

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER 052456 CHA

Global Environment Facility Trust Fund Grant Agreement

(Gansu and Xinjiang Pastoral Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated November 6, 2003

GEF TRUST FUND GRANT NUMBER 052456 CHA

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated November 6, 2003, between PEOPLE'S REPUBLIC OF CHINA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) the third replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 2002-0005 of December 19, 2002, of the Executive Directors of the Bank (Resolution No. 2002-0005);

(D) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding Parts A.2, B.4, D and E of the Project, to be carried out in the GEF-assisted Project Counties and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution No. 94-2, and to be funded from contributions to the GEF Trust Fund under Resolution No. 2002-0005, which may include funds carried over from the second replenishment of the GEF Trust Fund under Resolution No. 98-2;

(E) the Recipient has also requested the Bank to provide additional financing towards the financing of the Project; and by an agreement of even date herewith between the Recipient and the Bank (the Loan Agreement), the Bank has agreed to provide such assistance in an amount equal to sixty-six million two hundred seventy thousand Dollars (\$66,270,000) (the Loan);

(F) the Project will be carried out by Gansu Province (Gansu) and Xinjiang – Uyghur Autonomous Region (Xinjiang) with the Recipient's assistance and, as part of such assistance, the Recipient will make available to Gansu and Xinjiang the proceeds of

the GEF Trust Fund Grant as provided in this Agreement for purposes of carrying out Parts A.2, B.4, D and E of the Project in the GEF-assisted Project Counties (hereinafter defined); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and Gansu and Xinjiang (the Project Agreement);

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (but excluding Sections 2.01(1), (10), (11), (12), (13), (15), (17) and (20)), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01, 4.02(a) and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (but excluding 6.02(b), (k) and (n)), 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (ix) Sections 10.01, 10.03 and 10.04;
 - (x) Article XI; and
 - (xi) Sections 12.01 (c), 12.02 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:

- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
- (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account; and
- (vi) a new subparagraph is added after subparagraph (j) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”

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

(a) “Beneficiaries Participation Sub-Manuals” means the Gansu Beneficiaries Participation Sub-Manual dated July 17, 2003, adopted by Gansu and the Xinjiang Beneficiaries Participation Sub-Manual dated July 17, 2003, adopted by Xinjiang, both referred to in paragraph 8 of Schedule 2 to the Project Agreement, each manual identifying the beneficiary groups and types of activities to be undertaken by said beneficiaries, and setting out the process and forum for meaningful consultation with and informed participation of said beneficiaries; and “Beneficiaries Participation Sub-manual” means either of said sub-manual.

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

(c) “Dam Safety Review Guidelines” means the Dam Safety Review Guidelines dated July 17, 2003, referred to in paragraph 7 of Schedule 2 to the Project Agreement, which sets out the procedure for reviewing the safety of dams that may be included in the Project and the criteria for application of said guidelines.

(d) “Environmental Management and Monitoring Plans” and “EMMPs” mean: (i) the Gansu Environmental Management Plan dated July 17, 2003, adopted by Gansu; and (ii) the Xinjiang Environmental Management Plan, dated July 17, 2003, adopted by Xinjiang, both referred to in paragraph 5 of Schedule 2 to the Project Agreement, in each case setting out the environmental protection measures in respect of Gansu and Xinjiang’s Respective Parts of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plans, as said plans may be revised from time to time with the agreement of the Bank; and “Environmental Management and Monitoring Plan” and “EMMP” mean either of said plans.

(e) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 of the Project Agreement.

(f) “Gansu” means the Borrower’s Gansu Province, and any successor thereto.

(g) “Gansu Special Account” means the account referred to in Section 2.02 (b)(i) of this Agreement.

(h) “GEF-assisted Project Counties” means, collectively, all those Project Counties of Gansu and Xinjiang listed in paragraphs A and B respectively of the Annex to Schedule 2 to this Agreement, as such list may be amended from time to time by mutual agreement between the Borrower and the Bank.

(i) “Multi-Ethnic Groups Development Strategies” means: (i) the Gansu Multi-Ethnic Groups Development Strategy, dated July 17, 2003, adopted by Gansu, and (ii) the Xinjiang Multi Ethnic Groups Development Strategy, dated July 17, 2003, adopted by Xinjiang, both referred to in paragraph 6 of Schedule 2 to the Project Agreement, in each case setting forth the strategy and activities incorporated into Gansu and Xinjiang’s Respective Parts of the Project, to ensure: (i) meaningful consultation with and informed participation of minority nationality communities in the design and implementation of Project activities in locations in which such communities reside, (ii) Project benefits which are socially and culturally acceptable to such communities, and (iii) reduction, mitigation and off-setting of potential adverse impacts on such communities, as said strategies may be amended from time to time with the agreement of the Bank; and a “Multi Ethnic Development Strategy” means either of said strategies.

(j) “Project Agreement” means the agreement between the Bank and Gansu and Xinjiang of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement.

(k) “Project Counties” means, collectively, those counties, districts and county level cities within Gansu and Xinjiang which are carrying out the Project or any part thereof; and a “Project County” means any of the Project Counties.

(l) “Project Implementation Manuals” means, collectively: (i) the Gansu Project Implementation Manual dated July 17, 2003, including sub-manuals, prepared by Gansu, and (ii) the Xinjiang Project Implementation Manual, dated July 17, 2003, including sub-manuals, prepared by Xinjiang, both referred to in paragraph 9 of Schedule 2 to the Project Agreement, as said manuals, including sub-manuals, may be amended from time to time with the agreement of the Bank; and a “Project Implementation Manual” means either of said manuals.

(m) “Project Leading Groups” means, collectively, the groups established in each Project Province and in each of the Project Counties by their respective levels of government to be responsible for the activities set forth in paragraph 1 of Schedule 2 to the Project Agreement; and a “Project Leading Group” means any of the Project Leading Groups.

(n) “Project Management Offices” means, collectively, the offices established at the provincial level, and in each of the Project Prefectures/cities, Project Counties and Project Townships by the respective levels of government, under the guidance of the respective Project Leading Groups, to be responsible for the activities set forth in paragraph 2 of Schedule 2 to the Project Agreement; and a “Project Management Office” means any of the Project Management Offices.

(o) “Project Prefectures/cities” means, collectively, those prefectures/cities within Gansu and Xinjiang that have one or more Project Counties within their respective jurisdiction; and a “Project Prefecture/city” means any of the Project Prefectures/cities.

(p) “Project Provinces” means, collectively, Gansu and Xinjiang; and a “Project Province” means either of said Project Provinces.

(q) “Project Townships” means, collectively, those townships within the Project Counties that are carrying out the Project or any part thereof; and a “Project Township” means any of the Project Townships.

(r) “Respective Part of the Project” means in respect of each Project Province, the activities under the Project carried out or to be carried out by said Project Province.

(s) “Special Accounts” means, collectively, the Gansu Special Account and the Xinjiang Special Account; and a “Special Account” means either of said Special Accounts.

(t) “Sub-project” means a specific investment project selected for financing under Parts A.1, A.2, B.1, B.2, B.3, C.1, and C.2 of the Project in accordance with the provisions of paragraph 11 of Schedule 2 to the Project Agreement; and “Sub-projects” means, collectively, all such Sub-projects.

(u) “Technical Advisory Groups” means, collectively, the groups of experts established at the provincial level and in each of the Project Counties by the respective levels of government to provide technical advice to the respective Project Leading Group, and technical support to the respective Project Management Office, in accordance with the provisions of paragraph 3 of Schedule 2 to the Project Agreement; and “Technical Advisory Group” means any of said Technical Advisory Groups.

(v) “Xinjiang” means the Borrower’s Xinjiang-Uyghur Autonomous Region, and any successor thereto.

(w) “Xinjiang Special Account” means the account referred to in Section 2.02 (b)(ii) of this Agreement.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to ten million five hundred thousand Dollars (\$10,500,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out Parts A.2, B.4, D and E of the Project in the GEF-assisted Project Counties and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars:

- (i) a separate special deposit account for purposes of Gansu’s Respective Part of the Project; and
- (ii) a separate special deposit account for purposes of Xinjiang’s Respective Part of the Project,

in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 Agreement, shall cause each of Gansu and Xinjiang to perform in accordance with the provisions of the Project Agreement all the respective obligations of Gansu and Xinjiang therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Gansu and Xinjiang to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) To this end, the Recipient shall make part of the proceeds of the GEF Trust Fund Grant. available to each of Gansu and Xinjiang on a grant basis, without deduction of any charge, commission or fee of any kind from the GEF Trust Fund Grant.

(c) The Recipient shall maintain throughout the period of implementation of the Project, the Central Project Management Office, within the Ministry of Agriculture with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for overall Project coordination between Gansu and Xinjiang, including in respect of procurement, training, study tours and Project monitoring, evaluation and reporting.

Section 3.02. Except as the Bank shall otherwise agree, procurement of goods and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Bank and the Recipient hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 Gansu and Xinjiang in respect of their Respective Parts of the Project pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Conditions

Section 4.01. (a) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Recipient shall:

- (i) have the records and accounts referred to in paragraph (a)(i) of this Section and those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles, consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion of said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Bank such other information concerning said records and accounts, and the audit thereof as the Bank may from time to time reasonably request.

ARTICLE V

Remedies of the Bank

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

(a) Either Gansu or Xinjiang shall have failed to perform any of its respective obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that either Gansu or Xinjiang will be able to perform its respective obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph (c):

(A) the right of the Recipient to withdraw the proceeds of any Loan made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Loan Agreement, or

(B) the Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph (c) shall not apply if the Recipient establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness, Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make

withdrawals thereunder, except only the effectiveness of this Agreement, have been fulfilled.

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

Section 6.04. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

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

Facsimile:

(86-10) 68 55 11 25

For the Bank :

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(1-202) 477-6391

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/ Zou Jiayi

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
Acting as an Implementing Agency of the Global Environment Facility

By /s/ Yukon Huang

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Gansu's Respective Part of the Project in GEF-assisted Project Counties:		
(a) Goods for Parts A.2, B.4 and E of the Project (including grassland conservation and monitoring equipment, equipment for livestock conservation and for office management, and indigenous breeding animal stocks)	1,694,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services under Parts A.2, B.4, D and E of the Project (including for grassland ecosystem management, biodiversity conservation, participatory grassland planning, indigenous livestock breed conservation, related applied research, extension services and provision of training)	2,086,000	91%

(c) Training and study tours under Parts A.2, B.4, D and E of the Project	1,220,000	100% of foreign expenditures and 80% of local expenditures
(d) Incremental Operating Costs	250,000	100%
(2) Xinjiang's Respective Part of the Project in GEF-assisted Project Counties:		
(a) Goods for Parts A.2 and B.4 of the Project (including grassland conservation and monitoring equipment, equipment for livestock conservation and for office management, and indigenous breeding animal stocks)	1,694,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services for grassland ecosystem management, biodiversity conservation, participatory grassland planning, indigenous livestock breed conservation, related applied research, extension services and provision of training under Parts A.2, B.4, D and E of the Project	2,086,000	91%
(c) Training and study tours under Parts A.2, B.4, D and E of the Project	1,220,000	100% of foreign expenditures and 80% of local expenditures

(d) Incremental Operating Costs	250,000	100%
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TOTAL	<u>10,500,000</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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Recipient for goods or services supplied from said region, and expenditures in the currency of the Macau Special Administrative Region of the Recipient for goods or services supplied from said region shall be deemed “foreign expenditures”;

(b) the term “local expenditures” means expenditures that are not foreign expenditures; and

(c) the term “Incremental Operating Costs” means reasonable expenditures directly related to the Project (which expenditures would not have been incurred absent the Project) incurred by project management offices in respect of office supplies (excluding equipment) and communications, logistical and translation services, and staff travel and subsistence, but excluding staff salaries, all in carrying out supervision of the implementation of Parts A.2, B.4, D and E of the Project in the GEF-assisted Project Counties.

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.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less \$100,000 equivalent each; (b) consultants’ services under contracts with firms costing less than \$50,000 equivalent each; (c) consultants’ services under contracts with individuals costing less than \$25,000 equivalent each; (d) domestic training and study tours; and (e) Incremental Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank,

refund to the Bank for deposit into the GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to promote sustainable natural resource management through the improvement of livestock production and marketing systems which would increase income for herders and farmers in Gansu Province and Xinjiang-Uyghur Autonomous Region.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time to achieve such objectives:

Part A: Grassland Management and Forage Improvement

Carrying out a program to promote the sustainable management of rangelands, grasslands and artificial pastures and to increase the supplies of quality feed and forage, said program to include the following:

1. Development, testing, extension and evaluation of new systems to grow annual and perennial forage and fodder, including irrigation development and construction of deep wells to provide water for forage and fodder cultivation.
2. Grassland management and improvement, through the development and implementation, using participatory methods, of grassland resource management plans and grassland management and pastoral development systems, including reseeding, fencing of degraded grassland, construction of water tanks to provide water for livestock and herders; carrying out of grassland and biodiversity surveys and preparation of grassland resource maps; development and implementation of pastoral risk management strategies.

Part B: Livestock Production Improvement

Carrying out a program to develop sustainable livestock production systems and increase productivity through improvement in livestock genetics, and in animal husbandry practices and management, said program to include the following:

1. Support for fine wool and mutton sheep breeding, multiplication and fattening in nuclear breeding stations, multiplication farms and household production.
2. Support for beef breeding and fattening in household production.
3. Development of dairy production through the construction of high-yielding dairy cattle multiplication farms; establishment of a milk quality control center; and support to small-scale dairy farmers to expand their production scale and improve their production practices.

4. Conservation of native breeds of livestock through breed selection, breeding management and indigenous livestock breed research.
5. Construction and equipping of county artificial insemination stations and veterinary stations.

Part C: Market Systems Development

Carrying out a program to improve the marketing systems for livestock and livestock products, said program to include the following:

1. Development of market infrastructure through the construction and rehabilitation of livestock markets and shearing stations; construction of wool storage facilities, milking stations and milk collection stations.
2. Assistance to rural enterprises and farm entrepreneurs to increase production efficiency, profitability and value added of farms and processing enterprises.
3. Support to local marketing initiatives, through the promotion and development of farmer and herder trading groups; reorganization of wool selling systems, including promotion and information regarding fine wool production.
4. Development of market information services, market research activities and activities for the promotion and management of product quality, including identification and adoption of quality measurement standards for pastoral products.

Part D: Applied Research, Training and Extension

1. Carrying out of a program of applied research to identify, develop and adapt relevant technologies and practices for: sustainable grassland utilization and ecosystem management, improved livestock efficiency, productivity and quality, and market systems development.
2. Development of training programs; provision of training to trainers and to technical staff at the country level for the efficient transfer of technical and management knowledge; and provision of training for herders, producers, herder and farmer marketing groups, households and medium-size farms in grassland management, forage production, livestock breeding and feeding for production and product quality, livestock husbandry and management, and use of market information.
3. Carrying out of a program of extension services through participatory demonstrations, household visits, group discussions and leading enterprise-led training.

Part E: Project Management, Monitoring and Evaluation

1. Carrying out of a program to strengthen the implementation capacity of Project management offices and to promote community participation in Project activities.
2. Carrying out of studies to support the development of grassland management policies.
3. Establishment of a Project implementation monitoring and evaluation system, that monitors, inter alia, integrated ecosystem management, carbon sequestration, biodiversity status in managed grasslands and the social and environmental impacts of the Project.

* * *

The Project is expected to be completed by December 31, 2009.

**ANNEX
TO
SCHEDULE 2
GEF-assisted Project Counties**

A. GEF-assisted Project Counties in Gansu

Activities financed by proceeds of the GEF Trust Fund Grant will be carried out in the Counties of Sunan, Subei, Jingtai, Tianzhu, Dingxi, Suzhou (formerly, Jiuquan), Yongchang, Ganzhou (formerly, Zhangye), and Liangzhou.

B. GEF-assisted Project Counties in Xinjiang

Activities financed by proceeds of the GEF Trust Fund Grant will be carried out in the Counties of Baicheng, Fuyun, Hejing, Bole, Tekesi, Qitai, Xinyuan and Yumin and the Cities of Altai and Hami.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories means: (i) in respect of Gansu’s Respective Part of the Project, Category (1); and (ii) in respect of Xinjiang’s Respective Part of the Project, Category (2), all as 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 GEF Trust Fund Grant 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 equal to \$500,000 in respect of the Gansu Special Account, and an amount equal to \$500,000 in respect of the Xinjiang Special Account, in each case to be withdrawn from the GEF Trust Fund Grant Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the respective 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 Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank 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 Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant 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 Recipient out of the respective Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Category for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Gansu's or Xinjiang's Respective Part of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Category in

respect of the Respective Part of the Project shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank 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 Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into any Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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