling and storage facilities to make tariffs adequate to permit each of the Grain Terminal Companies and the grain terminal entities in Nantong, Fangcheng and Zhangjiagang to meet its annual operations and maintenance expenditures and its loan and other financial obligations.

Part D: Environment and Resettlement

1. The Borrower shall ensure that:

(a) all activities under the Project comply with environmental standards and guidelines satisfactory to the Association and the Bank;

(b) all necessary measures are taken to minimize and to mitigate any adverse environmental impact caused by the construction and other activities under the Project, in a manner satisfactory to the Association and the Bank; and

(c) the actions recommended in the Environmental Assessment Report are carried out by the times specified therein or in the calendar year in which they are planned to be carried out as specified in an annual budget and work plan furnished under paragraph 3 of Part C of Schedule 4.

2. The Borrower shall ensure that any persons who are involuntarily resettled by the Project are provided with appropriate compensation for assets, logistical support for moving, and adequate relocation grants as agreed with the Association and the Bank.

Part E: Enterprise Reform

The Borrower shall prepare and furnish to the Association and the Bank by no later than December 31, 1994 a program for grain enterprise reform acceptable to the Association and the Bank, and thereafter shall commence implementing these reforms by no later than June 30, 1995.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to

\$20,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 Association 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 Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan 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 Association from the Credit Account or the Loan 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 Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of the Development Credit Agreement or from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto; or

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

Thereafter, withdrawal from the Credit Account and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories for the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out

of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association or the Bank such outstanding amount.

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

(d) Refunds to the Association or the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of the Development Credit Agreement or the Loan Agreement, including the General Conditions applicable thereto.

