

CONFORMED COPY

CREDIT NUMBER 3093 CHA

Development Credit Agreement

(Tarim Basin II Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1998

CREDIT NUMBER 3093 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 1998, 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 equal to ninety million dollars (\$90,000,000) (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; and

(D) the Project will be carried out by the Borrower's Xinjiang Uygur Autonomous Region (XUAR) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to XUAR the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan Agreement; 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 and in the Project Agreement of even date herewith among the Association, the Bank and XUAR;

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 (as amended through December 2, 1997) (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) "Keping Settlers" means all persons who emigrate to, and settle in, the Laoqilang Project Area pursuant to the voluntary emigration program included in Part A(3) of the Project.

(c) "Keping Voluntary Settlement Action Plan" means the Keping Voluntary Settlement Action Plan for the carrying out of Part A(3) of the Project, dated April 22, 1998 and prepared by the Aksu Hydraulic Design Institute and Project Management Office of Aksu Prefecture, XUAR.

(d) "Laoqilang Project Area" means the Project Area located in Laoqilang District of Keping County of XUAR's Aksu Prefecture.

(e) "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 for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(f) "Local Beneficiaries Participation Action Plan" means the Local Beneficiaries Participation Action Plan for the Project, dated March 12, 1998 and prepared by the XUAR Project Management Office.

(g) "MIS" means the management information system to be developed under Part C(6) of the Project.

(h) "PMOs" means the regional, prefectural and county-level Project management offices to be maintained pursuant to the provisions of Parts A.2 and A.3 of Schedule 2 to the Project Agreement; and "PMO" means any of the PMOs.

(i) "Project Agreement" means the agreement among the Association, the Bank and XUAR of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(j) "Project Areas" means the areas within each of the Project Prefectures, selected by agreement between the Bank and XUAR in which the Project is to be carried out; and "Project Area" means any of the Project Areas.

(k) "Project Prefectures" means the following prefectures of XUAR: Aksu, Bayingol, Hotan, Kashgar and Kizilsu; and "Project Prefecture" means any of the Project Prefectures.

(l) "Regulations on the Management of the Water Resources of the Tarim Basin" means the "Regulations on the Management of the Water Resources of the Tarim Basin",

No. 67 dated December 11, 1997, promulgated by the Standing Committee of the XUAR People's Congress, as the same may be amended from time to time.

(m) "SIDDD" means a self-financing irrigation and drainage district to be established under Part C(2) of the Project pursuant to Part G.1(a) of Schedule 2 to the Project Agreement.

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

(o) "TBWRC" means the Tarim Basin Water Resources Commission, established under the laws of the Borrower and operating pursuant to the TBWRC Regulations.

(p) "Water System Operation and Maintenance Contract" means the water system operation and maintenance contract to be entered into between XUAR, acting through the Project Prefecture concerned, and a WSC in accordance with the provisions of Part G.1(b) of Schedule 2 to the Project Agreement.

(q) "Water Users' Contract" means the water users' contract to be entered into between a WSC and a WUA in accordance with the provisions of Part G.1(c) of Schedule 2 to the Project Agreement.

(r) "WSC" means any water supply company established under the laws of the Borrower and operating in accordance with the provisions of Part G.1 of Schedule 2 to the Project Agreement.

(s) "WUA" means any water users' association established under the laws of the Borrower and operating in accordance with the provisions of Part G.1 of Schedule 2 to the Project Agreement.

(t) "XUAR" means the Borrower's Xinjiang Uygur Autonomous Region, and any successor thereto.

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 forty-four million six hundred thousand Special Drawing Rights (SDR 44,600,000).

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 may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank acceptable to the Association, 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 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004 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 canceled; and (ii) at

the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15, 2008 and ending February 15, 2033. Each installment to and including the installment payable on February 15, 2018 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the 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 repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the 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.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the 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, without any limitation or restriction upon any of its other obligations under the Development

Credit Agreement, shall cause XUAR to perform in accordance with the provisions of the Project Agreement all the obligations of XUAR therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable XUAR to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to XUAR on the following principal terms:

(i) the principal amount so made available to XUAR shall be the equivalent in terms of dollars (determined as of the date, or respective dates, of withdrawal from the Credit Account or payment out of the Special Account, as the case may be) of the value of the currency or currencies so withdrawn or paid out on account of the cost of items required for the Project and to be financed out of the proceeds of the Credit (the Credit Amount), and shall be recovered by the Borrower in dollars;

(ii) the Borrower shall recover the Credit Amount from XUAR in semi-annual installments over a period of 17 years, inclusive of a grace period of 5 years;

(iii) the Borrower shall charge interest on the Credit Amount withdrawn and outstanding from time to time, at a rate which shall not exceed the charge payable by the Borrower from time to time pursuant to Section 2.05 of this Agreement; and

(iv) the Borrower shall charge a commitment fee on the Credit Amount not withdrawn from time to time at a rate which shall not exceed 0.5% per annum.

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 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by XUAR pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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 was made; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a)(i) 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; 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 V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) XUAR shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that XUAR will be able to perform its obligations under the Project Agreement.

(c) The Regulations on the Management of the Water Resources of the Tarim Basin shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of XUAR to perform any of its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) that any event specified in Section 5.01(a) 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; and

(b) any event specified in Section 5.01(c) of this Agreement shall occur.

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 conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(b) a Water System Operation and Maintenance Contract has been executed between at least one WSC in each Project Prefecture and XUAR, acting through the Project Prefecture in which said WSC is located, in accordance with the provisions of Part G.1(b) of Schedule 2 to the Project Agreement, and a Water Users' Contract has been executed between each said WSC and at least one WUA in accordance with the provisions of Part G.1(c) of said Schedule 2.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by XUAR and is legally binding upon XUAR in accordance with its terms; and

(b) that each Water System Operation and Maintenance Contract and Water Users' Contract referred to in Section 6.01(b) of this Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon said parties in accordance with its respective terms.

Section 6.03. The date 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

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 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Liu Xiaoming

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jane Loos

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

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 \$)	% of Expenditures to be Financed
(1) Works:			
(a) for Parts A (excluding A(2)) and B (excluding Part B(5)) of the Project	17,100,000	40,300,000)	50%
(b) for Part A(2) of the Project	9,440,000	22,200,000)	40%
(c) for Part B(5) of the Project	370,000	900,000)	50%
(2) Goods:			
(a) for Parts expenditures A, B (excluding Part B(5)) and and C of the Project	14,200,000	12,700,000)	100% of foreign expenditures; 100% of local (ex-factory or ex-farm gate cost); 75% for other items procured locally
(b) for Part B(5) of the Project	370,000	300,000)	
(3) Consultants' services and training	3,120,000	7,400,000)	100%
(4) Unallocated	-----	6,200,000	
TOTAL	44,600,000 =====	90,000,000 =====	

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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed "foreign expenditures"; 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, in an aggregate amount not exceeding the equivalent of SDR 7,400,000 may be made on account of payments made for expenditures before that date but after March 1, 1998; and

(b) Categories (1)(c) and (2)(b) unless and until the Association shall have received, and notified the Borrower of its acceptance of, the feasibility of the fertilizer mixing stations to be constructed under Part B(5) of the Project, based on the feasibility studies to be prepared pursuant to Part F.3 of Schedule 2 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$250,000 equivalent each; (b) works under contracts costing less than \$1,000,000 equivalent each (other than those contracts referred to in Part D.2(c) of Section I of Schedule 1 to the Project Agreement); (c) consultants' services under contracts awarded to firms costing less than \$100,000 equivalent each; (d) consultants' services under contracts awarded to individuals costing less than \$50,000 equivalent each; and (e) training, regardless of the cost thereof; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in (1) increasing incomes of poor farmers in XUAR through irrigated agriculture development, (2) establishing systems to ensure sustainable use, development and management of water resources and land in the Tarim Basin in XUAR and (3) partially restoring and preserving the natural riverine forests along the lower reaches of the Tarim River.

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: Water Conservancy; Land Reclamation and Improvement; Land Settlement;
Tarim River Works

(1) Carrying out of a program of investments in the Project Areas to conserve water in the Tarim Basin, consisting of:

(a) construction of headworks diversion structures, construction and upgrading of about 740 kilometers of trunk and main canals, including provision of related hydraulic structures, and excavation of about 850 kilometers of main drains;

(b) construction of a reservoir with a storage capacity of about 98 million cubic meters, height of about 18 meters and length of about 12.2 kilometers;

(c) development and expansion of about 15 wellfields, with a total of about 700 wells with associated canal systems;

(d) construction of a pumping station with a pumping capacity of about 2.5 cubic meters per second; and

(e) construction of two hydropower stations, one of about 6,000 kilowatts and the other of about 4,000 kilowatts, and provision of transmission lines and

transformers.

(2) Reclamation of about 75,400 hectares of non-irrigated wasteland located within or next to existing oases in the Project Areas and upgrading of about 105,400 hectares of low-yield land in the Project Areas, through the construction of canals, drains, bridges, culverts, gates and farm roads, land leveling and planting of trees.

(3) Implementation of a program for the voluntary emigration of about 10,000 people living in Keping County of XUAR's Aksu Prefecture and their settlement in the Laoqilang Project Area, so as to reduce the incidence of poverty in Keping County, such program to include:

(a) establishment of a residential community, including provision of infrastructure, water and electricity supply systems and utility connections and educational and health facilities;

(b) allotment of developed land to the Keping Settlers for housing and farming; and

(c) provision of relocation services, housing construction materials and production inputs to the Keping Settlers.

(4) Carrying out of a program of river engineering along the Tarim River in order to improve water management and delivery of water to the lower reaches of this river, said program to consist of:

(a) provision of regulators at the heads of outlet channels to control unregulated spillage during the flood season;

(b) construction of a new intake for the Kaerquga reservoir and Aqi diversion structure, located along the middle reaches of the Tarim River;

(c) construction of flood control dikes to contain spillage during the flood season; and

(d) construction of a reservoir in the lower parts of the middle reach of the Tarim River, with a storage capacity of 88 million cubic meters, a maximum height of 7 meters and a bund 20 kilometers long.

Part B: Agricultural Support Services

Strengthening of agricultural support services in the Tarim Basin in order to support agricultural development of land reclaimed under Part A of this Schedule and improved yields on low-yield land upgraded under said Part A, through:

(1) development of seed production facilities for cotton and grain, including construction and equipping of seed breeding, testing, quality control, processing, storage and distribution facilities;

(2) construction and rehabilitation of county and township level extension stations, provision of office and field equipment required by said stations for extension activities, development and provision of improved soil testing services, and development and implementation of integrated pest management training programs, including provision of equipment and materials required for said programs;

(3) provision of farm machinery to township agricultural machinery stations to be rented to farmers for the development of reclaimed land and rehabilitation of an agricultural machinery service center;

(4) provision of livestock to poor breeding farmers, construction and upgrading of fodder production and breeding facilities and development of a fodder production base in order to ensure adequate quantities of manure for fertilizer; and

(5) construction of fertilizer mixing stations to improve the availability of compound fertilizer in the Tarim Basin.

Part C: Institutional Development

Strengthening of the institutional capacity of XUAR to manage water resources in the Tarim Basin, through the:

(1) carrying out of an institutional development program for the TBWRC to strengthen its capabilities in planning and overall management of water and related natural resources of the Tarim Basin, said program to include: (a) development and operation of hydrologic data monitoring networks, processing and archiving systems, analytic processes for data evaluation and hydrologic models; (b) carrying out of base-line studies to evaluate the environmental health of natural resources in the Tarim Basin and the pattern of water usage and its efficiencies; (c) upgrading of a water licensing and allocation system; (d) preparation of a master plan for the Tarim Basin; (e) development and implementation of community awareness and participation programs regarding natural resources issues; (f) development of land and water management plans designed to improve productivity and rehabilitate resources; and (g) provision of oversight and assistance in the implementation of water and environmental management and development projects in the Tarim Basin;

(2) development and implementation of suitable institutional arrangements for improved water resources management, in order to ensure the sustainability and self-financing of irrigated agriculture, improve irrigation system performance and effective decentralized irrigation services, cost recovery and farmer participation, said arrangements to include the establishment, on a pilot basis, of self-financing irrigation and drainage districts in the Project Areas through the creation of WSCs for the operation and maintenance, inter alia, of diversion works and main and branch canals, and, in some cases, reservoirs, and WUAs for the operation and maintenance of lower level irrigation schemes; and provision of office facilities, equipment and training required therefor;

(3) development and implementation at the Regional and prefectural-levels of programs to monitor and analyze the quality and quantity of ground and surface water in the Tarim Basin, including provision of facilities, equipment and computer hardware and software required therefor;

(4) carrying out of studies, research and training and provision of technical assistance in the areas of water resources and environmental management and monitoring, water resources modeling, water savings techniques, river basin planning, water licensing, remote sensing, river morphology, geographic information systems, agriculture, irrigation and drainage, and project and financial management.

(5) Preparation of a master plan for Bosten Lake and the Kaidu catchment located in XUAR's Bayingol Prefecture, so as to provide a basis for future development planning in these areas.

(6) Development and utilization by the agencies responsible for Project oversight and implementation, of a management information system, including the provision of computer hardware and software required therefor.

(7) Construction, upgrading and equipping of (a) training centers in the Project Areas (b) a research, monitoring and dispatch center and field offices, and provision of training required therefor.

* * *

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3).

(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 \$10,000,000 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, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$6,000,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR 20,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the 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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the 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 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 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 Section 2.02(a) 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;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Loan Account pursuant to the provisions of Section 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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 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 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.

