

CONFORMED COPY

CREDIT NUMBER 2475 CHA

(Zhejiang Multicities Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 18, 1993

CREDIT NUMBER 2475 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 18, 1993, 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;

(B) the Project will be carried out by Zhejiang Province (Zhejiang) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Zhejiang the proceeds of the Credit as provided in this Agreement; and

WHEREAS 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 and in the Project Agreement of even date herewith between the Association and Zhejiang;

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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Company"; means any one of the Water Companies or Land Development Companies;
- (b) "Financial Agency Agreement" means the agreement to be entered into pursuant to paragraph 1, Part B of Schedule 3 to the Project Agreement between ZEF and PCBC under which PCBC will act as the financial agent of ZEF for purposes of making ZEF Subloans under the Project;
- (c) "ha" means hectare;
- (d) "km" means kilometer;
- (e) "Land Development Companies" means SADC and SMCC;
- (f) "PCBC" means People's Construction Bank of China, a specialized bank established and operating under its Charter;
- (g) "PMOs" means the Project Management Offices, established pursuant to Paragraph 1, Part A of Schedule 2 to the Project Agreement, by each of the Project Cities; "PMO" means any one of the PMOs;
- (h) "Project Cities" means Hangzhou Municipality, Ningbo Municipality, Shaoxing Municipality, and Wenzhou Municipality in Zhejiang Province;
- (i) "Project Agreement" means the agreement between the Association and Zhejiang Province (Zhejiang), of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;
- (j) "Renminbi" means the currency of the Borrower;
- (k) "SADC" means the Shaoxing Area Development Commission;
- (l) "SMCC" means the Shaoxing Municipal Construction Commission;
- (m) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (n) "Subborrower" means a small-scale or medium-scale industrial enterprise to which a ZEF Subloan has been made or is proposed to be made;
- (o) "Subsidiary Loan Agreements" means the agreements to be entered into by each of the Project Cities with its respective Water Company or Land Development Companies in accordance with Part B.1 of Schedule 2 to the Project Agreement;
- (p) "Water Companies" means the Hangzhou Municipal Water Company, the Ningbo Municipal Water Company, and the Wenzhou Municipal Water Company; "Water Company" means any one of the Water Companies;
- (q) "ZEF" means the Zhejiang Environmental Fund, established by Zhejiang by Charter, approved by the Zhejiang People's Government on January 20, 1993 and

registered with the Zhejiang Provincial Bureau of Commerce and Industry on February 27, 1993; "Charter" means the Charter establishing ZEF;

(r) "ZEF Subloan" means a subloan made, or proposed to made, by ZEF, utilizing the proceeds of the Credit, to a subborrower for purposes of financing a ZEF Subproject, and which comply with the terms and conditions of Schedule 3 to the Project Agreement;

(s) "ZEF Subproject" means a specific investment project designed to abate pollution created by a small-scale or medium-scale industrial enterprise in an urban area; to be financed or proposed to be financed by ZEF pursuant to a ZEF Subloan utilizing the proceeds of the Credit;

(t) "ZEPB" means the Zhejiang Environmental Protection Bureau;

(u) "Zhejiang" means Zhejiang Province of the Borrower; and

(v) "ZUDPO" means the Zhejiang Urban Development Project Office, established pursuant to Part A.1 of Schedule 2 to the Project 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 seventy-nine million three hundred thousand Special Drawing Rights (SDR 79,300,000).

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 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 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 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 percent (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 March 1 and September 1 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 semiannual installments payable on each March 1 and September 1 commencing September 1, 2003 and ending March 1, 2028. Each installment to and including the installment payable on March 1, 2013 shall be one and one-fourth percent (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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Zhejiang to perform in accordance with the provisions of the Project Agreement all the obligations of Zhejiang therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Zhejiang to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall onlend the proceeds of the Credit to Zhejiang on the following principal terms and conditions:

(i) repayment over a period not exceeding fifteen years, including five years of grace;

(ii) interest to be paid by Zhejiang at the rate of 5.1% per annum;

- (iii) all foreign exchange risks to be borne by Zhejiang; and
- (iv) commitment charges to be paid by Zhejiang at a fixed rate of one-half of one percent per annum.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) shall be carried out by Zhejiang pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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 was made; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (a) Zhejiang shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Zhejiang will be able to perform its obligations under the Project Agreement;

(c) any party to the Financial Agency Agreement or any of the Subsidiary Loan Agreements shall have failed to perform any of its obligations thereunder;

(d) the Borrower, Zhejiang or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of ZEF or for the suspension of its operations; and

(e) the Charter shall have been amended or changed so as to affect, materially and adversely, the ability of ZEF to make ZEF Subloans.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower's State Council shall have approved the Development Credit Agreement;

(b) the Financial Agency Agreement shall have been entered into on behalf of ZEF and PCBC;

(c) the Subsidiary Loan Agreements shall have been entered into on behalf of each of the Project Cities and its respective Water Company or Land Development Companies; and

(d) Zhejiang shall have provided to the Association: (i) evidence, satisfactory to the Association, that the consultants required to carry out the study under Part C.1 of the Project shall have begun rendering services; and (ii) an operation action plan in compliance with Paragraph 2 (a) of Part A of Schedule 2 to the Project Agreement, for the first year of Project implementation.

Section 6.02. The following is specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by Zhejiang, and is legally binding upon Zhejiang in accordance with its terms; and

(b) that the Financial Agency Agreement and each of the Subsidiary Loan Agreements have been duly authorized or ratified by the parties thereto and is legally binding upon such parties in accordance with their respective 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/ Shahid J. Burki

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:

Amount of the

Category	Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods	5,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Civil works	57,700,000	55%
(3) Consultants' services and training	9,800,000	100% of foreign expenditures and 75% of local expenditures
(4) Unallocated	6,000,000	
	79,300,000	
TOTAL	79,300,000	

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; and

(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.

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 SDR 7,000,000, may be made in respect of Category (2) on account of payments made for expenditures before that date but after March 31, 1992.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support improvements in water supply, land development, environmental pollution control and traffic management in the Project Cities.

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: Water Supply

1. Hangzhou. Construction of water supply facilities in Hangzhou, including: (i) a water intake on the Qiantang River with a pumping station near the existing Shanhusha intake; (ii) a treatment plant near the existing Shanhusha reservoir; (iii) clear water transmission main and tunnel of about 8 km; (iv) booster pumping station; and (v) reinforcement and extension of the water distribution network.

2. Ningbo. Construction of water supply facilities in Ningbo, including: (i) a river water intake at the Xiaozhen Dam; (ii) transmission main of about 17 km; (iii) a secondary intake at Beidu and booster pumping station; (iv) a transmission main of about 13.5 km to Jiang Dong; (v) a booster pumping station at Jiang Dong and about 8

km of force main to the Zhenhai petrochemical plant; (vi) about 14 km of 1,000 millimeter pipe for treated water to the Zhejiang Chemical Plant at Beilun; and (vii) civil works to reinforce the existing water distribution network.

3. Wenzhou. Construction of water supply facilities in Wenzhou, including: (i) a pumping station at the existing Cao Ping Tunnel; (ii) about 15 km of 1,200 millimeter pipe to Keng Kou Tang Reservoir; (iii) about 9 km of 1,400 millimeter pipe to Xishan Tunnel; (iv) construction of a tunnel of about 2.7 km length, to the Xishan Treatment Plant; (v) a water treatment plant at Xishan; (vi) a booster station and about 5.5 km of 1,000 millimeter raw water pipeline to Dongxiang Treatment Plant; and (vii) civil works to reinforce the existing water distribution network.

Part B: Land Development in Shaoxing

Development of about 207 ha of land in Shaoxing by construction of roads and bridges, drainage systems, water supply and sewerage systems, public lighting, electricity; provision of telecommunications systems and marketing services for the developed areas; and carrying out resettlement of persons affected by the development of land.

Part C: Urban Environmental Management and Protection

1. Carrying out, at the provincial level, a study of strategic planning and policy issues for liquid and solid waste management.

2. Carrying out, by each of the Project Cities, feasibility and preliminary engineering studies and identification of future priority investments in environmental protection and management.

3. Provision of consultants' services and training to ZEPB management and staff in order to develop an environmental information center, improve environmental monitoring and to establish and operate an environmental pollution control fund.

Part D: Urban Planning Systems and Institutional Development

1. Strengthening urban planning and management systems at the provincial and municipal levels by establishing a system for collecting, analyzing and disseminating cross-sectoral data relevant to urban planning and management.

2. Supporting institutional development through the provision of consultants' services and training of staff of the water, environment, land development, urban planning and traffic management agencies of Zhejiang and the Project Cities.

Part E: Traffic Management in Hangzhou

Improving traffic management in Hangzhou through the provision of consultants' services and training: (i) to improve an existing data base and develop new data bases with respect to traffic management and accidents; (ii) to prepare basic traffic patterns for the city center and prepare functional traffic schemes and drawings; and (iii) to analyze reporting systems, routings and other traffic-related aspects of public transit.

Part F: Basic Urban Services in Ningbo

Upgrading of urban services and related infrastructure in four locations in the central area of Ningbo, including water supply, sewage treatment, roadworks and traffic control, drainage, street lighting; carrying out resettlement of persons affected by the construction of civil works; and conservation of culturally significant and historic structures.

Part G: Zhejiang Environmental Fund

Establishment and operation of an environmental pollution control fund and the financing of pollution control measures for small- and medium-sized industrial enterprises.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 \$7,000,000 (seven million dollars) 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.

