

CONFORMED COPY

CREDIT NUMBER 3255 - CHA

Development Credit Agreement

(Western Poverty Reduction Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 30, 1999

CREDIT NUMBER 3255 - CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 30, 1999, 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 sixty million dollars (\$60,000,000) (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 Provinces of Gansu and Qinghai, and the Borrower's Autonomous Region of Inner Mongolia (the Project Provinces) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Project Provinces 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 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 Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Agricultural Bank of China" means the Agricultural Bank of China, a commercial bank established and operating under the laws of the Borrower and in accordance with: (i) Business License No. 100000547(4-4), dated December 30, 1997, issued by the Borrower's State Administration of Industry and Commerce; (ii) Banking License No. 02-0001, dated March 1, 1992, issued by the People's Bank of China; and (iii) the Circular of the Borrower's State Council on the Restoration of the Agricultural Bank of China, dated February 23, 1979 (State Council Document No. (1979) 56), as said licenses and circular may be revised from time to time.

(b) "Beneficiary" means an Individual Beneficiary or an Enterprise Beneficiary.

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

(d) "Enterprise Beneficiary" means an enterprise possessing legal person status to which a Project Province proposes to make or has made a Subloan for a Rural Enterprise Subproject.

(e) "FCPMC" means the Foreign Capital Project Management Center within the Borrower's Leading Group for Poverty Reduction, to be maintained pursuant to the provisions of Part A of Schedule 4 to this Agreement.

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

(g) "Gansu Labor Mobility Program" means the Gansu Labor Mobility Program dated April 7, 1999 and prepared by Gansu's provincial level PMO, as the same may be revised from time to time in accordance with the provisions of Part H.4 of Schedule 2 to the Project Agreement.

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

(i) "Individual Beneficiary" means an individual farmer, herder or entrepreneur, or a group of individual farmers, herders or entrepreneurs who or which carries out a Subproject.

(j) "Inner Mongolia" means the Borrower's Autonomous Region of Inner Mongolia, and any successor thereto.

(k) "Inner Mongolia Special Account" means the account referred to in Section 2.02(b)(ii) of this Agreement.

(l) "Livestock Subproject" means: (i) in respect of Gansu, a specific subproject under Part A(1)(b) of the Project; (ii) in respect of Inner Mongolia, a specific subproject under Part B(1)(b) of the Project; and (iii) in respect of Qinghai, a specific subproject under Part C(1)(c) of the Project.

(m) "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.

(n) "Local Beneficiaries Participation Action Plan" means, in respect of: (i) Gansu, the measures for the participation of local beneficiaries in its Respective Part of the Project referred to in the Feasibility Study Report of Social Assessment for Gansu's Respective Part of the Project, dated December 1998 and prepared by Gansu's provincial-level PMO; (ii) Inner Mongolia, the measures for the participation of local beneficiaries in its Respective Part of the Project referred to in the Social Assessment Report for Inner Mongolia's Respective Part of the Project, dated August 1998 and prepared by Inner Mongolia's regional-level PMO; and (iii) Qinghai, the measures for the participation of minority nationalities, as well as other local beneficiaries, in its Respective Part of the Project, included in the Qinghai Voluntary Settlement Implementation Plan; as said plans may be revised from time to time in accordance with the provisions of Part B.3 of Schedule 2 to the Project Agreement.

(o) "PMOs" means the provincial/regional- and county/banner-level Project management offices to be maintained pursuant to the provisions of Parts A.1(a) and A.1(b) of Schedule 2 to the Project Agreement; and "PMO" means any of the PMOs.

(p) "Project Agreement" means the agreement among the Association, 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.

(q) "Project Areas" means, in respect of each Project Province, the areas within said Project Province, selected by said Project Province and acceptable to the Association, in which the Project is to be carried out; and "Project Area" means any of the Project Areas.

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

(s) "Qinghai Settlement Area" means the Balong area of Dulan County in Qinghai's Haixi Prefecture.

(t) "Qinghai Settlement Beneficiaries" means all households who emigrate to, and settle in, the Qinghai Settlement Area pursuant to the voluntary emigration program included in Part C(5) of the Project, and all households who live in or

utilize the land in the Qinghai Settlement Area; and "Qinghai Settlement Beneficiary" means any of the Qinghai Settlement Beneficiaries.

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

(v) "Qinghai Subproject" means a specific subproject to be carried out under Part C(4) of the Project.

(w) "Qinghai Voluntary Settlement Implementation Plan" means the Report on Voluntary Settlement Implementation Plan for the carrying out of Part C(5) of the Project dated May 1999 and prepared by the Qinghai Research Institute of Plateau Geography, as the same may be revised from time to time pursuant to the provisions of Parts B.1(b) and J.4 of Schedule 2 to the Project Agreement.

(x) "Respective Part of the Project" means, in respect of: (i) Gansu, Part A of the Project; (ii) in respect of Inner Mongolia, Part B of the Project; and (iii) Qinghai, Part C of the Project.

(y) "Resettlement Action Plan" means, in respect of: (i) Gansu, the Implementation Plan for Land Acquisition and Compensation dated December 1998 and prepared by Gansu's PMO; (ii) Inner Mongolia, the Implementation Plan for Land Requisition and Compensation for the Inner Mongolia Program Zone, dated December 1998 and prepared by Inner Mongolia's PMO and Inner Mongolia Institute of Agriculture and Animal Husbandry; and (iii) Qinghai, the Attachment to the Qinghai Voluntary Settlement Implementation Plan; as the same may be revised from time to time in accordance with the provisions of Part B.3 of Schedule 2 to the Project Agreement.

(z) "Rural Enterprise Subproject" means a specific subproject to be carried out by an Enterprise Beneficiary under Part A(4) of the Project.

(aa) "Subloan" means a loan made or proposed to be made out of the proceeds of the Credit or of the Loan to: (i) an Enterprise Beneficiary for a Rural Enterprise Subproject; or (ii) to an Individual Beneficiary for a Subproject under Part A(1)(a)(ii), Part B(1)(a)(ii), or Part C(1)(b)(ii) (fertilizer) of the Project.

(bb) "Subproject" means a Livestock Subproject, a Rural Enterprise Subproject, or any of the following: (i) in respect of Gansu, a specific subproject under Part A(1)(a)(i) (non-fertilizer inputs) or Part A(1)(a)(ii) (fertilizer) of the Project; (ii) in respect of Inner Mongolia, a specific subproject under Part B(1)(a)(i) (non-fertilizer inputs), Part B(1)(a)(ii) (fertilizer) or B(4) (farm machinery) of the Project; and (iii) in respect of Qinghai, a specific subproject under Part C(1)(b)(i) (non-fertilizer inputs) or Part C(1)(b)(ii) (fertilizer) of the Project.

(cc) "Special Accounts" means, collectively, the Gansu Special Account, the Inner Mongolia Special Account and the Qinghai Special Account; and "Special Account" means any of the Special Accounts.

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 seventy-three million eight hundred thousand Special Drawing Rights (SDR73,800,000).

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 the following three special accounts in dollars 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: (i) one for Gansu's

Respective Part of the Project; (ii) another for Inner Mongolia's Respective Part of the Project; and (iii) a third, for Qinghai's Respective Part of the Project. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006 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, 2009 and ending February 15, 2034. Each installment to and including the installment payable on February 15, 2019 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 the Project Provinces to perform in accordance with the provisions of the Project Agreement all of their respective obligations 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 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) For the purpose of carrying out each Project Province's Respective Part of the Project, the Borrower shall make available to said Project Province part of the proceeds of the Credit on the following principal terms:

(i) the principal amount so made available to said Project Province shall be the equivalent in terms of SDRs (determined as of the date, or respective dates, of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn on account of the cost of items required for said Project Province's Respective Part of the Project and to be financed out of the proceeds of the Credit (the Credit Amount);

(ii) the Borrower shall recover the Credit Amount from said Project Province in dollars (determined as of the date or dates of recovery) in semi-annual installments over a period of 17 years, inclusive of a grace period of 5 years;

(iii) the Borrower shall charge said Project Province a service charge 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 said Project Province a commitment fee on the principal amount of the Credit so made available and not withdrawn from time to time at a rate which shall not exceed one half of one percent (0.5%) per annum.

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association shall otherwise agree, the Borrower shall take the actions set forth or referred to in Schedule 4 to this Agreement, in order to ensure the proper implementation of the Project and the achievement of the objectives thereof.

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 each Project Province in respect of its Respective Part of the Project 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 Accounts, 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) Any Project Province 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 a Project Province will be able to perform 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, 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 Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the

effectiveness of the Development Credit Agreement within the meaning of Section 12.01(b) of the General Conditions, namely, that all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, except only the effectiveness of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Project Agreement has been duly authorized or ratified by each Project Province and is legally binding upon said Project Province in accordance with its 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 Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Guangyao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang

Authorized Representative

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) For Gansu's Respective Part of the Project:			
(a) Works	15,020,000	-----	42%
(b) Goods	16,443,000	16,126,000	) 100% of foreign) expenditures; 100%) of local) (ex-factory cost)) 75% for other) procured locally
expenditures and items			
(c) Consultants' services and training	2,679,000	-----	) 100%))
(d) Monitoring Activities	248,000	-----	) 100%)
(e) Labor Placement Activities	-----	7,040,000	) 50%)
(2) For Inner Mongolia's Respective Part of the Project:			
(a) Works	6,108,000	-----	22%
(b) Goods	11,008,000	23,067,000	) 100% of foreign) expenditures; 100%) of local) (ex-factory cost)) 75% for other) procured locally
expenditures and items			
(c) Consultants' services and training	2,304,000	-----	) 100%))
(d) Monitoring Activities	285,000	-----	) 100%)

(3)	For Qinghai's Respective Part of the Project:			
	(a) Works (other than works under Parts C(4) and C(5)(b) of the Project)	17,153,000	7,126,000	) 59%
)
)
)
)
	(b) Goods (other than goods under expenditures Parts C(4) and and C(5)(b) of the items the Project)	1,176,000	6,041,000	) 100% of foreign) expenditures; 100%) of local) (ex-factory cost)) 75% for other) procured locally
	(c) Consultants' services and training	957,000	-----	) 100%))
	(d) Monitoring Activities	419,000	-----	) 100%)
(4)	Front-end Fee the	-----	600,000	) Amount due under) Section 2.04 of) Loan Agreement
	TOTAL	73,800,000	60,000,000	

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";

(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;

(c) the term "Labor Placement Activities" means employment registration, training, transportation, medical services, logistical support, materials and supplies provided to surplus laborers, all as required in order to implement the employment program under Part A(6) of the Project; and

(d) the term "Monitoring Activities" means training, transportation, lodging, supplies and materials provided to personnel responsible for Project monitoring, and report publication, all as required for such monitoring.

3. Notwithstanding the provisions of paragraph 1 above:

(a) 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 SDR9,300,000 may be made on account of payments made for expenditures before that date but after January 10, 1999; and

(b) no withdrawals shall be made for expenditures to be financed out of the proceeds of the Credit and the Loan allocated to Category (3) unless and until the Association and the Bank shall have communicated to the Borrower and Qinghai their approval of: (i) the Voluntary Settlement Implementation Plan, as updated in

accordance with the provisions of Part B.1(b)(i) of Schedule 2 to the Project Agreement; and (ii) the measures proposed by the Borrower and Qinghai to implement Qinghai's Respective Part of the Project in accordance with the decisions, if any, of the Association and the Bank, arising from the independent review by the Bank's Inspection Panel in respect of Qinghai's Respective Part of the Project in accordance with the Bank Resolution No. 93-10 and Association Resolution No. 93-6, both adopted on September 22, 1993.

4. The Association may require withdrawals from the Credit Account (and the Bank may require withdrawals from the Loan 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 (other than those contracts referred to in Part D.2(b) of Section I of Schedule 1 to the Project Agreement); (b) works under contracts costing less than \$10,000,000 equivalent each (other than those contracts referred to in Part D.2(d) 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) Labor Placement Activities, Monitoring Activities and 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 alleviating chronic poverty of the absolute poor living in remote and inaccessible villages of the Project Provinces through the promotion of environmentally sustainable agricultural and rural development and improvement of access to infrastructure and basic social services in said areas.

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: Gansu

(1) Land and Household Development

Development and implementation of improved integrated land-use programs specific to each of Gansu's Project Areas, designed to provide households with the means to intensify agricultural production and develop income-generating activities in animal, crop and tree production, said programs to include:

(a) provision to farmers of (i) agricultural inputs (excluding fertilizer) and (ii) Subloans to finance fertilizer, all for the carrying out of specific investment subprojects to develop and expand food, cash and tree crop production;

(b) carrying out of specific investment subprojects to strengthen household-based integrated livestock production;

(c) implementation of a program of adaptive research, demonstration activities and technical support services for farmers, designed to develop improved, economical and environmentally sustainable (i) livestock and crop production and water utilization technologies and systems, (ii) animal husbandry and farming systems and (iii) livestock and crop marketing strategies; and

(d) implementation of a training program to strengthen the skills of local technicians and farmers in crop production, animal husbandry, water management and forest and grassland production.

(2) Irrigation and Land Improvement

(a) Establishment and upgrading of small-scale irrigation systems to serve existing and new crop land.

(b) Rehabilitation of degraded sloping land and wasteland through terracing,

construction of check dams, and planting of vegetative cover.

(3) Rural Infrastructure

Improvement of the access of villages to the existing road network, to water and to electric power, through the:

- (a) construction of all-weather gravel roads and bridges;
- (b) provision of water supply facilities to said villages; and
- (c) installation of power distribution lines.

(4) Rural Enterprises

Provision of Subloans to Beneficiaries for the carrying out of specific investment subprojects to develop and expand commercially viable food and fiber processing and storage industries, handicraft and service industries, small-scale household enterprises and farmers' markets.

(5) Health

Implementation of a public health program designed to provide affordable quality primary and curative health care to all households in selected Project Areas of Gansu, said program to include the:

- (a) upgrading of maternal and child health programs, immunization programs and priority disease intervention programs;
- (b) training of health workers and township doctors to improve their health care delivery and management skills; and
- (c) development of a cooperative medical financing system designed to ensure the provision of quality health services to families on an affordable and sustainable basis.

(6) Labor Mobility

Implementation of a voluntary program to provide employment to about 65,700 surplus laborers from Gansu's Project Areas in wealthier regions of the Borrower's territory, said program to include:

- (a) equipping of office and training facilities; and
- (b) provision of orientation programs and pre-placement training at the village level, job placement services and on-the-job training by employer enterprises, and development and introduction of a labor market information system, including job placement systems and monitoring systems to facilitate the protection of workers' rights and ensure job safety and adequate living conditions for workers.

(7) Institutional Development

- (a) Construction or provision of office facilities required for Project management and implementation.
- (b) Development and implementation of a program to enhance the Project management skills of the personnel responsible for Project supervision, said program to include the development of systems to monitor, evaluate and disseminate the impact of the Project on poverty reduction and the environment; and provision of training and equipment required therefor.

(8) Rehabilitation of Affected Persons

Rehabilitation of all persons whose livelihood and production levels are adversely affected by the carrying out of the activities included in Parts A(1) through A(7) of this Schedule.

Part B: Inner Mongolia

(1) Land and Household Development

Development and implementation of improved integrated land-use programs specific to each of Inner Mongolia's Project Areas, designed to provide households with the means to intensify agricultural production and develop income-generating activities in animal, crop and tree production, said programs to include:

(a) provision to farmers of (i) agricultural inputs (excluding fertilizer) and (ii) Subloans to finance fertilizer, all for the carrying out of specific investment subprojects to develop and expand food, cash and tree crop production;

(b) carrying out of specific investment subprojects to develop integrated livestock and pasture and fodder production systems;

(c) increase in vegetative cover through planting of pasture species, trees and bushes;

(d) implementation of a program of adaptive research, demonstration activities and technical support services for farmers, designed to develop improved, economical and environmentally sustainable (i) livestock and crop production and water utilization technologies and systems, (ii) animal husbandry and pasture improvement techniques (iii) and crop and livestock marketing strategies; and

(e) implementation of a training program to strengthen the skills of local technicians and farmers in crop production, animal husbandry and forest and grassland production.

(2) Irrigation and Land Improvement

(a) Establishment and upgrading of small-scale irrigation systems to serve existing and new crop land.

(b) Development and implementation of a program to monitor ground-water levels, abstraction and quality.

(c) Rehabilitation and reclamation of degraded sloping land and wasteland through terracing, construction of check dams, and planting of vegetative cover.

(3) Rural Infrastructure

Improvement of the access of villages in Inner Mongolia's Project Areas to the existing road network, to water and to electric power, through the:

(a) construction of all-weather gravel roads and bridges;

(b) provision of water supply facilities to said villages; and

(c) installation of 10-kilovolt and 0.4 kilovolt power distribution lines.

(4) Rural Enterprises

Carrying out of specific investment subprojects to improve farm labor productivity and transportation of agricultural products.

(5) Health

Implementation of a public health program designed to provide affordable quality primary and curative health care to all households in the Project Areas of Inner Mongolia, said program to include:

(a) upgrading of maternal and child health programs, immunization programs and priority disease intervention programs;

(b) training of health workers and township doctors to improve their health care delivery and management skills; and

(c) development of a cooperative medical financing system designed to ensure the provision of quality health services to families on an affordable and sustainable basis.

(6) Institutional Development

(a) Construction or provision of office facilities required for Project management and implementation.

(b) Development and implementation of a program to enhance the Project management skills of the personnel responsible for Project supervision, said program to include the development of systems to monitor, evaluate and disseminate the impact of the Project on poverty reduction and the environment; and provision of training and equipment required therefor.

(7) Rehabilitation of Affected Persons

Rehabilitation of all persons whose livelihood and production levels are adversely affected by the carrying out of the activities included in Parts B(1) through B(6) of this Schedule.

Part C: Qinghai

(1) Land and Household Development

Development and implementation of improved integrated land-use programs specific to each of Qinghai's Project Areas, designed to provide households with the means to intensify agricultural production and develop income-generating activities in animal, crop and tree production, said programs to include:

(a) development of land for crop cultivation, tree planting and seed production; and establishment of an applied research and demonstration station;

(b) provision to farmers of (i) agricultural inputs (excluding fertilizer) and (ii) Subloans to finance fertilizer, all for the carrying out of specific investment subprojects to develop and expand food and forage crop production;

(c) carrying out of specific investment subprojects to develop (i) stall-fed livestock production systems based on cut-and-carry feeding techniques, and (ii) forage processing systems;

(d) implementation of an afforestation program to protect Qinghai's Project Areas from wind and soil erosion, including (i) sand dune stabilization, (ii) planting of wind shelter belts and a fuelwood forest and (iii) establishment of a tree nursery;

(e) implementation of a program of adaptive research and demonstration activities and technical support services for farmers, designed to develop improved, economical and environmentally sustainable (i) livestock and crop production and water utilization technologies and systems, (ii) animal husbandry techniques, (iii) feed storage, and forage and fodder development and (iv) livestock and crop marketing strategies; and

(f) implementation of a training program to strengthen the skills of local technicians and farmers in crop production, animal husbandry, water management, farming machinery and forest and grassland production.

(2) Irrigation and Land Improvement

(a) Construction at Keri Township in Haixi Prefecture of (i) a concrete-face, sand-and-rock-filled dam, (ii) two sand- and-rock-filled saddle dams, (iii) a masonry gravity dam and related spillway for flood discharge, (iv) a weir along the Xiangride River and intake canal to divert the flow of the river to said concrete dam and (v) a main canal from said concrete dam to the Balong and Qingshuihe irrigation subdistricts.

(b) (i) Reconstruction of the control gate at Tuosuo Lake and (ii) raising of the Hatu Dam in Haixi Prefecture and seepage treatment of the reservoir floor of said dam.

(c) Development of irrigation and drainage systems designed to serve each of Qinghai's five irrigation sub-districts.

(d) Reclamation of salinized soils.

(e) Development and implementation of a program to monitor water levels and quality.

(3) Rural Infrastructure

Development of road, water and power infrastructure in the Qinghai Settlement Area through the:

(a) construction of all-weather gravel roads and bridges to link the new villages and irrigated areas of said area;

(b) provision of water supply facilities to said villages; and

(c) construction and equipping of two transformer stations, one in each new township in said area, and installation of 35-kilovolt and 10-kilovolt power transmission lines and 380 volt and 220 volt distribution lines.

(4) Rural Enterprises

Provision of loans for the carrying out of specific investment subprojects to develop and expand commercially viable agricultural processing and small-scale farming enterprises.

(5) Voluntary Settlement

Implementation of a program for the voluntary emigration of about 58,000 people living in the poorest and most environmentally degraded counties of eastern Qinghai and their settlement in the Qinghai Settlement Area, so as to reduce the incidence of poverty in said counties, such program to include the:

(a) allotment of land developed under this Part C to the Qinghai Settlement Beneficiaries for housing and farming; and

(b) development and operation of a grant facility to assist the Qinghai Settlement Beneficiaries in financing their relocation, housing and fuel costs.

(6) Health

Implementation of a public health program designed to provide affordable quality primary and curative health care to all households in Qinghai's Project Areas, said program to include:

(a) construction and equipping of health care facilities;

(b) delivery of maternal and child health programs, immunization programs and priority disease intervention programs;

(c) training of (i) health care workers to improve their delivery of health care services and (ii) health care administrators to improve their health education and health service management skills; and

(d) development of a medical financial assistance program to cover part of the costs of providing essential health care and inpatient services to the poorest families living in Qinghai's Project Areas.

(7) Education

Implementation of a primary and secondary education program in Qinghai's Project

Areas designed to provide affordable quality education to all children in said area, and a vocational and adult education program designed to provide affordable quality practical training in technical skills to older children and adults in said area, said programs to include:

(a) construction, expansion, furnishing and equipping of primary and secondary schools and related dormitories and provision of a vehicle for the transport needs of said schools; and

(b) recruitment of qualified primary and secondary school teachers.

(8) Institutional Development

(a) Construction or provision of office facilities required for Project management and implementation.

(b) Development and implementation of a program to enhance the Project management skills of the personnel responsible for Project supervision, said program to include the development of systems to monitor, evaluate and disseminate the impact of the Project on poverty reduction and the environment; and provision of training and equipment required therefor.

(9) Rehabilitation of Affected Persons

Rehabilitation of all persons whose livelihood and production levels are adversely affected by the carrying out of the activities included in Parts C(1) through C(8) of this Schedule.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in respect of the Gansu Special Account, Category (1); (ii) in respect of the Inner Mongolia Special Account, Category (2); and (iii) in respect of the Qinghai Special Account, Category (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:

(i) in respect of the Gansu Special Account, an amount equivalent to \$6,000,000 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 for the Gansu Special Account shall be limited to an amount equivalent to \$3,500,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to Gansu's eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of Gansu's Respective Part of the Project, pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR18,400,000;

(ii) in respect of the Inner Mongolia Special Account, an amount equivalent to \$4,000,000 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 for the Inner Mongolia Special Account shall be limited to an amount equivalent to \$2,500,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to Inner Mongolia's eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of Inner Mongolia's Respective Part of the Project pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR13,300,000; and

(iii) in respect of the Qinghai Special Account, an amount equivalent to \$3,500,000 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 for the Qinghai Special Account shall be limited to an amount equivalent to \$2,200,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to Qinghai's eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of Qinghai's Respective Part of the Project pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR11,100,000.

2. Payments out of each 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation for said Special Account and subsequent withdrawals to replenish said 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 payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account 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 a 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 any 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 for a Project Province's Special Account, minus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of said Project Province's Respective Part of the Project 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 for said Special Account. 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 Accounts 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 a 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 said 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 said 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 a 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 any 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.

SCHEDULE 4

Implementation Program

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

A. Project Oversight

The Borrower shall at all times continue to maintain FCPMC, with terms of reference, staffing and other resources acceptable to the Association, to be responsible for the oversight of the Project, coordinating overseas training under the Project and supervising the monitoring of the Project's impact on poverty.

B. Gansu Labor Mobility Program

In order to ensure the proper oversight of Part A(6) of the Project, the Borrower shall take all measures necessary and shall cause each regional administration in which the surplus laborers under said Part are to be employed, to take all measures necessary, to ensure that the program to provide employment to said laborers shall be implemented on a voluntary basis and in a manner designed to ensure safe and equitable working and living conditions for said laborers. To this end, the Borrower shall:

1. take all measures required on its part, and shall cause said administrations to take all measures required on their respective parts, to carry out said employment program in accordance with the Gansu Labor Mobility Program; and
2. review with the Association and Gansu each report furnished to it by Gansu pursuant to Part H.3 of Schedule 2 to the Project Agreement, and promptly take all measures required to ensure the continued efficient implementation of the Gansu Labor Mobility Program and achievement of its objectives, based on the conclusions and recommendations of said report and the Association's views on the matter.

