

CONFORMED COPY

CREDIT NUMBER 2892 CHA

Development Credit Agreement

(Yunnan Environment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 13, 1996

CREDIT NUMBER 2892 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 13 1996, 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 of one hundred twenty-five million dollars (\$125,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the credit provided for in this Agreement (the Credit) 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) Yunnan Province (Yunnan) shall carry out the Project, or cause the Project to be carried out, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Yunnan 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 Yunnan;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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) "Basic Documents" means the charters and business licenses referred to in paragraphs (i), (k), (l), (m), (n) and (u) of this Section.

(b) "Category" means a category of items to be financed out of the proceeds of the Credit as set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) "Environmental Action Plans", means, collectively, the Yunnan Environmental Impact Assessment and the Sub-project EAPs.

(d) "Fertilizer Factories" means the Kunyang Phosphate Fertilizer Factory and the Kunming Chemical Fertilizer Factory (both as hereinafter defined), collectively, and "Fertilizer Factory" means either of the Fertilizer Factories.

(e) "Fertilizer Factory Subsidiary Loan Agreements" means, collectively, the agreement to be entered into between Kunming and Kunming Chemical Fertilizer Factory (both as hereinafter defined) and the agreement to be entered into between Yunnan and Kunyang Phosphate Fertilizer Factory (both as hereinafter defined), pursuant to Parts D.2 and D.3 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes any schedules to said agreements; and "Fertilizer Factory Subsidiary Loan Agreement" means, individually, any of the Fertilizer Factory Subsidiary Loan Agreements.

(f) "Financial Agency Agreement" means the agreement to be entered into between Yunnan and a financial institution pursuant to Part F.3 (b) of Schedule 2 to the Project Agreement.

(g) "foreign currency" means a currency other than the currency of the Borrower.

(h) "Gejiu" means Gejiu Municipality in Yunnan.

(i) "Gejiu Drainage Company" means the Gejiu Municipal Drainage Company,

Limited, a state-owned limited liability company established and operating pursuant to its Charter dated January 1, 1996 and to Business License No. 21789485-0, dated January 10, 1996 issued by Gejiu Municipal Industrial and Commercial Administration Bureau.

(j) "Kunming" means Kunming Municipality in Yunnan.

(k) "Kunming Chemical Fertilizer Factory" means the Kunming Chemical Fertilizer Factory, a state-owned enterprise established and operating pursuant to its Charter dated May 5, 1990 and to Business License No. 2165 7375-6, dated April 23, 1994 issued by Kunming Industrial and Commercial Administration Bureau.

(l) "Kunming Drainage Company" means the Kunming Municipal Drainage Company, Limited, a state-owned limited liability company established and operating pursuant to its Charter dated December 1995 and to Business License No. 29208815-4, dated January 18, 1996 issued by Kunming Municipal Industrial and Commercial Administration Bureau.

(m) "Kunming Water Supply Company" means the Kunming Municipal Water Supply General Company, a state-owned enterprise established and operating pursuant to its Charter of August 1990 and to Business License No. 21656015-5, dated August 6, 1992 issued by Kunming Industrial and Commercial Administration Bureau.

(n) "Kunyang Phosphate Fertilizer Factory" means the Kunyang Phosphate Fertilizer Factory, a state-owned enterprise established and operating pursuant to its Charter dated April 12, 1994, and to Business License No. 21655177-6, dated October 14, 1994 issued by Yunnan Provincial Industrial and Commercial Administration Bureau.

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

(p) "Operational Regulations" means the manual referred to in Part F.2 (a) of Schedule 2 to the Project Agreement;

(q) "Participating Enterprise" means an enterprise to which Yunnan proposes to make, or has made, a Sub-loan.

(r) "Project Agreement" means the agreement among the Association, the Bank and Yunnan 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.

(s) "Project Municipalities" means, collectively, Kunming, Gejiu and Qujing and "Project Municipality" means any of the Project Municipalities.

(t) "Qujing" means Qujing Municipality in Yunnan.

(u) "Qujing Water Supply and Drainage Company" means the Qujing Water Supply and Drainage Company, Limited, a state-owned limited liability company established and operating pursuant to its Charter of March 1996, and to Business License No. 21723491-6, dated December 14, 1995 issued by Qujing Municipal Industrial and Commercial Administration Bureau.

(v) "Renmibi" means the currency of the Borrower;

(w) "Resettlement Action Plans" means, collectively, the Yunnan Resettlement Action Plan and the Sub-project RAPS.

(x) "Respective Part of the Project" means, the part of the Project specified below:

(i) for Yunnan: Parts D.3, E and F;

(ii) for Kunyang Phosphate Fertilizer Company: Part D.1;

(iii) for Kunming: Parts A.1, A.4 and A.5;

- (iv) for Kunming Water Supply Company: Part A.2;
- (v) for Kunming Drainage Company: Part A.3;
- (vi) for Kunming Fertilizer Factory: Part D.2;
- (vii) for Gejiu Drainage Company: Part B;
- (viii) for Quijing: Part C.1; and
- (ix) for Quijing Water Supply and Drainage Company: Parts C.2 and C.3.

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

(z) "Sub-loan" means a loan made, or proposed to be made by Yunnan, out of the proceeds of the Credit and/or the Loan, to a Participating Enterprise for a Sub-project.

(aa) "Sub-project" means a specific development project under Part D.3 of the Project to be carried out by a Participating Enterprise utilizing the proceeds of a Sub-loan.

(bb) "Sub-project EAP" means any environmental action plan prepared pursuant to paragraph 2 (c) of Part B of Schedule 4 to the Project Agreement.

(cc) "Sub-project RAP" means any resettlement action plan prepared pursuant to paragraph 2 (d) of Part B of Schedule 4 to the Project Agreement.

(dd) "Subsidiary Loan Agreements" means, collectively, the Utility Company Subsidiary Loan Agreements (as hereinafter defined) and the Fertilizer Factory Subsidiary Loan Agreements; and "Subsidiary Loan Agreement" means, individually, any of the Subsidiary Loan Agreements.

(ee) "Utility Company" means, in respect of:

- (i) Kunming, the Kunming Drainage Company and the Kunming Water Supply Company;
- (ii) Gejiu, the Gejiu Drainage Company; and
- (iii) Quijing, the Quijing Water Supply and Drainage Company.

(ff) "Utility Company Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between each Project Municipality and its Utility Company pursuant to Part D.1 of Schedule 2 to the Project Agreement as the same may be amended from time to time, and such term includes any schedules to said agreements; and "Utility Company Subsidiary Loan Agreement" means, individually, any of the Utility Company Subsidiary Loan Agreements.

(gg) "YEPA" means Yunnan's bureau responsible for environmental protection.

(hh) "Yunnan" means Yunnan Province, a political subdivision of the Borrower.

(ii) "Yunnan Environmental Impact Assessment" means the environmental impact assessment dated February 4, 1996 and the supplement thereto dated March 31, 1996, and includes environmental mitigation measures and as well as the administrative and monitoring arrangements ensuring the implementation of said measures.

(jj) "Yunnan Resettlement Action Plan" means Yunnan's land acquisition, removal and resettlement plan, dated April 27, 1996, together with the clarifications to said plan dated May 6, 1996, and includes the procedures governing land acquisition, resettlement and compensation, as well as the reporting and monitoring arrangements to ensure compliance with the said plan.

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 seventeen million four hundred thousand Special Drawing Rights (SDR 17,400,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a financial institution acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002 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 or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid:

(i) at such places as the Association shall reasonably request;

(ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and

(iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing August 15, 2006 and ending February 15, 2031. Each installment to and including the installment payable on February 15, 2016, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment

thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Yunnan to perform in accordance with the provisions of the Project Agreement all the obligations of Yunnan 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 Yunnan to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

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

- (i) the principal amount so made available to Yunnan:
 - (A) shall be the equivalent in terms of Special Drawing Rights (on the date, or respective dates, of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn; and
 - (B) shall be repaid in foreign currency in amounts equivalent (as of the date, or respective dates, of repayment) to the amount in Special Drawing Rights so made available;
- (ii) Yunnan shall repay such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years;
- (iii) the Borrower shall charge a service charge on such principal amount withdrawn and outstanding from time to time at a rate of three-fourths of one percent (3/4 of 1%) per annum; and
- (iv) the Borrower shall charge a commitment charge on such principal amount not withdrawn from time to time at a rate equal to one-half of one percent (1/2 of 1%) per annum.

(c) The Borrower shall make available to Yunnan the proceeds of the Loan on

the following principal terms:

- (i) the principal amount so made available to Yunnan shall be the amount in dollars (on the respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn;
- (ii) Yunnan shall repay such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years;
- (iii) the Borrower shall charge interest on such principal amount withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement; and
- (iv) the Borrower shall charge a commitment charge on such principal amount not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule I 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 Yunnan 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 expenditure, 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 and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

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

ARTICLE V

Remedies of the Association

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

(a) Yunnan 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 Yunnan will be able to perform its obligations under the Project Agreement.

(c) Any of the parties to the Financial Agency Agreement or any of the parties to any of the Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

(d) The Basic Documents shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any of the Utility Companies or Fertilizer Factories to perform any of its respective obligations under its respective Subsidiary Loan Agreement.

(e) The Borrower, Yunnan or any other authority having jurisdiction, shall have taken any action for the dissolution or disestablishment of any of the Utility Companies or Fertilizer Factories or for the suspension of such entity's operations.

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

(a) any event specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Utility Company Subsidiary Loan Agreements have been executed on behalf of the Project Municipalities and each of their respective Utility Companies;

(b) Kunming Drainage Company has adopted and is implementing a wastewater tariff applicable to all domestic and non-domestic wastewater producers of no less than Remninbi 0.35/m³ based on 100% of water consumption; and

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

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

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

(b) that each of the Utility Company Subsidiary Loan Agreements has been duly authorized or ratified by each of the parties thereto and is legally binding upon said parties in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (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/ Zhou Wenzhong

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell Cheetham

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works			45%
(a) for Part A of the Project	3,680,000	37,000,000	
(b) for other works	2,100,000	19,000,000	
(2) Goods			100% of foreign expenditures, 100% of local expenditures (ex factory cost) and 75% of local expen- ditures for other items procured locally
(a) for Part A of the Project	4,170,000	22,200,000	
(b) for Part D.3 of the Project	700,000	4,000,000	
(c) for Parts D.1 and D.2 of the Project	--	17,000,000	
(d) other goods	1,750,000	10,000,000	
(3) Consultants' services and training	5,000,000	10,800,000	100%
(4) Unallocated	--	5,000,000	
TOTAL	17,400,000 =====	125,000,000 =====	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) payments made for expenditures under Category 2 (b), until the Association shall have:

(i) approved the Operational Regulations; and

(ii) notified the Borrower of its acceptance of evidence that the Financial Agency Agreement has been executed on behalf of the parties thereto and is legally binding upon said parties in accordance with its terms;

(c) payments made for expenditures under Category 2 (c), until the Association shall have notified the Borrower of its acceptance of evidence that the Fertilizer Factory Subsidiary Loan Agreements have been executed on behalf of the parties thereto and are legally binding upon said parties in accordance with their terms;

(d) payments made for expenditures under Categories 1 (a) and 2 (a), until Kunming Drainage Company has submitted to the Association:

(i) a financial forecast, acceptable to the Association, demonstrating that Kunming Drainage Company will, for its fiscal year 1997, meet the same requirements as those set forth for Kunming Drainage Company in paragraph B.6 (a) of Schedule 3 to the Project Agreement for each of its fiscal years as of 1998, on the understanding that for the purposes of this sub-paragraph only 'operating revenues' are defined as revenues from all sources related to operations as well as other sources; and

(ii) evidence acceptable to the Association, that all waste water tariff increases included in the assumptions underlying the above-mentioned financial forecast and required to enable Kunming Drainage Company to meet the requirements set forth in said paragraph B.6 (a) for its fiscal year 1997, have been approved by Yunnan; and

(e) payments made for expenditures under Category 1 (a), until the consultants for financial technical assistance, construction supervision services and sector institutional strengthening of Kunming Drainage Company and Kunming Water Supply Company under Part F of the Project, shall have been employed in accordance with Section II of Schedule 1 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures:

- (a) for works under contracts costing less than \$2,500,000 equivalent each;
- (b) for goods under contracts costing less than \$500,000 equivalent each;
- (c) for consultants' services under contracts awarded to consulting firms and costing less than \$100,000 equivalent each;
- (d) for consultants' services under contracts awarded to individuals and costing less than \$50,000 equivalent each; and
- (e) for 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 objectives of the Project are to assist Yunnan to: (a) strengthen its policies, regulatory framework and institutional arrangements for pollution control and municipal water, wastewater, solid waste and nightsoil management; (b) improve the lake environment in Kunming and Gejiu so that lake waters can be used for drinking, industry, agriculture and other purposes; (c) support investments in pollution control and municipally-provided urban environmental services; and (d) introduce a comprehensive approach to planning and financing of urban environmental infrastructure investments.

The Project which constitutes part of Yunnan's long-term environmental

improvement program, 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: Kunming and Lake Dianchi Basin Management

1. Kunming Municipal Solid Waste Management

Construction and equipping of a landfill at Hongshuitang, a land-fill at Baishuitang and about 18 transfer stations throughout Kunming, provision of collection and transportation vehicles and provision of technical assistance for institutional development and training for solid waste management staff.

2. Kunming Water Supply

Construction and equipping of a raw water pipeline of about 14.7 kilometers (km) from Songhuaba, water treatment works of about 100,000 cubic meters per day (m³/day) at Beijiaochang, a concrete storage reservoir at Xiaotunshan of about 10,000 m³/day capacity, distribution connections within the city of about 12 km, extension of the No. 1 water treatment works of about 70,000 m³/day capacity and augmentation facilities at Songhuaba Reservoir to enhance its reliability, and provision of equipment for metering and utility system management.

3. Kunming Wastewater

Construction and equipping of sewers, force mains and ancillary equipment for the central area sewerage rehabilitation (about 57 km), for the southern suburbs sewerage systems (about 4 km), for the northern suburbs sewerage systems (about 52 km), for the eastern suburbs sewerage systems (about 30 km) and the western suburbs sewerage systems (about 54 km); construction and equipping of waste-water treatment facilities at Plant No. 1 (about 65,000 m³/day additional capacity), Plant No. 4B (about 75,000 m³/day capacity) and Plant No. 5 (about 50,000 m³/day capacity); construction of link and connecting sewers and a sewerage maintenance depot and provision of sewer cleaning and safety equipment.

4. Small Towns Wastewater

Construction of about 23 km of trunk and secondary sewers and a water treatment plant of about 15,000 m³/day capacity in the town of Chenggong and of about 8 km of trunk and secondary sewers and a wastewater treatment plant of about 15,000 m³/day capacity in the town of Jinning.

5. Rural Sanitation

Demonstrating appropriate wastewater treatment technology and environmental management for replication in the Dianchi and Songhuaba catchments through implementation of about three pilot projects.

Part B: Gejiu Wastewater Collection, Treatment and Disposal

Construction of about 7 km of sewers and a pump station, rehabilitation and construction of storm drainage facilities, a wastewater treatment plant of about 25,000 m³/day capacity and water balance facilities in Gejiu Lake, so that the lake's water can be used for agricultural and industrial purposes.

Part C: Qujing Investments

1. Municipal Solid Waste Management

Construction of a landfill at Dagou/Xiaopo of about 1.8 million m³ capacity and about 2 transfer stations throughout the city, provision of collection and transportation vehicles, and provision of technical assistance for institutional development and training for solid waste management staff.

2. Wastewater Collection, Treatment and Disposal

Construction and equipping of about 12 km of the trunk collector sewer systems,

the northern area sanitary sewer systems (about 20 km) and connecting sewers in the north and eastern areas; construction and equipping of a wastewater treatment plant and provision of sewer cleaning and safety equipment.

3. Water Supply

Construction and equipping of distribution system pipelines of about 19 km in the northern and eastern areas of the city, a raw water transmission pipeline (about 34 km) from the DuMu reservoir to the city, a raw water transmission tunnel of about 9 km and an extension of the existing water treatment plant at North Qujing to provide additional capacity of about 30,000 m³/day.

Part D: Industrial Pollution Control

1. Kunyang Phosphate Fertilizer Factory

Construction and equipping at the Kunyang Phosphate Fertilizer Factory of a production facility of sulfuric acid and other phosphate products, circulating water systems, a water treatment facility and a wastewater treatment plant and rehabilitation of the intermediate wastewater treatment plant and wastewater stream segregation.

2. Kunming Chemical Fertilizer Factory

Construction and equipping at the Kunming Chemical Fertilizer Factory of a new sulfuric acid plant and wastewater treatment plant, upgrading and rehabilitation of coal gas cleaning facilities, waste-water segregation facilities, and facilities for process water recycling and wastewater treatment for nitrogen removal.

3. Environmental Pollution Control Sub-loans

Establishment and operation of a revolving credit facility for the financing, through Environmental Pollution Control Sub-loans, of specific development projects to upgrade in-plant technology processes of enterprises designed to reduce polluting discharges by said enterprises.

Part E: Environmental Monitoring and Data Management

Upgrading the facilities and strengthening management capacity at the environmental monitoring stations for Yunnan, Kunming, Honghe Prefecture, Gejiu, Qujing Prefecture and Qujing and at the Yunnan Radiation Monitoring Institute, including provision of consultants' services and training.

Part F: Institutional Development and Training

Strengthening the capacity of provincial and municipal level environment, water and waste management institutions in project management, financial management, construction supervision, utility operations, investment project preparation and preparation of environmental plans, through provision of consultants' services and training.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

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

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

the provisions of Schedule 1 to the Development Credit Agreement; provided, however, that notwithstanding the provisions of paragraph 1 (b) of Part D of Schedule 4 to the Project Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Association shall have authorized withdrawals from the Credit Account or the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Association shall subsequently authorize such withdrawals.

(c) The term "Authorized Allocation" means an amount equivalent to \$8,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$5,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$30,000,000.

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

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account or the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) 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 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 applicable General Conditions; or

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

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

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

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or

(ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association:

(A) provide such additional evidence as the Association may request; or

(B) deposit into the Special Account (or, if the Association request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association or the Bank such outstanding amount.

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

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

