

CONFORMED COPY

CREDIT NUMBER 2834 CHA

Project Agreement

(Shanxi Poverty Alleviation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SHANXI PROVINCE

Dated June 7, 1996

CREDIT NUMBER 2834 CHA

PROJECT AGREEMENT

AGREEMENT, dated June 7, 1996, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and SHANXI PROVINCE (Shanxi).

WHEREAS, by the Development Credit Agreement of even date herewith between People's Republic of China (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to sixty-seven million three hundred thousand Special Drawing Rights (SDR 67,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Shanxi agree to undertake such obligations toward the Association as are set forth in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined

in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Shanxi 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, economic and technical practices, and sound health, safety and environmental standards, 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 Shanxi shall otherwise agree, Shanxi shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

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) Shanxi shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, Shanxi shall:

(i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between Shanxi and the Association, a plan for the future operation of the Project; and

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

Section 2.04. (a) Shanxi 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) Shanxi 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 Shanxi of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Shanxi 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 Shanxi responsible for carrying out the Project or any part thereof.

(b) Shanxi shall:

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

acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

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

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

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

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

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

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

ARTICLE V

Miscellaneous Provisions

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

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Shanxi:

Shanxi Poverty Alleviation Project Management Office
No. 261 Fudong Street
Taiyuan
Shanxi Province 030002

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 Shanxi may be taken or executed by Vice Governor or such other person or persons as Vice Governor shall designate in writing, and Shanxi shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

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

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell Cheetham

Regional Vice President
East Asia and Pacific

SHANXI PROVINCE

By /s/ Li Daoyu

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

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 (the Guidelines) and the following provisions of this Section, as applicable.

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 into bid packages estimated to cost the equivalent of \$250,000 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.

Part C: Other Procurement Procedures

1. Works

(a) National Competitive Bidding

Except as otherwise provided in Part C.1(b) of this Section, works shall 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 for upgrading and expansion of irrigation systems, beach land development, soil and water conservation, road construction, installation of water distribution systems, and plantation establishment, which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$92,000,000 equivalent or less in the aggregate, 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 community members hired in accordance with procedures acceptable to the Association.

2. Goods

(a) International and National Shopping

Equipment, vehicles and materials estimated to cost \$250,000 equivalent or less per contract, up to an aggregate amount not to exceed \$13,300,000 equivalent, and livestock, may be procured under contracts awarded on the basis of international or 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 each contract for goods estimated to cost the equivalent of \$250,000 or more, and each contract for works estimated to cost the equivalent of \$1,000,000 or more, 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

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

SCHEDULE 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, Shanxi shall at all times continue to maintain, with terms of reference acceptable to the Association, and with competent staff in adequate numbers:

(a) a Project management office at the provincial level to be responsible for the overall coordination and supervision of Project implementation, including procurement of goods and services and monitoring and evaluation of the progress of the Project; and

(b) a Project management office in each of Luliang and Yuncheng, and in each county and township involved in Project implementation, to be responsible for coordination and supervision of the Project activities included within said office's respective jurisdiction.

B. Resettlement

Shanxi shall take and cause to be taken all measures necessary to ensure that all persons displaced as a result of the Project shall be resettled in accordance with the Resettlement Action Plan so as to improve the living standards and productivity of such persons.

C. Land Use Rights

In order to ensure increased productivity of the land developed under Parts E and F of the Project, Shanxi shall lease said land to farming households, under arrangements satisfactory to the Association, including a written lease agreement, on terms whereby said land shall be leased to said households for a duration of at least thirty (30) years in the case of orchard land, terraced land, and other land located immediately behind dams, and at least fifty (50) years in the case of all other land.

D. Environmental Monitoring and Management Plan

In order to ensure that the Project is implemented in accordance with sound health, safety and environmental standards, Shanxi shall take all measures necessary to carry out the Project in accordance with an environmental management and monitoring plan acceptable to the Association.

E. Dam Safety

In order to ensure the safety of each dam included in the Project which is planned to reach ten (10) meters in height or more or to create a reservoir with a

gross storage volume of 2,500,000 cubic meters or more, or which the Association determines possesses unusual design features, involves difficult geological conditions or is situated so as to cause significant damage in the event of a failure of the dam to operate properly (a Designated Dam), Shanxi shall take the following actions:

1. Shanxi shall employ a panel of experts, with membership, terms of reference and resources acceptable to the Association (the Panel), to be responsible for reviewing the adequacy of the design and construction of each Designated Dam and its associated structures.

2. Shanxi shall ensure that the Panel shall, on the basis of guidelines acceptable to the Association:

(a) undertake periodic reviews of each Designated Dam and its associated structures and the design of said dam and structures throughout the period of design and construction thereof; and

(b) prepare and furnish to Shanxi and the Association, upon completion of each said review, a report of the results of said review, together with any recommended changes to be introduced into the design or construction of said Designated Dam and its associated structures.

3. Promptly upon receipt of each report furnished by the Panel to Shanxi, Shanxi shall introduce the changes recommended by said report, taking into account the comments of the Association on the matter.

4. Shanxi shall:

(a) ensure that each Designated Dam and its associated structures shall be inspected by the Panel not less than annually, for the first three (3) years following completion of their construction, and not less than once every two (2) years thereafter, in accordance with sound engineering practices and under arrangements acceptable to the Association, in order to identify any deficiencies in the condition of said Designated Dam and its associated structures, or in the quality and adequacy of the maintenance or methods of operation thereof, which may endanger the safety of said Designated Dam or its associated structures, and promptly rectify any such deficiencies; and

(b) to this end, prepare and furnish to the Association, appropriate arrangements for said inspection not later than one year prior to the planned completion of said Designated Dam and thereafter, promptly implement said arrangements, taking into account the views of the Association on the matter.

F. Livestock Sub-projects

1. Shanxi shall ensure that the livestock and equipment required for Part G(1) of the Project and to be financed out of the proceeds of the Credit shall be made available to farmers in accordance with procedures and on terms and conditions satisfactory to the Association.

2. Shanxi shall exercise its rights in relation to each Livestock Sub-project in such manner as to protect the interests of the Association and Shanxi, comply with its obligations under this Agreement and achieve the purposes of the Project.

G. Agroprocessing Subprojects

1. Shanxi shall make Agroprocessing Sub-loans in accordance with procedures, and on terms and conditions, satisfactory to the Association, which shall include those set forth in Section 2 of this Part G.

2. Agroprocessing Sub-loans shall be made:

(a) exclusively to entrepreneurs selected by agreement between the Association and Shanxi;

(b) on the same terms as those applicable to loans for similar goods and works made by the Agricultural Bank of China 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 amended from time to time; and

(c) on conditions whereby the entrepreneur to whom or to which an Agroprocessing Sub-loan is made shall undertake to:

(i) carry out its agroprocessing operations, including its respective Agroprocessing Sub-project, with due diligence and efficiency and in accordance with sound financial, managerial, and agroprocessing practices, and appropriate health, safety and environmental practices acceptable to the Association, and provide promptly as needed the funds, and other resources required for the purpose, and maintain adequate records and accounts;

(ii) procure the goods and works required for its respective Agroprocessing Sub-project in accordance with the provisions of Schedule 1 to this Agreement, and utilize said goods and works exclusively in the carrying out of said Agroprocessing Sub-project;

(iii) take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice;

(iv) enable the Association to inspect the goods and the sites and works included in its respective Agroprocessing Sub-project, the operation thereof and any relevant records and documents;

(v) 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 practices; and

(vi) furnish to the Association all such information as the Association may reasonably request relating to the foregoing and to the administration, operations and financial condition of said entrepreneur.

3. Shanxi shall exercise its rights in relation to each Agroprocessing Sub-project in such manner as to protect the interests of the Association and Shanxi, comply with its obligations under this Agreement and achieve the purposes of the Project.

H. WF Sub-loans

1. Shanxi shall ensure that WF Sub-loans shall be made in accordance with procedures and on terms and conditions satisfactory to the Association.

2. Shanxi shall exercise its rights in relation to each WF Sub-project in such manner as to protect the interests of the Association and Shanxi, comply with its obligations under this Agreement and achieve the purposes of the Project.

I. Annual Programs

Shanxi shall:

1. prepare, under guidelines acceptable to the Association, and furnish to the Association not later than November 30 in each calendar year, a proposed work program for the implementation of the Project during the following calendar year (including a proposed program of training activities for such following year), and a proposed budget therefor; and

2. thereafter, implement such work program during such following year as shall have been approved by the Association.

J. Monitoring and Reporting

1. Shanxi shall maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association the carrying out of the Project, including the Resettlement Action Plan and the environmental monitoring and management plan, referred to in Part D of this Schedule, and the achievement of the objectives thereof.

2. Shanxi shall prepare, under terms of reference acceptable to the Association, and furnish to the Association, (a) semi-annual reports, not later than January 31 and July 31 in each year, integrating the results of the monitoring and evaluation activities performed pursuant to Part J.1 of this Schedule, on the progress achieved in the carrying out of the Project during the preceding calendar semester 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 September 30, 1998, integrating the results of the monitoring and evaluation activities performed pursuant to J.1 of this Schedule during the period preceding the date thereof and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date.

3. Shanxi shall, after furnishing each report referred to in Part J.2 of this Schedule, review said report with the Association, and promptly 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 said report and the Association's views on the matter.

