

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: Enterprise Reform Project (Cr 3271-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 December 30, 1999 (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 Enterprise Reform 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 Tacheng 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. The recitals are amended by the addition of a second paragraph between the first and second paragraphs to read as follows:

"WHEREAS Parts A, B, C and D of the Project will be carried out by the municipalities of Shenyang and Wuhu (each, a Project City, and together, the Project Cities) and Part E of the Project will be carried out by Xinjiang Uyghur Autonomous Region (XUAR); and"

4. The first paragraph of 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), with the modification set forth below (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) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) "Project Cities" means, collectively, Shenyang and Wuhu; and "Project City" means, individually, either of the Project Cities.

(c) "Project Implementation Arrangement" means, in respect, of each Project City, the arrangement to be entered into between the Borrower and said Project City in accordance with the provisions of Section 3.01 (b) of this Agreement, as said arrangement may be amended from time to time, and such term includes all schedules and agreements or arrangements supplemental to the Project Implementation Arrangement; and "Project Implementation Arrangements" means,

collectively, all of said arrangements.

(d) "Respective Part of the Project" means: (i) in respect of each Project City, the activities to be carried out by said Project City under Parts A, B, C and D of the Project; and (ii) in respect of XUAR, the activities to be carried out by XUAR under Part E of the Project.

(e) "Recovery Project Areas" means the following areas of Tacheng Prefecture of Xinjiang Uyghur Autonomous Region severely affected by drought and snowstorms: Emin County, Hefeng County, Tacheng City, Tuoli County and Yumin County.

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

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

(h) "Special Accounts" means, collectively, the Shenyang Special Account, the Wuhu Special Account and the Xinjiang (Tacheng) Special Account.

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

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

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

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

(m) "Xinjiang Uyghur (Tacheng) Project Agreement" means the agreement to be entered into between the Association and Xinjiang Uyghur Autonomous Region, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Xinjiang Uyghur (Tacheng) Project Agreement.

(n) "Xinjiang (Tacheng) Special Account" means the account referred to in Section 2.02 (b)(iii) of this 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 three 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 such account for the purposes of Shenyang's Respective Part of the Project (the Shenyang Special Account); (ii) one such account for purposes of Wuhu's Respective Part of the Project (the Wuhu Special Account); and (iii) one such account for purposes of XUAR's Respective Part of the Project. Deposits into and payments out of the Special Accounts shall be made in accordance with the provisions of Schedule 4 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 this Development Credit Agreement, shall: (i) cause the Project Cities to carry out their Respective Parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, and financial practices; (ii) cause XUAR to perform in accordance with the provisions of the Xinjiang Uyghur (Tacheng) Project Agreement all the obligations of XUAR therein set forth; and (iii) take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Cities and XUAR Mongolia 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 and D of the Project, the Borrower shall make available to each Project City through its respective province a portion of the proceeds of the Credit under a Project Implementation Arrangement to be entered into between the Borrower and said project City under terms and conditions which shall have been approved by the Association and which are set forth in Schedule 5 to this Agreement; and

(c) For purposes of Part E of the Project, the Borrower shall make available to XUAR a portion of the proceeds of the Credit equivalent in terms of SDR (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn on account of the cost of goods and services required for Part E of the Project and to be financed out of the proceeds of the Credit (the Credit Amount), under 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 and D of 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; and (b) procurement of the goods and works, required for Part E 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 (Tacheng) Project Agreement."

9. The introductory paragraph of Section 3.04 of the Development Credit Agreement is amended to read as follows:

"Section 3.04. In respect of Parts A, B, C and D of the Project, for the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:"

10. A new Section 3.05 is added to Article III of the Development Credit Agreement as follows:

"Section 3.05. 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 XUAR pursuant to Section 2.03 of the Xinjiang Uyghur (Tacheng) Project Agreement."

11. The introductory paragraph of Section 4.01 (c) of the Development Credit Agreement and clause (i) of said Section are amended to read as follows:

"(c) The Borrower shall, or shall cause the respective province of each Project City and XUAR, as the case may be, to:

- (i) have the records and accounts for the respective Special Accounts for each fiscal year audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;"

12. Section 5.01 of the Development Credit Agreement is amended by the addition of a new paragraph (b), by re-numbering paragraph (b) as paragraph (c) and amending it as

follows:

"(b) XUAR shall have failed to perform any of its obligations under the Xinjiang Uyghur (Tacheng) Project Agreement.

(c) 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 any party to any of the Project Implementation Arrangements will be able to perform its obligations thereunder, or that XUAR will be able to perform its obligations under the Xinjiang Uyghur (Tacheng) Project Agreement."

13. Section 5.02 of the Development Credit Agreement is amended to read as follows:

"Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely any event specified in paragraph (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower."

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) Shenyang's Respective Part of the Project:		100%
(a) Consultants' services	850,000	
(b) Training	300,000	
(2) Wuhu's Respective Part of the of the Project:		100%
(a) Consultants' services	540,000	
(b) Training	380,000	
(3) XUAR's Respective Part of the Project		
(a) Works	1,528,000	65%
(b) Goods expenditures, of items	77,000	100% of foreign 100% of local expenditures (ex-factory cost), and 75% expenditures for other procured locally
(c) Training	25,000	100%
TOTAL	3,700,000	

15. (a) A new paragraph 2 is added to Schedule 1 to the Development Credit Agreement; (b) paragraphs 2 and 3 are re-numbered accordingly; and (c) the re-numbered paragraph 4 is amended; all as follows:

"2. For purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region

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";

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

"4. The Association may require withdrawals from the Credit account to be made on the basis of statements of expenditures:

(a) in respect of Parts A, B, C and D of the Project, for: (i) training, regardless of the cost thereof; (ii) consultants' services under contracts awarded to firms costing less than \$100,000 equivalent each, other than the first three (3) contracts awarded to a firm in Shenyang and the first five (5) contracts awarded to a firm in Wuhu; and (iii) consultants' services under contracts awarded to individuals costing less than \$50,000 equivalent each, other than the first three (3) contracts awarded to an individual in Shenyang and the first five (5) contracts awarded to an individual in Wuhu;

(b) in respect of Part E of the Project, for: (i) works under contracts costing less than \$200,000 equivalent each; (ii) goods under contracts costing less than \$100,000 equivalent each; and (iii) training;

in each case under such terms and conditions as the Association shall specify by notice to the Borrower."

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

"The objectives of the Project are to assist the Borrower: (a) to learn from innovative methods for the reform of the Borrower's state-owned enterprises through (i) adaptation of potential improvements in enterprise reform methods to local circumstances, (ii) implementation of such improvements on a pilot basis and (iii) dissemination of lessons learned; and (b) to restore social and economic infrastructure critical to the lives of herders devastated by an unusually severe snowstorm in Tacheng Prefecture of the Borrower's Xinjiang Uyghur Autonomous Region, and to enhance and strengthen the disaster response capacity of the affected herders."

17. Schedule 2 to the Development Credit Agreement is amended by adding a new Part E after Part D thereof, as follows:

"Part E: Snow Disaster Recovery

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

2. 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.

3. 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."

18. 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."

19. The title of Schedule 3 to the Development Credit Agreement is amended to read as follows: "Procurement under Parts A, B, C and D of the Project."

20. Schedule 4 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

Shenyang Special Account, Category (1); (ii) in respect of the Wuhu Special Account, Category (2); and (iii) in respect of the Xinjiang (Tacheng) Special Account, Category (3);

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit 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 Shenyang Special Account, an amount equivalent to \$155,000; (ii) in respect of the Wuhu Special Account, an amount equivalent to \$125,000; and in respect of the Xinjiang (Tacheng) Special Account, an amount equivalent to \$500,000; 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 E 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 326,000 may be made in respect of Categories (3)(a), (3)(b) and (3)(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 E of the Project and in respect of Category 3 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 (Tacheng) Project Agreement, duly countersigned by the authorized representative of XUAR; and (c) evidence satisfactory to the Association that the Xinjiang Uyghur (Tacheng) 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 (Tacheng) 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 (Tacheng) 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

