

December 6, 2001

Ms. Zou Jiayi  
Acting Director General  
International Department  
Ministry of Finance  
Sanlihe, Baijing  
People's Republic of China

Dear Ms. Zou:

Re: Zhejiang Multicities Development Project (Cr.2475-CHA)  
A Snow Disaster Recovery Component  
Amendment to Development Credit Agreement

1. I refer to the Development Credit Agreement between the People's Republic of China (the Borrower) and the International Development Association (the Association), dated May 18, 1993 (the Development Credit Agreement), pursuant to which the Association agreed to extend a credit to the Borrower (the Credit) to assist in the financing of the Zhejiang Multicities Development Project (the Project). I also refer to the letter dated August 2, 2001 from the Deputy Director-General, International Department, Ministry of Finance, on behalf of the Borrower, requesting amendments to the Development Credit Agreement in order to allow a portion of the proceeds of the Credit to be utilized to assist in financing the most urgent needs of areas of Altai Prefecture of the Borrower's Xinjiang Uyghur Autonomous Region (XUAR) severely affected by recent drought and snowstorms.

2. I am pleased to inform you that the Association concurs with the Borrower's proposal and hereby agrees to amend the Development Credit Agreement as hereinafter provided.

3. Recital (B) and the last "WHEREAS" clause of the preamble are amended to read as follows:

"(B) Parts A, B, C, D, E, F and G of the Project will be carried out by Zhejiang Province (Zhejiang), and Part H of the Project will be carried out by Xinjiang Uyghur Autonomous Region (XUAR) (Zhejiang and XUAR sometimes referred to collectively as "the Project Provinces"); 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, in the Zhejiang Project Agreement between the Association and Zhejiang, and in the Xinjiang Uyghur (Altai) Project Agreement between the Association and XUAR;"

4. Section 1.01 of the Development Credit Agreement is amended to read as follows:

"Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions) constitute an integral part of this Agreement."

5. Section 1.02 of the Development Credit Agreement is amended to read as follows:

"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) "Altai" means Altai Prefecture of the Xinjiang Uyghur Autonomous Region, and any successor thereto.

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

(c) "Company" means any one of the Water Companies or Land Development Companies.

(d) "Financial Agency Agreement" means the agreement to be entered into

pursuant to paragraph 1, Part B of Schedule 3 to the Zhejiang Project Agreement between ZEF and PCBC under which PCBC will act as the financial agent of ZEF for purposes of making ZEF Subloans under the Project.

(e) "ha" means hectare.

(f) "km" means kilometer.

(g) "Land Development Companies" means SADC and SMCC.

(h) "PCBC" means People's Construction Bank of China, a specialized bank established and operating under its Charter.

(i) "Project Agreements" means, collectively, the Zhejiang Project Agreement and the Xinjiang Uyghur (Altai) Project Agreement; and "Project Agreement" means either one of said Project Agreements.

(j) "Project Cities" means Hangzhou Municipality, Ningbo Municipality, Shaoxing Municipality and Wenzhou Municipality in Zhejiang Province.

(k) "Project Provinces" means Zhejiang Province and XUAR, and "Project Province" means either one of said Project Provinces.

(l) "Recovery Project Areas" means the following areas of Altai Prefecture of Xinjiang Uyghur Autonomous Region severely affected by drought and snowstorms: Altai City, Fuyun County, Habahe County, Jimunai County and Qinghe County.

(m) "Recovery Project Areas PMOs" means the project management offices established by XUAR in the Recovery Project Areas under paragraph 1(b) of Schedule 2 to the Xinjiang Uyghur (Altai) Project Agreement.

(n) "Renminbi" means the currency of the Borrower.

(o) "Respective Part of the Proceeds of the Credit" means: in (i) respect of Zhejiang the proceeds of the Credit allocated from time to time to Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and (ii) in respect of XUAR, the proceeds of the Credit allocated from time to time to Category (4) set forth in said table.

(p) "Respective Part of the Project" means: (i) in respect of Zhejiang, Parts A, B, C, D, E, F and G of the Project; and (ii) in respect of XUAR, Part H of the Project.

(q) "SADC" means the Shaoxing Area Development Commission.

(r) "SMCC" means the Shaoxing Municipal construction Commission.

(s) "Special Accounts" means, collectively, the Zhejiang Special Account and the Xinjiang (Altai) Special Account; and "Special Account" means either one of said Special Accounts.

(t) "Subborrower" means a small-scale or medium-scale industrial enterprise to which a ZEF Subloan has been made or is proposed to be made.

(u) "Subsidiary Loan Agreements" means the agreements to be entered into by each of the Project Cities with its respective Water Company or Land Development Companies in accordance with Part B.1 of Schedule 2 to the Zhejiang Project Agreement.

(v) "Water Companies" means the Hangzhou Municipal Water Company, the Ningbo Municipal Water Company, and the Wenzhou Municipal Water Company; "Water Company" means any one of the Water Companies.

(w) "Xinjiang" and XUAR means the Borrower's Xinjiang Uyghur Autonomous Region, and any successor thereto.

(x) "Xinjiang (Altai) Special Account" means the account referred to in Section 2.02 (b)(ii) of this Agreement.

(y) "Xinjiang Uyghur (Altai) Project Agreement" means the agreement to be entered into between the Association and XUAR, as the same may be amended

from time to time, and such term includes all schedules and agreements supplemental to the Xinjiang Uyghur (Altai) Project Agreement.

(z) "ZEF" means the Zhejiang Environmental Fund, established by Zhejiang by Charter, approved by the Zhejiang People's Government on January 20, 1993 and registered with the Zhejiang Provincial Bureau of Commerce and Industry on February 27, 1993; "Charter" means the Charter establishing ZEF.

(aa) "ZEF Subloan" means a subloan made, or proposed to be made, by ZEF, utilizing the proceeds of the credit, to a subborrower for purposes of financing a ZEF Subproject, and which comply with the terms and conditions of Schedule 3 to the Zhejiang Project Agreement.

(bb) "ZEF Subproject" means a specific investment project designed to abate pollution created by a small-scale or medium-scale industrial enterprise in an urban area, to be financed or proposed to be financed by ZEF pursuant to a ZEF Subloan utilizing the proceeds of the Credit.

(cc) "ZEPB" means the Zhejiang Environmental Protection Bureau.

(dd) "Zhejiang" means the Borrower's Zhejiang Province, and any successor thereto.

(ee) "Zhejiang PMOs" means the project management offices established pursuant to paragraph 1, Part A of Schedule 2 to the Zhejiang Project Agreement, by each of the Project Cities; and "Zhejiang PMO" means any one of the Zhejiang PMOs.

(ff) "Zhejiang Project Agreement" means the agreement between the Association and Zhejiang Province, 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 Zhejiang Project Agreement.

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

(hh) "ZUDPO" means the Zhejiang Urban Development Project Office, established pursuant to Part A.1 of Schedule 2 to the Zhejiang Project Agreement.

6. Section 2.02(b) of the Development Credit Agreement is amended to read as follows:

"(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars the following two special deposit accounts 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 Parts A, B, C, D, E, F and G of the Project (the Zhejiang Special Account); and (ii) one for Part H of the Project (the Xinjiang (Altai) Special Account). Deposits into and payments out of the Special Accounts shall be made in accordance with the provisions of Schedule 3 to this Agreement."

7. Section 3.01 of the Development Credit Agreement is amended to read as follows:

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

(b) For purposes of Parts A, B, C, D, E, F and G of the Project, the Borrower shall on lend to Zhejiang its Respective Part of the Proceeds of the Credit on the following terms and conditions:

- (i) repayment over a period not exceeding fifteen (15) years, including five (5) years grace;
- (ii) interest to be paid by Zhejiang at the rate of 5.1% per annum;
- (iii) all foreign risks to be borne by Zhejiang; and
- (iv) commitment charges to be paid by Zhejiang at a fixed rate of one-half of one percent per annum.

(c) For purposes of Part H of the Project, the Borrower shall onlend to XUAR its Respective Part of the Proceeds of the Credit on the following terms and conditions:

- (i) the Borrower shall recover from XUAR the Credit Amount in semi-annual instalments over a period of ten (10) years inclusive of a grace period of four (4) years;
- (ii) the Borrower shall charge XUAR a service charge on the Credit Amount withdrawn and outstanding from time to time at a rate of three-fourths of one percent (3/4 of 1%);
- (iii) the Borrower shall charge XUAR a commitment fee on the principal amount of the Credit so made available and remaining unwithdrawn from time to time at the rate of one-half of one percent (0.5%);
- (iv) XUAR shall bear the foreign exchange risk."

8. Section 3.02 of the Development Credit Agreement is amended to read as follows:

"Section 3.02. Except as the Association shall otherwise agree, (a) procurement of the goods, works, and consultants' services required for Parts A, B, C, D, E, F and G of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Zhejiang Project Agreement; and (b) procurement of the goods, works, and consultants' services required for Part H of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Xinjiang Uyghur (Altai) Project Agreement."

9. Section 3.03 of the Development Credit Agreement is amended to read as follows:

"Section 3.03. The Borrower and the Association hereby agrees 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 respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) shall be carried out by:

- (a) Zhejiang pursuant to Section 2.03 of the Zhejiang Project Agreement, in respect of Parts A, B, C, D, E, F and G of the Project; and
- (b) XUAR pursuant to Section 2.03 of the Xinjiang Uyghur (Altai) Project Agreement, in respect of Part H of the Project."

10. Clause (i) of Section 4.01 (b) of the Development Credit Agreement shall be amended by substituting the term "the Special Accounts" for the term "the Special Account" therein.

11. The introductory paragraph and paragraphs (a) and (b) of Section 5.01 of the Development Credit Agreement are amended to read as follows:

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

- (a) Either of the Project Provinces shall have failed to perform any of its obligations under the Zhejiang Project Agreement or the Xinjiang Uyghur (Altai) Project Agreement, as the case may be.
- (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 either of the Project Provinces will be able to perform its obligations under the Zhejiang Project Agreement or the

Xinjiang Uyghur (Altai) Project Agreement, as the case may be."

12. Section 5.02 of the Development Credit Agreement is amended by substituting the reference "Section 7.01(h)" for the reference "Section 7.01(d)" therein.

13. Section 6.02 of the Development Credit Agreement is amended by substituting the term "Zhejiang Project Agreement" for the term "Project Agreement" therein.

14. The table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement is amended to read as follows:

Category	Amount of the Credit Expressed (in SDR Equivalent	% of Expenditures Financed
(1) Goods (other than under	3,900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Civil Works (other than under Part H of the Project):	70,000,000	50%
(3) Consultants' services and training (other than under H of the Project)	3,200,000	30%
(4) Part H of the Project		
(a) Goods	231,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 75% of expenditures for other items procured locally
(b) Civil works	1,907,000	66%
(c) Consultants' services and training	62,000	100%
TOTAL	79,300,000	

15. Paragraphs 2 (a) and 2(b) of Schedule 1 to the Development Credit Agreement are amended to read as follows:

"(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 and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed "foreign expenditures; and

(b) the term "local expenditures" means any expenditures that are not foreign expenditures."

16. A new paragraph 4 is added to Schedule 1 to the Development Credit Agreement to read as follows:

"4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) works under contracts costing less than \$200,000 equivalent each; (b) goods under contracts costing less than \$100,000 equivalent each; (c) consultants' services under contracts with individuals costing less than \$30,000 each; and (d) training; in each case under such terms and conditions as the Association shall specify by notice to the Borrower."

17. The first paragraph of Schedule 2 to the Development Credit Agreement is amended to read as follows:

"The objective of the Project is to assist the Borrower: (a) in supporting improvements in water supply, land development, environmental pollution control and traffic management in the Project Cities in Zhejiang Province; and (b) in restoring social and economic infrastructure critical to the lives of herders devastated by an unusually severe snowstorm in hard hit areas of Altai Prefecture of Xinjiang Uyghur Autonomous Region and in enhancing and strengthening the disaster response capacity of the affected herders."

18. Schedule 2 to the Development Credit Agreement is amended by adding a new Part H after Part G thereof, as follows:

"Part H: Snow Disaster Recovery

1. Reconstruction and restoration of residential structures in the Recovery Project Areas.

2. Restoration and rehabilitation of livestock sheds in the Recovery Project Areas.

3. Pasture rehabilitation including carrying out small pasture rehabilitation, development of sown pasture, supply of forage handling equipment and storage facilities, and improvement of water supply through gravity-fed irrigation, in the Recovery Project Areas.

4. Carrying out a program of institutional strengthening through (a) the provision of technical assistance to improve grassland management, and enhance disbursement, procurement, and evaluation and monitoring activities and (b) the provision of office equipment."

19. The last line of Schedule 2 to the Development Credit Agreement is amended to read as follows: "The Project is expected to be completed by November 30, 2002."

20. Schedule 3 to the Development Credit Agreement is amended by: (a) substituting the term "Special Accounts" for the term "Special Account" in the title thereof; (b) substituting the term "respective Special Account" for the term "Special Account" wherever the latter is used in the Schedule; and (c) amending paragraph 1 to read as follows:

"1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in respect of the Zhejiang Special Account, Categories (1), (2) and (3); and (ii) in respect of the Xinjiang (Altai) Special Account, Category (4);

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means: (i) in respect of the Zhejiang Special Account, an amount equivalent to \$7,000,000; and (ii) in respect of the Xinjiang (Altai) Special Account, an amount equivalent to \$700,000; in each case to be withdrawn from the Credit account and deposited into the Respective Special Account pursuant to paragraph 3(a) of this Schedule."

21. Notwithstanding the provisions of Schedule 1 to the Development Credit Agreement, no withdrawals shall be made in respect of payments made for expenditures for Part H of the Project prior to the date of effectiveness of this letter of amendment except that withdrawals in an aggregate amount not to exceed SDR 440,000 may be made in respect of Categories (4)(a), (4)(b) and (4)(c) on account of payments made for expenditures before that date but after July 26, 2001.

22. The Association further agrees to establish May 31, 2003 as the later date for purposes of Section 2.03 of the Development Credit Agreement, but only in regard to Part H of the Project and in respect of Category 4 set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement.

23. Please confirm the agreement of the Borrower to the amendments set forth in paragraphs 3 through 22 above by countersigning and dating the corresponding form of confirmation set forth below, and returning one fully signed original of this amendment letter to us. One fully signed original should be retained by the Borrower.

24. Except as specifically amended hereby, all other provisions of the Development Credit Agreement remain in full force and effect. Upon receipt by the Association of: (a) the copy of this letter of amendment duly countersigned by the authorized representative of the Borrower; (b) the Xinjiang Uyghur (Altai) Project Agreement, duly countersigned by the authorized representative of XUAR; and (c) evidence satisfactory to the Association that the Xinjiang Uyghur (Altai) Project Agreement has been duly authorized or ratified by XUAR and is legally binding upon XUAR in accordance with its terms; the above amendments and the Xinjiang Uyghur (Altai) Project Agreement, shall become effective as of the date of countersignature of this letter of amendment or the date of countersignature of the Xinjiang Uyghur (Altai) Project Agreement, whichever is later.

Sincerely,

By /s/Yukon Huang  
Country Director, China  
East Asia and Pacific Region

CONFIRMED  
PEOPLE'S REPUBLIC OF CHINA

By /s/ Ju Kuilin  
Authorized Representative

Date: December 6, 2001

