

CONFORMED COPY

CREDIT NUMBER 2623 CHA

(Forest Resource Development and Protection Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 6, 1994

CREDIT NUMBER 2623 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 6, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

WHEREAS: (B) the Borrower intends to obtain from the Global Environment Trust Fund ("GET") a grant (the "GET Grant") in an amount equivalent to thirteen million one hundred thousand Special Drawing Rights (SDR 13,100,000) to assist in financing Part C of the Project; and

WHEREAS: (C) the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Afforestation Project Provinces" means all of the Project Provinces except Shaanxi Province.

(b) "MOF" means the Borrower's Ministry of Finance, and any successor thereto.

(c) "MFO" means the Borrower's Ministry of Forestry, and any successor thereto.

(d) "Project Implementation Arrangements" means the Project Implementation Rules and the acceptance letters provided by the Afforestation Project Provinces in accordance with Section 3.03 of this Agreement.

(e) "Project Implementation Rules" means the detailed rules for the implementation of the Project issued by MOF and MFO in accordance with Section 3.03 (a) of this Agreement.

(f) "Project Provinces" means Anhui Province, Fujian Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Hebei Province, Heilongjiang Province, Henan Province, Hubei Province, Hunan Province, Jiangxi Province, Liaoning Province, Shanxi Province, Shaanxi Province, Sichuan Province, Yunnan Province and Zhejiang Province, and "Project Province" means any of the Project Provinces.

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

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred forty-one million seven hundred thousand Special Drawing Rights (SDR 141,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after

the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 15 and November 15 commencing November 15, 2004 and ending May 15, 2029. Each installment to and including the installment payable on May 15, 2014 shall be one and one-fourth per cent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through its MFO and the Project Provinces with due diligence and efficiency and in conformity with appropriate forestry, environmental protection and management practices, and shall provide, 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) The Borrower shall onlend the portion of the proceeds of the Credit corresponding to Part A of the Project and to those components of Parts D, E and F of the Project related to plantation activities under said Part A, to each of the Afforestation Project Provinces on the following principal terms and conditions: (i) repayment over a period not exceeding 20 years, including eight years of grace; (ii) interest at a rate of 4.5 per cent per annum; and (iii) foreign exchange risk between Special Drawing Rights and the Borrower's currency over the repayment period to be borne by such Project Province.

(b) The Borrower shall onlend the portion of the proceeds of the Credit corresponding to Part B of the Project and to those components of Parts D, E and F of the Project related to protection forest activities under said Part B, to the Project Provinces of Sichuan and Hubei on the following principal terms and conditions: (i) repayment over a period not exceeding 25 years, including ten years of grace; (ii) interest at a rate of 2.5 percent per annum; and (iii) foreign exchange risk between Special Drawing Rights and the Borrower's currency over the repayment period to be borne by such Project Province.

(c) The Borrower shall cause each of the Afforestation Project Provinces to: (i) further onlend the portion of the proceeds of the Credit corresponding to Project activities in each of the counties under its jurisdiction on the terms and conditions set out in paragraphs (a) and (b) above, and, in addition, an exchange risk fee not to exceed two percent per annum may be charged by such Project Province to the county for any funds so on-lent in the Borrower's currency; and (ii) cause each such county to make the proceeds of the Credit available to the final users on said terms and conditions, including any such exchange risk fee.

Section 3.03. (a) The Borrower shall, through MOF and MFO:

(i) issue to the Afforestation Project Provinces, project implementation rules specifying the detailed arrangements for the implementation of the Project, which shall have been approved by the Association; and

(ii) transmit these Project Implementation Rules, along with the onlending terms set out in Section 3.02 above, to each such Province for its written acceptance.

(b) The Borrower shall ensure that the Project Implementation Rules include, inter alia, the following provisions:

(i) each Project Province shall carry out or cause to be carried out its respective parts of the Project with due diligence and efficiency and in conformity with appropriate forestry, environmental protection and management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required;

(ii) each Project Province shall establish and maintain the provincial level project management offices and shall cause the county level project management offices to be maintained, as set out in paragraph A.1 of Schedule 4 to this Agreement; and

(iii) each Project Province shall enter into agreements with each of the counties under its jurisdiction responsible for implementation of the Project, to ensure the implementation of the Project in accordance with the Project Implementation Rules and to provide for the onlending of funds in accordance with Section 3.02 (c) of this Agreement.

Section 3.04. 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 3 to this Agreement.

Financial Covenants

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

(b) The Borrower shall:

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

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

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

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

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

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

ARTICLE V

Remedies

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that any party to the Project Implementation Arrangements shall have failed to perform its obligations thereunder.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that any event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Project Implementation Rules shall have been issued and the Afforestation Project Provinces shall have provided their written acceptances, all in accordance with Section 3.03 of this Agreement.

Section 6.02. The following is specified as additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Implementation Arrangements are legally binding upon the parties in accordance with their terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods	28,980,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Afforestation establishment under Parts A, B and E.2 of the Project	103,890,000	55%
(3) Consultants' services, training and study tours	1,370,000	100%
(4) Research services under Parts E.1 and F.1(d) of the Project	360,000	100%
(5) Unallocated	7,100,000	
TOTAL	141,700,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "afforestation establishment" means the costs of labor, seedlings, sheds and of survey and design extension, information, management,

environmental management and supervision required for the establishment of a plantation, protection forest or experimental plantation under Parts A, B and E.2 of the Project as determined on a per hectare basis in accordance with a schedule of costs acceptable to the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR7,800,000 may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after September 1, 1993.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures: (a) under contracts for goods and works not exceeding \$250,000 equivalent; (b) for research services and for individual consultants not exceeding \$50,000 equivalent and for consultants' services with firms not exceeding \$100,000 equivalent; and (c) for afforestation establishment, training and study tours, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in enhancing the productivity and efficient use of forest resources and in strengthening the institutional capacity for sustainable forest management, through investments in plantation forest land, watershed protection forests and nature reserves in the Project Provinces.

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

Part A: Intensively Managed Plantations

Establishment and initial operation of about 620,000 hectares of intensively managed forest plantations in the Afforestation Project Provinces in conifer species of Chinese fir, masson pine, slash pine, loblolly pine and larch, in broadleaf species of poplar, eucalypt, black locust and other hardwoods and in bamboo, including site preparation, planting, tending, extension, environmental management, information management and provision of seedlings, materials and equipment, fertilizers, pesticides and sheds.

Part B: Multiple-Use Protection Forests

Establishment and initial operation of about 280,000 hectares of multiple-use protection forests in the Project Provinces of Sichuan and Hubei in conifer species of Chinese fir, masson pine, and cypress, in broadleaf species of chestnut, sawtooth oak, pear, eucommia, alder, sumac and birch and in hill closure planting, including site preparation, planting, tending, conservation work, extension, environmental management, information management, and provision of seedlings, materials and equipment, fertilizers, pesticides and sheds.

Part C: Nature Reserves Management

1. Strengthening the management of five nature reserve areas to introduce biodiversity management techniques, in Xishuangbanna in Yunnan Province, Poyang Lake in Jiangxi Province, Wuyishan in Fujian and Jiangxi Provinces, in the Qinling Mountains of Shaanxi Province and Shennongjia in Hubei Province, through: (a) preparation of reserve area management plans; (b) strengthening of field-level protection, including provision of materials and equipment and communications systems and introduction of incentive schemes; and (c) expanding local participation in reserve management, including introduction of co-management contracts, establishment of investment funds, and development of information and education programs.

2. Undertaking a pilot program of restructured management of the natural forests in the Changqing Forest Area, Shaanxi Province, including development and physical protection of a new national-level nature reserve, development of environmentally sustainable employment activities, and preparation and implementation of a forest management plan.

3. Strengthening the management capacity for nature reserves, by: (a) developing institutional capacity, through preparation and implementation of management plans, provision of equipment, preparation of studies and staff training; (b) development of nature reserves information management systems; and (c) supporting research programs in nature reserve areas.

Part D: Planting Stock Development and Nursery Management

Developing the capacity for the production and provision of the seeds and seedlings required for Parts A and B of the Project, and improving the quality of planting materials through introduction of improved genetic materials and nursery management technologies, including provision of materials and equipment.

Part E: Research and Technology Transfer

1. Supporting forestry sector research programs, with a focus on planting stock improvement, site management and stand management, through provision of research services.

2. Establishment and tending of about 140 hectares of experimental plantations to evaluate the impact of different silvicultural treatments on tree growth.

3. Developing an extension program to improve information exchange among Project-related forestry sector institutions.

Part F: Forestry Sector Institutional Development

1. Strengthening the capacity of forestry sector institutions in the planning and management of, and investment in, forest resources, including: (a) human resource development through training of staff and provision of consultancy services; (b) development of a pilot forestry information system; (c) development of a pilot forestry investment promotion agency in Fujian Province; (d) development of natural forest management through introduction of a natural forest management plan and undertaking related research trials; and (e) undertaking a program of policy studies, with a focus on forestry sector reform.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

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

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

2. To the extent practicable, contracts shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Calcium magnesium phosphate and calcium super phosphate fertilizer, tractors and irrigation sprinklers, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Items or groups of items of office equipment (except photocopiers), nursery materials and other equipment (except for irrigation sprinklers) estimated to cost the equivalent of \$75,000 or less per contract, up to an aggregate amount equivalent to \$1,100,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Contracts for provision of seeds may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

4. Civil works for afforestation establishment under Parts A, B and E.2 of the Project shall be carried out in accordance with labor and force account procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of 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 pursuant to said paragraph 2 (d) shall be furnished to the Association 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. Where 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 pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ or cause to be employed whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section the provisions of the Consultant Guidelines requiring prior Bank 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 research services and for other services for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank 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 Bank, (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 4

Implementation Program

A. Overall Project Management

1. The Borrower shall ensure that the Project Management Office in MFO, the provincial level project management office in the forestry department of each Project Province and the county level project management office in each country forestry bureau responsible for implementation of a portion of the Project shall be maintained with functions and responsibilities acceptable to the Association, with competent staff in adequate numbers.

2. The Borrower shall ensure that local and overseas training and study tours under Part F of the Project shall be carried out in accordance with a training program acceptable to the Association.

3. The Borrower shall ensure that: (a) studies shall be undertaken by MFO under Part F.1(e) of the Project on foreign trade, pricing and state wood processing enterprise reform in accordance with terms of reference and timing acceptable to the Association, which shall include recommendations for future action; (b) such studies shall be provided to the Association for comments prior to completion; and (c) thereafter, the completed studies, revised in light of such comments, shall be provided to the Responsible departments and agencies of the Borrower for consideration.

4. The Borrower shall undertake a midterm review of the progress of and prospects for implementation of the Project with the Association by September 30, 1997.

B. Planning, Evaluation and Reporting

1. For Part A of the Project (intensively managed plantations), the Borrower shall ensure that:

(a) all forestry plantations established under such Part shall be in accordance with models, for each species, acceptable to the Association;

(b) MFO shall complete its review of all technical design plans for plantation sites in accordance with guidelines acceptable to the Association by

October 31, 1995; and

(c) by December 31 in each year, an annual work plan and financing plan for Project activities for the next calendar year shall be furnished to the Association for review.

2. For Part B of the Project (multiple-use protection forests), the Borrower shall ensure that:

(a) all protection forests established under such Part shall be in accordance with models, for each species, acceptable to the Association;

(b) MFO shall complete its review of all technical design plans for protection forest sites in accordance with guidelines acceptable to the Association by October 31, 1995; and

(c) by December 31 in each year, an annual work plan and financing plan for Project activities for the next calendar year shall be furnished to the Association for review.

3. For each of Parts D (planting stock development and nursery management), E.1 and E.2 (research) and E.3 (extension) of the Project, the Borrower shall ensure that:

(a) by December 31 in each year, an evaluation report on Project activities in that year and an annual work plan for Project activities for the next calendar year shall be furnished to the Association for review; and

(b) the Borrower shall ensure that a report on each of the fertilization and planting density research programs under Part E.1 of the Project shall be prepared and furnished to the Association by May 31, 1997 for review.

C. Environmental Protection

1. (a) The Borrower shall ensure that the Project shall be carried out in accordance with an environmental management plan acceptable to the Association, including detailed guidelines for establishment and tending of plantations and protection forests.

(b) To that end, the Borrower shall, by May 31, 1997, prepare and furnish to the Association for review a report of the environmental monitoring program.

2. The Borrower shall ensure that: (a) all agrochemicals used under the Project shall be selected from a list acceptable to the Association; and

(b) the storage, handling, distribution and use of such agrochemicals shall be consistent with guidelines satisfactory to the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$13,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

