

CONFORMED COPY

CREDIT NUMBER 2017 CHA

(Shandong Agricultural Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SHANDONG PROVINCE

Dated September 14, 1989

CREDIT NUMBER 2017 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 14, 1989, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and SHANDONG PROVINCE (the Province).

WHEREAS by the Development Credit Agreement of even date herewith between People's Republic of China (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eighty-two million five hundred thousand Special Drawing Rights (SDR 82,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Province agree to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS the Province, in consideration of the Association's entering into the

Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and the General Conditions (as so defined in the Development Credit Agreement) have the respective meanings therein set forth, and "FY" means the fiscal year of the Province starting January 1 and ending December 31.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) The Province declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and rural development practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Province shall otherwise agree, the Province shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Province shall: (i) on-lend part of the proceeds of the Credit, made available to it, to the Corporation which will in turn on-lend to the prefectural, county and township enterprises, for the agro-processing and production activities under the Project, under terms and conditions acceptable to the Association; applicable interest rates will be no less than ABC's prevailing interest rates for similar loans for similar purposes; such rate to be reviewed from time to time with the Association in light of the cost of funds to the Corporation and its financial viability, as well as changes in ABC's interest rates; and (ii) pass on part of the proceeds of the Credit, and make or cause to be made adequate and timely budgetary provisions to the other entities participating in the Project, for the implementation of the Project.

Section 2.02. 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 this Agreement.

Section 2.03. The Province shall carry out 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 Agreement.

Section 2.04. (a) The Province shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) The Province shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the Province of its obligations under this Agreement.

Section 2.05. The Province shall prepare and furnish to the Association for its review by November 1 of each year, a detailed annual budget and work program for new construction, and operation and maintenance of existing facilities, for the following year.

Section 2.06. In order to assist in coordinating and carrying out the Project, the Province shall maintain the Project Management Office with staffing, functions and responsibilities acceptable to the Association.

### ARTICLE III

#### Financial and Other Covenants

Section 3.01. (a) The Province shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition in respect of the Project.

(b) The Province shall:

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

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as 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 Province 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 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 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.

Section 3.02. The Province shall ensure that water charges be set, adjusted and collected, as necessary, to cover at least the full operation and maintenance costs, as well as 20% of the total capital construction costs borne by the Province for the irrigation works under the Project.

### ARTICLE IV

#### Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of

the Province thereunder shall terminate on the earlier of the following two dates:

in (i) the date on which the Development Credit Agreement shall terminate  
accordance with its terms; or

(ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify the Province of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For the Province:

Shandong Provincial Government  
c/o Shandong Agriculture Development  
Project Management Office  
1, Shengfu Qianjie  
Jinan, Shandong  
People's Republic of China

Cable address:

0677 Jinan  
Shandong

Telex:

39200 SITJIN CN

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Province, or by the Province on behalf of the Borrower under the Development Credit Agreement be taken or executed by the Governor of the Province or such other person or persons as the Province shall designate in writing, and the Province shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Attila Karaosmanoglu

Regional Vice President  
Asia

SHANDONG PROVINCE

By /s/ Zhao Xixin

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, goods shall be grouped under contracts estimated to cost the equivalent of \$200,000 or more.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Contracts for civil works for structures and building construction shall be awarded in accordance with local competitive bidding procedures acceptable to the Association.

2. Earthworks for shrimp ponds, dikes, canals, drains and on-farm works shall be carried out by force account procedures satisfactory to the Association.

3. Breeding stock, tree saplings and such other specialized items to be approved by the Association, up to an aggregate amount not to exceed the equivalent of \$3,200,000 may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Fishmeal, computer and rabbit pelt processing equipment may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from all known qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

5. Small equipment and machines up to an aggregate amount not exceeding \$800,000 equivalent may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

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

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

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

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 3.01 (c) (ii) of this Agreement.

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

Section II: Employment of Consultants

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

#### SCHEDULE 2

##### Implementation Program

1. The Province shall ensure the Project activities shall be carried out in conformity with appropriate guidelines on environmental control issued by the Province and acceptable to the Association.

2. The Province shall ensure that agro-processing facilities constructed under the Project will be operated as financial independent entities, and managed by competent staff with experience and expertise acceptable to the Association.

3. The Province shall carry out the staff training under the Project in accordance with a program agreed with the Association.

4. The Province shall furnish to the Association semi-annually the progress reports within 30 days of the end of each six-month period.

5. The Province shall by November 1 of each year, prepare and furnish to the Association for its review, a plan for provision of chemical fertilizer requirements

for the following year.

