

CONFORMED COPY

CREDIT NUMBER 2799-CHA

Development Credit Agreement

(Hubei Urban Environmental Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 31, 1996

Credit Number 2799-CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 31, 1996, 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 equivalent to one hundred twenty-five million dollars (\$125,000,000) (the Loan);

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the credit provided for in this Agreement (the Credit) 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; and

(D) Hubei Province (Hubei) shall carry out the Project, or cause the Project to be carried out, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Hubei 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 Hubei;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Basic Documents" means the charters and business licenses referred to in paragraphs (k), (ii), and (ll) of this Section.

(b) "Beneficiary" means any Industrial Enterprise or Participating Enterprise.

(c) "Category" means a category of items to be financed out of the proceeds of the Credit as set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(d) "Environmental Action Plans", means collectively the Hubei Environmental Impact Assessment, the Sub-project EAPs, and the environmental assessment referred to in Part F of Schedule 2 to the Project Agreement.

(e) "Environmental Financial Agency Agreement," means the agreement to be entered into between Hubei and a commercial bank in pursuance of paragraph 2 (b) (ii) of Part G of Schedule 2 to the Project Agreement.

(f) "Environmental Pollution Control Sub-loan" means a loan made, or proposed to be made by Hubei, out of the proceeds of the Credit and/or the Loan, to a Participating Enterprise for an Environmental Pollution Control Sub-project.

(g) "Environmental Improvement Action Plan" means Hubei's environmental improvement action plan, as submitted to the Association under cover of a letter dated October 10, 1995, designed to improve environmental quality management, monitoring and pollution control through the strengthening of HEPB and the carrying out of environmental research and training programs in Hubei.

(h) "Environmental Pollution Control Sub-project" means a specific development project under Part F of the Project to be carried out by a Participating Enterprise utilizing the proceeds of an Environmental Pollution Control Sub-loan.

(i) "Financial Agency Agreement" means individually any of the agreements to be entered into between Hubei and a commercial bank, in pursuance of paragraph 2(b) of

Part G of Schedule 2 to the Project Agreement, and "Financial Agency Agreements" means collectively the agreements to be entered into between Hubei and commercial banks, in pursuance of said paragraph 2 (b).

(j) "HEPB" means Hubei's bureau responsible for environmental protection.

(k) "HMDC" means the Huangshi Municipal Drainage Company, a state-owned enterprise established and operating pursuant to its Charter dated January 8, 1994 and to Business License No. 17843015-5-1 dated April 11, 1994, issued by Huangshi Bureau of Commerce and Industry.

(l) "Huangshi" means Huangshi Municipality in Hubei.

(m) "Hubei" means Hubei Province, a political subdivision of the Borrower.

(n) "Hubei Environmental Impact Assessment" means the environmental impact assessment, approved by Hubei's Provincial Environmental Protection Bureau on May 26, 1995, and includes environmental mitigation measures and as well as the administrative and monitoring arrangements ensuring the implementation of said measures.

(o) "Hubei Resettlement Action Plan" means Hubei's land acquisition, removal and resettlement plan, as submitted to the Association under cover of a letter dated November 3, 1995, and includes the procedures governing land acquisition, resettlement and compensation, as well as the reporting and monitoring arrangements to ensure compliance with the said plan;

(p) "Industrial Enterprise" means an enterprise to which Hubei proposes to make, or has made, an Industrial Pollution Control Sub-loan.

(q) "Industrial Financial Agency Agreement", means the agreement to be entered into between Hubei and a commercial bank in pursuance of paragraph 2 (b) (i) of Part G of Schedule 2 to the Project Agreement.

(r) "Industrial Pollution Control Sub-loan" means a loan made, or proposed to be made by Hubei, out of the proceeds of the Credit and/or of the Loan, to an Industrial Enterprise for an Industrial Pollution Control Sub-project.

(s) "Industrial Pollution Control Sub-project" means a specific development project under Part E of the Project to be carried out by an Industrial Enterprise utilizing the proceeds of an Industrial Pollution Control Sub-loan.

(t) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(u) "Operational Manual" means the manual referred to in Part G.1 (b) (i) of Schedule 2 to the Project Agreement;

(v) "Participating Enterprise" means an enterprise to which Hubei proposes to make, or has made, an Environmental Pollution Control Sub-loan.

(w) "Project Agreement" means the agreement among the Association, the Bank and Hubei 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.

(x) "Project Municipalities" means, collectively, Huangshi, Wuhan, Xiangfan and Yichang; and "Project Municipality" means any of the Project Municipalities.

(y) "Resettlement Action Plans" means, collectively, the Hubei Resettlement Action Plan, the Sub-project RAPs and the resettlement action plan referred to in Part F of Schedule 2 to the Project Agreement;

(z) "Respective Wastewater Enterprise" means, in respect of:

(i) Huangshi, HMDC;

(ii) Wuhan, WMWE; and

(iii) Xiangfan, XMSC.

(aa) "Respective Part of the Project" means, the part of the Project specified below:

(i) for HMDC, Part A(1);

(ii) for Huangshi, Part A(2);

(iii) for Hubei, Parts E, F, G, and H;

(iv) for Wuhan, Parts B(2) and B(3);

(v) for WMWE, Part B(1);

(vi) for Xiangfan, Part C(2);

(vii) for XMSC, Part C(1); and

(viii) for Yichang, Part D.

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

(cc) "Sub-loan" means individually any Industrial Pollution Control Sub-loan or Environmental Pollution Control Sub-loan, and "Sub-loans" means collectively Individual Pollution Control Sub-loans and Environmental Pollution Control Sub-loans.

(dd) "Sub-project" means individually any Environmental Pollution Control Sub-project or Industrial Pollution Control Sub-project, and "Sub-projects" means collectively Environmental Pollution Control Sub-projects and Industrial Pollution Control Sub-projects;

(ee) "Sub-project EAP" means any environmental action plan prepared in pursuance of paragraph 2 (c) of Part B of Schedule 4 to the Project Agreement.

(ff) "Sub-project RAP" means any resettlement action plan prepared pursuant to paragraph 2 (d) of Part B of Schedule 4 to the Project Agreement.

(gg) "Wastewater Enterprises" means, collectively, HMDC, WMWE and XMSC; and "Wastewater Enterprise" means any of the Wastewater Enterprises.

(hh) "Wastewater Enterprise Subsidiary Loan Agreements" means, collectively, the agreements to be entered into between each Project Municipality (excluding Yichang) and its Respective Wastewater Enterprise pursuant to Part D.1 of Schedule 2 to the Project Agreement, as the same may be amended from time to time, and such term includes any schedules to said agreements; and "Wastewater Enterprise Subsidiary Loan Agreement" means, individually, any of the Wastewater Enterprise Subsidiary Loan Agreements.

(ii) "WMWE" means the Wuhan Municipal Wastewater Enterprise, a state-owned enterprise established and operating pursuant to its Charter of May 1995 and to Business License No. 30020791-9-01 dated September 6, 1995 issued by Wuhan Bureau of Commerce and Industry.

(jj) "Wuhan" means Wuhan Municipality in Hubei.

(kk) "Xiangfan" means Xiangfan Municipality in Hubei.

(ll) "XMSC" means the Xiangfan Municipal Sewerage Company, a state-owned enterprise established and operating pursuant to its Charter approved by Xiangfan municipal construction commission document No. 3 of 1994 and to Business License No. 17939657-7 dated August 21, 1995 issued by Xiangfan Bureau of Commerce and Industry.

(mm) "Yichang" means Yichang Municipality in Hubei.

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 sixteen million eight hundred thousand Special Drawing Rights (SDR16,800,000).

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 a special deposit account in a financial institution acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 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 or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid:

(i) at such places as the Association shall reasonably request;

(ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and

(iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (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 January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall

repay the principal amount of the Credit in semi-annual installments payable on each January 1 and July 1 commencing January 1, 2006, and ending July 1, 2030. Each installment to and including the installment payable on July 1, 2015 shall be one and one-fourth per cent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever:

(i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and

(ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph

(a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Hubei to perform in accordance with the provisions of the Project Agreement all the obligations of Hubei therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Hubei to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available to Hubei the proceeds of the Credit on the following principal terms:

(i) the principal amount so made available to Hubei:

(A) shall be the equivalent in terms of Special Drawing Rights (on the date, or the value of the respective dates, of withdrawal from the Credit Account) of currency or currencies so withdrawn; and

(B) shall be repaid in foreign currency in amounts equivalent (as of the date, the amount in Special Drawing Rights or respective dates, of repayment) to so made available;

(ii) the Borrower shall recover such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years;

(iii) the Borrower shall charge a service charge on such principal amount withdrawn and outstanding from time to time at a rate of three-fourths of one percent (3/4 of 1%) per annum; and

(iv) the Borrower shall charge a commitment charge on such principal amount not withdrawn from time to time at a rate equal to one-half of one percent (1/2 of 1%) per annum.

(c) The Borrower shall make available to Hubei the proceeds of the Loan on the following principal terms:

(i) the principal amount so made available to Hubei:

(A) shall be the equivalent in terms of dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn; and

(B) shall be repaid in a foreign currency in amounts equivalent (as of the date, or respective dates, of repayment) to the amount in dollars so made available.

(ii) the Borrower shall recover such principal amount over a period of twenty (20) years, inclusive of a grace period of five (5) years;

(iii) the Borrower shall charge interest on such principal amount withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement; and

(iv) the Borrower shall charge a commitment charge on such principal amount not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

Section 3.02. 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 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that Hubei shall carry 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), in respect of the Project, or cause said obligations to be carried out, pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and 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 Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (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, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; 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.

ARTICLE V

Remedies of the Association

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

(a) Hubei shall have failed to perform any of its obligations under the Project Agreement.

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

(c) Any of the parties to a Financial Agency Agreement or any of the parties to any of the Wastewater Enterprise Subsidiary Loan Agreements shall have failed to perform any of its respective obligations thereunder.

(d) The Basic Documents shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any of the Wastewater Enterprises to perform any of its respective obligations under its respective Wastewater Enterprise Subsidiary Loan Agreement.

(e) The Borrower, Hubei or any other authority having jurisdiction, shall have taken any action for the dissolution or disestablishment of any of the Wastewater Enterprises or for the suspension of such entity's operations.

Section 5.02. Pursuant to Section 7.01(d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) or (c) of Section 5.01 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; and

(b) any event specified in paragraph (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Wastewater Enterprise Subsidiary Loan Agreements have been executed

on behalf of each of the parties thereto;

(b) the wastewater tariff of 0.18 yuan/m³ applicable to all residential and non-residential wastewater producers within the service areas of HMDC, WMWE and XMSC shall have been implemented; and

(c) 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 are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by Hubei, and is legally binding upon Hubei in accordance with its terms; and

(b) that each of the Wastewater Enterprise Subsidiary Loan Agreements has been duly authorized or ratified by each of the parties thereto and is legally binding upon said parties 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
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the
Credit and of 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 Dollar Equivalent)	% of Expenditures to be Financed
1. Works			40%
(a) Works for Part C.2 of the Project		800,000	
(b) other works	3,360,000	35,400,000	
2. Goods			100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 75% of local expenditures
(a) under Part E of the Project	3,360,000	40,000,000	
(b) under Part F of the Project		3,360,000	for other items procured locally
(c) other goods	4,030,000	36,800,000	
3. Consultants' Services and Training	2,690,000	7,000,000	100%
4. Unallocated	_____	5,000,000	
TOTAL	16,800,000 =====	125,000,000 =====	

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; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed seven million Special Drawing Rights (SDR 7,000,000), may be made on account of payments made for expenditures before that date but after September 1, 1995;

(b) under Category 1 (a), until Xiangfan shall have furnished to the Association the feasibility studies, designs, environmental assessment and resettlement action plan in accordance with Part F of Schedule 2 to the Project Agreement;

(c) under Category (2)(a):

(i) until the Association shall have notified the Borrower of its acceptance of evidence that the Industrial Financial Agency Agreement has been executed on behalf of the parties thereto and is legally binding upon said parties in accordance with its terms; and

(ii) in respect of an Industrial Pollution Control Sub-loan unless the Industrial Pollution Control Sub-loan has been made in accordance with the provisions of Schedule 4 to the Project Agreement;

(d) under Category (2)(b):

(i) until the Association shall have approved the Operational Manual;

(ii) until the Association shall have notified the Borrower of its acceptance of evidence that the Environmental Financial Agency Agreement has been executed on behalf of the parties thereto and is legally binding upon said parties in accordance with its terms; and

(iii) in respect of an Environmental Pollution Control Sub-loan unless the Environmental Pollution Control Sub-loan has been made in accordance with the Operational Manual and the provisions of Schedule 4 to the Project Agreement.

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

(a) for works under contracts costing less than \$2,000,000 equivalent each;

(b) for goods under contracts costing less than \$1,000,000 equivalent each;

(c) for consultants' services under contracts awarded to consulting firms and costing less than \$100,000 each;

(d) for consultants' services under contracts awarded to individual consultants and costing less than \$50,000 each; and

(e) for training, regardless of the cost thereof, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

1. The objectives of the Project, which is part of Hubei's longer term environmental improvement program, are to improve environmental management and

conditions in Hubei through the:

(a) establishment of institutions and policies for the purpose of sustaining progress on environmental improvement in Hubei;

(b) improvement of municipal wastewater collection and treatment;

(c) improvement of municipal wastes management; and

(d) reduction of the pollution caused by the highest impact industrial air and water polluters.

2. 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: Huangshi

1. Wastewater Collection, Treatment and Disposal

Design and construction of a wastewater collection and treatment facility in the Chenjiawan area of Huangshi designed to reduce polluting discharges into the Cihu Lake, including sewers, secondary sewers, and a preliminary treatment plant and pumping stations.

2. Wastes Management

Design and construction of stations in Huangshi for the transfer of municipal solid waste; provision of compactor collection vehicles for delivery of such waste to landfill sites; construction of a sanitary landfill, including gas and leachate treatment systems, access road and office and maintenance facilities and provision of a weighbridge, compactor and vehicles; and provision of training and technical assistance to strengthen Huangshi's capabilities in respect of solid waste management; and provision of vacuum trucks for nightsoil and sludge collection.

Part B: Wuhan

1. Wastewater Collection, Treatment and Disposal

Design and construction of wastewater collection and treatment facilities in the Wuchang, Hankou and Hanyang areas of Wuhan, designed to reduce polluting discharges into Wuhan's lakes and rivers, including sewers, force mains, culverts, canals, preliminary and primary treatment plants, effluent disposal facilities, pumping stations, control gates, sedimentation facilities and outlets.

2. Wastes Management

Provision of compactor collection vehicles for delivery of Wuhan's solid waste to landfill sites; design and construction of an upgraded and expanded sanitary landfill, including gas and leachate treatment systems, office and maintenance facilities and provision of a weighbridge, compactors, vehicles and equipment; and provision of training and technical assistance to strengthen Wuhan's capabilities in respect of solid waste management.

3. Water Quality Monitoring

Upgrading of the capabilities of Wuhan's environmental monitoring center, including, laboratory renovation, the provision of water quality monitoring equipment, data management equipment and training to staff of said center.

Part C: Xiangfan

1. Wastewater Collection, Treatment and Disposal

Design and construction of wastewater collection and treatment facilities in the Fancheng area of Xiangfan, designed to reduce polluting discharges into the Qiliuhe,

Xiaoqing and Han rivers, including sewers, force mains, culverts, a preliminary treatment plant, outfall, a pumping station and access bridge.

2. Wastes Management

Design and construction of transfer stations and a sanitary landfill in Xiangfan, including gas and leachate treatment systems, site offices, a weighbridge, maintenance facilities and an access road and provision of compactors, vehicles and equipment; and provision of training and technical assistance to strengthen Xiangfan's capabilities in respect of solid waste management; and provision of vacuum trucks for nightsoil and sludge collection.

Part D: Yichang

Wastes Management

Design and construction of a sanitary landfill in Yichang, including gas and leachate treatment systems, site offices, a weighbridge, maintenance facilities, an access road, compactors, and provision of vehicles and equipment; and provision of training and technical assistance to strengthen Yichang's capabilities in respect of solid waste management; and provision of vacuum trucks for nightsoil and sludge collection.

Part E: Industrial Pollution Control Sub-projects

The financing, through the provision of Industrial Pollution Control Sub-loans, by Hubei, of specific development projects to upgrade the facilities and strengthen the operations of industrial enterprises so as to reduce polluting discharges by said enterprises.

Part F: Hubei Environmental Pollution Control Fund

The operation by Hubei of a revolving credit facility for the financing, through the provision of Environmental Pollution Control Sub-loans, of specific development projects to upgrade in-plant technology processes of enterprises designed to reduce polluting discharges by said enterprises.

Part G: Hubei Water Quality Monitoring

Upgrading of the capabilities of Hubei's provincial-level environmental monitoring center, including laboratory renovation, the provision of water quality monitoring equipment and data management equipment, and training to staff of said center.

Part H: Provincial Institutional Development

1. Strengthening the institutional capabilities of Hubei and those of the Project Municipalities in respect of environmental management, through:

(a) development and introduction of cost accounting and management information systems, and provision of related training to strengthen the financial management of, and policy-making in respect of, wastewater, and wastes management activities in Hubei; and development and implementation of a program of technical assistance to strengthen Hubei's institutional capabilities in respect of general financial management;

(b) training in management and supervision of Project implementation, including quality inspection of materials, product technology, wastewater treatment plant and solid waste management operations, construction management and planning and analysis;

(c) implementation of the Environmental Improvement Action Plan; and

(d) undertaking feasibility studies for future projects in Hubei in environmental management.

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The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) The term "eligible Categories" means Categories 1 through 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement, provided, however, that notwithstanding the provisions of paragraph 1 (b) of Part D of Schedule 4 to the Project Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Association shall have authorized withdrawals from the Credit Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Association shall subsequently authorize such withdrawals.

(c) The term "Authorized Allocation" means an amount equivalent to \$8,000,000 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 equivalent to \$5,000,000 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 pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$25,000,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account 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 the Special Account, the Borrower

shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(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 applicable General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories for the Project, less the amount of any outstanding special commitment 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 the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account:

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or

(ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association:

(A) provide such additional evidence as the Association may request; or

(B) deposit into the Special Account (or, if the Association shall so request, refund to the Association 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 the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association or the Bank 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 the Special Account.

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

