

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N028 CHA

Interim Fund
Development Credit Agreement

(Qinba Mountains Poverty Reduction Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association

Dated July 21, 1997

INTERIM FUND CREDIT NUMBER N028 CHA

INTERIM FUND DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 21, 1997, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996.

WHEREAS (A) by the Interim Fund Resolution, the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

(C) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to thirty million dollars (\$30,000,000) (the Loan);

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

(E) the Project will be carried out at the national level by the Borrower,

through the Borrower's Leading Group for Poverty Reduction, and at the provincial level by the Borrower's Provinces of Sichuan and Shaanxi and the Borrower's Autonomous Region of Ningxia Hui, with the Borrower's assistance, and as part of such assistance, the Borrower will make available to said provinces and autonomous region a portion of the proceeds of the Interim Fund Credit and of the Loan, as provided in this Agreement and in the Loan Agreement; and

WHEREAS the Administrator has agreed, on the basis, inter alia, of the foregoing, to extend the Interim Fund Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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 term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement;

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively;

(c) A new paragraph, numbered 15, is added to Section 2.01 to read as follows:

"15. "Participating Country" means any country that meets the requirements set forth in Section 5(e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5(c) of said Resolution; and "Participating Countries" means, collectively, all such countries;"

(d) The last sentence of Section 3.02 is deleted.

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

"Except as the Administrator 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 Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read as follows:

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days, or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit, or (c) at any time the Administrator determines, with respect to any contract to be financed out of the proceeds

of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit, or (e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Interim Fund Credit shall be canceled."

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

(a) "Agricultural Bank of China" means the financial institution of the same name established under the laws of the Borrower and operating pursuant to the Circular of the Borrower's State Council on the Restoration of the Agricultural Bank of China, dated February 23, 1979 (State Council Document No. (1979) 56) and the Decision of the Borrower's State Council on the Exclusive Exercise of Central Bank Functions by the People's Bank of China, dated September 17, 1983 (State Council Document No. (1983) 146), as said Circular and Decision may be modified from time to time.

(b) "Allocated Amount" means, in respect of each Project Province, the amount of the Interim Fund Credit and the amount of the Loan made available by the Borrower to said Project Province pursuant to the provisions of Part B.3 of Schedule 4 to this Agreement and to be utilized by said Project Province for purposes of carrying out its respective Provincial Poverty Reduction Program.

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

(d) "Environmental Impact Statement" means the Environmental Impact Statement dated September 1996 prepared for the Project by the Borrower's Chinese Research Academy of Environmental Sciences, Northwest Institute for Hydroelectric Investigation and Design, Sichuan Research Institute of Environmental Protection and Ningxia Research Institute of Environmental Protection.

(e) "FCPMC" means the Foreign Capital Project Management Center within the Borrower's Leading Group for Poverty Reduction, to be maintained pursuant to the provisions of Part A.1 of Schedule 4 to this Agreement.

(f) "Implementation Agreement" means, in respect of each Project Province, the agreement referred to in Part B.2 of Schedule 4 to this Agreement between the Borrower and said Project Province for the implementation by said Project Province of its respective Provincial Poverty Reduction Program.

(g) "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 May 30, 1995, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(h) "Microfinance Agreement" and "Microfinance Amount" mean, respectively, any agreement entered into between a Project Province and a Microfinance Institution pursuant to Part G.1 of Schedule 4 to this Agreement, and any loan made to a Microfinance Institution pursuant to a Microfinance Agreement.

(i) "Microfinance Beneficiary" means an individual or a group of individuals or a micro-enterprise to whom a Microfinance Sub-loan is proposed to be made or has

been made.

(j) "Microfinance Institution" means any institution which provides credit to individuals or groups of individuals in the Project Areas and with which a Project Province has entered into a Microfinance Agreement.

(k) "Microfinance Sub-loan" means a loan made or proposed to be made by a Microfinance Institution out of the proceeds of the Interim Fund Credit or of the Loan to a Microfinance Beneficiary for a Microfinance Sub-project.

(l) "Microfinance Sub-project" means a specific development project under Part E(2) of the Project to be carried out by a Microfinance Beneficiary utilizing the proceeds of a Microfinance Sub-loan.

(m) "Ningxia" means the Borrower's Autonomous Region of Ningxia Hui.

(n) "Operational Manual" means, in respect of each Microfinance Institution, the operational manual referred to in Part G.2(c) of Schedule 4 to this Agreement and adopted by said institution in accordance with the provisions of said Part.

(o) "Project Areas" means the counties, selected by agreement between the Borrower and the Administrator, within the Project Provinces which are included in the Project.

(p) "Project Provinces" means Ningxia, Shaanxi and Sichuan, and "Project Province" means any of the Project Provinces.

(q) "Provincial Poverty Reduction Program" means, in respect of each Project Province, the activities included in the Project which are to be carried out by said Project Province.

(r) "Resettlement Action Plan" means the resettlement action plan dated January 1997 prepared by the FCPMC for the Project.

(s) "Rural Enterprise" means an individual entrepreneur, a group of individual entrepreneurs, or an enterprise possessing legal person status.

(t) "Rural Enterprise Development Sub-loan" means a loan made or proposed to be made out of the proceeds of the Interim Fund Credit or of the Loan to a Rural Enterprise for a Rural Enterprise Development Subproject.

(u) "Rural Enterprise Development Subproject" means a specific project to be carried out under Part D of the Project.

(v) "Shaanxi" means the Borrower's Province of Shaanxi.

(w) "Sichuan" means the Borrower's Province of Sichuan.

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

ARTICLE II

The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to one hundred eight million five hundred thousand Special Drawing Rights (SDR108,500,000).

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account in accordance with the provisions of Schedule 1 to this Agreement for (i) expenditures made (or, if the Administrator 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 (other than Part E(2) of the Project) and to be financed out of the proceeds of the Interim Fund Credit; and (ii) amounts paid (or, if the Administrator shall so agree, to be paid) on account of

withdrawals made by Microfinance Beneficiaries under Microfinance Sub-loans to meet the reasonable cost of goods and services required for the Microfinance Sub-projects in respect of which withdrawal from the Interim Fund Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank and on terms and conditions, both satisfactory to the Administrator, 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 5 to this Agreement.

Section 2.03. The Closing Date shall be January 31, 2004 or such later date as the Administrator shall establish. The Administrator 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 Interim Fund 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 Interim Fund Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each May 15 and November 15, commencing November 15, 2007 and ending May 15, 2032. Each installment to and including the installment payable on May 15, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Administrator may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Administrator notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Administrator may revise the

modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Administrator 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, shall carry out the Project at the national level through FCPMC, and cause the Project Provinces to carry out the Project at the provincial and local levels, all with due diligence and efficiency and in conformity with appropriate administrative, financial, labor, agricultural, engineering practices and sound health, safety and environmental standards, including, without limitation the recommendations of the Environmental Impact Statement, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Administrator shall otherwise agree, the Borrower shall take the actions set forth or referred to in Schedule 4 to this Agreement, in order to ensure the proper implementation of the Project, and the achievement of the objectives thereof.

Section 3.02. (a) Except as the Administrator shall otherwise agree, procurement of (i) the goods, works and consultants' services required for the Project (other than Part E(2) thereof) and to be financed out of the proceeds of the Interim Fund Credit and (ii) all goods, works and consultants' services required for Part E(2) of the Project, shall be governed by the provisions of Schedule 3 to this Agreement.

(b) Without limitation upon the foregoing, all pesticides and other farm chemicals required for the Project shall be selected exclusively from a list of chemicals approved by the Administrator and shall be used, handled and stored in accordance with guidelines acceptable to the Administrator.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and Section 9.08 of the General Conditions applicable to the Loan Agreement, and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

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

(iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Interim Fund 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 Administrator has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Administrator'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 Administrator

Section 5.01. Pursuant to Section 6.02(h) of the General Conditions, the following additional event is specified, namely that any of the Project Provinces shall have failed to perform any of its obligations under its respective Implementation 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 Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Administrator to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) An Implementation Agreement has been executed between the Borrower and

each Project Province; and

(b) all conditions precedent to the effectiveness of the Loan Agreement, other than the effectiveness of the Interim Fund Development Credit Agreement, have been fulfilled.

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 Administrator, namely, that the Implementation Agreement with each Project Province has been duly authorized or ratified by the Borrower and said Project Province and is legally binding upon the Borrower and said Project Province in accordance with its respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

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 and the Administrator:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhou Wenzhong

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the interim trust fund established with
funds contributed by certain members of
International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors of
International Development Association

By /s/Jean-Michel Severino

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Interim Fund Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Interim Fund Credit and of the Loan, the allocation of the amounts of the Interim Fund 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 Interim Fund Credit Amount (Expressed in SDR Equivalent)	Allocated of the Loan (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works, Crop Establishment and Livestock Maintenance Activities	27,510,000	30,000,000	35%
(2) Goods	49,240,000		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Placement Services	15,690,000		50%
(4) Consultants' services and training	9,370,000		100%
(5) Microfinance Sub-loans	1,320,000		50% of amounts paid by Microfinance Institutions
(6) Operating Costs	2,470,000		50%
(7) Unallocated	2,900,000		

TOTAL	108,500,000	30,000,000
	=====	=====

2. For the purposes of this Schedule:

(a) the term "Crop Establishment and Livestock Maintenance Activities" means terracing, planting, land preparation, seed production and nursery establishment activities, works for animal housing facilities, and seedlings, animals, feed additives, seeds and other agricultural inputs (excluding fertilizer, pesticides, urea and hand tools), and straw tanks, all as required for Part C of the Project;

(b) 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;

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

(d) the term "Operating Costs" means expenditures for fuel, vehicle and equipment maintenance and repair, supplies and materials, and transportation incurred by the FCPMC and regional and local units involved in Project management in their management of the Project; and

(e) the term "Placement Services" means orientation programs and job placement services provided under Part A of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR13,000,000 may be made on account of payments made for expenditures before that date but after February 1, 1997.

4. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for (a) expenditures under contracts (i) for goods costing less than \$200,000 equivalent each, (ii) for works costing less than \$2,500,000 equivalent each, (iii) for services of consulting firms costing less than \$100,000 equivalent each, (iv) for services of individual consultants costing less than \$50,000 equivalent each, (b) Operating Costs, Placement Services and training, regardless of the cost thereof, and (c) Microfinance Sub-loans, all under such terms and conditions as the Administrator shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in (1) reducing absolute poverty in the Project Areas, (2) introducing an integrated multisectoral approach to poverty reduction in these areas for replication throughout the Borrower's territory, (3) improving labor mobility from these areas to wealthier regions, (4) reversing environmental degradation in the Project Areas, (5) promoting a participatory process in the development of these areas and (6) improving institutional poverty monitoring capabilities at the national and regional levels.

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

Part A: Labor Mobility

Implementation of a voluntary program to provide employment to about 155,000 surplus laborers from the Project Areas in wealthier regions of the Borrower's territory, said program to include: (1) construction and equipping of office and training facilities; and (2) provision of orientation programs and pre-placement training at the village level, job placement systems and services, on-the-job training by employer enterprises, and monitoring systems (including equipment and furniture

therefor) to facilitate the protection of workers' rights and ensure job safety and adequate living conditions for workers.

Part B: Rural Infrastructure

(1) Construction of about 900 kilometers of all-weather gravel roads to link remote administrative villages to the existing network of county and township roads.

(2) Provision of facilities to supply about 15 to 35 liters of water per person per day to about 466,000 people in 1,680 villages, said facilities to include piped systems with public hydrants, rain collectors to serve one or more households, and shallow wells.

(3) (a) Construction and upgrading of small-scale irrigation works for about 8,900 hectares of rice paddy and upland grain crops in Sichuan and Shaanxi, said works to include a small reservoir storage scheme, irrigation ponds, seven small pumping stations, on-farm water cisterns, diversion weirs and about 640 kilometers of lined canal; (b) construction of micro-irrigation systems to serve about 5,355 hectares of crop land in Ningxia, said systems to include tubewells, small, household-operated cisterns and shallow wells; and (c) reclamation of about 650 hectares of river beach land for crop production in Ningxia.

(4) Installation of about 75 kilometers of 35-kilovolt, and about 670 kilometers of 10-kilovolt, overhead power transmission and distribution lines, and construction of eight mini-hydropower plants; and provision of about 1,830 biogas digesters to households in Sichuan for cooking and lighting.

Part C: Land and Farm Development

Development and implementation of improved integrated land-use programs specific to each of the Project Areas designed to provide households with the means to intensify production on terraced land and alternative income-generating activities in animal, crop and tree production, said programs to include:

(1) terracing of about 65,080 hectares of arable land in all three Project Provinces and construction and upgrading of small-scale irrigation and drainage systems for about 8,300 hectares of waterlogged paddy fields in Sichuan;

(2) provision of agricultural inputs and basic tools to be utilized by households to cultivate about 73,390 hectares of grain, potato and oilseed crops, and provision of medicinal plants, tubers and commercial vegetables to be cultivated by households on about 10,130 hectares of land;

(3) (i) provision of young animals, feed additives and ammoniated straw tanks to be used by households for livestock production, (ii) upgrading of animal housing facilities and (iii) provision of agricultural inputs to be used by households for cultivation of winter animal fodder.

(4) provision of seedlings, fertilizers and pesticides and development of seed production and nursery facilities, all to be utilized to establish and upgrade about 31,800 hectares of plantations of perennial crops and about 1,200 hectares of anti-erosion belts;

(5) provision of agricultural training to over 355,000 farmers and to about 2,900 farmer technicians, and provision of extension, veterinary, breeding and other support services to households, all in order to improve livestock production and cultivation practices; and construction of demonstration facilities and provision of pick-up trucks and motorcycles, equipment, vaccines and seeds required therefor; and

(6) development and implementation of applied agricultural technology programs tailored to the needs of the Project Areas.

Part D: Rural Enterprise Development

Design and implementation of specific projects to develop and expand labor-intensive, commercially viable agroprocessing, mining, handicraft and service industries and farmers' markets in the Project Areas.

Part E: Microfinance

(1) Strengthening of the capabilities of the Microfinance Institutions to provide loans to households in the Project Areas on a sustainable basis, through the provision of technical assistance, training, motorcycles, equipment and furniture.

(2) Provision of loans by the Microfinance Institutions, to individuals and micro-enterprises in the Project Areas for the carrying out by said beneficiaries of specific projects to develop and expand their production activities primarily in the areas of animal husbandry, agroprocessing, and transport services.

Part F: Institutional Development

(1) Strengthening of the organization and operation of provincial and local-level agencies involved in Project implementation to improve their capacity to monitor the incidence of poverty in the Project Areas and to coordinate and/or implement the Borrower's poverty reduction programs, including the Project, through the: (a) development and introduction of organizational policies and procedures; (b) development and implementation of human resource development programs; (c) provision of office facilities, furniture and equipment and vehicles; and (d) development and introduction of a management information system.

(2) Development of a comprehensive poverty profile of the Project Areas and system to monitor the impact of the Project on the Project Areas' poor, through design and carrying out of baseline and annual surveys, processing and analysis of data collected during said surveys, and dissemination of the findings and conclusions of said analysis.

* * *

The Project is expected to be completed by July 31, 2003.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Subject to the eligibility restrictions set forth in Section III of this Schedule, goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

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

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

(a) Grouping of Contracts

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

(b) Preference for Domestically Manufactured Goods and Domestic Contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. Goods for the Project (other than for Microfinance Subprojects)

(a) Limited International Bidding

Pesticides which the Administrator agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

(b) National Competitive Bidding

Except as provided in paragraph (c) of this Section 1, goods (other than pesticides, agroprocessing equipment and goods required for Microfinance Subprojects) estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$24,200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) National Shopping

Goods (other than pesticides, agroprocessing equipment and goods required for Microfinance Subprojects) estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$8,900,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Works for the Project (other than for Microfinance Subprojects)

(a) National Competitive Bidding

Except as provided in paragraph (b) of this Section 1, works (other than those required for Microfinance Subprojects) estimated to cost less than \$2,500,000 equivalent per contract, up to an aggregate amount not to exceed \$27,700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Force Account and Community Participation

Works costing less than \$100,000 equivalent per assignment, which meet the requirements of paragraph 3.8 of the Guidelines, up to an aggregate amount not to exceed \$169,000,000 equivalent, may, with the Administrator's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines, or by the use of community members hired in accordance with procedures acceptable to the Administrator.

3. Goods and Works for Microfinance Sub-projects under Part E(2) of the Project

Goods and works required for Microfinance Sub-projects shall be procured at a reasonable price, account being taken also of other relevant factors, such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor.

Part D: Review by the Administrator of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to (a) each contract for works estimated to cost the equivalent of \$2,500,000 or more, (b) each contract for goods estimated to cost the equivalent of

\$200,000 or more, (c) the first three contracts for goods to be procured by each Project Province under Part C(1)(b) of this Section I, and (d) the first three contracts for works to be procured by each Project Province in accordance with the provisions of Part C(2)(a) of this Section I, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Subject to the eligibility restriction set forth in Section III of this Schedule, consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Administrator of the Selection of Consultants

1. Selection Planning

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

2. Prior Review

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

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

3. Post Review

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

Section III. Eligibility Restrictions

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures under contracts for goods and works provided by nationals of, and produced in or supplied from, Participating Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods and works from such countries shall be disqualified from bidding for such contracts to be financed out of the proceeds of the Interim Fund Credit, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.10 of the Consultant Guidelines, only firms that are registered or incorporated in, and individuals and personnel who are nationals of Participating Countries shall be eligible to compete for the provision of services financed out of the proceeds of the Interim Fund Credit, and the requests for proposals shall so specify.

SCHEDULE 4

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01(b) of this Agreement.

A. Project Management

1. In order to ensure the proper carrying out of the Project, the Borrower shall at all times continue to maintain, with terms of reference, staffing and other resources acceptable to the Administrator, a Foreign Capital Project Management Center, to be responsible for overall Project management, including coordination of procurement, review of withdrawal applications, preparation of progress reports, and provision of guidance and assistance to the Project Provinces in relation to the Project.

2. In order to ensure the proper carrying out by each Project Province of its respective Provincial Poverty Reduction Program, the Borrower shall cause each Project Province at all times to continue to maintain, with terms of reference, staffing and other resources acceptable to the Administrator, a Project Management Office, to be responsible for the coordination and supervision of said Provincial Poverty Reduction Program, including preparation of feasibility studies and of annual work programs, review of local level work programs, and monitoring and evaluation of progress in implementing said Provincial Poverty Reduction Program.

B. Project Implementation - General

1. Each Project Province shall furnish to the Administrator for its prior approval, the program which it proposes to include in the Project as its Provincial Poverty Reduction Program. Each such program shall qualify as a Provincial Poverty Reduction Program eligible for financing out of the proceeds of the Interim Fund Credit only if and to the extent the Administrator shall have notified the Borrower and said Project Province of the Administrator's approval of said program.

Implementation Agreements

2. (a) For purposes of the carrying out by each Project Province of its respective Provincial Poverty Reduction Program, the Borrower shall make available said Project Province's respective Allocated Amount to said Project Province under an implementation agreement acceptable to the Administrator to be entered into between the Borrower and said Project Province, obligating said Project Province to carry out its Provincial Poverty Reduction Program in accordance with the provisions of this Agreement and to take such other actions applicable to it as are specified in this Schedule 4, in accordance with the provisions thereof.

(b) The Borrower shall: (i) cause each Project Province to perform, in accordance with the provisions of the Implementation Agreement to which said Project Province is a party, all of the obligations of said Project Province therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Province to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance.

(c) The Borrower shall exercise its rights under each Implementation Agreement in such manner as to protect the interests of the Borrower and the Administrator and to accomplish the purposes of the Interim Fund Credit and of the Loan, and except as the Administrator shall otherwise agree, not assign, amend, abrogate, or waive any Implementation Agreement or any provision thereof.

Terms of Availability of each Project Province's Respective Allocated Amount

3. The Borrower shall make available to each Project Province its respective Allocated Amount on the following principal terms:

(a) the principal amount of the proceeds of the Interim Fund Credit so made available: (A) shall be the equivalent in terms of Special Drawing Rights (determined on the date or respective dates of withdrawal from the Interim Fund Credit Account) of the value of the currency or currencies so withdrawn in respect of items for said Project Province's respective Provincial Poverty Reduction Program to be financed out of the proceeds of the Interim Fund Credit (the SDR Amount); and (B) shall be recovered by the Borrower in dollars in an amount equal to the equivalent (determined as of the date or respective dates of repayment) of the SDR Amount;

(b) the principal amount of the proceeds of the Loan so made available shall be denominated and recovered in dollars in an amount equal to the amount withdrawn from the Loan Account in respect of items for said Project Province's respective Provincial Poverty Reduction Program to be financed out of the proceeds of the Loan;

(c) the Borrower shall recover from said Project Province the Allocated Amount over a period of 17 years, inclusive of a grace period of 5 years; and

(d) the Borrower shall charge interest on the Allocated Amount withdrawn and outstanding from time to time at a rate equal to two percent per annum.

Annual Program of Activities

4. The Borrower shall, through FCPMC, and shall cause each Project Province to: (a) prepare, and furnish to the Administrator not later than December 1 in each calendar year for the Administrator's review, an action plan for the activities (including training and research, and actions to ensure compliance with the recommendations of the Environmental Impact Statement) which it proposes to carry out under the Project during the following calendar year, together with a budget and a financing plan therefor; and (b) thereafter carry out such action plan as shall have been agreed with the Administrator.

Resettlement

5. The Borrower shall ensure, and shall cause each Project Province to ensure that all involuntary resettlement of persons under the Project shall be carried out in accordance with the Resettlement Action Plan. Further to the foregoing, if any activities under the Project would involve any unanticipated involuntary resettlement of persons, the Borrower shall ensure, and shall cause each Project Province to ensure that said resettlement shall be carried out in accordance with the resettlement plan covering all said persons (a) which shall have been designed on the basis of policies, planning principles, institutional arrangements and design criteria included in the Resettlement Action Plan to improve the living standards and productive capacity of said persons, and (b) which shall have been approved by the Administrator.

C. Part A of the Project (Labor Mobility)

1. To ensure the proper implementation of Part A of the Project, the Borrower shall take all measures necessary, and shall cause (a) each Project Province, and (b) each province in which the surplus laborers under said Part are to be employed, to take all measures necessary, to ensure that the program to provide employment to said surplus laborers shall be implemented on a voluntary basis and in a manner designed to ensure safe and equitable working and living conditions for said laborers. To this end, the Borrower shall carry out and cause each said province to carry out said employment program in accordance with guidelines acceptable to the Administrator.

2. The Borrower shall, through FCPMC, develop, and shall cause each Project Province to develop, policies and procedures adequate to enable the Borrower and the Project Provinces to monitor and evaluate the implementation of said employment program in accordance with guidelines and indicators acceptable to the Administrator, and ensure that said policies and procedures are introduced at the national and provincial levels not later than September 15, 1997.

D. Part B of the Project (Rural Infrastructure)

The Borrower shall cause each Project Province in which a dam to be rehabilitated under the Project is located to undertake annual inspections of said dam, in accordance with sound engineering practices and on the basis of guidelines acceptable to the Administrator, by qualified and experienced independent experts, in order to identify any deficiencies in its design, construction or condition or in the quality and adequacy of the maintenance or methods of its operation, which may endanger its safety or the safety of downstream life, property or activities, and to rectify any such deficiencies promptly. To this end, appropriate arrangements for said inspections shall be prepared and furnished to the Administrator for its review, not later than one year prior to the planned completion of works on each said dam to be undertaken under the Project, and thereafter, promptly implement said arrangements, taking into account the views of the Administrator on the matter.

E. Part C of the Project (Land and Farm Development)

In order to ensure the increased productivity of the land developed under Part C of the Project, the Borrower shall cause each Project Province to ensure that said land shall be leased by the county in which said land is located, to farming households, under arrangements satisfactory to the Administrator, which shall include the execution of a written lease agreement between the representatives of the landowner and of said household, providing for the lease of said land to said household for cultivation purposes for a duration of at least 30 years.

F. Part D of the Project (Rural Enterprise Development)

The Borrower shall cause each Project Province to appraise each project proposed for inclusion in its Provincial Poverty Reduction Program under Part D of the Project in accordance with guidelines acceptable to the Administrator. Each such project shall qualify as a Rural Enterprise Development Subproject eligible for financing out of the proceeds of the Interim Fund Credit only if the following conditions have been met:

1. said Project Province shall have demonstrated to the satisfaction of the Borrower, through the FCPMC, on the basis of said appraisal that:

(a) said project is economically and financially viable, and commercially and technically feasible;

(b) said project is designed to create jobs at a low cost and to provide affordable inputs and profitable markets for goods produced and services provided by poor households;

(c) have been approved, and the construction, operation and maintenance of said facilities shall be supervised by, said bureau; and

(d) if the Rural Enterprise Development Subproject would involve the involuntary resettlement of persons, said project includes a resettlement plan for all said persons which: (i) has been designed on the basis of the policies, planning principles, institutional arrangements and design criteria included in the Resettlement Action Plan to improve the living standards of said persons; and (ii) has been furnished to and approved by the Administrator;

2. the Administrator has notified the Borrower and said Project Province of the Administrator's approval of said project; and

3. if said project is proposed to be implemented by a Rural Enterprise rather than by an administrative subdivision of said Project Province:

(a) said Rural Enterprise shall have established to the satisfaction of the Borrower and said Project Province, on the basis of guidelines satisfactory to the Administrator that it is creditworthy;

(b) said Project Province shall have made a Rural Enterprise Development Sub-loan to said Rural Enterprise for the purpose of carrying out said project, in accordance with policies and procedures acceptable to the Administrator, and on the following terms and conditions:

(i) (A) the principal amount of each Rural Enterprise Development Sub-loan shall be the equivalent in the currency of the Borrower (determined on the date or respective dates of withdrawal from the Interim Fund Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods and services for the Rural Enterprise Development Subproject for which said Rural Enterprise Development Sub-loan is made; and (B) the terms of each Rural Enterprise Development Sub-loan relating to interest and maturity shall be those applied by the Agricultural Bank of China in accordance with its standard policies to loans made by it to its borrowers for similar investments;

(ii) said Rural Enterprise shall undertake to: (A) carry out its Rural Enterprise Development Subproject with due diligence and efficiency, in accordance with sound financial and technical practices and consistent with appropriate health, safety and environmental practices acceptable to the Administrator, and provide, promptly as needed, the funds, and other resources required for the purpose, and maintain adequate records and accounts; (B) if the Rural Enterprise Development Subproject involves the involuntary resettlement of persons, take and cause to be taken all measures necessary to ensure that all such persons shall be resettled in accordance with the resettlement plan referred to above in Section 1(d) of this Part F; (C) procure the goods and services required for its Rural Enterprise Development Subproject in accordance with the provisions of Schedule 3 to this Agreement, and utilize said goods and services exclusively in the carrying out of said Rural Enterprise Development Subproject; (D) take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover the hazards incident to the acquisition, transportation and delivery of goods financed out the proceeds of the Interim Fund Credit to the place of use or installation, any indemnity thereunder to be payable in a currency freely usable by the enterprise to replace or repair such goods; (E) enable the Administrator to inspect the goods and the sites and works included in its Rural Enterprise Development Subproject, the operation thereof, and any relevant records and documents; (F) at all times maintain and operate its equipment and facilities, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and industry practice; and (G) furnish to the Administrator all such information as the Administrator may reasonably request relating to the foregoing and to the administration, operations and financial condition of said Rural Enterprise; and

(c) said Project Province shall exercise its rights in relation to each Rural Enterprise Development Subproject in such manner as to protect its interests and those of the Administrator, comply with its obligations under this Agreement and achieve the purposes of the Project.

G. Part E of the Project (Microfinance)

For the purpose of carrying out Part E of the Project, the Borrower shall cause the Project Provinces to take the following actions.

Onlending to Microfinance Institutions

1. (a) The Project Provinces shall relend to the Microfinance Institutions an amount of the proceeds of the Interim Fund Credit allocated from time to time to Category (5) under agreements to be entered into between the Project Provinces and said Microfinance Institutions, under terms and conditions which shall have been approved by the Administrator and which shall include, without limitation, those set forth below in Sections 2, 3, 4 and 5 of this Part G.

(b) The Project Provinces shall: (i) take or cause to be taken all action necessary or appropriate on their respective parts to enable the Microfinance Institutions to perform in accordance with the provisions of their respective Microfinance Agreements all of their obligations set forth in said agreements and not take or permit to be taken any action which would prevent or interfere with such performance; and (ii) exercise their respective rights under the Microfinance Agreements in such manner as to protect the interests of the Borrower and the Administrator and to accomplish the purposes of the Interim Fund Credit, and, except as the Administrator shall otherwise agree, not assign, amend, abrogate or waive any such agreement or any provision thereof.

Eligibility as a Microfinance Institution

2. A Microfinance Agreement may be entered into with an institution, duly established and operating under the laws of the Borrower, which the Project Province entering into said agreement shall have determined, on the basis of guidelines acceptable to the Administrator:

(a) is authorized to provide financing to individuals and enterprises in said Project Province and is in compliance with the legal and regulatory requirements applicable to its operations;

(b) has the organization, management, staff and other resources required for the efficient carrying out of its activities to be undertaken under the Project; and

(c) has developed on the basis of guidelines acceptable to the Administrator and adopted, an operational manual setting forth its policies and procedures for the appraisal and approval of projects to be financed out of loans made by it, and of beneficiaries of said loans, the terms and conditions upon which said loans shall be made to said beneficiaries, and the guidelines for the monitoring and supervision of, and reporting on, said loans.

Terms of Microfinance Agreements

3. The principal amount to be relent out of the proceeds of the Interim Fund Credit to a Microfinance Institution under a Microfinance Agreement shall be the equivalent in the currency of the Borrower (determined on the date or respective dates of withdrawal from the Interim Fund Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out, (a) on account of the cost of goods and services under Part E(1) of this Project for said Microfinance Institution and (b) on account of goods and services financed under Microfinance Sub-loans made by said Microfinance Institution, and shall be repaid over a period not to exceed 15 years, inclusive of a grace period not to exceed 5 years. Interest shall be charged on said principal amount withdrawn and outstanding from time to time at a rate equal to or greater than two and eighty-eight one hundredths percent (2.88%) per annum.

Conditions of Microfinance Agreements

4. The right of a Microfinance Institution to the use of the proceeds of its respective Microfinance Amount shall be:

(a) suspended upon failure by such institution to perform any of its obligation under its respective Microfinance Agreement or to continue to be in compliance with the legal and regulatory requirements applicable to its operations; and

(b) terminated if such right shall have been suspended pursuant to paragraph (a) for a continuous period of sixty days.

5. Each Microfinance Agreement between a Project Province and a Microfinance Institution shall contain provisions pursuant to which said Microfinance Institution shall undertake to: (i) carry out its activities under the Project and conduct its operations and affairs in accordance with sound financial standards and practices and the Operational Manual, and to provide, promptly, as needed, the funds, facilities, services and other resources required for the purpose; (ii) procure the goods and services required for its activities under Part E(1) of the Project to be financed out of the proceeds of its respective Microfinance Amount, in accordance with the provisions of Schedule 3 to this Agreement and use such goods and services exclusively in the carrying out of said activities; and ensure that the goods and services required for a Microfinance Subproject for which it shall make a Microfinance Sub-loan shall be procured in accordance with the provisions of said Schedule 3; (iii) appraise Microfinance Subprojects, make Microfinance Sub-loans to Microfinance Beneficiaries, and supervise the implementation of Microfinance Subprojects and the payments of amounts due under Microfinance Sub-loans, and otherwise carry out its activities, all in accordance with its Operational Manual; and (iv) exercise its rights in relation to each Microfinance Sub-loan in such manner as to protect its interests and those of the Administrator and said Project Province, comply with its obligations under said arrangements with said Project Province, and achieve the purposes of the Project; and not assign, amend, abrogate or waive any of its agreements providing for Microfinance Sub-loans, or any provision thereof, without the prior approval of said Project Province; (v) exchange views with, and furnish all such information to, the Administrator, the Borrower or said Project Province, as any of them shall have reasonably requested, with regard to the progress of its activities under Part E of the Project, including the progress of Microfinance Sub-projects for which it shall have made a Microfinance Sub-loan, the performance of its obligations under its Microfinance Agreement and other matters relating to the purposes of the Project; and promptly inform the Administrator, the Borrower and said Project Province of any condition which interferes or threatens to interfere with the progress thereof; and (vi) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator; furnish to the Administrator, the Borrower and said Project Province, as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, the report of such audit by said auditors in such scope and detail as the Administrator, the Borrower or said Project Province shall have reasonably requested, and such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Administrator, the Borrower or said Project Province shall from time to time reasonably request.

H. Supporting Social Services

In support of the Project's objectives, the Borrower shall cause each Project Province:

Primary Education Program

1. to carry out a primary education program designed to provide affordable quality primary education to all children in said Project Province's Project Areas, in accordance with a time-bound action plan, both of which program and action plan shall be acceptable to the Administrator; and

Public Health Program

2. (a) to carry out a public health program acceptable to the Administrator, designed to provide affordable quality primary and curative health care to all households in said Project Province's Project Areas; and

(b) to this end, to prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator not later than December in each calendar year, commencing December 1, 1998, a plan of activities which it proposes to implement under said health program during the following calendar year, together with

a budget and financing plan therefor; and

(c) thereafter, to carry out such action plan during said following calendar year as shall have been agreed with the Administrator.

I. Project Monitoring and Evaluation

1. The Borrower shall maintain, and shall cause each Project Province to maintain, policies and procedures (including those developed pursuant to Part C.2 of this Schedule) adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Administrator, the carrying out of the Project and the achievement of the objectives thereof.

2. The Borrower shall, through the FCPMC, prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, (a) semiannual reports, not later than March 15 and September 15 in each calendar year, commencing September 15, 1997, consolidating the results of said monitoring and evaluation activities performed by the Borrower and by the Project Provinces during the preceding calendar semester in respect of the Project, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the then current calendar semester, and (b) a mid-term report, not later than June 30, 1999, consolidating the results of said monitoring and evaluation activities performed by the Borrower and by the Project Provinces, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following such date.

3. After furnishing each said report, the Borrower shall, and shall cause the Project Provinces to (a) review the same with the Administrator, and (b) thereafter, promptly take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to the Interim Fund Development Credit Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Interim Fund Credit or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Interim Fund Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Interim Fund 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 Administrator 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 Interim Fund Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Administrator or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR30,000,000.

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 Administrator 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 Administrator a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account or the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund 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 Administrator from the Interim Fund 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 Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of the Interim Fund 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 Administrator, 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 Administrator pursuant to said Section, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank 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 Interim Fund Credit Account or the Loan Account pursuant to the provisions of Section 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Interim Fund Credit and the Loan allocated to the eligible Categories, minus the amount of all outstanding special commitments entered into by the Administrator 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 Interim Fund Credit Account and the Loan Account of the remaining unwithdrawn amount of the Interim Fund Credit and the Loan allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so

request, refund to the Administrator or the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator 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 Administrator 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 Administrator, refund to the Administrator or the Bank such outstanding amount.

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

(d) Refunds to the Administrator or the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Interim Fund 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 Interim Fund Development Credit Agreement or the Loan Agreement, including the General Conditions applicable thereto.

