

CONFORMED COPY

CREDIT NUMBER 3233 CHA

Development Credit Agreement

(Fourth Rural Water Supply and Sanitation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 17, 1999

CREDIT NUMBER 3233 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 17, 1999, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to sixteen million dollars (\$16,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(D) the Project will be carried out by the Borrower and by Anhui Province, Fujian Province, Guizhou Province and Hainan Province (Project Provinces) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the Project Provinces the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith among the Association, the Bank and the Project Provinces;

NOW THEREFORE the parties hereto hereby agree as follows;

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

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

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

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

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

(b) "AWP" means the consolidated annual work plan for the implementation of the Project in each calendar year, prepared by NPO pursuant to paragraph 1(c)(i) of Schedule 3 to this Agreement.

(c) "CPOs" means the project offices in the Project Counties referred to in paragraph 1 of Schedule 1 to the Project Agreement; and "CPO" means any of the CPOs.

(d) "Category" and "Categories" means one or more categories set out in the table in paragraph 1 of Schedule 1 to this Agreement.

(e) "Design Manual" means the "China Rural Water Supply Engineering, Planning and Design Manual" containing technical standards for the design of rural water supply investments, dated June 1998 and referred to in paragraph 5 of Schedule 1 to the Project Agreement, as the same may be revised by agreement among the Borrower, the Association and the Project Provinces.

(f) "Front-end fee" means the fee referred to in Section 2.04 of the Loan Agreement, payable by the Borrower on effectiveness of the Loan Agreement.

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

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

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

(j) "NPO" means the National Project Office referred to in paragraph 1 of Schedule 3 to this Agreement.

(k) "PPOs" means the project offices in the Project Provinces, referred to in paragraph 1 of Schedule 1 to the Project Agreement; and "PPO" means any of the PPOs.

(l) "Project Agreement" means the agreement of even date herewith among the Association, the Bank and the Project Provinces as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(m) "Project Counties" means the counties in each Project Province selected by agreement among the Borrower, the Association and the Project Provinces to participate in the Project.

(n) "Project Provinces" means, collectively, Anhui, Fujian, Guizhou and Hainan; and "Project Province" means any of the Project Provinces.

(o) "Provincial Parts of the Project" means Parts A, B, C.1(b) and C.2 of the Project.

(p) "Resettlement Policy Framework" means the "Policy Framework for Compensation, Resettlement and Rehabilitation of Project Affected Persons", dated February 9, 1999, approved by the Borrower and the Project Provinces, which sets out the policies and procedures governing land acquisition, resettlement and compensation for the implementation of the Project, and the reporting and monitoring arrangements to ensure compliance with such policies and procedures.

(q) "Respective Part of the Project" means, in respect of each Project Province, the activities to be carried out by said Project Province under the Provincial Parts of the Project.

(r) "Special Accounts" means the four (4) accounts referred to and designated in Section 2.02(b) of this Agreement; "Special Account" means any of the Special Accounts.

(s) "Yuan" and "Y" mean the currency of the Borrower.

## 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 twenty-two million two hundred thousand Special Drawing Rights (SDR 22,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars the following four (4) 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 and attachment: (i) one such account for purposes of Anhui's Respective Part of the Project (Anhui's Special Account); (ii) one such account for the purposes of Fujian's Respective Part of the Project (Fujian's Special Account); (iii) one such account for purposes of Guizhou's Respective Part of the Project (Guizhou's Special Account) and (iv) one such

account for purposes of Hainan's Respective Part of the Project (Hainan's Special Account). Deposits into, and payments out of, each 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, 2005, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing August 15, 2009, and ending February 15, 2034. Each installment to and including the installment payable on February 15, 2019, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(i) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(ii) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual

rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(i) shall carry out Parts C.1(a) and Part C.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

(ii) without limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause the Project Provinces to perform all of their respective obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) 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 Parts C.1(a) and C.2 of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. The Borrower shall make available to each Project Province for the purpose of implementing the Provincial Parts of the Project, part of the proceeds of the Credit on the following principal terms:-

(a) The principal amount so made available to each Project Province:  
(i) shall be the equivalent in terms of SDR (determined as of the date, or respective dates, of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn on account of the cost of goods and services required for said Project Province's Respective Part of the Project, and to be financed out of the proceeds of the Credit (the Credit Amount) and (ii) shall be recovered by the Borrower in a currency other than Yuan, in an amount equivalent to the Credit Amount (determined as of the date or respective dates of repayment).

(b) The Borrower shall recover the Credit Amount from said Project Province in semi-annual installments payable over a period of 17 years, inclusive of a grace period of 5 years.

(c) The Borrower shall collect from each Project Province: (i) a commitment fee on the principal amount of the Credit so made available and not withdrawn from time to time, at a rate which shall not exceed one-half of one percent (1/2 of 1%) per annum; and (ii) a service charge on the Credit Amount withdrawn and outstanding from time to time, at a rate which shall not exceed three fourths of one percent (3/4 of 1%) per annum.

Section 3.03. 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 4 to this Agreement.

Section 3.04. 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 the Project Provinces pursuant to Section 2.03 of the Project Agreement.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

#### 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 Parts C.1(a) and C.2 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 Accounts) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) 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; 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.

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

(a) any Project Province shall have failed to perform any of its obligations under the Project Agreement; and

(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 any Project Province will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that any event specified in Section 5.01(a) 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.

#### 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, all conditions precedent to the effectiveness of the Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following event is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Project Agreement has been duly authorized or ratified by each Project Province and is legally binding upon each Project Province 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

Telex:

22486 MFPRC CN Beijing

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Guangyao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang

Authorized Representative

#### SCHEDULE 1

##### Withdrawal of the Proceeds of the Credit and 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) For Anhui's Respective Part of the Project:			
(a) Works	2,080,000	1,720,000	41%
(b) Goods	3,760,000	3,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(c) Consultants' services	70,000	-	100%
(d) Training and study tours	490,000	-	100%



	(e) Incremental Costs	360,000	-	100%
(2)	For Fujian's Respective Part of the Project:			
	(a) Works	1,660,000	1,370,000	44%
	(b) Goods	2,530,000	2,080,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
	(c) Consultants' services	70,000	-	100%
	(d) Training and study tours	310,000	-	100%
	(e) Incremental Costs	250,000	-	100%
(3)	For Guizhou's Respective Part of the Project:			
	(a) Works	1,810,000	1,490,000	39%
	(b) Goods	3,220,000	2,630,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
	(c) Consultants' services	70,000	-	100%
	(d) Training and study tours	390,000	-	100%
	(e) Incremental Costs	310,000	-	100%
(4)	For Hainan's Respective Part of the Project:			
	(a) Works	1,140,000	1,140,000	43%
	(b) Goods	2,800,000	2,310,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
	(c) Consultants' services	70,000	-	100%

	(d) Training and study tours	320,000	-	100%
	(e) Incremental Costs	230,000	-	100%
(5)	Front-end fee	-	160,000	
	TOTAL	22,200,000	16,000,000	

2. For the purposes of this Schedule:

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

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

(c) the term "Incremental Costs" means the cost of travel, accommodation, meals and printing of survey and training materials incurred by CPOs in connection with: (i) the carrying out of surveys under Part C.2 of the Project; and (ii) training to be carried out under Part A.2 of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$140,000 for expenditures in respect of Categories (1)(c), (1)(d), (1)(e), (2)(c), (2)(d), (2)(e), (3)(c), (3)(d), (3)(e), (4)(c), (4)(d) and (4)(e), on account of payments made for expenditures before that date but after March 24, 1999; and expenditures under Categories (1), (2), (3) and (4) until the AWP for the year 2000 has been approved by the Association, in accordance with paragraph 1(c) of Schedule 3 to this Agreement.

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

- (a) goods under contracts costing less than \$500,000 equivalent each;
- (b) works under contracts costing less than \$ 2,500,000 equivalent each;

(c) consultants' services under contracts with consulting firms or individuals costing less than \$100,000 equivalent and \$50,000 equivalent, respectively; and

(d) training, study tours and Incremental Costs, regardless of the costs thereof, all under such terms and conditions as the Association and the Bank shall specify by notice to the Borrower.

#### SCHEDULE 2

##### Description of the Project

The objective of the Project is to assist the Borrower to improve access to safe water for the rural population and the health and sanitation practices of the rural poor in the Project Provinces through: (i) the construction of safe water supply systems; (ii) the provision of related health education; (iii) the provision of sanitation information and demonstration facilities; and (iv) the strengthening of water supply, sanitation and health education management.

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: Water Supply

1. Construction of piped water supply systems, rain water collectors, wells with handpumps and related facilities under investment programs in the Project Counties.
2. Development of the capacity of villagers to operate and financially manage water supply systems through the provision of training.

Part B: Sanitation and Health Education

1. Improvement of water related health and sanitation practices of the rural population, through provision of health education to:
  - (a) key community leaders and health practitioners at the provincial, county and village levels; and
  - (b) the population of the Project Counties.
2. Construction of demonstration household and village school sanitation facilities in villages in the Project Counties.

Part C: Project Management

1. Strengthening of the management, design, supervision, monitoring and reporting capacities of: (a) the National Project Office, and (b) project offices in the Project Provinces and Project Counties, through the provision of consultants' services, training, equipment and the carrying out of works.
2. Carrying out of baseline and follow-up surveys in villages of the Project Counties to measure and evaluate access to safe water as well as sanitation and health behavior and practices, through the provision of consultants' services and training.

\* \* \*

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Implementation Program

1. The Borrower shall maintain the NPO, staffed with qualified personnel in adequate numbers and with functions and responsibilities satisfactory to the Association, which shall include the following:
  - (a) the NPO shall be responsible for the overall coordination and supervision of Project execution;
  - (b) the NPO shall appraise all investments under the investment programs under Part A of the Project with an estimated value of more than Yuan 3,000,000, and review, in particular, the quality of the engineering and financial preparation and the overall design and feasibility of such proposed investments;
  - (c) the NPO shall: (i) by November 30 of each year, starting in 1999, prepare and furnish to the Association for its review and comments, a consolidated annual work plan for Project implementation activities to be carried out during the following calendar year, which plan shall be prepared on the basis of, among others, annual work plans prepared by the Project Provinces (including resettlement inventories and action plans as may be required by the Resettlement Policy Framework) in accordance with paragraph 2(a) of Schedule 1 to the Project Agreement; and (ii) afford the Association a reasonable opportunity to exchange views with NPO on said AWP and, thereafter, promptly inform each Project Province of such AWP as shall have been accepted by the Association; and
  - (d) the NPO shall analyze and consolidate the outputs resulting from the carrying out by the Project Provinces of Part C.2 of the Project and shall furnish such consolidated outputs to the Association for review and comments by January 1,

2000, for baseline surveys carried out by the Project Provinces pursuant to paragraph 6 of Schedule 1 to the Project Agreement.

2. Any revision to an AWP shall be submitted to the Association for its review and prior approval.

3. The Resettlement Policy Framework shall not be modified or revised without the prior concurrence of the Association.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators acceptable to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by March 15 and August 31 of each year, starting August 31, 2000, for the immediately preceding six (6) month period ending December 31 and June 30, respectively (and in the case of the first report to be submitted pursuant to this sub-paragraph (b), for the two immediately preceding six (6) month periods) a consolidated semi-annual report integrating the information provided in the reports submitted by the PPOs pursuant to paragraph 7 of Schedule 1 to the Project Agreement;

(c) prepare under terms of reference satisfactory to the Association and furnish to the Association by March 15, 2002, a consolidated report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 4(a) of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Association, by June 1, 2002, or such later date as the Association shall request, the report referred to in paragraph 4(c) of this Schedule, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

#### SCHEDULE 4

#### Procurement

#### Section I. Procurement of Goods and Works

#### Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. For the purposes of the procurement of goods or works to be financed in whole or in part out of the proceeds of the Credit, the references in paragraphs 1.6 and 1.8 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

#### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower (other than goods manufactured in the Hong Kong Special Administrative Region of the Borrower).

Part C: Other Procurement Procedures

1. National Competitive Bidding

Except as provided in Part C.2 and C.3 of this Section, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works

Works estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$21,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors, and for contracts estimated to cost more than \$100,000 equivalent per contract, from three (3) contractors from at least two different countries, in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$20,000 equivalent or less per assignment, up to an aggregate amount not to exceed \$4,000,000 equivalent may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

4. National Shopping

Health education materials estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods to be procured in accordance with Part B of Section I of this Schedule, and (ii) the first contract for works under Part A of the Project for each Project County but only if such contract is procured in accordance with Part C.1 of Section I of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for goods under Part B.1 of the Project for each Project Province, (ii) the first contract for works under Part A of the Project for each Project County procured in accordance with Parts C.2 or C.3 of Section I of this Schedule, and (iii) a maximum of ten (10) contracts per year for works procured in accordance with Parts C.2 or C.3 of Section I of this Schedule and selected at the discretion of the Association in addition to the works contracts that are subject to prior review pursuant to paragraph 2(b)(ii) of this Part D, the following procedures shall apply:

(i) prior to the selection of any supplier or contractor under shopping procedures, the Borrower shall provide to the Association a report on the evaluation of quotations received; comparison and

(ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of appendix 1 to the Guidelines shall apply.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provision of the following Parts of this Section II.

2. For the purposes of the procurement of consultants' services to be financed in whole or in part out of the proceeds of the Credit, the references in paragraphs 1.6 and 1.8 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Selection Based on Consultants' Qualifications

Services for Part C.1 of the Project, estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

#### 2. Single Source Selection

Services under Part C.1 of the Project, which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

#### 3. Individual Consultants

Services for the study of procurement document review under Part C.1 of the Project, which meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means in respect of each of the four (4) Special Accounts, the respective Categories set forth in the Annex to this Schedule.

(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 this Agreement; and

(c) the term "Authorized Allocation" means, in respect of each of the four (4) Special Accounts, the respective amount set forth as the Authorized Allocation for each Special Account in the Annex to this Schedule, 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 set forth in the Annex to this Schedule as the "Initial Deposit" in respect of the Authorized Amount until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General

Conditions shall be equal to or exceed the equivalent of the amount set forth in said Annex as the "Aggregate Amount" in respect of said Authorized Allocation.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account 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 a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Loan Account pursuant to the provisions of Section 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories for said Special Account, minus the total amount of all outstanding special commitments 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 said Special Account 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 said 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 any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into said Special Account (or, if the Association shall so request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into said Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in any 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 or the Bank all or any portion of the funds on deposit in any Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Loan Account 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.

