

CONFORMED COPY

CREDIT NUMBER 2447-CHA

(Reform, Institutional Support and Preinvestment Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 30, 1992

CREDIT NUMBER 2447-CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 30, 1992, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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;

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;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Implementing Agency" means singularly the department or agency of the Borrower responsible for carrying out a Sub-project, and "Implementing Agencies" mean collectively the departments and agencies of the Borrower responsible for carrying out the Sub-projects.

(b) "MOF" means the Ministry of Finance of the Borrower or any successor thereto.

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

(d) "Sub-project" means singularly a sub-project or study referred to in Part A or B of the Project, and "Sub-projects" mean collectively the sub-projects and studies referred to in Parts A and B of the Project.

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 thirty-five million five hundred thousand Special Drawing Rights (SDR 35,500,000).

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 (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be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 shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank 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 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1998 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 cancelled; 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 June 1 and December 1 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 June 1 and December 1 commencing June 1, 2003 and ending December 1, 2027. Each installment to and including the installment payable on December 1, 2012 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, shall cause the Implementing Agencies to carry out the Project under the general supervision and guidance of MOF, with due diligence and efficiency and in conformity with appropriate financial, technical and administrative practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods 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 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the 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, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

(c) 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 paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, 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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

Section 5.01. Without in any way restricting or limiting any other right, power or remedy of the Association under the Development Credit Agreement, the Association may, by notice to the Borrower, terminate in whole or in part the right of the Borrower to make withdrawals from the Credit Account on account of any Sub-project if any of the following events shall have occurred and be continuing:

(a) the Borrower shall have failed to perform any covenant, agreement or obligation under this Agreement in respect of such Sub-project;

(b) the contract for the employment of consultants to assist in the carrying out of such Sub-project shall not have come into force and effect within six months

from the date of the approval of
such Sub-project by the Association; and

(c) an extraordinary situation shall have arisen which shall make it
improbable that such Sub-project can be carried out in accordance with the provisions
of this Agreement.

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 the Borrower's State Council shall have
approved the Development Credit Agreement.

Section 6.02. The date ninety (90) days after the date of this Agreement is
hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:

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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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/ Zhu Qizhen

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shahid Javed Burki

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit 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)	% of Expenditures to be Financed
(1) Sub-projects under Part A of the Project		
(a) Equipment	2,800,000	100% of foreign ex- penditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	11,400,000	100%
(2) Sub-projects under Part B of the Project		
(a) Equipment	5,300,000	100% of foreign ex- penditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	16,000,000	100%
TOTAL	<u>35,500,000</u> =====	

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, except that withdrawals, in an aggregate amount not to exceed SDR2,200,000 may be made in respect of Category (2) (b) on account of payments made for expenditures before that date but after November 15, 1992; and (b) expenditures on account of a Sub-project unless the Sub-project has been approved by the Association.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Borrower's (a) economic reform program and related institutional strengthening, and (b) investment program for development projects.

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: REFORM AND INSTITUTIONAL DEVELOPMENT

Carrying out of selected sub-projects comprising the provision of consultants' services, training and equipment to Implementing Agencies responsible for the Borrower's economic reform program including the following:

1. Improving the national accounting system and the capability for statistical analysis of the Borrower's State Statistical Bureau;
2. Improving the economic analysis and forecasting ability of the Chinese Academy of Social Sciences;
3. Assisting the Borrower's Commission for the Restructuring of the Economic System to carry out various studies relating to the Borrower's reform program;
4. Assisting the Borrower's State Tax Bureau to enable it to formulate and implement tax policy;
5. Assisting the Borrower's Ministry of Materials and Equipment to support its program of reform of the distribution system for major goods;
6. Assisting the Borrower's Ministry of Finance to carry out the Borrower's program of economic and sectoral analysis in support of the economic reform program; and
7. Improving training networks in the Borrower's transport and health sectors including provision of training to personnel of selected local training institutions including overseas study tours.

PART B: INVESTMENT SUPPORT

Carrying out of selected sub-projects comprising the provision of consultants' services, training and equipment required for the preparation of feasibility studies of projects to be financed by the Bank or the Association and project related studies, and, in exceptional cases, the implementation of such projects.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I

and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in People's Republic of China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost less than the equivalent of \$200,000 per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, except that goods estimated to cost less than the equivalent of \$100,000, up to an aggregate amount equivalent to \$3,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

2. Contracts for goods of a proprietary nature may be awarded after direct negotiations with the suppliers thereof, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

For the purpose of carrying out the Project, the Borrower shall cause the Implementing Agencies to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

Implementation Program

1. The Sub-projects shall be selected in accordance with the criteria and procedures specified hereinbelow:

(a) The purpose and scope of each Sub-project, the method of implementation thereof, and the specific allocation thereto of proceeds of the Credit shall be determined by agreement between the Borrower and the Association.

(b) Each Sub-project shall be of high priority in the Borrower's development efforts and shall have no equally suitable financing available from the United Nations Development Programme or other external financing agencies.

(c) The Borrower shall submit, for the Association's approval, the proposal for each Sub-project in a form satisfactory to the Association. The said proposal shall include the following information:

(i) a description of the proposed Sub-project, including a time schedule for, the purposes and objectives of, and the benefits expected from such Sub-project;

(ii) a description of the role of the department or agency Borrower to be designated as Implementing Agency for the purpose of execution of the proposed Sub-project and counterpart staff, if any, to be supplied by the Borrower;

(iii) a description of the expenditures proposed to be financed out of the proceeds of the Credit including an estimate of foreign and local costs of the proposed Sub-project broken down by major items and showing amounts to be financed by the Borrower and out of the proceeds of the Credit, respectively, and an estimated disbursement schedule;

(iv) the manner and form in which the allocated part of the proceeds of the Credit is proposed to be made available to the designated Implementing Agency including the terms and conditions thereof;

(v) a general description of the arrangements to be made by the department or agency to be responsible for the execution of the proposed Sub-project for the provision of office space, secretarial facilities, transportation and other operational facilities required for the proposed Sub-project to proceed efficiently;

(vi) the proposed selection procedures, qualifications, terms of reference and duration of service for any consultants to be engaged for the purposes of the proposed Sub-project;

(vii) measures to be taken to comply with paragraphs 3 (a) and (b) below; and

(viii) such other information as the Association may reasonably request.

(d) The Borrower shall, upon approval of a Sub-project by the Association, forthwith make the allocated part of the proceeds of the Credit available to the designated Implementing Agency in a manner and form and on the terms and conditions acceptable to the Association. If the Implementing Agency is non-revenue earning and is deemed not to have the resources available for repayment, the Implementing Agency shall not be required to repay such proceeds. All other Implementing Agencies shall be required to repay such proceeds with maturity, interest rate and currency acceptable to the Association. Under Part A of the Project, the Borrower shall grant preference to Sub-projects proposed by designated Implementing Agencies which are non-revenue earning.

2. The Borrower shall ensure effective coordination among the Implementing Agencies

in carrying out the Sub-projects and shall monitor the progress thereof in accordance with guidelines satisfactory to the Association.

3. (a) The Borrower shall take or cause to be taken all reasonable measures to facilitate the work of consultants in the performance of their services for each Sub-project and make available to them all information relevant thereto.

(b) The Borrower shall not permit the amendment or waiver of any material terms and conditions of employment of consultants employed for any Sub-project, or the grant of any material extension of time specified for the carrying out of any Sub-project, or the grant of any material extension of time or any approval of sub-contracts or modifications thereof, or the agreement to substitute personnel of such consultants, without the prior consent of the Association. The Borrower shall promptly inform the Association if it proposes to suspend payments under or terminate any contract with such consultants.

(c) The Borrower shall furnish to the Association copies of the documents prepared by the consultants engaged for any Sub-Project, including reports and drafts thereof, in such number as the Association shall reasonably request.

(d) The Borrower shall establish arrangements and procedures, satisfactory to the Borrower and the Association, for supervising and directing the work of any consultants employed for Sub-projects and reviewing the reports and recommendations of such consultants with the Association.

4. The Borrower shall furnish to the Association the information required under Section 9.06 (a) (iii) of the General Conditions in semi-annual progress reports, to be provided to the Association by February 28 and August 31 in each year, for the periods ending December 31 and June 30, respectively.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(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 an amount equivalent to \$4,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 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 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 and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

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

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

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

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) 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 such outstanding amount.

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

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

