

CONFORMED COPY

CREDIT NUMBER 3093 CHA
LOAN NUMBER 4341 CHA

Project Agreement

(Tarim Basin II Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

XINJIANG UYGUR AUTONOMOUS REGION

Dated July 31, 1998

CREDIT NUMBER 3093 CHA
LOAN NUMBER 4341 CHA

PROJECT AGREEMENT

AGREEMENT, dated July 31, 1998, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and XINJIANG UYGUR AUTONOMOUS REGION (XUAR).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the People's Republic of China (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to forty four million six hundred thousand Special Drawing Rights (SDR 44,600,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that XUAR agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by the Loan Agreement of even date herewith between the Borrower and the Bank, the Bank has agreed to make available to the Borrower an amount equal to ninety million dollars (\$90,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that XUAR agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS XUAR, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, and the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this

Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Loan Agreement and in the General Conditions (as so defined in the Development Credit Agreement and the Loan Agreement, respectively) have the respective meanings therein set forth, and, wherever used in this Agreement (except in Section 5.03 hereof) reference to the Association, the Credit or the Credit Account shall also be deemed as reference to the Bank, the Loan and the Loan Account, respectively.

ARTICLE II

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and XUAR shall otherwise agree, XUAR shall take the actions set forth or referred to in the Implementation Program set forth in Schedule 2 to this Agreement, in order to ensure the proper implementation of the Project and the achievement of the objectives thereof.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) XUAR 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 applicable to the Development Credit Agreement and in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions applicable to the Loan Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions applicable to the Development Credit Agreement and Section 9.08 of the General Conditions applicable to the Loan Agreement, and without limitation thereto, XUAR shall:

(i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Association and XUAR, a plan designed to ensure the continued achievement of the Project's objectives; and

(ii) afford the Association a reasonable opportunity to exchange views with XUAR on said plan.

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

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

ARTICLE III

Financial Covenants

Section 3.01. (a) XUAR shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the carrying out of the Project.

(b) XUAR shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with consistently applied appropriate auditing principles, 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, 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 such records and accounts and the audit thereof, as the Association may from time to time, reasonably request.

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

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

Section 4.02. (a) This Agreement and all obligations of the Association and of XUAR thereunder shall terminate on the earlier of the following two dates:

(i) the date on which both the Development Credit Agreement and the Loan Agreement shall terminate in accordance with their respective terms; or

(ii) the date 20 years after the date of this Agreement.

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

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

ARTICLE V

Miscellaneous Provisions

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

For the Association:

International Development Association

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For XUAR:

Tarim Basin II Project Management Office
16 Minde Avenue, Urumqi 830002
Xinjiang Uygur Autonomous Region
People's Republic of China

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of XUAR may be taken or executed by the Vice Chairman of XUAR responsible for agriculture or such other person or persons as such Vice Chairman shall designate in writing, and XUAR shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. As long as the Bank has not given notice to the contrary to XUAR and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of XUAR to consult with, and to furnish information, documents, plans, reports, records and statements to, the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to, XUAR shall be satisfied to the extent such obligations are fulfilled by the Association; and

(c) all actions taken (including the giving of approvals or granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Loan Agreement, and in the name and on behalf of both the Association and the Bank.

Section 5.04. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Jane Loos

Acting Regional Vice President
East Asia and Pacific

XINJIANG UYGUR AUTONOMOUS REGION

By /s/ Liu Xiaoming

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

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 and in September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 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 \$250,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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 (excluding the Hong Kong Special Administrative Region of the Borrower).

Part C: Other Procurement Procedures

1. Works

(a) National Competitive Bidding

Except as otherwise provided in paragraphs 1(b) and 1(c) of this Part C, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of Small Works

Works estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$39,200,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

(c) Force Account and Beneficiary Participation

Works which meet the requirements of paragraph 3.8 of the Guidelines, and which are estimated to cost less than \$100,000 equivalent per assignment, up to an aggregate amount not to exceed \$57,300,000 equivalent, may, with the Association'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 Project beneficiaries hired in accordance with procedures acceptable to the Association.

2. Goods

(a) National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent, but not less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$4,400,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) National Shopping

Goods (including, without limitation, breeding animals and tree seedlings) estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$7,400,000 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.

Part D: Review by the Association 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 Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods estimated to cost the equivalent of \$250,000 or more; (b) each contract for works estimated to cost the equivalent of \$1,000,000 or more; and (c) in each calendar year, the first two contracts for works to be procured by each Project Prefecture in accordance with the provisions of Part C.1(a) of this Section I for which the invitations to bid are issued in that calendar year; 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

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 and revised in September 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

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services which meet the requirements set forth in paragraph 3.8 of the Consultant Guidelines, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 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 Association 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 Association 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 Association, 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 qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 2.01(b) of this Agreement.

A. Project Management

In order to ensure the proper carrying out of the Project and the continued achievement of its objectives, XUAR shall at all times maintain with terms of reference, composition, and resources satisfactory to the Association, and with qualified and experienced staff in adequate numbers:

1. TBWRC, to be responsible for comprehensive integrated management of water and related resources in the Tarim Basin, including establishment of overall policies and plans with regard to the development, utilization, protection and management of these water resources;

2. a project management office at the Regional-level, to be responsible for the overall management of Project implementation;

3. a project management office in each Project Prefecture and in each county of said prefecture, to be responsible for the management of Project activities to be implemented at its respective level; and

4. an independent panel of experts to be responsible for providing technical advice to the PMOs and undertaking annual reviews of the Project.

B. Tarim Basin Water Resources Use Quotas

In order to ensure the rational and sustainable utilization of water resources within the Tarim Basin, XUAR shall establish and enforce water utilization quotas for each Project Prefecture designed to maintain adequate flows through the tributaries of the Tarim River, to the Tarim River mainstream. To this end, XUAR shall:

1. establish, through TBWRC, not later than December 1, 1998, in consultation with each Project Prefecture and in accordance with the Regulations on the Management of the Water Resources of the Tarim Basin, annual gross water utilization quotas for each said prefecture, apply said quotas commencing calendar year 1999, and furnish said quotas, promptly upon their establishment, to the Association for information;

2. maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the utilization of water resources by each Project Prefecture, and prepare and furnish annual reports to the Association not later than February 28 in each calendar year summarizing the results of said monitoring and evaluation activities during the preceding calendar year, setting forth any proposed revisions to the established water utilization quotas indicated by said results, and recommending measures to improve the rational and efficient utilization of water resources by the Project Prefectures; and

3. introduce any necessary adjustments to the water utilization quotas of the Project Prefectures and take any further measures recommended by said report, taking into account the views of the Association in the matter.

C. Local Beneficiaries Participation Action Plan; Resettlement

1. XUAR shall take all measures necessary to ensure that all persons affected by the Project fully participate in its design and implementation and receive social and economic benefits from the Project that are compatible with their cultural preferences. To this end, XUAR shall carry out the Project in accordance with the Local Beneficiaries Participation Action Plan.

2. XUAR shall ensure that all works to be carried out under the Project shall be planned in accordance with the objective of avoiding, where feasible, any change in land or water use that would result in the involuntary loss by persons of shelter, of productive assets or access to productive assets, or of income or means of livelihood. To this end, XUAR shall ensure that each Project Prefecture gives due attention to said objective in the preparation of annual civil works plans for the Project pursuant to Part J.2(a) of this Schedule. If, during the preparation of any such civil works plans, a Project Prefecture determines that such change in land or water use would nevertheless be unavoidable, XUAR shall ensure that said Project Prefecture takes the following actions, and shall confirm to the Association that said actions have been taken, prior to the commencement of any such civil works:

(a) The Project Prefecture shall prepare a resettlement action plan, on the basis of policies, planning principles, institutional arrangements and design criteria acceptable to the Association, so as to improve the living standards and production levels of said persons, and furnish said action plan to XUAR, and, if more than 200 persons are involved, to the Association, for approval.

(b) The Project Prefecture shall carry out such resettlement action plan as shall have been approved by XUAR (and the Association, if more than 200 persons are involved).

D. Dam Safety

In order to ensure the safety of the dam which is to be constructed under Part A(1)(b) of the Project and its associated structures (the Project Dam) and all dams

which serve or could affect the Project and their associated structures (the Related Dams), XUAR shall undertake the following actions in accordance with sound engineering practices and on the basis of guidelines acceptable to the Association.

1. Project Dam

(a) XUAR shall: (i) undertake periodic reviews of the adequacy of the design and construction of the Project Dam, throughout the period of its construction and the start of its operations; (ii) prepare and furnish to the Association, promptly upon the completion of each said review, a report of the results of said review, together with any recommended changes to be introduced into the design, construction or operation of the Project Dam; and (iii) thereafter, promptly introduce the changes recommended by said report, taking into account the views of the Association on the matter. In order to assist it in undertaking said reviews, XUAR shall employ a panel of independent experts, with terms of reference, qualifications and experience acceptable to the Association.

(b) XUAR shall ensure that the Project Dam is operated and maintained in accordance with sound engineering practices. To this end, XUAR shall: (i) prepare an operational and maintenance plan and an emergency preparedness plan for the Project Dam; (ii) furnish the same to the Association not later than December 31, 2001; and (iii) thereafter, promptly adopt said plans, taking into account the views of the Association on the matter.

(c) Upon completion of the Project Dam, XUAR shall: (i) undertake annual inspections of the Project Dam 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 (ii) promptly rectify any such deficiencies.

2. Related Dams

XUAR shall: (a) undertake an inspection of the Related Dams in order to evaluate their condition and the quality and adequacy of their maintenance and methods of operation; (b) prepare and furnish to the Association not later than December 31, 2001 a report on said evaluation, together with any recommendations indicated by said evaluation in order to ensure the safety of said dams and the safety of downstream life, property and activities; and (c) promptly implement said recommendations, taking into account the comments of the Association on the matter. To assist it in undertaking said inspection, XUAR shall employ one or more independent experts whose terms of reference, qualifications and experience shall be acceptable to the Association.

E. Keping Voluntary Settlement Action Plan

XUAR shall take all measures necessary to ensure that the emigration of all Keping Settlers to the Laoqilang Project Area shall be implemented on a voluntary basis and in a manner designed to improve their living standards and productivity and the living standards and productivity of those persons who remain in the villages of origin of the Keping Settlers. To this end, XUAR shall carry out said emigration in accordance with the Keping Voluntary Settlement Action Plan.

F. Land Improvement and Use; Agricultural Support Services

1. Leases

All wasteland reclaimed under the Project shall be leased to farming families, under arrangements acceptable to the Association, designed to give priority in the allocation of such land to poor families and to ensure the productive use of such land, such arrangements to include:

(a) a written lease agreement whereby: (i) said land shall be leased to families for a duration of at least 30 years; (ii) land made available to poor families shall be leased on a rent-free basis for the first 3 years of the lease, and thereafter, on a rent-paying basis; and (iii) in the case of land leased to Keping Settlers, at least 0.27 hectares of said land per family member shall be made available to each family for the purposes of production;

(b) exemption from water resource fees and agricultural taxes on said land for the first 5 years of the lease; and

(c) exemption from collective fees on said land for the first 3 years of the lease.

2. Cotton Planting

In furtherance of its objective of ensuring adequate control of cotton pests within its territory, XUAR shall take the following measures:

(a) XUAR shall, through the Project Prefectures, (i) maintain policies and procedures adequate to monitor and evaluate the cropping patterns in each said prefecture in accordance with indicators acceptable to the Association, and (ii) prepare and furnish to the Borrower and the Association not later than February 28 in each calendar year, a report summarizing said monitoring and evaluation activities during the preceding calendar year.

(b) If any such report from a Project Prefecture indicates that the total area of farmland planted with cotton in any county in said Project Prefecture would, during the following twelve-month period, exceed 40% of the total area of farmland in said county, XUAR shall take all reasonable measures (including carrying out of information campaigns and introduction of appropriate financial incentives) with a view to maintaining said ratio at a level which both the Association and XUAR agree is necessary to ensure proper control of cotton pests.

(c) XUAR shall carry out the integrated pest management training under Part B(2) of the Project in accordance with a program and a timetable, both acceptable to the Association.

3. Fertilizer Mixing Stations

Prior to commencing any works to construct the fertilizer mixing stations included in Part B(5) of the Project, XUAR shall prepare feasibility studies of said stations under terms of reference acceptable to the Association and furnish the same to the Association for its approval. XUAR shall not commence any of said works unless and until the Association shall have notified it of its acceptance of the feasibility of said stations based on the results of said feasibility studies.

G. Irrigation Management

1. Self-financing Irrigation and Drainage Districts

(a) Under Part C(2) of the Project, XUAR shall:

(i) carry out a pilot program, acceptable to the Association, in accordance with a time-table acceptable to the Association, for the establishment and operation in each Project Prefecture of self-financing irrigation and drainage districts, comprising at least one WSC and one WUA;

(ii) (A) carry out, not later than April 1, 2000, under terms of reference acceptable to the Association, an evaluation of the establishment and operation of said SIDDs, and on the basis of said evaluation, prepare and furnish to the Bank not later than June 30, 2000 a report setting forth the results of said evaluation and recommendations (including a time-bound action plan of measures) to further strengthen institutional arrangements for water resources management, so as to ensure the sustainability and self-financing of irrigated agriculture, improve irrigation system performance and effective decentralized irrigation services, cost recovery and farmer participation in the Project Areas; and (B) thereafter, promptly implement said recommendations and plan, taking into account the views of the Association on the matter.

(b) The rights and obligations of each WSC established under Part C(2) of the

Project shall be defined and set forth in a water system operation and maintenance contract, prepared in accordance with guidelines acceptable to the Association to be entered into between XUAR, acting through the Project Prefecture in which said WSC shall operate, and said WSC, upon the establishment of said WSC, said contract to (i) define the facilities to be transferred to said WSC and which said WSC shall be responsible to operate and maintain, (ii) set forth the respective responsibilities of said Project Prefecture and WSC, and the sources and levels of funds, staffing and other resources to be provided to said WSC to enable it to carry out said responsibilities and (iii) authorize and empower said WSC to collect the water charges referred to in Section 2 of this Part G from the WUAs which use water delivered through said facilities in accordance with the terms of Water Users' Contracts to be entered into between said WSC and said WUAs.

(c) The rights and obligations of each WUA established under Part C(2) of the Project shall be defined and set forth in a water users' contract, prepared in accordance with guidelines acceptable to the Association, to be entered into between said WUA and the WSC responsible for operating and maintaining the facilities through which water used by said WUA is delivered, upon the establishment of said WUA, said contract to (i) define the facilities which said WUA shall be responsible to operate and maintain, (ii) set forth the respective responsibilities of said WSC and WUA, and the sources and levels of funds to be provided to said WUA to enable it to carry out said responsibilities, and (iii) authorize and empower said WUA to collect the water charges referred to in Section 2 of this Part G from its members who use water delivered through said facilities.

(d) XUAR shall take all measures necessary to ensure that each WSC and each WUA established in said SIDDs, is authorized and empowered, promptly upon its establishment, to collect the water charges referred to in Section 2 of this Part G in respect of water delivered through the facilities under its respective responsibility, in accordance with the terms of its respective Water System Operation and Maintenance Contract or Water Users Contract (as the case may be).

(e) XUAR shall ensure that the right of local governments to charge customary labor taxes in respect of irrigation and drainage responsibilities assumed by each WSC and WUA established in said SIDDs, shall be assigned to said WSC and WUA under arrangements acceptable to the Association, promptly upon their establishment.

2. Water Charges

(a) In furtherance of its policy to recover the recurrent costs of operation and maintenance of the irrigation, drainage and water supply facilities included in the Project Prefectures, including those constructed under the Project, from users of the water delivered through said facilities, taking into account the need to provide incentives to encourage the efficient use of water and to relate the charges on the users thereof to their ability to pay and income levels, XUAR shall establish and collect, through the Project Prefectures, water charges from said users, in accordance with guidelines acceptable to the Association, and commencing December 31, 1999, such charges to be sufficient to cover (i) the operation and routine maintenance costs of said facilities as they are incurred, (ii) the cost of replacement and repair of structures, equipment and installations in respect of said facilities over a period not to exceed 30 years and (iii) a reasonable portion of the debt repayment and debt service obligations incurred in respect of said facilities.

(b) XUAR shall, through the Project Prefectures, review and adjust the above charges in consultation with the Association, at regular intervals not exceeding 2 years each, so as to continue to give effect to the provisions of paragraph (a) of this Part G.2.

(c) XUAR shall, through the Project Prefectures, maintain a separate accounting for funds collected pursuant to the provisions of the above paragraphs and cause all said funds to be used exclusively for the purposes specified therein.

3. Operation and Maintenance of Irrigation Systems

In order to ensure the proper operation and maintenance of the irrigation

systems included in the Project, XUAR shall: (a) through the Project Prefectures, prepare, under terms of reference acceptable to the Association, and furnish to the Association not later than December 31, 1999, proposed operation and maintenance plans for such systems in each Project Prefecture; (b) afford the Association a reasonable opportunity to exchange views with XUAR on said plans; and (c) thereafter, ensure the prompt implementation of each said plan, taking into account the views of the Association on the matter.

H. Tarim Basin and Bosten Lake Master Plans; MIS

1. Under Parts C(1)(d) and C(5) of the Project, XUAR shall prepare under terms of reference acceptable to the Association and furnish to the Association:

(a) a master plan for Bosten Lake and the Kaidu catchment, not later than December 31, 1999; and

(b) a master plan for the Tarim Basin and its tributaries, not later than December 31, 2001.

2. XUAR shall exchange views with the Association on each such master plan furnished to the Bank, and thereafter, promptly take all measures required to implement said plans, taking into account the views of the Association on the matter.

3. Under Part C(6) of the Project, XUAR shall:

(a) develop the MIS in accordance with terms of reference acceptable to the Association and furnish the same to the Association for its review; and

(b) thereafter introduce the MIS in each PMO, taking into account the views of the Association on the matter, and ensure that the MIS shall be operational (i) in the regional-level PMO and each of the prefectural-level PMOs not later than October 15, 1998 and (ii) in each of the county-level PMOs not later than October 15, 1999.

I. Training

XUAR shall carry out all training, studies and research under the Project in accordance with a program acceptable to the Association. To this end, XUAR shall include in the plan of activities furnished to the Association each year pursuant to Part J.2 of this Schedule a proposed program of training activities to be implemented under the Project during the following year. Each said annual program shall be designed, inter alia, to ensure that at least 30% of the persons participating in said training, including study tours, shall be women.

J. Monitoring and Reporting; Annual Plan of Activities

1. XUAR shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association the carrying out of the Project (including the Local Beneficiaries Participation Action Plan and the Keping Voluntary Settlement Action Plan) and the achievement of its objectives.

2. XUAR shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association the following reports:

(a) an annual action plan, not later than October 1 in each calendar year, setting forth the activities (including provision of goods, and undertaking of civil works, training and research) which it proposes to carry out under the Project during the following calendar year, together with a budget and a financing plan therefor;

(b) an annual report, not later than February 28 in each calendar year which: (i) integrates the results of said monitoring and evaluation activities on the progress achieved in the carrying out of the Project during the preceding calendar year in respect of the Project; (ii) includes the evaluation report of the independent panel of experts referred to in Part A.4 of this Schedule for said calendar year on the Project; (iii) includes the action plan referred to in paragraph (a) of this Section 2 for the then current calendar year, as agreed with the Association; and (iv) sets out any additional measures recommended to ensure the efficient carrying out of

the Project and the achievement of the Project's objectives during the then current calendar year; and

(c) a mid-term report, not later than December 31, 2001 which: (i) integrates the results of said monitoring and evaluation activities on the progress achieved in the carrying out of the Project during the period preceding the date of said report 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 Project's objectives during the period following such date.

3. After furnishing each action plan and report referred to in Section 2 of this Part, XUAR shall exchange views with the Association on said report, and, thereafter; (i) in the case of annual action plans, carry out such plans as shall have been agreed with the Association; and (ii) in the case of both annual and mid-term reports, take all measures required to ensure the continued efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

