

CONFORMED COPY

LOAN NUMBER 4354 CHA

Loan Agreement

(Irrigated Agriculture Intensification II Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 31, 1998

LOAN NUMBER 4354 CHA

LOAN AGREEMENT

AGREEMENT, dated July 31, 1998, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

(B) Parts A and B(2) of the Project will be carried out by the Project Provinces (as defined in Section 1.02(m) of this Agreement) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the Project Provinces part of the proceeds of the Loan as provided in this Agreement;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and the Project Provinces;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. 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) (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) "Allocated Amount" means, in respect of each Project Province, an amount of the Loan allocated by the Borrower, through SOCAD, to said Project Province and to be utilized by said Project Province for purposes of carrying out its Respective Part of the Project.

(b) "Anhui" means the Borrower's Province of Anhui, and any successor thereto.

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

(d) "CPMO" means the central Project management office to be maintained by the Borrower within SOCAD in accordance with the provisions of Part A of Schedule 5 to this Agreement.

(e) "Environmental Management Program" means, in respect of each Project Province, the environmental management program referred to in Part B.3(a) of the Schedule to the Project Agreement.

(f) "Hebei" means the Borrower's Province of Hebei, and any successor thereto.

(g) "Henan" means the Borrower's Province of Henan, and any successor thereto.

(h) "Jiangsu" means the Borrower's Province of Jiangsu, and any successor thereto.

(i) "Large Dam" means any dam which is 15 meters in height or more or which presents special design complexities, and which serves a Subproject, together with said dam's associated structures.

(j) "Local PMOs" means, in respect of each Project Province, the Project management offices to be maintained at the municipal, county and township levels within said province.

(k) "PPMO" means, in respect of each Project Province, the provincial Project management office to be maintained by said Project Province within its Provincial Office for Comprehensive Agricultural Development, in accordance with the provisions of Part A.1. of the Schedule to the Project Agreement.

(l) "Project Agreement" means the agreement between the Bank and the Project Provinces 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.

(m) "Project Provinces" means Anhui, Hebei, Henan, Jiangsu and Shandong; and "Project Province" means any of the Project Provinces.

(n) "Respective Part of the Project" means, in respect of each Project Province, all the Subprojects to be carried out in said Project Province under Part A of the Project and the activities to be carried out by it under Part B(2) of the Project.

(o) "Shandong" means the Borrower's Province of Shandong, and any successor thereto.

(p) "SIDDs" means self-financing irrigation and drainage districts to be established under Part B(2) of the Project; and "SIDD" means any of the SIDDs.

(q) "SOCAD" means the State Office for Comprehensive Agricultural Development, a department within the Borrower's Ministry of Finance, and any successor thereto.

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

(s) "Subproject" means a specific investment project to be carried out in a Project Province under Part A of the Project and to be financed out of the proceeds of the Loan.

(t) "WSCs" means water supply companies established within SIDDs under Part B(2)(a) of the Project; and "WSC" means any of the WSCs.

(u) "WUAs" means water user associations established under Part B(2)(a) of the Project; and "WUA" means any of the WUAs.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to three hundred million Dollars (\$300,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank 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 Loan.

(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 Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half

of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

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: (i) shall carry out Part B(1) of the Project, through SOCAD, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause the Project Provinces to carry out their Respective Parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and environmental practices, and in accordance with programmatic guidelines acceptable to the Bank, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of Section 3.01(a) of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the actions specified in the Implementation Program set forth in Schedule 5 to this Agreement in order to ensure the proper implementation of the Project and the achievement of the Project's objectives.

(c) For purposes of carrying out each Project Province's Respective Part of the Project, the Borrower, through SOCAD, shall make available to said Project Province its respective Allocated Amount on terms and conditions acceptable to the Bank.

Section 3.02. Except as 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower and the Bank hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 each Project Province in respect of its Respective Part of the Project, pursuant to Section 2.03 of the Project Agreement.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, consolidating the plans prepared by the Project Provinces pursuant to Section 2.03(b) of the Project Agreement, for the continued achievement of the Project's objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained separate 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 Bank;

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

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

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

(ii) 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 Bank

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

(a) Any of the Project Provinces 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 Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable

that a Project Province will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified, namely, 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 Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following are specified as additional matters, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Project Agreement has been duly authorized or ratified by each of the Project Provinces, and is legally binding upon the Project Provinces in accordance with its terms.

Section 6.02. 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:	Telex:
FINANMIN	Beijing

For the Bank:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Loos

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Civil works:		
(a) for Part A of the Project (excluding items referred to in Categories (1)(b) and (1)(c) below)	96,000,000	25%
(b) for land prepara- tion, soil improvement, eachwork, tree plant- ing and roads under Part A of the Project	42,500,000	20%
(c) for the center under Part B(1) of the Project	8,000,000	75%
(2) Goods	127,900,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services, training and workshops for all Parts of the Project (excluding Part B(2)(c) thereof)	20,100,000	100%
(4) Consultants' services for Part B(2)(c) of the Project	2,000,000	20%
(5) Unallocated	3,500,000	
TOTAL	300,000,000	

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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$20,000,000 may be made on account of payments made for expenditures before that date but after October 31, 1997.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding \$2,000,000 equivalent, (b) goods under contracts not exceeding \$200,000 equivalent; (c) consultants' services provided by firms under contracts not exceeding \$100,000 equivalent, (d) consultants' services provided by individuals under contracts not exceeding \$50,000 equivalent; and (e) training and workshops, regardless of the cost thereof; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in increasing agricultural production and farmers' incomes, and establishing systems to ensure sustainable use, development and management of water and land resources in irrigated areas, all in the Borrower's Huang-Huai-Hai Plain.

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

Part A: Investments

Carrying out in the Project Provinces of specific investment projects in the following areas:

(1) Irrigation and Drainage

Improvement and expansion of irrigation and drainage systems, through such activities as: (a) excavation of channels; (b) construction and rehabilitation of canals, drains and ancillary structures, pumping stations, tubewells, pipelines for irrigation systems, and rural and farm roads; and (c) provision of sprinkler and drip irrigation systems, power lines, machinery, equipment and vehicles.

(2) Agricultural Intensification and Support Services

Increase in agricultural production through such activities as: (a) land leveling and deep plowing; (b) application of crop residues and organic fertilizer to the soil; (c) establishment and upgrading of seed processing centers and seed farms; (d) provision of facilities and equipment to strengthen agro-technical extension centers and stations and recruitment and training of extension staff; (e) provision of facilities, machinery and equipment to strengthen agricultural machinery service systems; (f) establishment of fertilizer blending plants to provide formulated chemical fertilizer appropriate for local soil and crop requirements; (g) construction and equipping of organic manure digesting pits; (h) provision of pest forecasting stations; (i) development and implementation of training programs for farmers to increase their knowledge of scientific farming technology and integrated pest management; and (j) provision of agricultural production materials, such as chemical

fertilizers, low-toxicity pesticides and plastic membranes, to farmers.

(3) Forestation

Increase in vegetative cover through: (a) establishment of tree nurseries; (b) planting of on-farm windbreaks and protective tree belts; (c) application of pest and disease control measures to windbreaks and forest belts; and (d) provision of machinery and equipment for tree planting and maintenance.

Part B: Institutional Development

(1) National Level

Carrying out of a program to strengthen the capabilities of the CPMO staff in the preparation, appraisal and supervision of Subprojects and other projects developed based on a programmatic approach, and in project and financial management, said program to include the assignment of additional staff to the CPMO, development and operation of a management information system (including a financial management system) linking the CPMO, the PPMOs and Local PMOs, provision of training programs, equipment and vehicles and construction of a center for said system and for national-level training related to comprehensive agricultural development.

(2) Provincial Level

(a) Carrying out of programs for the development of self-financing irrigation and drainage districts in each Project Province, comprising, inter alia, water supply companies and water user associations, in order to ensure the sustainability and self-financing of irrigated agriculture, and improve irrigation system performance and effective decentralized irrigation services, cost recovery and farmer participation.

(b) Carrying out of a program to strengthen the capabilities of the PPMO and Local PMOs within each Project Province in the preparation, appraisal, supervision and management of Subprojects and other projects developed based on a programmatic approach, said program to include the development and operation of a management information system linked to the CPMO, and the provision of training, equipment and vehicles.

(c) Carrying out in each Project Province of programs of adaptive research, studies, experiments and environmental monitoring in the areas of water conservancy, agriculture and forestry, including the provision of equipment required therefor.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
February 15, 2004	6,350,000
August 15, 2004	6,540,000
February 15, 2005	6,735,000
August 15, 2005	6,930,000
February 15, 2006	7,135,000
August 15, 2006	7,345,000
February 15, 2007	7,565,000
August 15, 2007	7,790,000
February 15, 2008	8,020,000
August 15, 2008	8,255,000
February 15, 2009	8,500,000
August 15, 2009	8,750,000
February 15, 2010	9,010,000
August 15, 2010	9,275,000
February 15, 2011	9,550,000

August 15, 2011	9,830,000
February 15, 2012	10,120,000
August 15, 2012	10,420,000
February 15, 2013	10,730,000
August 15, 2013	11,045,000
February 15, 2014	11,370,000
August 15, 2014	11,710,000
February 15, 2015	12,055,000
August 15, 2015	12,410,000
February 15, 2016	12,775,000
August 15, 2016	13,155,000
February 15, 2017	13,545,000
August 15, 2017	13,945,000
February 15, 2018	14,355,000
August 15, 2018	14,785,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and in September 1997 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors (other than goods manufactured in the Hong Kong Special Administrative Region of the Borrower and works carried out by contractors from said region).

(c) Notification and Advertising

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

Part C: Other Procurement Procedures

1. Works

(a) National Competitive Bidding

Works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed \$137,700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of Small Works

Works estimated to cost less than \$200,000 equivalent per contract, up to an amount not to exceed \$248,100,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

(c) Force Account and Beneficiary Participation

On-farm works (comprising land preparation, soil improvement, earthworks, tree planting and construction of farm roads under Part A of the Project) which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$212,500,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines, or by the use of Project beneficiaries hired in accordance with procedures acceptable to the Bank.

2. Goods

(a) National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent, but not less than \$100,000 equivalent, per contract, up to an aggregate amount not to exceed \$50,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$18,600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(c) National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$16,900,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (i) each contract for works estimated to cost the equivalent of \$2,000,000 or more; and (ii) each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to

the Guidelines shall apply

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants Qualifications

Services for the design of the center included in Part B(1) of the Project, and other services estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for Part B(2)(c) of the Project which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual

consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

SCHEDULE 5

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01(b) of this Agreement.

A. Project Oversight

In order to ensure the proper implementation of the Project, the Borrower shall at all times maintain the CPMO with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for the general oversight of Project implementation, financial management of the Project, review of proposed Subprojects, supervision of Subprojects under implementation and provision of technical and policy assistance to the Project Provinces in the carrying out of their Respective Parts of the Project.

B. Subprojects

In order to ensure the proper implementation of Part A of the Project, the Borrower shall, through the CPMO, take the following actions in accordance with guidelines acceptable to the Bank:

1. The Borrower shall:

(a) review the report on each investment project proposed to be included in the Project as a Subproject which is furnished to it pursuant to Part B.1 of the Schedule to the Project Agreement, and prepare and furnish to the Bank a report summarizing the results of said review, together with its recommendations regarding said proposed Subproject; and

(b) thereafter, take or cause to be taken all measures necessary to implement such recommendations as shall have been agreed between the Borrower and the Bank regarding said proposed Subproject.

2. The Borrower shall monitor the implementation of each Subproject to be carried out in a Project Province and provide technical and policy guidance to said Project Province in the implementation of said Subproject.

C. Institutional Strengthening

1. The Borrower shall:

(a) prepare under guidelines acceptable to the Bank and furnish to the Bank not later than September 30, 1998, a time-bound action plan for the implementation of its institutional strengthening program under Part B(1) of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, promptly carry out said action plan, taking into account the views of the Bank on the matter.

2. Without limitation upon the provisions of Section 1 of this Part C, the Borrower shall, under Part B(1) of the Project, develop its management information system in accordance with guidelines acceptable to the Bank, and ensure that said system shall

be:

(i) introduced within the CPMO and each PPMO not later than December 31, 1999; and

(ii) extended to the county level within each Project Province not later than June 30, 2000.

D. Annual Implementation Plans

1. The Borrower shall promptly review the annual implementation plans furnished to it by the Project Provinces each calendar year pursuant to Part D of the Schedule to the Project Agreement, and on the basis of said review, prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than November 30 in said calendar year, a summary of said plans, together with any revisions proposed by the Borrower thereto.

2. The Borrower shall afford the Bank a reasonable opportunity to exchange views with the Borrower and the Project Provinces on said plans and proposed revisions, and thereafter, take all measures (including the provision of funds) necessary to ensure the prompt implementation of said plans, taking into account the views of the Bank on the matter.

E. Supervision, Monitoring and Reporting

1. Supervision

The Borrower shall, through the CPMO, supervise the overall implementation of Subprojects in accordance with guidelines acceptable to the Bank. To this end, the Borrower shall:

(a) prepare, in accordance with terms of reference acceptable to the Bank, and furnish to the Bank, not later than November 30 in each calendar year, a proposed supervision plan for the following calendar year, consolidating the supervision plans furnished to it by the Project Provinces pursuant to Part E.1 of the Schedule to the Project Agreement; and thereafter, promptly carry out said supervision plan, in conjunction with the Project Provinces, during the following calendar year, taking into account the views of the Bank on the matter; and

(b) prepare, in accordance with terms of reference acceptable to the Bank, and furnish to the Bank not later than three months following each supervision, a report summarizing the results of the Borrower's supervision activities and consolidating the supervision reports furnished to it by the Project Provinces pursuant to Part E.1 of the Schedule to the Project Agreement.

2. Monitoring, Evaluation and Reporting

(a) The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project, and the achievement of the objectives thereof.

(b) The Borrower shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, the following reports: (i) semi-annual reports, not later than March 31 and September 30 in each calendar year, summarizing the physical and financial progress of the Project in respect of the preceding calendar semester, consolidating the semi-annual reports furnished to it by the Project Provinces pursuant to Part E.2 of the Schedule to the Project Agreement, and setting out the measures recommended to ensure the efficient carrying out of the Project and to further the objectives thereof during the then current calendar semester; (ii) annual reports, not later than March 31 in each calendar year, summarizing the results of the monitoring and evaluation activities carried out by it pursuant to this Part E.2 in respect of the preceding calendar year, consolidating the annual reports furnished by the Project Provinces pursuant to Part E.2 of the Schedule to the Project Agreement and setting out the measures recommended to ensure the efficient carrying out of the Project and to further the objectives thereof during the then current calendar year; and (iii) a mid-term report, not later than December 31, 2000, summarizing the results

of the monitoring and evaluation activities carried out by it pursuant to this Part E.2 from the inception of the Project, consolidating the mid-term reports furnished to it by the Project Provinces pursuant to Part E.2 of the Schedule to the Project Agreement, and setting out the measures recommended to ensure the efficient completion of the Project and to further the objectives thereof.

(c) After furnishing each said report, the Borrower shall review the same with the Bank, and thereafter, promptly take all measures in relation thereto as shall have been agreed between the Borrower and the Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4);

(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 Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$30,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$20,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$60,000,000.

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 Bank 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 Bank 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 Bank shall, on behalf of the Borrower, withdraw from 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 Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from 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 Bank from 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 Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

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

(b) if the Borrower shall have failed to furnish to the Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

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

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

