

CONFORMED COPY

LOAN NUMBER 3265-0 CHA  
CREDIT NUMBER 2182-0 CHA

(Fourth Rural Credit Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

AGRICULTURAL BANK OF CHINA

Dated December 10, 1990

LOAN NUMBER 3265-0 CHA  
CREDIT NUMBER 2182-0 CHA

PROJECT AGREEMENT

AGREEMENT, dated December 10, 1990 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and AGRICULTURAL BANK OF CHINA (ABC).

WHEREAS (A) 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 lend to the Borrower an amount in various currencies equivalent to one hundred forty-three million seven hundred thousand Special Drawing Rights (SDR 143,700,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that ABC agree to undertake such obligations toward the Association and the Bank as are set forth in this Agreement; and

(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 in various currencies equivalent to seventy five million dollars (\$75,000,000) on the terms and conditions set forth in the Loan

Agreement, but only on condition that ABC agree to undertake such obligations toward the Association and the Bank as are set forth in this Project Agreement; and

(C) by a subsidiary loan agreement to be entered into between the Borrower and ABC, the proceeds of the Credit provided for under the Development Credit Agreement and the proceeds of the Loan provided for under the Loan Agreement, will be made available to ABC on terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS ABC, 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 respectively in the Development Credit Agreement and the Loan Agreement) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project; Management and Operations of ABC

Section 2.01. (a) ABC 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 and cause to be carried out, Parts A and B of the Project, with due diligence and efficiency and in conformity with sound administrative, financial, engineering, agricultural and environmental standards and 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, the Bank and ABC shall otherwise agree, ABC shall carry out Parts A and B of the Project, with the assistance of the Borrower and the Project Entities pursuant to Section 3.03 of the Development Credit Agreement, in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 2.02. ABC shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as required under Section 3.03 of this Agreement and except as the Association and the Bank shall otherwise agree, ABC shall not take or concur in any action which would have the effect of assigning, amending, abrogating, waiving or failing to enforce the Subsidiary Loan Agreement or any provision thereof so as to affect the provisions of paragraph (b) of Section 3.01 of the Development Credit Agreement.

Section 2.03. (a) ABC undertakes that, unless the Association and the Bank shall otherwise agree, Subloans shall be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) ABC shall exercise its rights in relation to each Subproject in such manner as to: (i) protect the interests of the Association, the Bank and ABC; (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 2.04. Except as the Association and the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit or the Loan shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.05. ABC 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 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 Loan Agreement (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Parts A and B of the Project.

Section 2.06. (a) ABC shall, at the request of the Association and the Bank, exchange views with the Association and the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit and the Loan.

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

Section 2.07. ABC shall ensure that the aggregate amount of all Subloans made within the territory of a Project Entity shall be satisfactory to the Association and the Bank.

### ARTICLE III

#### Management and Operations of ABC

Section 3.01. ABC shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and agricultural practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. (a) ABC shall take all measures, necessary or appropriate, to ensure that it retains (after payment of income and adjustment taxes to the Borrower, and including any amounts retained by RCCs as fees for intermediation of RCC Subloans) amounts equivalent to at least two and one half (2.5) percentage points interest rate spread, or such other spread as shall be acceptable to the Association and the Bank, determined by calculating, in a manner satisfactory to the Association and the Bank, the difference between:

- (i) the weighted average of the Subloan Interest Rates; and
- (ii) the weighted average of the cost of funds available to ABC from all sources, including ABC's own funds and the Subsidiary Loan, for purposes of making Subloans under the Project.

(b) ABC shall take all measures, necessary or appropriate, to ensure that it retains amounts from interest rate spreads for its total lending operations (commercial and policy-based subsidized lending) sufficient to maintain ABC's financial viability and profitability, including provisioning for bad debts on the basis of criteria acceptable to the Association and the Bank.

Section 3.03. ABC shall maintain its equity at a level of not less than 5% of its risk assets, calculated in a manner acceptable to the Association and the Bank. For purposes of this Section the following terms have the following meanings: (a) "equity" means contributions from the Borrower, retained profits and cash funds which are not liabilities external to ABC, minus provisioning for bad debts, as reflected in ABC's audited financial statements; and (b) "risk assets" means assets other than cash, balances with PBC, investments in government-issued or government-guaranteed securities, and fixed assets, as reflected in ABC's audited financial statements.

Section 3.04. (a) ABC shall, in conjunction with the Borrower, develop a plan, using financial standards and criteria acceptable to the Association and the Bank, to recapitalize ABC, including mechanisms for equity replenishment and a timetable for implementation.

(b) ABC shall provide the recapitalization plan, as agreed with the Borrower, to the Association and the Bank by not later than December 31, 1991.

(c) Promptly thereafter, ABC shall, in conjunction with the Borrower, discuss the recapitalization plan with the Association and the Bank, and make any modifications to the final plan that may be required to ensure that ABC's risk-weighted capital adequacy ratio shall be at least 8% within a reasonable period of time. For purposes of this Section, "risk-weighted capital adequacy ratio" shall have the same meaning set forth in the Basel Convention and shall be calculated in a manner acceptable to the Association and the Bank.

(d) ABC shall carry out the final recapitalization plan, as the same may have been updated, in accordance with the timetable for implementation.

Section 3.05. ABC shall, at the request of the Borrower, the Association or the Bank, participate in the review described in Sections 3.02 (a) and 3.09 of the Development Credit Agreement, and shall take any action required to be taken by ABC pursuant to Sections 3.02 (c) and 3.07 of the Development Credit Agreement.

Section 3.06. ABC shall inform the Association and the Bank of any changes in the ABC Documents.

#### Article IV

##### Financial Covenants

Section 4.01. (a) ABC shall maintain, or cause to be maintained, procedures, records and accounts adequate to reflect, in accordance with consistently maintained, sound accounting practices: (1) the operations, resources and expenditures in respect of the Project; and (2) the operations and financial condition of ABC and ABC's provincial and county branches in the Project Provinces.

(b) ABC shall:

(i) cause the accounts referred to in paragraph (a) above and the records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) of ABC's provincial branches in the Project Provinces for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association and the Bank;

(ii) furnish to the Association and the Bank, as soon as available but in any case not later than six months after the end of each such year: (A) certified copies of the accounts and the financial statements for such year as so audited; (B) the report of such audit by said auditors, of such scope and in such detail as the Association or the Bank shall have reasonably requested; and (C) the financial statements (balance sheets, statements of income and expenses) of ABC's provincial and county branches in the Project Provinces and ABC's total operations for such year; and

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

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

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

(ii) retain, until one year after the Association and the Bank have received the audit report for the fiscal year in which the last disbursement from the Credit Account or Loan Account was made,

whichever is later, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable representatives of the Association and the Bank to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. ABC shall take such steps satisfactory to the Association and the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including Renminbi) used in its operations.

#### ARTICLE V

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

Section 5.01. This Agreement shall come into force and effect on the first date upon which both the Development Credit Agreement and the Loan Agreement become effective.

Section 5.02. (a) This Agreement and all obligations of the Association, the Bank and ABC thereunder shall terminate on the earlier of the following two dates:

- (i) the first date on which both the Development Credit Agreement and the Loan Agreement shall have been terminated; or
- (ii) a date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement or the Loan Agreement terminates or both of said Agreements terminate, before the date specified in paragraph (a) (ii) of this Section, the Association and the Bank shall promptly notify ABC of such event.

Section 5.03. 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 Loan Agreement.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. 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 addresses 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:

Telex:

INDEVAS  
Washington, D.C.

197688 (TRT)  
248423 (RCA)  
64145 (WUI) or  
82987 (FTCC)

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT)  
248423 (RCA)  
64145 (WUI) or  
82987 (FTCC)

For ABC:

Agricultural Bank of China  
25 Fuxing Road  
Beijing  
People's Republic of China

Cable address:

1053  
Beijing

Telex:

22017 ABC CN

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of ABC, may be taken or executed by its President, or by such other person or persons as ABC's President shall designate in writing, and ABC shall furnish to the Association and the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. If the Bank has not given notice to the contrary to ABC, and provided that the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of ABC 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, ABC shall be satisfied to the extent such obligations are fulfilled by the Association; and

(c) all actions taken (including the given 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 the Association and the Bank.

Section 6.04. 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  
DEVELOPMENT

By /s/ A. Karaosmanoglu

Regional Vice President  
Asia

AGRICULTURAL BANK OF CHINA

By /s/ Zhao Xixin

Authorized Representative

SCHEDULE 1

Procedures, Terms and Conditions  
of Subloans

Part A: Procedures for Appraisal of Subprojects and Approval of Subloans

1. Subprojects shall be appraised by ABC, or by the RCC in the case of a Subproject financed by an RCC Subloan, in accordance with criteria acceptable to the Association and the Bank, including:

(a) Subprojects shall be designed and carried out in conformity with appropriate guidelines, acceptable to the Association and the Bank, on environmental protection issued by the Borrower and Project Provinces;

(b) Subprojects shall have estimated financial and economic returns of no less than fifteen percent (15%) determined in accordance with internationally accepted methods of project appraisal;

(c) If a Subproject is to be carried out by a state farm or intermediary enterprise, ABC, or the RCC in the case of an RCC Subloan, shall appraise the enterprise in accordance with criteria acceptable to the Association and the Bank;

(d) Subprojects shall be reviewed for their technical feasibility and determined to be feasible by ABC and when appropriate, technical feasibility studies of a Subproject shall be carried out; and

(e) Subprojects shall comply with the specific conditions for Subprojects set forth in Part B of Schedule 3 to this Agreement.

2. No expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Credit or the Loan unless:

(a) the Subloan for such Subproject shall have been approved by the Association and the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association and the Bank shall have received the application and information required under paragraph 3 (a) of this Schedule in respect of such Subloan; or

(b) the Subloan for such Subproject shall have been a Free-limit Subloan for which the Association or the Bank has authorized withdrawals from the Credit Account or the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association or the Bank shall have received the request and information

required under paragraph 3 (b) of this Schedule in respect of such Free-limit Subloan. For the purposes of the Development Credit Agreement, the Loan Agreement and this Agreement, a Free-limit Subloan shall be a Subloan for a Subproject in an amount to be financed out of the proceeds of the Credit or the Loan which shall not exceed the sum of \$3,000,000 equivalent.

3. (a) When presenting a Subloan (other than a Free-limit Subloan) to the Association and the Bank for approval, ABC shall furnish to the Association and the Bank an application, in form satisfactory to the Association and the Bank, together with: (i) a description of the Subborrower and an appraisal of the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; and (iii) such other information as the Association or the Bank shall reasonably request. ABC shall approve such Subloan only after the Association and the Bank has notified ABC of its approval.

(b) Each request by ABC for authorization to make withdrawals from the Credit Account or from the Loan Account in respect of a Free-limit Subloan shall contain a summary description of the Subborrower, the Subproject and the terms and conditions of the Subloan, listed by Project Entity.

(c) Notwithstanding the provisions of subparagraphs (a) and (b) above, the first two Subprojects for the establishment of irrigation facilities shall be submitted to the Association and the Bank for review of technical, financial and implementation arrangements prior to approval of any Subloan to finance such Subproject by ABC, or by an RCC in the case of an RCC Subloan.

#### Part B: Terms and Conditions of Subloans

1. Except as the Association or the Bank may otherwise agree, the terms and conditions for each Subloan shall be:

(a) Subborrower Contribution. Each subborrower shall contribute not less than thirty percent (30%) of the total cost of each Subproject and shall provide collateral as security for the Subloan, or a guarantee of a creditworthy individual or entity, consistent with ABC's practices of securing loans.

(b) Interest Rate. Each Subborrower shall pay interest from time to time on the principal amount of a Subloan withdrawn and outstanding at a rate, which shall be not lower than: (1) ABC's prevailing annual interest rate, or at RCC's prevailing annual interest rate in the case of an RCC Subloan, for similar loans for similar purposes; and (2) such other annual interest rate as shall (i) be positive in real terms and (ii) which shall permit ABC to comply with the interest rate spread retention provisions of Section 3.02 (a) of this Agreement.

(c) Amortization and Grace Period. The amortization period of a Subloan shall be based on the estimated cash-flow of the Subproject financed and shall include an appropriate grace period, provided, however, that such amortization period shall not exceed fifteen (15) years. If a Subborrower is required to pay interest on a Subloan during such grace period, then ABC, or the RCC in the case of an RCC Subloan, shall determine that a Subborrower has income, from sources other than income generated by the proposed Subproject, adequate to pay such interest.

(d) Currency. Subloans may be: (a) withdrawn and repaid in Renminbi; or (b) withdrawn in foreign exchange and repaid in foreign exchange or Renminbi with the Subborrower bearing any foreign exchange risks.

2. Subloans shall be made on terms whereby ABC shall obtain, or the RCC shall obtain in the case of an RCC Subloan, by written contract with the Subborrower, or by other appropriate legal means, rights adequate to protect the interests of the Association, the Bank and ABC, and RCC in the case of an RCC Subloan, including, the right to:



(a) require the Subborrower to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound administrative, financial, managerial, agricultural, engineering and environmental standards, and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit or the Loan shall be procured in accordance with the provisions of Schedule 2 to this Agreement; and  
(ii) such goods and services shall be used exclusively in the carrying out of the Subproject;

(c) inspect, by itself or jointly with representatives of the Association and the Bank if the Association and the Bank shall so request, such goods, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Subborrower shall take out and maintain with responsible insurers, such insurance against such risks and in such amounts as shall be consistent with sound business practice; and (ii) the Subborrower take adequate steps to protect itself against risk of loss resulting from changes in rate of exchange between the various currencies, including Renminbi;

(e) obtain all such information as the Association, the Bank, or ABC, or RCC in the case of an RCC Subloan, shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Subborrower and to the benefits to be derived from the Subproject; and

(f) suspend or terminate the right of the Subborrower to the use of the proceeds of the Credit or the Loan upon failure by such Subborrower to perform its obligations under its contract with ABC, or RCC in the case of an RCC Subloan.

#### Part C: Specific Provisions of RCC Subloans

1. When making an RCC Subloan through an RCC, ABC shall obtain by written contact with an eligible RCC, or by other appropriate means, the obligation of the RCC to make RCC Sub-loans in accordance with the procedures, terms and conditions described in or referred to in this Schedule for making Subloans.

2. To be eligible for participation in Part A of the Project, an RCC:

(a) shall have a financial condition satisfactory to ABC;

(b) shall have equity reserves of not less than six percent (6%) of its total loan portfolio, determined as of December 31 of each year;

(c) shall have a total amount of its past-due loans not exceeding twenty percent (20%) of the total amount of loans outstanding and its past-due loans in arrears for more than three years shall not exceed more than five percent (5%) of the total amount of loans outstanding, determined as of December 31 of each year;

(d) meet liquidity requirements established by ABC; and

(e) have appropriately trained staff.

3. In order to make an RCC Subloan, ABC shall:

(a) onlend no more than fifty percent (50%) of the total cost of the Subproject financed by an RCC Subloan;

(b) require repayment by the RCC within the same amortization period and with the same grace period as the RCC Subloan;

(c) require payment of interest at ABC's prevailing annual interest rate for similar loans to RCCs for similar purposes;

(d) require withdrawal and repayment of funds onlent from ABC to RCC in the

same currency as the RCC Subloan; and

(e) have determined and agreed with the RCC as to the credit risk associated with the RCC Subloan and the liability for such credit risk.

## SCHEDULE 2

### Procurement and Consultants' Services

#### Section I: Procurement of Goods and Civil Works

##### Part A: International Competitive Bidding

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

2. To the extent practicable, contracts for chemical fertilizers shall be grouped in bid packages estimated to cost the equivalent of \$5,000,000 or more.

##### Part B: Preference for Domestic Manufacturers

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

##### Part C: Other Procurement Procedures

1. Contracts for bulk purchases of agricultural inputs estimated to cost less than \$5,000,000 shall be procured through national procurement agencies acceptable to the Association and the Bank, in accordance with procurement procedures acceptable to the Association and the Bank.

2. Items or groups of items of machinery and equipment estimated to cost the equivalent of \$100,000 or more, and items or groups of items of machinery and equipment to be used for processing products for export estimated to cost the equivalent of \$50,000 or more, shall be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least four qualified suppliers from at least three countries eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Items or groups of items of machinery and equipment (excluding machinery and equipment to be used for processing products for export), estimated to cost less than \$100,000 but more than the equivalent of \$50,000, and civil works under Part A of the Project, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association and the Bank.

4. Items or groups of items of machinery and equipment estimated to cost the equivalent of \$50,000 or less, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association and the Bank.

##### Part D: Review by the Association and the Bank of Procurement Decisions

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

(a) With respect to: (a) each contract estimated to cost the equivalent of \$500,000 or more; (b) the first three contracts awarded in accordance with Part C, paragraph 2 above; and (c) the first three contracts awarded in accordance with Part C, paragraph 3 above, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to

the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association and the Bank pursuant to said paragraph 2 (d) shall be furnished to the Association and the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

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

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association and the Bank have authorized withdrawals from the Credit Account or Loan Account on the basis of statements of expenditures.

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

## Section II. Employment of Consultants

1. In order to assist ABC in carrying out the Project, ABC shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association and the Bank.

2. All such consultants shall be selected in accordance with principles and procedures satisfactory to the Association and the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

## SCHEDULE 3

### Implementation Program

#### Part A: Project Implementation Arrangements

1. Each Project Entity shall establish and maintain a project management committee (PMC) with composition and functions acceptable to the Association and the Bank, including a representative of the environmental protection agency (EPA) of the Project Entity, in order to assist ABC in carrying out the Project in such Project Entity.

2. ABC shall cause its provincial branch in each Project Entity to establish and maintain a project office, with staffing acceptable to the Association and the Bank, in order to supervise and monitor Project implementation in such Project Entity, and to assist county-level project units and committees with the guidance of the Project Entity PMC.

3. Whenever appropriate to ensure interdepartmental coordination in the processing and supervision of Subprojects, or to facilitate collection of Subloans, ABC shall establish and maintain county-level project committees.

4. ABC shall cause its county-level offices in a Project Entity to obtain approval of each Subproject by the relevant EPA prior to financing such Subproject.

5. ABC shall maintain and strengthen its technical expert group (TEG) at its headquarters in order to provide specialized expertise in appraisal and supervision of Subprojects. ABC shall, by December 31, 1991, review the progress of strengthening TEG, as well as proposed measures to improve technical support to ABC operations with the Association and the Bank.

6. ABC shall furnish the progress reports referred to in Section 9.06 (a) (iii) of the General Conditions applicable to the Development Credit Agreement, and in Section

9.07 (a) (iii) of the General Conditions applicable to the Loan Agreement to the Association and the Bank, on a semiannual basis, by August 31 and February 28 of each year.

Part B: Requirements for Execution of Specific Subprojects

1. (a) Pasture-based livestock development Subprojects in Inner Mongolia, Jilin, Shaanxi and Liaoning shall be carried out using area management planning (AMP) techniques acceptable to the Association and the Bank.

(b) ABC shall conduct an assessment, under terms of reference satisfactory to the Association and the Bank, of the use of AMP techniques in the Subprojects referred to in subparagraph (a) hereof, and review the results of such assessment with the Association and the Bank by December 31 of each year during Project implementation.

2. (a) Each Project Entity shall establish environmental protection standards, acceptable to the Association and the Bank, for cage fisheries, including cage area to open water area standards.

(b) Cage fishery Subprojects shall be carried out in accordance with the standards established pursuant to sub-paragraph (a) hereof.

3. Subprojects for the rehabilitation of existing apple orchards, planting of new apple orchards, planting of fruit trees, post-harvest handling of citrus and other fruits, green tea rehabilitation, mulberry planting or improvement and silk cocoon production, bamboo planting or rehabilitation, ginseng planting or rehabilitation, and afforestation, shall be carried out under technical guidelines, including where appropriate, area limitations, acceptable to the Association and the Bank.

4. If as a result of the midterm review referred to in Section 3.09 of the Development Credit Agreement, new technical recommendations for Subproject implementation are agreed upon by the Borrower, the Bank, the Association and ABC, then ABC shall ensure that Subprojects are carried out in accordance with such technical recommendations.

5. If the Bank and the Association accept an additional Project Entity for participation in the Project after the date of the Development Credit Agreement, then ABC shall ensure that Subprojects are carried out in accordance with any technical recommendations agreed to by the Borrower, the Bank, the Association and ABC, for Subproject implementation in the additional Project Entity.

