

CONFORMED COPY

LOAN NUMBER 4179 CHA

Loan Agreement

(Wanjiashai Water Transfer Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 29, 1997

LOAN NUMBER 4179 CHA

LOAN AGREEMENT

AGREEMENT, dated August 29, 1997, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

(B) Part A of the Project will be carried out by the Yellow River Diversion Project Corporation (YRDPC, as defined in Section 1.02(p) of this Agreement) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to its Province of Shanxi (Shanxi), for relending to YRDPC, part of the proceeds of the Loan as provided in this Agreement;

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

(D) the Borrower intends to contract from other external sources of funding (the Cofinancier) a loan (the Cofinancing Loan) in an amount equivalent to approximately \$30,000,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the Cofinancing Loan Agreement) to be entered into between the Borrower and the Cofinancier; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement, in the Project Agreement of even date herewith between the Bank and Shanxi and in the Project Agreement of even date herewith between the Bank and YRDPC;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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) "Beneficiary" means an enterprise to which Shanxi proposes to make, or has made, a Sub-loan.
- (b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.
- (c) "Complementary Investment Program" means the program of investments, referred to in Part C of Schedule 2 to the Shanxi Project Agreement, to be completed by Taiyuan's water supply authority pursuant to the provisions of said Part.
- (d) "Environmental Management Plan" means the plan, referred to in Part D.1 of Schedule to the YRDPC Project Agreement, designed to ensure the implementation of Part A of the Project in accordance with sound health, safety and environmental standards.
- (e) "Fen Dam" means the dam and associated structures located on the Fen River in Loufan County in the Borrower's Province of Shanxi.
- (f) "Fiscal Year" means the twelve month period commencing January 1 and ending December 31 of a calendar year.
- (g) "Resettlement Action Plan" means the resettlement action plan prepared by Tianjin Investigation and Design Institute and Shanxi Investigation and Design Institute and dated April 1, 1997, for the resettlement of persons displaced as a result of the Project, as a result of the construction of the Wanjiashai Dam, and as a result of the implementation of the Complementary Investment Program, as the same may be amended from time to time.

(h) "Shanxi Project Agreement" means the agreement between the Bank and Shanxi 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 Shanxi Project Agreement.

(i) "Shanxi" means the Borrower's Province of Shanxi.

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

(k) "Sub-loan" means a loan made or proposed to be made by Shanxi out of the proceeds of the Loan to a Beneficiary for a Sub-project.

(l) "Sub-project" means a specific project under Part B(5) of the Project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan.

(m) "Subsidiary Loan Agreement" means the agreement to be entered into between Shanxi and YRDPC pursuant to Part A.1 of Schedule 2 to the Shanxi Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and "Subsidiary Loan" means the loan provided for under the Subsidiary Loan Agreement.

(n) "Taiyuan" means Taiyuan Municipality in Shanxi.

(o) "Wanjiashai Dam" means the dam and associated structures located on the Yellow River in Pianguan County in the Borrower's Province of Shanxi.

(p) "YRDPC" means the Shanxi Wanjiashai Yellow River Diversion Project Corporation, a state-owned enterprise established and operating under the laws of the Borrower and in accordance with (i) the YRDPC Charter and (ii) Business License No. 11005348-2, dated September 18, 1995, issued by the Shanxi Provincial Administration of Industry and Commerce.

(q) "YRDPC Project Agreement" means the agreement between the Bank and YRDPC 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.

(r) "YRDPC Charter" means the Articles of Association of YRDPC approved by Shanxi on September 6, 1995, as the same may be amended from time to time.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to four hundred million dollars (\$400,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A, B(1), B(2), B(3) and B(4) of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan, and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by Shanxi on account of withdrawals made under Sub-loans to meet the reasonable cost of goods and services required for the Sub-projects in respect of which withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and 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 June 30, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### 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 Loan Agreement, shall cause Shanxi to perform in accordance with the provisions of the Shanxi Project Agreement all the obligations of Shanxi therein, shall cause YRDPC to perform in accordance with the provisions of the YRDPC Project Agreement all the obligations of YRDPC therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate

to enable Shanxi and YRDPC 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 make the proceeds of the Loan available to Shanxi on the following principal terms:

(i) the principal amount so made available shall be denominated and repayable by Shanxi in dollars and shall be recovered by the Borrower over a period of twenty years, inclusive of a grace period of five years;

(ii) Shanxi shall pay interest on the principal amount referred to above in subparagraph (b)(i) of this Section withdrawn and remaining unrecovered from time to time at a rate equal to the rate payable by the Borrower under the Loan pursuant to Section 2.05 of this Agreement; and

(iii) Shanxi shall pay a commitment charge on the principal amount referred to above in subparagraph (b)(i) of this Section not withdrawn from time to time at a rate equal to three fourths of one percent (0.75%) per annum.

(c) Without limitation upon the provisions of Section 3.01 of this Agreement and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Implementation Program set forth in Schedule 4 to this Agreement. Section 3.02. 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 shall be governed by the provisions of Schedule 1 to the Shanxi Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that 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: (a) Part B of the Project shall be carried out by Shanxi pursuant to Section 2.04 of the Shanxi Project Agreement; and (b) Part A of the Project shall be carried out by YRDPC pursuant to Section 2.04 of the YRDPC Project Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan 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 Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in sub-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 Bank;

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

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

(a) Shanxi shall have failed to perform any of its obligations under the Shanxi Project Agreement or YRDPC shall have failed to perform any of its obligations under the YRDPC Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Shanxi will be able to perform its obligations under the Shanxi Project Agreement or that YRDPC will be able to perform its obligations under the YRDPC Project Agreement.

(c) The YRDPC Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of YRDPC to perform any of its obligations under the YRDPC Project Agreement.

(d) The Borrower or Shanxi or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of YRDPC or for the suspension of its operations.

(e) The Cofinancing Loan Agreement shall have failed to become effective by July 1, 1998 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the proceeds of the Cofinancing Loan shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Cofinancing Loan Agreement; or (B) the Cofinancing Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) any of the events specified in Section 5.01(a) of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) any of the events specified in Sections 5.01(c) and 5.01(d) of this Agreement shall occur; and

(c) the event specified in Section 5.01(f)(i)(B) of this Agreement shall occur, subject to the proviso of Section 5.01(f)(ii) of this Agreement.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that the Subsidiary Loan Agreement has been executed on behalf of Shanxi and YRDPC.

Section 6.02. The following are specified as additional matters, with the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

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

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

(c) that the Subsidiary Loan Agreement has been duly authorized or ratified by Shanxi and YRDPC and is legally binding upon Shanxi and YRDPC in accordance with its terms.

Section 6.03. The date ninety 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 Bank:

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

Cable address:

INTBAFRAD

Telex:

248423 (MCI) or

Washington, D.C.

64145 (MCI)

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/ Zhou Wenzhong

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Acting Regional Vice President  
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Works:		
(a) for tunnels and pump caverns under Part A of the Project	217,300,000	70%
(b) for other structures under Part A of the Project	33,200,000	60%
(2) Goods		
(a) Pipes for Part A of the Project	23,000,000	50%
(b) Other goods for Part A of the Project	94,900,000)	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 75% of local expenditures for other items procured locally
(c) Goods for Parts B(1) through B(4) of the Project	1,600,000)	
(3) Consultants' services:		





The Project, which is part of a phased program to expand Shanxi's water supply, consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Yellow River Diversion

Construction of a system of tunnels, aqueduct pipelines and reservoirs designed to transport water from the Borrower's Yellow River to Taiyuan, consisting of:

- (1) completion of a general main tunnel from the Wanjiashai Dam to Xiatuzhai Village and preparatory works for access roads;
- (2) construction of a main tunnel leading south from the general main tunnel at Xiatuzhai Village, two pumping stations for said main tunnel leading south from said general main tunnel and three pumping stations for said general main tunnel, aqueducts, inverted siphons, culverts, power transmission lines and transformer stations;
- (3) construction of connecting pipelines and tunnels from the Fen 1 Reservoir located along the Fen River in Xiajingyou Village to the Huyang treatment plant in Taiyuan;
- (4) provision of pumps, motors, controls, valves, gates and communications systems;
- (5) resettlement of persons displaced as a result of the activities referred to in Parts A(1) through A(4) of this Schedule; and
- (6) implementation of an environmental management plan for the Project.

Part B: Institutional Development; Water Resources Management

- (1) Implementation of a program to strengthen the organization, operations and management of the entities involved in water resources supply and management in Shanxi, including corporatization and commercialization of said entities and rationalization of water supply prices and of markets within the water supply sector.
- (2) Preparation of an environmental master plan for Taiyuan, including a wastewater management plan, and undertaking of studies to develop a wastewater discharge permit system and programs of pollution control and prevention.
- (3) Development and introduction of water and wastewater monitoring systems, and a pollution permit system.
- (4) Provision of training to improve the skills of staff of Shanxi's Environmental Protection Bureau in pollution prevention, and establishment and operation of pollution permit systems and water and wastewater monitoring systems.
- (5) Financing, through the provision of loans to key polluting enterprises, including, inter alia, enterprises producing steel, coal, coke, pharmaceuticals, paper, fertilizer and/or chemicals, of specific projects to introduce and apply environmentally sound technology in their operations.

\* \* \*

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
February 15, 2003	8,490,000
August 15, 2003	8,740,000
February 15, 2004	8,995,000

August 15, 2004	9,260,000
February 15, 2005	9,535,000
August 15, 2005	9,815,000
February 15, 2006	10,100,000
August 15, 2006	10,400,000
February 15, 2007	10,705,000
August 15, 2007	11,020,000
February 15, 2008	11,345,000
August 15, 2008	11,675,000
February 15, 2009	12,020,000
August 15, 2009	12,375,000
February 15, 2010	12,735,000
August 15, 2010	13,110,000
February 15, 2011	13,495,000
August 15, 2011	13,895,000
February 15, 2012	14,300,000
August 15, 2012	14,725,000
February 15, 2013	15,155,000
August 15, 2013	15,600,000
February 15, 2014	16,060,000
August 15, 2014	16,530,000
February 15, 2015	17,020,000
August 15, 2015	17,520,000
February 15, 2016	18,035,000
August 15, 2016	18,565,000
February 15, 2017	19,110,000
August 15, 2017	19,670,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

#### SCHEDULE 4

##### Implementation Program

###### A. Wanjiashai Dam Safety

In order to ensure the safety of the Wanjiashai Dam and downstream life, property and activities, the Borrower shall, through its Ministry of Water Resources, take the following actions.

###### 1. Operation and Maintenance and Emergency Preparedness Plans

The Borrower shall prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than December 31, 1998, a plan for the operation and maintenance of the Wanjiashai Dam and an emergency preparedness plan for said dam, afford the Bank a reasonable opportunity to exchange views with the Borrower on said plans, and thereafter implement the same with due diligence and efficiency, taking into account the views of the Bank on the matter.

###### 2. Periodic Inspections

The Borrower shall ensure that inspections of the Wanjiashai Dam and of its operation and maintenance shall be undertaken, annually for the first five years following its completion, and thereafter, at intervals of not more than three years, all in accordance with sound engineering practices and on the basis of guidelines acceptable to the Bank, by qualified and experienced independent experts, in order to identify any deficiencies in the condition of the Wanjiashai Dam or in the quality and adequacy of the maintenance or methods of operation of said dam or of its plan for emergency preparedness, which may endanger the safety of said dam or of downstream life, property or activities, and to rectify any such deficiencies promptly. To this end, the Borrower shall employ not later than October 31, 1998, a panel of independent experts whose qualifications, experience and terms of reference shall be acceptable to the Bank, to be responsible for undertaking such periodic inspections of the

Wanjiashai Dam. The Borrower shall ensure that said panel shall prepare and furnish to the Borrower and the Bank, promptly upon completion of each said inspection, a report on the results of said inspection, together with any measures recommended to be taken to ensure the safety of the Wanjiashai Dam and downstream life, property and activities. The Borrower shall afford the Bank a reasonable opportunity to exchange views with the Borrower on each report furnished by said panel and shall thereafter implement the measures recommended by said report, taking into account the views of the Bank on the matter.

B. Wanjiashai Dam Resettlement

1. The Borrower shall take, and shall cause to be taken all measures necessary to ensure that all persons displaced as a result of the construction of the Wanjiashai Dam shall be resettled in accordance with the Resettlement Action Plan so as to improve the living standards and productivity of all such persons.

2. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the implementation of the Resettlement Action Plan and the achievement of its objectives. The Borrower shall prepare, under guidelines satisfactory to the Bank, and furnish to the Bank semiannual reports not later than April 15 and October 15 of each Fiscal Year, integrating the results of said monitoring and evaluation activities performed during the preceding calendar semester and setting out the measures recommended to ensure the continued efficient implementation of the Resettlement Action Plan and achievement of its objectives during the following twelve month period, including any proposed revisions to said plan indicated by said monitoring and evaluation activities. The Borrower shall afford the Bank a reasonable opportunity to exchange views with the Borrower on each said report and shall thereafter implement the recommendations and introduce the revisions proposed in said report, taking into account the views of the Bank on the matter.

3. To give effect to Sections 1 and 2 of this Part B, the Borrower shall employ, not later than February 15, 1998, independent experts whose qualifications, experience and terms of reference shall be acceptable to the Bank, to be responsible for monitoring and evaluating the impact of implementation of the Resettlement Action Plan on the socioeconomic development of persons displaced as a result of the construction of the Wanjiashai Dam, and for preparation of the reports referred to above in Section 2 of this Part B on said monitoring and evaluation activities.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5);

(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 Loan 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 \$15,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$9,000,000 until the aggregate amount of withdrawals from the Loan plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$100,000,000.

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 Bank 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 Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into 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 Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan 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 Bank from the Loan 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 Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank 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 Bank 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount

of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank 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 Bank, refund to the Bank such outstanding amount.

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

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

