

CONFORMED COPY

**LOAN NUMBER 4718 CHA
GEF TRUST FUND GRANT NUMBER 052456 CHA**

Project Agreement

(Gansu and Xinjiang Pastoral Development Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

**GANSU PROVINCE
and
XINJIANG – UYGHUR AUTONOMOUS REGION**

Dated November 6, 2003

**LOAN NUMBER 4718 CHA
GEF TRUST FUND GRANT NUMBER 052456 CHA**

PROJECT AGREEMENT

AGREEMENT, dated November 6, 2003, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and GANSU PROVINCE (Gansu) and XINJIANG-UYGHUR AUTONOMOUS REGION (Xinjiang) (Gansu and Xinjiang, each a Project Province, and collectively, the Project Provinces).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of sixty-six million two hundred seventy thousand Dollars (\$66,270,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Gansu and Xinjiang agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

(B) by the GEF Trust Fund Grant Agreement of even date herewith between People's Republic of China (the Recipient) and the Bank, acting as an implementing agency of the GEF, the GEF has agreed to make available to the Recipient an aggregate principal amount equal to ten million five hundred thousand Dollars (\$10,500,000) to assist in the financing of Parts A.2, B.4, D and E of the Project to be carried out in the GEF-assisted Project Counties; and

WHEREAS each of Gansu and Xinjiang, in consideration of the Bank entering into the Loan Agreement with the Borrower, and the Bank, as an implementing agency of the GEF, entering into the GEF Grant Agreement with the Recipient, 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 Loan Agreement, the GEF Grant Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Each of Gansu and Xinjiang declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out its Respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, management, financial, and engineering practices, and sound pastoral management, social and environmental standards acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Gansu or Xinjiang, as the case may be, shall otherwise agree, each of Gansu and Xinjiang shall carry out its Respective Part of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank 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 Loan or the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Each of Gansu and Xinjiang shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 and its Respective Part of the Project.

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

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Gansu and Xinjiang, a plan designed to ensure the sustainability of its Respective Part of the Project and for the continued achievement of the objectives of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Gansu and Xinjiang on said plans.

Section 2.04. (a) Each of Gansu and Xinjiang shall, at the request of the Bank, exchange views with the Bank with regard to progress of its Respective Part of the

Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Loan.

(b) Each of Gansu and Xinjiang shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its Respective Part of the Project, the accomplishment of the purposes of the Loan and of the GEF Trust Fund Grant, or the performance by Gansu or Xinjiang, as the case may be, of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each of Gansu and Xinjiang shall maintain and shall cause to be maintained, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of its Respective Part of the Project of the departments or agencies of Gansu or Xinjiang, as the case may be, responsible for carrying out its Respective Part of the Project or any part thereof.

- (b) Each of Gansu and Xinjiang 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 Bank;
 - (ii) furnish to the Bank 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 Bank shall have reasonably requested; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, as the Bank may from time to time reasonably request.

Section 3.02. (a) Without limitation upon the reporting obligations of Gansu and Xinjiang set out in paragraph 14 of Schedule 2 to this Agreement, each of Gansu and Xinjiang shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which sets forth sources and uses of funds for its Respective Part of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan and under the GEF Trust Fund Grant, and explains variances between the actual and planned uses of such funds.

(b) The first such financial management report shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Respective Part of the Project through the end of such first calendar semester; thereafter, each financial management report shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

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 Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of each of Gansu and Xinjiang thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify each of Gansu and Xinjiang thereof.

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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

For Gansu:

Office of Gansu Provincial Foreign Loan Administration Committee
No. 136 Jingning Road
Chengguan District
Lanzhou, Gansu
People's Republic of China

Facsimile:
(86-931) 8418285

For Xinjiang:

Xinjiang Uygur Autonomous Regional Finance Bureau
Department of Foreign Debt and Project
Minde Avenue No. 16, Urumqi City
830002
Xinjiang
Peoples' Republic of China

Facsimile:
(86-991) 2816724

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 Gansu or Xinjiang may be taken or executed by the Governor or Chairman, as the case may be, or a Vice Governor or Vice Chairman, as the case may be, or such other person or persons as said Governor, Chairman, Vice Governor or Vice Chairman shall designate in writing, and Gansu and Xinjiang shall furnish to the Bank 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 Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

GANSU PROVINCE

By /s/ Zou Jiayi

Authorized Representative

XINJIANG-UYGHUR AUTONOMOUS REGION

By /s/ Zou Jiayi

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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

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

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Borrower).

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) The following may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines:

- (i) Goods, including computers and printers, and processing equipment for rural processing plants and enterprises, estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$3,300,000 equivalent.

- (ii) In respect of the GEF-assisted Project Counties, grassland conservation equipment under Part A.2 of the Project, estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent.
- (iii) Works for the construction of enterprise workshops, estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$1,050,000 equivalent.

(b) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:

- (i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in China and such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.
- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders shall be required to provide security in an amount sufficient to protect the Borrower, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower.

- (vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.
- (viii) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.

2. International or National Shopping

(a) Breeding stocks of dairy cattle, mutton rams and ewes, of super fine wool rams, of dual purpose rams and ewes, and sheep embryos from international sources, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,530,000 equivalent, may be procured under contract awarded under international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) (i) Goods, including equipment under Parts A, B and C of the Project, office equipment and furniture, seeds, fertilizer, fencing materials, plastic mulch and local animal stock for fattening or production of fine wool or milk, estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$35,280,000 equivalent; and (ii) in respect of GEF-assisted Project Counties, equipment for livestock conservation and office management under Part B.4 of the Project, estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$3,520,000 equivalent, may be procured under contracts awarded under national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

(a) Livestock for breeding for mutton, fine wool or milk production which is obtainable from only a local source in a timely and dependable manner, and costing less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$6,680,000 equivalent; and (b) in respect of GEF-assisted Project counties, local indigenous breeding animal stocks which is obtainable from only a local source in a timely and dependable manner, and costing \$340,000 equivalent or less in the aggregate,

may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Force Account

Works, such as construction of small water tanks, silage pits, hay storage and auction shelters, establishment of forage base, renovation of animal sheds and artificial insemination stations, development of river beach grassland, and other small scale construction, which meet the requirements of paragraph 3.8 of the Guidelines, up to an aggregate amount not to exceed \$7,650,000 equivalent, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Procurement of Small Works

Works, such as construction of small irrigation works, livestock sheds, feedlots, land preparation and other small construction under Parts B and C of the Project, estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$26,570,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank 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 Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to:

- (i) all contracts for works and all contracts for goods procured in accordance with the provisions of paragraph 1 of Part B above (international competitive bidding); and

- (ii) all contracts for works and all contracts for goods procured in accordance with the provisions of paragraph 1 of Part C above (national competitive bidding).

(b) With respect to: (i) the first contract for works in each Project Prefecture or City, procured in accordance with the provisions of paragraph 5 of Part C above (small works); (ii) all contracts for goods procured in accordance with the provisions of paragraph 2(a) of Part C above (international shopping); (iii) the first contract for goods in each Project Prefecture or City, procured in accordance with the provisions of paragraph 2(b)(i) or 2(b)(ii) of Part C above (national shopping); and (iv) each Project Province, the first contract for breeding livestock for mutton and the first contract for breeding livestock for fine wool and with respect to each Project County, the first contract for breeding livestock for milk production, all procured in accordance with the provisions of paragraph 3(a) or 3(b) of Part C above (direct contracting), the following procedures shall apply:

- (A) prior to the selection of any supplier of any contract under shopping procedures, or of any contractor under small works procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (B) prior to the execution of any contract procured under direct contracting, shopping procedures or small works procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (C) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

(a) Services for comprehensive planning of grassland conservation, development of marketing strategy and data base development, up to an aggregate amount not to exceed \$500,000 equivalent; and (b) in respect of GEF-assisted Project Counties, services for grassland ecosystem management and biodiversity conservation under Part A.2 of the Project, up to an aggregate amount not exceeding \$960,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

(a) Services for the training of trainers, grassland management, and the development and promotion of product quality standards system that are estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,160,000 equivalent; and (b) in respect of GEF-assisted Project Counties, services for indigenous livestock breed conservation under Part B.4 of the Project, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not exceeding \$2,250,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and, on an exceptional basis, may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of

any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (ii) GEF-assisted Project Counties, each contract for the employment of consulting firms under Part A.2, B.4, D and C of the Project estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to: (i) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more; and (ii) GEF-assisted Project counties, each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the report on the comparison of the qualifications and experience of candidates (or in the case of sole source selection, the qualifications and experience of the consultants), terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

SCHEDULE 2

Implementation Program

Project Management and Coordination

1. Each of Gansu and Xinjiang shall, throughout the period of implementation of the Project:

(a) maintain its Project Leading Group chaired by a Vice Governor or Vice Chairman, as the case may be, with representation from the relevant Provincial agencies and concerned entities within the Project Province, including from the Women's Federation; said Project Leading Group to be responsible, with respect to implementation of the Project, for: (i) providing overall guidance and support; (ii) providing coordination among relevant line agencies and bureaus of the Project Province; (iii) coordinating counterpart funding from various agencies and sources; (iv) evaluating sub-project proposals under Part C.2 of the Project in accordance with criteria acceptable to the Bank and deciding on their eligibility for financing under the Project; and (v) monitoring; and

(b) cause each Project County to maintain its Project Leading Group, under terms of reference acceptable to the Bank, to be responsible, with respect to the implementation of the Project at the Project County level, for: (i) providing overall guidance and support; (ii) providing coordination among relevant line agencies and bureaus of the Project County; and (iii) monitoring.

2. Each of Gansu and Xinjiang shall, throughout the period of implementation of the Project:

(a) maintain its Provincial Project Management Office within the Provincial Bureau of Animal Husbandry, to manage and coordinate the activities under its Respective Part of the Project under terms of reference acceptable to the Bank; said Provincial Project Management Office to be under the direction of qualified and experienced managers and staffed with competent personnel in sufficient numbers, and provided with adequate resources, all in a manner satisfactory to the Bank; and

(b) cause to be maintained: (i) a Project Management Office for each Project Prefecture/city with more than one Project County and for each Project County, and (ii) unless otherwise agreed with the Bank, a work station for each Project Township, each such project management office or work station to be managed and staffed with qualified personnel in sufficient numbers, and provided with adequate resources, to be responsible for the day-to-day management and coordination of Project implementation within their respective jurisdiction, all under terms of reference acceptable to the Bank.

3. Each of Gansu and Xinjiang shall, throughout the period of implementation of the Project:

(a) maintain its Technical Advisory Group at the provincial level to support its respective Project Leading Group and Provincial Project Management Office by providing technical advice and making recommendations on the technical aspects of its Respective Part of the Project, including reviewing applied research proposals, the strategy for providing training and extension services, and training plans; said Technical Advisory Group to consist of: (i) qualified and experienced technical specialists and engineers from provincial technical bureaus; and (ii) representatives of cooperating research institutes, producer groups, and other concerned agencies; and

(b) cause each Project County to maintain its county-level Technical Advisory Group to support the County Project Management Office by providing technical advice and making recommendations on the technical aspects of the Project within said Project County; said Project County level Technical Advisory Group to consist of: (i) qualified and experienced technical specialists and engineers from county technical agencies; (ii) farmer and herder representatives; and (iii) local representatives of extension institutes, producer groups, and other concerned agencies.

4. By January 31, 2004, each of Gansu and Xinjiang shall establish, and thereafter maintain during the period of implementation of its Respective Part of the Project, a management information system acceptable to the Bank for purposes of monitoring and furnishing reports on the Project implementation; and shall operate said system in accordance with guidelines acceptable to the Bank.

Environmental Management and Monitoring

5. Each of Gansu and Xinjiang shall:

(a) Carry out, and cause to be carried out, its respective Environmental Management and Monitoring Plan in a manner satisfactory to the Bank and designed to ensure that its Respective Part of the Project is implemented in accordance with sound environmental practices and standards. Without limitation to the foregoing, each Project Province shall cause each Project Management Office at the Project County level and its environmental protection bureau and water resources bureau to enter into a work agreement, adequate for the management and implementation of said Plan, all in accordance with terms of reference acceptable to the Bank.

(b) Furnish any proposed revision of said plan to the Bank for its prior approval.

(c) Maintain policies and procedures adequate to monitor and evaluate, on an ongoing basis and in accordance with indicators acceptable to the Bank, the carrying out of said plan.

(d) In respect of Sub-projects under Parts B.2, B.3, C.1 and C.2 of the Project, cause the respective beneficiaries to: (i) carry out an environmental screening in

accordance with guidelines satisfactory to the Bank; and thereafter (ii) incorporate appropriate mitigation measures into the relevant Sub-projects.

National Minorities

6. Each of Gansu and Xinjiang shall carry out, and cause to be carried out, its respective Multi-Ethnic Groups Development Strategy in a manner satisfactory to the Bank and designed to provide meaningful consultation with and informed participation of ethnic minority groups in its Respective Part of the Project, and to ensure that benefits under its Respective Part of the Project are socially and culturally acceptable to such groups.

Dam Safety

7. In the event that any irrigation scheme under Part A of the Project draws from an existing dam or a dam under construction, Gansu and Xinjiang each shall apply, or cause to be applied, in the implementation of the schemes, the Dam Safety Review Guidelines and:

(a) Arrange for one or more independent dam specialists to: (i) inspect and evaluate the safety status of said dam, its appurtenance and its performance history; (ii) review and evaluate the operation and maintenance procedures for said dam; and (iii) provide to Gansu or Xinjiang, as the case may be, the Borrower and the Bank a written report of findings and recommendations for any remedial work or safety-related measures necessary to upgrade said dam to a standard of safety acceptable to the Bank.

(b) In the event substantial remedial work is determined to be required following the report of said dam specialists, make arrangements for said work to be designed and supervised by qualified engineers acceptable to the Bank; provided that, in respect of dams of a height of fifteen (15) meters or more, Gansu or Xinjiang, as the case may be, shall; (i) prepare and provide to the Bank for its review and comment, detailed plans for construction supervision and quality assurance, for instrumentation, operation and maintenance, and for emergency preparedness; (ii) implement, and cause to be implemented, said plans in a manner satisfactory to the Bank; and (iii) following completion of construction, carry out periodic safety inspection of said dams.

Participation of Beneficiaries

8. Each of Gansu and Xinjiang shall:

(a) Implement its Respective Part of the Project in accordance with the provisions of its respective Beneficiaries Participation Sub-manual to ensure meaningful consultation with and informed participation of Project beneficiaries in the design of specific Project activities and the implementation of such activities.

(b) Furnish any proposed revision of said sub-manual to the Bank for its prior approval.

(c) Maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis and in accordance with indicators acceptable to the Bank, the results of such consultation and participation in the implementation of its Respective Part of the Project.

Project Implementation Manual

9. Each of Gansu and Xinjiang shall:

(a) Carry out, and cause to be carried out, its Respective Part of the Project in accordance with its respective Project Implementation Manual, acceptable to the Bank, each manual to include:

- (i) (A) Criteria and procedures, satisfactory to the Bank, for the selection of Sub-projects and the beneficiaries of said Sub-projects, generally; and (B) specifically, a household sub-manual in respect of financing to be provided for eligible sub-projects carried out by individuals or farmer and herder households, and an enterprise sub-manual in respect of financing to be provided for eligible sub-projects carried out by rural enterprises or large-scale sub-projects carried out by rural entrepreneurs; said sub-manuals to establish, inter alia, that: in recovering the costs of such Sub-projects, the Project Provinces shall not pass on any foreign exchange risk to farmer and herder beneficiaries and all charges or fees on such cost-recovery payments shall be consolidated into one rate which shall remain fixed for the duration of the cost-recovery period.
- (ii) Programs for the development and provision of extension services, training, study tours and applied research.
- (iii) A participatory grassland management sub-manual, satisfactory to the Bank, setting forth the detailed guidelines and procedures for the implementation of the grassland management activities under Part A of the Project.
- (iv) Principles and procedures for the appropriate timing and sequencing in the implementation of specific Project activities, satisfactory to the Bank.
- (v) Principles, procedures and schedules, satisfactory to the Bank, for monitoring and evaluation of Project activities, including of

the implementation of the respective Environmental Management and Monitoring Plan, Multi-Ethnic Groups Development Strategy, and Beneficiaries Participation Sub-Manual and Dam Safety Review Guidelines.

- (vi) A procurement management sub-manual, satisfactory to the Bank, including therein procurement procedures and standard documentation in accordance with the provisions of Schedule 1 to this Agreement.
- (vii) A financial management sub-manual, satisfactory to the Bank, including therein reporting requirements and financial management procedures, including audit procedures, in accordance with the provisions of Article 3 of this Agreement.

(b) Furnish to the Bank for its prior approval any proposed amendment to the provisions of said Project Implementation Manual (including any of the sub-manuals) and, thereafter, put into effect such amendment as shall have been agreed with the Bank.

Project Annual Work Plan

10. Each of Gansu and Xinjiang shall:

(a) by November 15 of each year (except for the first year which annual work plan is due on January 31, 2004), prepare and furnish to the Bank for its review and comment, a proposed annual work plan for the implementation of its Respective Part of the Project in the following calendar year (including, in detail, for each such year, the program of international training and study tours; the feed balance report referred to in paragraph 13 of this Schedule; the program of support to farmer and herder groups under Part C.3 of the Project; the program of activities for market information systems development under Part C.4 of the Project; the program of research activities, training and extension services under Part D of the project, the plan for counterpart funding and the procurement plan), said work plan to be prepared in accordance with: (i) guidelines acceptable to the Bank; (ii) the provisions of the respective Environmental Management and Monitoring Plan; (iii) the provisions of the respective Beneficiaries Participation Sub-Manual; (iv) the provisions of the respective Multi-Ethnic Groups Development Strategy; and (v) the guidelines for phasing and sequencing of activities set forth in the Project Implementation Manual; and

(b) thereafter, each of Gansu and Xinjiang shall carry out its Respective Part of the Project during the following calendar year in accordance with such annual work plan, giving due consideration to the Bank's views thereon.

Sub-Projects under Parts A.1, A.2, B.1, B.2, B.3, C.1, and C.2 of the Project

11. With respect to Parts A.1, A.2, B.1, B.2, B.3, C.1, and C.2 of the Project, each of Gansu and Xinjiang shall ensure that the respective Project Counties shall evaluate and select Sub-projects in accordance with the provisions of the Project Implementation Manual (including the household and the enterprise sub-manuals referred to in paragraph 9(a)(i) above) including that:

- (a) Each Sub-project may be approved only if:
 - (i) the proposed Sub-project and Sub-project beneficiary satisfy the eligibility criteria set forth in the Project Implementation Manual; and
 - (ii) the Sub-project beneficiary has prepared an environmental assessment and an environmental management and monitoring plan, on the basis of standards satisfactory to the Bank and in accordance with the principles set forth in the Environmental Management and Monitoring Plan, in the event that the environmental screening carried out in accordance with said principles concludes that such assessment and management and monitoring plan are required.

(b) In respect of each Sub-project the relevant Project County shall obtain, by written contract with the Sub-project beneficiary, or by other appropriate legal means, rights adequate to protect the interests of such Project County, the respective Project Province, the Borrower and the Bank, including that each Sub-project beneficiary shall undertake to:

- (i) repay the costs of such Sub-project in Renminbi;
- (ii) carry its Sub-project with due diligence and efficiency, in accordance with sound financial and technical practices and consistent with health, safety and environmental practices acceptable to the Bank, including appropriate environmental mitigation measures as set forth in the Environmental Management and Monitoring Plan;
- (iii) provide promptly, as needed, resources required for the purposes of the Sub-project;
- (iv) maintain adequate records and accounts;
- (v) use the works, goods and services procured for the Sub-project exclusively in the carrying out of such Sub-project;

- (vi) maintain and operate its equipment and facilities at all times, and from time to time, promptly as needed, make all necessary repairs and renewals in accordance with sound engineering, financial and industry practices;
- (vii) enable Gansu or Xinjiang, as the case may be, the respective Project County, the Borrower and the Bank to inspect the goods and sites included in the Sub-project and any relevant records, accounts and documents;
- (viii) provide all such information as Gansu or Xinjiang, as the case may be, the respective Project County, the Borrower or the Bank may reasonably request regarding the management, operations and financial condition of the Sub-project beneficiary; and
- (ix) with respect to a Sub-project Beneficiary that is an enterprise, to provide the Bank, upon the Bank's request, a copy of the then current year financial statement, record or accounts of said enterprise.

(c) The respective Project Counties shall exercise their rights in respect of each Sub-project in such manner as to protect the interests of Gansu or Xinjiang, as the case may be, the Borrower and the Bank, and to achieve the purpose of said Sub-project.

Part A of the Project

12. Unless otherwise agreed by the Bank, prior to the development of grasslands for forage and fodder under Part A of the Project, each of Gansu and Xinjiang:

(a) shall carry out, or cause to be carried out, water balance tests and studies satisfactory to the Bank to ensure adequate groundwater and surface water for said grasslands or pastures; and

(b) shall not undertake, or allow to be undertaken, any works prior to the issuance by the respective water resources bureau of any necessary water withdrawal permits.

Part B of the Project

13. For each respective Project township participating in Part B of the Project, Gansu and Xinjiang shall cause to be prepared, in accordance with guidelines and standards acceptable to the Bank, an annual township-level feed balance report, said report to be provided to the Bank together with the annual work plan referred to in paragraph 10 of this Schedule.

Monitoring and Reporting

14. Each of Gansu and Xinjiang shall:

(a) maintain, and cause to be maintained, policies and procedures adequate to enable it to monitor and evaluate, on an ongoing basis and in accordance with indicators satisfactory to the Bank, the carrying out of the Respective Part of the Project (including implementation of environmental management and monitoring plans) and the achievement of the objectives thereof;

(b) carry out: (i) through its respective Project Management office, on an annual basis, a project impact survey; and (ii) through an independent institute or organization, a project impact assessment of the first, third and sixth years of implementation of the Project, both survey and assessment to be carried out under terms of reference satisfactory to the Bank and furnish to the Bank the results of said assessments by June 30 each year or the relevant year, as the case may be, commencing in 2004;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31 and September 30 of each year, commencing in 2004, a semi-annual report (provided that the last report for each calendar year shall cover the entire year) integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of its Respective Part of the Project during the period preceding the date of said report 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; each such report to consolidate the reports prepared by the respective Project Counties and to incorporate, when applicable, the results of the survey referred to in sub-paragraph (b) of this paragraph; and

(d) promptly review with the Bank each report referred to in sub-paragraph (c) of this paragraph and, thereafter, take all measures required to ensure the efficient completion of the Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.