

CONFORMED COPY

CREDIT NUMBER 2605-0 CHA

Development Credit Agreement
(Xiaolangdi Resettlement Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 2, 1994

Credit Number 2605-0 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 2, 1994, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Project will be carried out by the Borrower through the Yellow River Water Conservancy Commission with the assistance of Henan Province and Shanxi Province (the Project Provinces); 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.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

Agreement.

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

(a) "Environmental Management Plan" means the environmental management plan, dated October, 1993, as the same may be supplemented and amended from time to time with the approval of the Bank.

(b) "MWR" means the Borrower's Ministry of Water Resources, and any successor thereto.

(c) "Project Implementation Agreements" means the agreement between MWR and Henan Province, dated October 22, 1993 and the agreement between MWR and Shanxi Province, dated October 20, 1993, for the implementation and counterpart funding of the Project, as the same may be amended and supplemented from time to time and such term includes all schedules and agreements supplemental to the Project Implementation Agreements.

(d) "Project Provinces" means Henan Province and Shanxi Province and their respective successors.

(e) "Resettlement Criteria" means the criteria for resettlement and rehabilitation set out in Schedule 5 to this Agreement.

(f) "Resettlement Plan" means the plan for the resettlement and rehabilitation of the approximately 181,000 people (approximately 171,000 people from the reservoir and approximately 9,940 from the dam site construction area) who will be resettled in four stages in the Project Provinces as a result of the construction and operation of the Xiaolangdi Multipurpose Dam Project as more particularly described in the Environmental Impact Assessment Executive Summary set out in the Project Brief dated February 1993 prepared for the Xiaolangdi Multipurpose Dam Project by the Reconnaissance Planning and Design Institute of YRCC under MWR in consultation with the CIPM Yellow River Joint Venture, as such plan shall be further developed and implemented in accordance with the Resettlement Criteria, with the concurrence of the Association, and the Resettlement Plan shall include the agreements made and to be made for the construction and reconstruction of residential and infrastructure facilities, for the compensation and resettlement of those being resettled in the Project Provinces, and for the reestablishment of the income and livelihoods of those resettled and of others affected by their resettlement, as the same may be supplemented and amended from time to time to implement the Resettlement Criteria.

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

(h) "Xiaolangdi Multipurpose Project" means the project described in Schedule 2 to the Loan Agreement between the Borrower and the Bank for the Xiaolangdi Multipurpose Project, of even date herewith, as the same may be amended by agreement between the Borrower and the Bank, and "Xiaolangdi Loan Agreement" means said Loan Agreement.

(i) "YRCC" means Yellow River Conservancy Commission, a commission established within MWR to manage water resource management and flood control along the Yellow River.

(j) "YRCCRO" means the resettlement office of YRCC, as maintained in accordance with paragraph D.1(a) of Schedule 4 of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy nine million nine hundred thousand Special

Drawing Rights (SDR79,900,000).

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 5 to this Agreement.

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

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

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

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one 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 April 1 and October 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 semi-annual installments payable on each April 1 and October 1 commencing October 1, 2004 and ending April 1, 2029. Each installment to and including the installment payable on April 1, 2014 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 shall carry out the Project through YRCCRO, and shall cause the Project Provinces to assist YRCCRO to carry out the Project, with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, and shall cause the Project Provinces to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree the Borrower shall carry out the Project through YRCCRO in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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 3 to this Agreement.

ARTICLE IV

Financial and Other Covenants

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

(b) The Borrower shall:

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

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

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

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

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from

the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

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

Section 4.02. The Borrower shall:

(a) implement the Resettlement Plan in a manner acceptable to the Association;

(b) ensure that the coffer dam constructed under the Xiaolangdi Multipurpose Project is not closed unless the resettlement program under the Resettlement Plan remains synchronized with the construction program under Part A of the Xiaolangdi Multipurpose Project and, to that end, if construction of the dam is progressing faster than the rate of construction progress anticipated in the Resettlement Plan by four months or more, the Borrower shall make revisions in the schedules for resettlement and construction, satisfactory to the Association; and

(c) ensure that the water level of the dam constructed under the Xiaolangdi Multipurpose Project is not permitted to rise beyond 265 meters before the details of the resettlement arrangements proposed for those who are to be resettled in the last stage (between the year 2010-2011) under the Resettlement Plan have been provided to, and approved by, the Association.

Section 4.03. The Borrower (acting through MWR) shall: (a) establish by December 31, 2000 and thereafter maintain a Reservoir Area Support Fund in an amount which is sufficient to provide minimum incomes to those who are resettled under the Project, or whose incomes or livelihood are adversely affected by the Project, and who are unable to achieve or to maintain their pre-Project income levels; and

(b) operate such Fund in accordance with procedures satisfactory to the Association, until such time as the Borrower (acting through MWR), with the concurrence of the Association, determines that potential beneficiaries are no longer likely to require Fund assistance.

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) Any of the parties to the Project Implementation Agreements shall have failed to perform any of its obligations set forth in such Agreements.

(b) The Borrower shall have failed to perform any of its obligations under the Xiaolangdi Loan Agreement.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following 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 this Agreement; and

(b) all conditions precedent to the effectiveness of the Xiaolangdi Loan Agreement shall have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. 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

Representatives 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 China

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/ Gautam S. Kaji

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works		
(a) Housing construction under Part A.1 of the Project	17,790,000	60%
(b) Other works	19,600,000	60%
(2) Goods		
(a) Vehicles	2,190,000	100% of foreign expenditures,
(b) Other Goods	30,270,000	100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' services	2,480,000	100%
(4) Training	730,000	100%
(5) Environment management (services for reservoir clearing/cultural relics removal/public health)	800,000	20%
(6) Unallocated	6,040,000	
TOTAL	79,900,000	

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 SDR7,260,000 on account of payments made for expenditures before that date but after October 1, 1993.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$200,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Project Description

The objectives of the Project are to assist the Borrower to resettle and improve the livelihoods of the approximately 154,000 people in the reservoir area who need to be resettled as a result of the construction and inundation up to the 265 meter level of the Xiaolangdi Multipurpose Dam on the Yellow River in Henan Province and Shanxi Province and to minimize the effects of social adjustment of the resettlers and of their host communities following resettlement.

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: Residential and Infrastructure Reconstruction

1. Constructing and equipping about 35,000 houses and establishing about 10 towns (with associated infrastructure and community services) in the Project Provinces to receive those people being resettled.

2. Constructing about 1750 kilometers of new roads, about 630 kilometers transmission lines, communication lines, broadcasting facilities, water supply works, hydraulic stations and other infrastructure in the Project Provinces to better service the resettlement areas and constructing and equipping about 27 wharves around the dam reservoir, and acquisition of about 132 ferries.

3. Constructing and equipping required to relocate about nine special purpose institutions and about seven special purpose community facilities.

Part B: Relocation

1. Relocating about 154,000 people in about 35,000 households from the inundation area of the dam up to the 265 meter level to about 276 host sites in the Project Provinces.

2. Providing logistic support for those being resettled, including moving costs, temporary shelter, food and medical services.

3. Transporting all salvageable materials and personal belongings, and factory machinery and other goods to the resettlement sites.

Part C: Planning, Design, Institutional Support

1. Strengthening the institutional capacity of YRCC and the Project Provinces to plan, design and implement the details of the proposed resettlement through the provision of training, technical assistance, offices, office equipment, vehicles, and consultants services.

2. Carrying out further detailed planning and design work related to the proposed resettlement.

Part D: Livelihood Development

Reestablishing the incomes and livelihood of those being resettled and ensuring that the incomes and livelihoods of those in host communities are not affected by

resettlement through:

1. Agricultural improvements covering an area of about 11,100 hectares of which about 7,000 hectares will be irrigated including completion of the Houhe dam and irrigation scheme covering about 5,000 hectares, and a new river training and warping scheme to protect about 13,300 hectares and to create about 4,100 hectares of new land for resettlers with aquaculture, industries and orchards at Wenmengtan.
2. Reestablishment of industries relocated as a result of the inundation of the reservoir for the Xiaolangdi dam and the establishment and expansion of about 85 industries to provide new employment for about 20,000 people being resettled.
3. Providing compensation to those who are relocated for assets acquired or lost as a result of the construction and inundation of the dam, and to those in host communities which receive those relocated for assets acquired or lost as a result of such resettlement.

* * * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

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

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

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$200,000 or more.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, except that housing construction costing up to an aggregate amount not exceeding \$48,000,000, and the river training and warping works at Wenmengtan may be carried out by force account in accordance with procedures acceptable to the Association.

2. Items or groups of items for goods (excluding steel and vehicles) estimated to cost the equivalent of \$200,000 or less per contract, and cement and building materials may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Items or groups of items of office and design equipment and instruments estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$1,200,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more and for works estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

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

Section II. Employment of Consultants

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

SCHEDULE 4

Implementation Program

Part A. Resettlement

1. The Borrower shall ensure that the Project Provinces prepare the final resettlement program designs according to the Resettlement Plan. The Reconnaissance Planning and Design Institute of YRCC must take part in and approve the final designs. The final resettlement site construction designs prepared by the Project Provinces shall be reviewed and approved by YRCCRO.

2. The Borrower shall, through YRCCRO: (a) continue to employ an independent monitoring institution acceptable to the Association to evaluate at least semi-annually the socioeconomic progress of those resettled under the Project and those in host communities who are affected by such resettlement; and

(b) furnish promptly to the Association for comment the report of each such evaluation along with proposals for meeting Project targets in accordance with the Resettlement Plan if these are not being achieved.

3. The Borrower shall maintain or shall cause to be maintained, and shall publicize or shall cause to be publicized, the availability of, grievance procedures to hear and determine fairly and in good faith, after taking into account the Resettlement Criteria, all complaints raised in relation to the implementation of the Resettlement Plan by those being resettled or by those in host communities who are adversely affected by the implementation of the Resettlement plan, and shall take all measures necessary to implement the determinations made under such grievance procedures.

Part B. Environmental Management

1. The Borrower shall: (a) ensure that all activities undertaken for the purpose of carrying out of the Project comply with environmental standards and guidelines satisfactory to the Association, including the regulations and guidelines issued by the National Environmental Protection Agency and the Provincial Environmental Protection Bureaus; and

(b) implement the Environmental Management Plan in a manner acceptable to the Association, including all necessary measures to minimize and to mitigate any adverse environmental impacts caused by the implementation of the Project, such as emissions from relocated industries under Part D.2 of the Project.

2. The Borrower shall, through YRCC: (a) prepare and furnish to the Association by December 15 in each year the detailed plan for implementation of the Environmental Management Plan in the next calendar year; and

(b) maintain YRCC's environmental management office with competent staff in adequate numbers and with such responsibilities and functions acceptable to the Association as shall enable YRCC to manage, coordinate and monitor the implementation of the Environmental Management Plan.

3. The Borrower shall: (a) through YRCC, employ an international Environment and Resettlement Panel of independent experts with composition and functions satisfactory to the Association to conduct semiannual reviews of the implementation of the Resettlement Plan and the Environmental Management Plan and of the detailed resettlement and environmental management programs under such Plans;

(b) furnish promptly to the Association the findings and recommendations for follow up action resulting from each such review; and

(c) implement all such recommendations for follow-up action as are agreed with the Association.

Part C. Livelihood Development

1. The Borrower shall cause the Houhe dam and irrigation scheme and the river training and warping scheme at Wenmengtan under Part D.1 of the Project to continue to be carried out so that they are sufficiently completed by June 30, 1996 to permit the resettlement planned for 1997 under the Resettlement Plan to be carried out as planned.

2. Without limiting the generality of Section 9.08 of the General Conditions, the Borrower (acting through MWR) shall:

(a) ensure that Shanxi Province shall, under arrangements satisfactory to the Association, cause the dam and related structures constructed under Houhe irrigation project under Part D.1 of the Project to be periodically inspected by the Borrower and by independent experts in accordance with sound engineering practice in order to determine whether there are any deficiencies in the condition of such structures, or

in the quality and adequacy of maintenance or methods of operation of the same, which may endanger their safety;

(b) to this end, propose to the Association appropriate arrangements for the Association's review no later than one year before the completion of the dam and related structures constructed under Houhe irrigation project; and

(c) employ, or shall cause Shanxi Province to employ, a panel of independent experts, with composition and functions acceptable to the Association, to conduct periodic reviews of the Houhe Dam and its related structures no less frequently than the Association requires during final engineering and construction to examine whether any new grounds for making changes in the design of the dam or technical specifications have become apparent, and shall promptly report the findings of each such panel review to the Association.

3. The Borrower shall ensure that:

(a) all necessary governmental project approvals for industrial projects under Part D.2 of the Project are obtained prior to the approval of resettlement funding by the relevant resettlement office;

(b) YRCC shall employ industrial consultants pursuant to the provisions of Section II of Schedule 3 to this Agreement to review on a semi-annual basis the proposed industrial projects under Part D.2 of the Project and furnish promptly to the Association the report of each such review along with the recommendations for follow up action; and

(c) YRCC shall implement such follow up actions as are agreed with the Association.

Part D. Project Implementation

1. The Borrower shall:

(a) maintain the resettlement office of MWR, and vest it with the responsibility for the overall implementation of the Project, and the resettlement office of YRCC, and vest it with responsibility for daily implementation of the Project, with functions and responsibilities satisfactory to the Association, and with competent staff in adequate numbers;

(b) cause the Project Provinces to maintain their respective Provincial resettlement offices and prefectural and county resettlement offices, with functions and responsibilities satisfactory to the Association, and with competent staff in adequate numbers; and

(c) maintain its Central Coordinating Group and cause the Project Provinces to maintain their respective provincial leading groups with composition and functions satisfactory to the Association.

2. The Borrower shall, through YRCC, by December 15 in each year, prepare and furnish to the Association the proposed financing plan and implementation program for Project activities in the next calendar year, as approved by the Borrower.

3. The Borrower shall ensure that all training and technical assistance under Part C of the Project, including local and overseas training, study tours and consultants' services are carried out in accordance with a program satisfactory to the Association.

4. The Borrower (including MWR) shall, not later than June 30, 1996, carry out a midterm review with the Association of the progress of and prospects for Project implementation.

5. The Borrower (acting through MWR) shall establish by November 30, 1994 and thereafter maintain with a balance of not less than the equivalent of three months estimated non-Credit Project expenditures (initially thirty million RMB), a revolving fund to finance YRCCRO's expenditures for the Project which are to be financed out of the Borrower's (MWR's) budgetary resources, if there is a delay in the availability of such resources.

6. The Borrower shall cause the Project Provinces to assist YRCCRO to carry out the Project in accordance with this Agreement and the Project Implementation Agreements.

SCHEDULE 5

Resettlement Criteria for the Xiaolangdi Project

1. The population subject to resettlement should not only maintain its current standard of living but it should also directly share in project benefits.
2. The resettlement transition period should be minimized and adequate support for both social and economic development should be provided during the transition period.
3. Resettlement should achieve the complete social and economic reestablishment of those dislocated, on a viable productive basis, through the creation of project-funded new industrial, service sector and agricultural employment activities.
4. Insofar as changes of occupation are necessary, the replacement opportunities should properly recognize the social, communal, cultural, educational, and vocational profile of those affected, and any changes in economic activities should be introduced on a voluntary basis.
5. Resettlement of the agricultural population should be land-based wherever possible.
6. Land sharing with host villages should be based on the principle of mutual acceptance and should be planned so as to provide higher incomes (from all sources) for relocatees and hosts.
7. The resettlement plans should have popular acceptance and the affected population should be consulted.
8. Resettlement distances should be minimized and opportunities for resettling entire communities and natural groups should be provided.
9. House and dwelling size allocation at new town and village sites should show improved standards and conditions.
10. The resettlement plans for towns, villages and enterprises should minimize the loss of existing agricultural lands.
11. The resettlement plans should have adequate institutional arrangements to ensure effective and timely implementation and adequate monitoring and evaluation arrangements.
12. The financial resources to carry out the relocation and development proposals should be available when and where required. Development plans should be prepared in concert with relocation plans.
13. The impact of resettlement on the natural and socioeconomic host environment should be considered acceptable.
14. Only those enterprises that will be economically viable should be considered for relocation and the compensation for the assets of the nonviable enterprises should be used to create new employment opportunities.
15. Inundated items of infrastructure such as roads and bridges should be replaced so that the previous level of service is maintained or improved.
16. If sharing farmlands does not result in achieving target incomes, some of the labor force should be offered non-agricultural employment opportunities.
17. Family members of the employees of affected state enterprises and institutions can be employed in non-agricultural sectors on a voluntary basis. The units of local governments, once compensated, shall be responsible for such employment arrangements.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) 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 \$8,000,000 to be withdrawn from the Credit Account and deposited into 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 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 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.
