

CONFORMED COPY

CREDIT NUMBER 1793 CHA

Project Agreement

(Gansu Provincial Development Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

GANSU PROVINCE

Dated September 14, 1987

CREDIT NUMBER 1793 CHA
LOAN NUMBER 2812 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 14, 1987, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and GANSU PROVINCE (Gansu).

WHEREAS: (A) by the Development Credit Agreement of even date herewith between the 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 one hundred nineteen million one hundred thousand Special Drawing Rights (SDR 119,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Gansu 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 in various currencies equivalent to twenty million dollars (\$20,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Gansu agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Gansu, 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 Preamble to this Agreement and in the General Conditions and the Bank's General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Gansu declares its commitment to the objective of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project as follows:

(i) Part A through the Project Implementation Office within the Gansu Water Resources Bureau, and the Dingxi Prefecture Protect Implementing Office;

(ii) Part B through the Project Implementation Office of the Gansu Bureau of Education;

(iii) Part C.1 through GITC; and

(iv) Part C.2 through the Gansu Project Implementation Office referred to in Section 2.02 (a) of this Agreement; all with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural, educational, rural credit and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the provisions of paragraph (a) of this Section, and except as the Bank and the Association shall otherwise agree, Gansu shall carry out Part C of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement, as such Schedule may be amended from time to time by agreement between the Association, the Bank and Gansu.

Section 2.02. Gansu shall maintain:

(a) the Gansu Project Implementation Committee established for the purpose of coordinating implementation of the Project, together with its Gansu Project Implementation Office;

(b) the Dingxi Prefecture Project Implementing Office referred to in Section 2.01 (a) (i) of this Agreement; and

(c) the Project Implementation Office referred to in Section 2.01 (a) (ii) of this Agreement; all with staff, functions and responsibilities acceptable to the Association and the Bank.

Section 2.03. Except as the Association and the Bank 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 and the Loan, shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.04. (a) Gansu 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 (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) Gansu shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the Bank's General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.05. (a) Gansu shall, at the request of the Association or the Bank, exchange views with the Association and the Bank 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 and the Loan.

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

Section 2.06. Gansu shall submit to the Association, for the Association's review and comments not later than June 30, 1988, the details of the training program under Part A.5 of the Project, and shall thereafter, in consultation with the Association, implement such training program.

Section 2.07. (a) Gansu shall from time to time exchange views with the Association on the progress achieved in carrying out the Policy Action Program and Part B of the Project, and shall, without limitation to the provisions of Section 9.06 of the General Conditions, by January 1, of each year beginning January 1, 1988, submit to the Association, for the Association's review and comments, a progress report on the implementation of the Policy Action Program using the indicators included in such Policy Action Program, to assess progress achieved during the previous school year.

(b) In addition to the provisions of paragraph (a) above, Gansu and the Association shall hold a comprehensive mid-term review for Part B of the Project by June 30, 1990.

Section 2.08. Without limitation to the provisions of Section 9.08 of the General Conditions, Gansu shall acquire not later than September 30, 1987, or such other date as the Association shall agree, the site for the Center for School Administration referred to under Part B.5 of the Project.

Section 2.09. Gansu shall take steps to assign the newly recruited normal college staff, who have no prior teaching experience, to one year of teaching at a lower secondary school, prior to taking up their normal college assignments.

Section 2.10. For the purpose of carrying out Part C.1 of the Project, Gansu shall enter into a Project Implementation Agreement with GITC, under terms and conditions acceptable to the Bank which shall include, inter alia, the arrangements specified in Part A of the Schedule to this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Gansu shall: (i) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition in respect of the activities related to the Project; and (ii) cause GITC to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions.

(b) Gansu shall:

(i) have the accounts referred to in paragraph (a) above, including the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association and the Bank;

(ii) furnish to the Association and the Bank 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, including GITC's financial statements, in such scope and in such detail as the Association and the Bank shall have reasonably requested; and

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

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

(i) maintain, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;

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

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

(iv) ensure that such separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of the Credit or the Loan withdrawn in respect of such expenditures were used for the purposes for which they were provided.

Section 3.02. (a) Except as the Bank shall otherwise agree, Gansu shall cause GITC not to incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 1.5 to 1.

(b) For purposes of this Section:

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

(ii) Debt shall be deemed to be incurred: (A) 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, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of GITC not allocated to cover specific liabilities.

(iv) Whenever for the purposes of this Section 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 rate of exchange acceptable to the Bank.

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

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

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

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

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

(b) If the Development Credit Agreement, or the Loan Agreement or both of said Agreements terminate in accordance with their terms before the date specified in paragraph (a) (ii) of this Section, the Association, or the Bank, or both, as the case may be, shall promptly notify Gansu 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 Development Credit Agreement or 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 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:

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

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:

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

For Gansu:

Gansu Project Implementation Office
1 Central Square
Lanzhou, Gansu
People's Republic of China

Telex:

72117 PIETC CN

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 Gansu, may be taken or executed by the Governor of Gansu or such other person or persons as the Governor shall designate in writing, and the Governor shall furnish to the Association and the Bank 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.

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
and
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ A. Karaosmanoglu

Regional Vice President
Asia

GANSU PROVINCE

By /s/ Han Xu

Authorized Representative

SCHEDULE

Implementation Program

A: Part C.1

Except as the Bank and Gansu shall otherwise agree, Part C.1 of the Project shall be implemented, inter alia, according to the following:

1. Gansu shall select, appraise and monitor Sub-projects in accordance with criteria agreed with the Bank.
2. (a) No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless:
 - (i) the Sub-loan shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information

required under paragraph 3 (a) of
of such Sub-loan; or

this Schedule in respect

(ii) the Sub-loan shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Schedule in respect of such free-limit Sub-loan.

(b) For the purposes of the Development Credit Agreement, the Loan Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan in an amount to be financed under the Loan Agreement which, together with any other amount or amounts previously financed for the same Sub-project under Sub-loans financed from the proceeds of the Loan, and not repaid, shall not exceed in the aggregate the equivalent of \$500,000, and which when added to all other free-limit Sub-loans financed under the Project, shall not exceed in the aggregate the equivalent of \$4,000,000, the foregoing amounts being subject to change from time to time as determined by the Bank.

(c) Notwithstanding subparagraph (b) above, the first nine Sub-loans presented by GITC shall not be deemed free-limit Sub-loans, irrespective of the amount of any such Sub-loan.

3. (a) When presenting a Sub-loan to the Bank for approval pursuant to the terms of this Agreement, Gansu shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description and an appraisal of the Sub-borrower, and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed thereunder, the procurement procedures applicable to the goods and services to be financed out of the proceeds of the Sub-loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan or of repayment to Gansu, of the amount of the Sub-loan to be used for the Sub project; and (iii) such other information as the Bank may reasonably request.

(b) Each request by Gansu for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain (i) a summary description of the Sub-borrower and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan and a description of the procurement procedures, and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1990.

4. Gansu shall on lend the proceeds of the Loan to GITC on terms and conditions acceptable to the Bank, which would allow GITC a minimum interest rate spread of 4% on its sub-loans. Sub-loans denominated in local currency shall carry a variable interest rate specified initially at 10.08%, while sub-loans denominated in dollars shall carry a fixed interest rate of 8.5%.

5. Gansu shall cause GITC:

(a) to prepare and furnish to the Bank, not later than March 31, 1988, for the Bank's review and comments, a Policy Statement setting out GITC's operational and financial policy guidelines, covering its objectives, operations and finances;

(b) to adopt not later than June 30, 1988 the policy statement referred to in (a) above; and

(c) not to introduce any changes to the Policy Statement which will affect the carrying out of Part C.1 of the Project without the Bank's prior approval.

6. Gansu shall cause GITC to: (i) carry out, not later than December 31, 1987, a thorough review of its lending portfolio; and (ii) based on such review, and not later than June 30, 1988, decide, in consultation with the Bank, on loan amounts to be written off, bad debt provisions, rescheduling and increases in penalty interest

rates.

7. (a) Gansu shall, from time to time, exchange views with the Bank on the interest rates to be charged by GITC in its lending operations in light of GITC's cost of funds and profitability, and interest and inflation rates in China.

(b) Prior to making any reduction in GITC's interest rates on its loans with maturity of at least 3 years, Gansu shall cause GITC to inform the Bank of the proposed reduction, and afford the Bank a reasonable opportunity to comment thereon.

B: Part C.2:

8. Gansu shall submit to the Association not later than September 30, 1987, for the Association's review and comments, the proposed curricula of Gansu Economic Management Institute on project cycle management and business administration courses, and shall adopt such curricula taking into account the Association's comments.

9. (a) Gansu shall, under terms of reference, agreed with the Association, carry out not later than September 30, 1988, three studies, to be agreed with the Association, on agroprocessing industries under Part C.2 (b) of the Project, and shall submit the results of the studies to the Association, for the Association's review and comments not later than December 31, 1988.

(b) Based on the results of the studies referred to in (a) above, Gansu shall, in agreement with the Association, carry out additional studies on agro-processing industries not later than September 30, 1989, and shall submit the results of such studies to the Association, for the Association's review and comments not later than December 31, 1989.

10. Gansu shall carry out the training program under Part C.2 (a) of the Project in accordance with a program and schedule acceptable to the Association.

