

CONFORMED COPY

CREDIT NUMBER 2642 CHA

Development Credit Agreement

(Enterprise Housing and Social Security Reform Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 16, 1994

CREDIT NUMBER 2642 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 16, 1994, 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 two hundred seventy-five million dollars (\$275,000,000) (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) The Participating Municipalities (as defined in Section 1.02(t) of this Agreement) will carry out Parts A, B, C and D of the Project, or cause said Parts to be carried out, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating Municipalities part of the proceeds of the Credit as provided in this Agreement and part of the proceeds of the Loan as provided in the Loan Agreement; and

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

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "Beijing" means the Borrower's Municipality of Beijing.
- (b) "Beijing Special Account" means the special account referred to in Section 2.02 (b) (i) of this Agreement.
- (c) "Beneficiary" means any household or HMC to whom or to which a PFI proposes to make or has made a Housing Sub-loan.
- (d) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to the Development Credit Agreement;
- (e) "Central Coordinating Group" means the central coordinating group referred to in Section 1 (a) of Schedule 5 to this Agreement.
- (f) "Central Special Account" means the special account referred to in Section 2.02 (b) (v) of this Agreement.
- (g) "Chengdu" means the Municipality of Chengdu, in the Borrower's Province of Sichuan.
- (h) "Chengdu Special Account" means the special account referred to in Section 2.02 (b) (ii) of this Agreement.
- (i) "Fiscal Year" means a calendar year commencing on January 1 and ending on December 31.
- (j) "HMC" means any company established under the laws of the Borrower as a joint stock company and engaged in the business of managing residential structures.
- (k) "Housing Development Project" means a specific development project under Part A(3), B(3), C(3) or D(3) of the Project to be carried out by a Beneficiary utilizing the proceeds of a Housing Sub-loan.
- (l) "Housing Loan Programs" means, collectively, Parts A(3), B(3), C(3) and D(3) of the Project.
- (m) "Housing Sub-loan" means a loan made or proposed to be made by a PFI, in part out of the proceeds of the Credit and/or of the Loan made available to said PFI by a Participating Municipality under a Subsidiary Loan Agreement, to a Beneficiary

for a Housing Development Project.

(n) "Housing System Reform Programs" means, collectively, the programs to be carried out by the Participating Municipalities under Parts A(1), B(1), C(1) and D(1) of the Project; and "its respective Housing System Reform Program" means, in respect of: (i) Beijing, Part A(1) of the Project; (ii) Chengdu, Part B(1) thereof; (iii) Ningbo, Part C(1) thereof; and (iv) Yantai, Part D(1) thereof.

(o) "Institutional Development Project" means a program under Part A(4), B(4), C(4) or D(4) of the Project to be carried out by a PFI utilizing the proceeds of a Subsidiary Loan.

(p) "its respective Part of the Project" means, in respect of: (i) Beijing, Part A of the Project; (ii) Chengdu, Part B thereof; (iii) Ningbo, Part C thereof; and (iv) Yantai, Part D thereof.

(q) "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.

(r) "Ningbo" means the Municipality of Ningbo, in the Borrower's Province of Zhejiang.

(s) "Ningbo Special Account" means the special account referred to in Section 2.02(b)(iii) of this Agreement.

(t) "Participating Municipalities" means, collectively, Beijing, Chengdu, Ningbo and Yantai; and "Participating Municipality" means any of the Participating Municipalities.

(u) "PFI" means any banking institution with which a Participating Municipality has entered into a Subsidiary Loan Agreement.

(v) "Project Agreement" means the agreement among the Association, the Bank and the Participating Municipalities 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.

(w) "Social Security System Reform Programs" means, collectively, the programs to be carried out by the Participating Municipalities under Parts A(2), B(2), C(2) and D(2) of the Project; and "its respective Social Security System Reform Program" means, in respect of: (i) Beijing, Part A(2) of the Project; (ii) Chengdu, Part B(2) thereof; (iii) Ningbo, Part C(2) thereof; and (iv) Yantai, Part D(2) thereof.

(x) "Special Accounts" means, collectively, the Beijing Special Account, the Chengdu Special Account, the Ningbo Special Account, the Yantai Special Account and the Central Special Account; and "Special Account" means any of the Special Accounts.

(y) "Subsidiary Loan Agreement" means any agreement to be entered into between a Participating Municipality and a PFI pursuant to Part D.1 of Schedule 1 to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to said Subsidiary Loan Agreement; and "Subsidiary Loan" means any loan provided under a Subsidiary Loan Agreement.

(z) "Yantai" means the Municipality of Yantai, in the Borrower's Province of Shandong.

(aa) "Yantai Special Account" means the special account referred to in Section 2.02(b)(iv) of this Agreement.

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 fifty-three million one hundred thousand Special Drawing Rights (SDR 53,100,000).

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: (i) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made by a Beneficiary under a Housing Sub-loan to meet the reasonable cost of housing, goods and services required for the Housing Development Project in respect of which the withdrawal from the Credit Account is requested; and (ii) 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 (other than the Housing Loan Programs) and to be financed out of the proceeds of the Credit.

(b) The Borrower shall open and maintain in dollars the following five special accounts, in a commercial bank acceptable to the Association, and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment: (i) one for the purposes of Part A of the Project; (ii) one for the purposes of Part B thereof; (iii) one for the purposes of Part C thereof; (iv) one for the purposes of Part D thereof; and (v) one for the purposes of Part E thereof. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 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 cancelled; 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 percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on 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, 2005 and ending July 1, 2029. Each installment to and including the installment payable on July 1, 2014 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's 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:

(i) shall carry out Part E of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part of the Project; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement or the Loan Agreement, shall cause each Participating Municipality to perform all of its respective obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Participating Municipality 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 each Participating Municipality an amount of the Credit and an amount of the Loan under arrangements satisfactory to the Association and the Bank, which shall include, without limitation, terms whereby:

(i) the principal amount so made available shall be the equivalent in Dollars (determined on the date or respective dates of withdrawal from the Credit Account or Loan Account or payment out of the respective Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of housing, goods and services required for said Participating Municipality's respective Part of the Project to be financed out of the proceeds of the Credit and/or of the Loan;

(ii) the Borrower shall recover from said Participating Municipality the principal amount so made available over a period of 20 years, inclusive of a grace period of 5 years; and

(iii) the Borrower shall charge interest on the principal amount so made available and withdrawn and outstanding from time to time at a rate equal to 87% of the rate of interest applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Association shall otherwise agree, the

Borrower shall take the measures set forth in Schedule 5 to this Agreement in order to ensure the efficient carrying out of the Project.

Section 3.03. Except as the Association shall otherwise agree, procurement of (a) the goods, works and consultants' services required for the Project other than the Housing Loan Programs and to be financed out of the proceeds of the Credit and (b) all of the goods, works and consultants services required for the Housing Loan Programs, regardless of their sources of financing, shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. The Borrower and the Association hereby agree that each Participating Municipality 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 its respective Part of the Project, pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, 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 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 the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the Fiscal Year in which the last withdrawal from the Credit Account or payment out of any Special 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.

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) Any Participating Municipality 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 the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Participating Municipality will be able to perform its respective obligations under the Project Agreement.

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

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 Borrower has assigned the staff, referred to in Section 1(b) of Schedule 5 to this Agreement, in accordance with the provisions of said Section, to assist the Central Coordinating Group in the performance of its responsibilities.

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

Telex:

FINANMIN
Beijing

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/ Yang Jiechi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas 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) Items for Part A of the Project: | | | |
| (a) Housing Sub-loans | 23,920,000 | 123,950,000 | 65% of amounts paid prior to January 1, 1997; |

| | | | | |
|-----|--|------------|--|--|
| | | | 50% of amounts paid from January 1, 1997 through December 31, 1998; and 40% of amounts paid thereafter | |
| | (b) Goods | 620,000 | 3,200,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally |
| | (c) Consultants' services and training | 1,010,000 | 5,240,000 | 100% |
| (2) | Items for Part B of the Project: | | | |
| | (a) Housing Sub-loans | 11,090,000 | 57,420,000 | 65% of amounts paid prior to January 1, 1997; 50% of amounts paid from January 1, 1997 through December 31, 1998; and 40% of amounts paid thereafter |
| | (b) Goods | 370,000 | 1,910,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally |
| | (c) Consultants' services and training | 680,000 | 3,530,000 | 100% |
| (3) | Items for Part C of the Project: | | | |
| | (a) Housing Sub-loans | 7,950,000 | 41,140,000 | 65% of amounts paid prior to January 1, 1997; 50% of amounts paid from January 1, 1997 through December 31, 1998; and 40% of amounts paid thereafter |
| | (b) Goods | 130,000 | 650,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures |

| | | | | |
|-----|--|-------------------|--------------------|---|
| | | | | for other items procured locally |
| | (c) Consultants' services and training | 270,000 | 1,430,000 | 100% |
| (4) | Items for Part D of the Project: | | | |
| | (a) Housing Sub-loans | 6,430,000 | 33,260,000 | 65% of amounts paid prior to January 1, 1997; 50% of amounts paid from January 1, 1997 through December 31, 1998; and 40% of amounts paid thereafter |
| | (b) Goods | 140,000 | 740,000 | 100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 70% of local expenditures for other items procured locally |
| | (c) Consultants' services and training | 260,000 | 1,360,000 | 100% |
| (5) | Items for Part E of the Project: | | | |
| | (a) Goods | 70,000 | 360,000 | 100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 70% of local expenditures for other items procured locally |
| | (b) Consultants' services and training | 160,000 | 810,000 | 100% |
| | TOTAL | <u>53,100,000</u> | <u>275,000,000</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 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 SDR 24,800,000, may be made on account of payments made for expenditures before that date but after October 25, 1993;

(b) under Category (1)(a) unless the Association shall have received evidence satisfactory to it that (1) Beijing has entered into Subsidiary Loan Agreements with at least two PFIs in accordance with the provisions of Part D.1 of Schedule 1 to the Project Agreement and (2) said Subsidiary Loan Agreements are legally binding upon the parties thereto in accordance with their respective terms;

(c) under Category (2)(a) unless the Association shall have received evidence satisfactory to it that (1) Chengdu has entered into Subsidiary Loan Agreements with at least two PFIs in accordance with the provisions of Part D.1 of Schedule 1 to the Project Agreement and (2) said Subsidiary Loan Agreements are legally binding upon the parties thereto in accordance with their respective terms;

(d) under Category (3)(a) unless the Association shall have received evidence satisfactory to it that (1) Ningbo has entered into Subsidiary Loan Agreements with at least two PFIs in accordance with the provisions of Part D.1 of Schedule 1 to the Project Agreement and (2) said Subsidiary Loan Agreements are legally binding upon the parties thereto in accordance with their respective terms;

(e) under Category (4)(a) unless the Association shall have received evidence satisfactory to it that (1) Yantai has entered into Subsidiary Loan Agreements with at least two PFIs in accordance with the provisions of Part D.1 of Schedule 1 to the Project Agreement and (2) said Subsidiary Loan Agreements are legally binding upon the parties thereto in accordance with their respective terms; and

(f) in respect of a Housing Sub-loan for a Housing Development Project unless said Housing Sub-loan has been made in accordance with the provisions of Part B.2 of Schedule 2 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account and Loan Account to be made on the basis of statements of expenditure for expenditures under (a) contracts for goods costing less than \$200,000 equivalent, (b) contracts for the services of consulting firms costing less than \$100,000 equivalent, (c) contracts for the services of individual consultants costing less than \$50,000 equivalent, (d) contracts for training and (e) contracts for Housing Development Projects in respect of which Housing Sub-loans have been made (other than contracts for works equal to or greater than \$7,500,000 equivalent and contracts for goods equal to or greater than \$200,000 equivalent), under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in the (1) development, on a pilot basis in the Participating Municipalities, of an efficient and effective market-based housing system and social safety net designed to divest enterprises of responsibility for direct provision and management of housing and social security benefits to their employees and thereby achieve enterprise restructuring and (2) strengthening of institutional capabilities in respect of housing management and finance and social security administration.

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: Beijing

(1) Housing System Reform Program

Carrying out by Beijing of the program of actions and technical assistance

referred to in Part A of the Annex to this Schedule.

(2) Social Security System Reform Program

Carrying out by Beijing of the program of actions and technical assistance referred to in Part B of the Annex to this Schedule.

(3) Housing Loan Program

Financing, through the provision of Housing Sub-loans by PFIs to Beneficiaries, of housing development projects, described in Part C of the Annex to this Schedule, to be carried out in Beijing.

(4) Institutional Development of PFIs

Carrying out by PFIs operating in Beijing, of the programs referred to in Part D of the Annex to this Schedule.

Part B: Chengdu

(1) Housing System Reform Program

Carrying out by Chengdu of the program of actions and technical assistance referred to in Part A of the Annex to this Schedule.

(2) Social Security System Reform Program

Carrying out by Chengdu of the program of actions and technical assistance referred to in Part B of the Annex to this Schedule.

(3) Housing Loan Program

Financing, through the provision of Housing Sub-loans by PFIs to Beneficiaries, of housing development projects, described in Part C of the Annex to this Schedule, to be carried out in Chengdu.

(4) Institutional Development of PFIs

Carrying out by PFIs operating in Chengdu, of the programs referred to in Part D of the Annex to this Schedule.

Part C: Ningbo

(1) Housing System Reform Program

Carrying out by Ningbo of the program of actions and technical assistance referred to in Part A of the Annex to this Schedule.

(2) Social Security System Reform Program

Carrying out of the program of actions and technical assistance referred to in Part B of the Annex to this Schedule.

(3) Housing Loan Program

Financing, through the provision of Housing Sub-loans by PFIs to Beneficiaries, of housing development projects, described in Part C of the Annex to this Schedule, to be carried out in Ningbo.

(4) Institutional Development of PFIs

Carrying out by PFIs operating in Ningbo, of the programs referred to in Part D of the Annex to this Schedule.

Part D: Yantai

(1) Housing System Reform Program

Carrying out by Yantai of the program of actions and technical assistance referred to in Part A of the Annex to this Schedule.

(2) Social Security System Reform Program

Carrying out by Yantai of the program of actions and technical assistance referred to in Part B of the Annex to this Schedule.

(3) Housing Loan Program

Financing, through the provision of Housing Sub-loans by PFIs to Beneficiaries, of housing development projects, described in Part C of the Annex to this Schedule, to be carried out in Yantai.

(4) Institutional Development of PFIs

Carrying out by PFIs operating in Yantai, of the programs referred to in Part D of the Annex to this Schedule.

Part E: Borrower

(1) Carrying out of a program to strengthen the Borrower's institutional capabilities in respect of the (a) development of policies relating to social security programs and (b) management and financing of such programs; and provision of training, equipment and materials required therefor.

(2) Development, on the basis of the results of the Social Security System Reform Programs carried out by the Participating Municipalities, of policies for the further development of suitable social security programs.

* * *

The Project is expected to be completed by December 31, 2000.

ANNEX
to
SCHEDULE 2

Part A: Housing System Reform Programs

Carrying out of a program of actions and technical assistance to: (1) divest enterprises operating in the respective Participating Municipality of their responsibilities to provide housing facilities for their employees, through the transfer to HMCs of the housing assets operated by said enterprises in exchange for shares in said HMCs; (2) enable said HMCs to rent and sell housing at market prices; (3) adjust the wages of employees of enterprises operating in the respective Participating Municipality so as to enable said employees to pay market prices for housing; (4) strengthen the legal and regulatory framework governing the acquisition, sale and mortgaging of housing in the respective Participating Municipality, including the property registration system; (5) strengthen the respective Participating Municipality's institutional capabilities in respect of property valuation and the monitoring and regulation of its housing market; and (6) strengthen the institutional capabilities of the HMCs operating in the respective Participating Municipality through the development of property management systems and computerized accounting and management information systems to be utilized by said HMCs and the development and carrying out of training programs for staff of said HMCs; and provision of equipment and materials required therefor; all so as to develop an efficient and effective market-based housing system.

Part B: Social Security System Reform Programs

Carrying out of a program of actions and technical assistance to develop and introduce suitable social security programs in the respective Participating Municipality and to strengthen the institutional capabilities of said Participating Municipality in respect of the management of said programs, consisting of the:

(1) establishment and/or extension of pension pools and work-related injury insurance, unemployment insurance and health insurance programs for all employees of enterprises operating in the respective Participating Municipality;

(2) establishment of benefit and contribution formulae for the programs referred to in paragraph (1) of this Part so as to require individual contributions and appropriately to link resources and benefits;

(3) carrying out of studies to develop suitable alternatives for the investment of contributions for the programs referred to in paragraph (1) of this Part;

(4) carrying out of studies to develop suitable programs for the financing of health care, including mechanisms to control the costs associated with the provision of health care services, and on the basis thereof, formulation and introduction of suitable health care payment mechanisms and cost containment measures so as to improve the efficient provision of health care services;

(5) development and introduction of programs for the retraining and redeployment of unemployed workers;

(6) development and application of management systems for the: (a) projection of the long-term costs of, and resources for, the programs referred to in paragraph (1) of this Part; (b) efficient collection of contributions and payment of benefits under said programs; (c) monitoring and evaluation of the costs and quality of health care services provided; and

(7) provision of equipment and materials required for said program.

Part C: Housing Development Projects

(1) Purchase by HMCs of residential structures to be utilized for rental purposes;

(2) construction or rehabilitation by HMCs of residential structures to be utilized for rental purposes; and

(3) purchase by households of housing units constructed or purchased by HMCs for resale.

Part D: Institutional Development of PFIs

Carrying out of a program to strengthen the management and operations of the respective PFI in respect of mortgage financing, consisting of the: (1) development of appraisal and loan servicing procedures; (2) carrying out of studies on housing finance; (3) development of computerized information systems; (4) adoption of suitable accounting policies and procedures; and (5) provision of equipment, materials and training required therefor.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in respect of: (i) the Beijing Special Account, Category (1); (ii) the Chengdu Special Account, Category (2); (iii) the Ningbo Special Account, Category (3); (iv) the Yantai Special Account, Category (4); and (v) the Central Special Account, Category (5);

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of housing, 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; and

(c) the term "Authorized Allocation" means an amount equivalent to \$9,000,000 in respect of the Beijing Special Account, \$4,000,000 in respect of the Chengdu

Special Account, \$3,300,000 in respect of the Ningbo Special Account, \$2,800,000 in respect of the Yantai Special Account and \$400,000 in respect of the Central Special Account, to be withdrawn from the Credit Account or the Loan Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of said 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 said 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 said Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of said Special Account, the Borrower shall furnish to the Association requests for deposits into said 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 said 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 said Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account or the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into a 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; or

(b) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Category for the Part of the Project for which said Special Account was established, 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 said Part of the Project, shall equal the equivalent of twice the amount of the respective 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 Category for said Part of 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 said Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of a Special Account (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into said Special Account (or, if the Association shall so request, refund to the Association or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into said Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in a 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 any 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.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project, shall be used. Where no relevant standard bidding documents have been issued by the Bank, bidding documents based on other internationally recognized standard forms agreed with the Association shall be used.

2. To the extent practicable, contracts for goods shall be grouped into bid packages 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

Local Competitive Bidding

1. Goods (other than goods for Housing Development Projects) estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$1,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
2. Goods for Housing Development Projects, estimated to cost the equivalent of \$200,000 or less per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.
3. Civil works for Housing Development Projects shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

Shopping

4. Goods (other than goods for Housing Development Projects) estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$1,100,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.
5. Goods for Housing Development Projects estimated to cost the equivalent of \$50,000 or less per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part E: 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 for (i) civil works estimated to cost the equivalent of \$7,500,000 or more and (ii) goods 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 a 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 said 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 a 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 4 to this Agreement.
 - (c) The provisions of the preceding sub-paragraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association; and (B) who 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 (the Consultant Guidelines). For complex, time-based assignments, the such consultants shall be employed under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms agreed with the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Project Implementation Measures

The provisions of this Schedule shall apply for the purposes of Section 3.02 of this Agreement.

1. The Borrower shall:

(a) maintain throughout the period of Project implementation, a central coordinating group, with membership, terms of reference and resources satisfactory to the Association, to be responsible for (1) coordinating the carrying out of Part E of the Project and providing overall coordination of Project implementation, (2) providing policy guidance to the Participating Municipalities, PFIs and Beneficiaries in the carrying out of the Project, (3) monitoring and evaluating the impact of the Housing Reform System Programs and Social Security System Reform Programs carried out by the Participating Municipalities and (4) exchanging views with the Participating Municipalities on the results of such monitoring and evaluation activities; and

(b) to this end, assign staff with qualifications, experience and terms of reference and in numbers, all acceptable to the Association, to assist the Central Coordinating Group in the performance of its responsibilities.

2. The Borrower shall ensure that the activities under the Housing System Reform Programs, the Social Security System Reform Programs, and Parts A(4), B(4), C(4) and D(4) of the Project shall be carried out under arrangements, satisfactory to the Association, pursuant to which the Borrower shall act as the agent of the Participating Municipalities and the PFIs in the procurement of the goods and services required therefor; and

3. Without limitation upon the provisions of Section 9.06 of the General Conditions and Section 9.07 of the General Conditions referred to in Section 1.01 of the Loan Agreement, the Borrower shall:

(a) prepare, through the Central Coordinating Group and in accordance with guidelines satisfactory to the Association, and furnish to the Association, not later than February 15 and July 15, a report, based in part on the reports furnished to it by each Participating Municipality pursuant to Part B.1(c) of Schedule 1 to the Project Agreement, on the progress of the Project, together with the reports furnished to the Borrower by each Participating Municipality for the period under review, and any measures proposed by the Borrower to further the objectives of the Project;

(b) afford the Association a reasonable opportunity to exchange views with the Borrower and the Participating Municipalities on said reports; and

(c) thereafter, promptly take all measures, as shall have been agreed between

the Borrower and the Association, to further the objectives of the Project.

