

CONFORMED COPY

CREDIT NUMBER 2522 CHA

(Environmental Technical Assistance Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 16, 1993

CREDIT NUMBER 2522 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 16, 1993, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

WHEREAS 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) "CAS" means the Chinese Academy of Sciences of the Borrower, established as an autonomous institution by order of the Chinese People's Central Government dated October 31, 1949;

(b) "CAS Special Account" means the account referred to in Section 2.02 (b) (i) of this Agreement;

(c) "EIAs" means environmental impact assessment reports; "EIA" means any one of the EIAs;

(d) "FI" means the financial intermediary referred to in Part B of Schedule 6, a specialized bank established and operating under a charter;

(e) "Financial Agency Agreement" means the agreement to be entered into pursuant to Part B of Schedule 6 to this Agreement, between NEPA and an FI under which the FI will act as the financial agent of NEPA for purposes of making Subloans under Part B.4 of the Project;

(f) "IDP Subprojects" means Industrial Demonstration Pilot Subprojects comprising specific investments for purposes of demonstrating, on a pilot basis, new technology and methods to abate pollution created by industries, to be financed in part from the proceeds of the Credit under Part B.4 of the Project; and "IDP Subprojects" means any one of the IDP Subprojects;

(g) "Implementing Agency" means singularly the department or agency of the Borrower responsible for carrying out Project activities under Parts B.9, C.1 and C.2 of the Project under the direction of NEPA; and "Implementing Agencies" mean collectively the departments and agencies of the Borrower selected by NEPA, responsible for carrying out activities under such Parts of the Project;

(h) "NEPA" means the Borrower's National Environmental Protection Agency, established as an autonomous agency by the State Council of the Borrower on August 13, 1988 (Document No. SC 1988 54);

(i) "NEPA Special Account" means the account referred to in Section 2.02 (b) (ii) of this Agreement;

(j) "Project Plan Documents" means the ten documents setting forth detailed plans for technical assistance, training, and equipment, one each for Parts A.1, A.2, B.1, B.2, B.3, B.4, B.5, B.6, B.7 and C of the Project, provided by the Borrower to the Association, as the same may be revised in writing from time to time as agreed with the Association; "Project Plan Document" means any one of the Project Plan Documents;

(k) "Subborrower" means an industrial enterprise to which a subloan has been made or is proposed to be made in order to carry out an IDP Subproject;

(l) "Subloan" means a subloan, in an amount not exceeding \$1,000,000 equivalent, made or proposed to be made, out of the proceeds of the Credit to finance an IDP Subproject; and

(m) "Special Accounts" means the CAS Special Account and the NEPA Special Account; and "Special Account" means any one of the Special Accounts.

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 thirty-five million three hundred thousand Special Drawing Rights (SDR 35,300,000).

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall: (i) for the purposes of Part A of the Project (the CAS Special Account); and (ii) for the purposes of Parts B and C of the Project (the NEPA Special Account), open and maintain in dollars two separate special deposit accounts in a bank 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 Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 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 June 1 and December 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 June 1 and December 1 commencing December 1, 2003 and ending June 1, 2028. Each installment to and including the installment payable on June 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, shall cause CAS to carry out Part A of the Project and NEPA to carry out Parts B and C of the Project, with due diligence and efficiency and in conformity with the Project Plan Documents and appropriate financial, technical and administrative practices, and shall provide, or cause to be provided, 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 cause: (i) Part A of the Project to be carried out by CAS and Parts B and C (except Part B.4) of the Project to be carried out by NEPA in accordance with the Implementation Program set forth in Schedule 4 to this Agreement; and (ii) Subloans under Part B.4 of the Project to be made by NEPA through an FI in accordance with Schedule 6 to this Agreement.

(c) The Borrower shall onlend the proceeds of the Credit to CAS for purposes of carrying out Part A of the Project, and to NEPA for purposes of carrying out Parts B and C of the Project, on the following principal terms and conditions:

(i) repayment of the proceeds of the Credit so onlent over a period not exceeding twenty years, including five years of grace;

(ii) interest to be paid on the proceeds of the Credit which have been so onlent and are outstanding at the rate of one percent per annum; and

(iii) all foreign exchange risks to be borne by CAS in respect of expenditures made on account of Part A of the Project, and by NEPA in respect of expenditures made on account of Parts B and C of the Project.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods 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 Covenants

Section 4.01. (a) The Borrower shall cause CAS to maintain in respect of Part A of the Project, and NEPA to maintain in respect of Parts B and C of the Project, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project.

(b) The Borrower shall:

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

(ii) cause to be furnished 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) cause to be furnished to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

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

(ii) cause to be retained, until at least one year after the Association has received the audit reports for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Accounts were 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 audits referred to in paragraph (b) of this Section and that the report of such audits contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) any party to the Financial Agency Agreement shall have failed to perform any of its obligations thereunder;

(b) the Borrower, or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CAS or NEPA, or for the suspension of their respective operations.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) 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 event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower's State Council shall have approved the Development Credit 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

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/ Zhao Xixin

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) CAS Component under Part A of the Project		
(a) Equipment	9,880,000	100% of foreign ex- penditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	2,120,000	100%
(c) Unallocated	2,120,000	
(2) NEPA Component under Parts B (except B.4) and C of the Project		
(a) Equipment	8,470,000	100% of foreign ex- penditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	7,770,000	100%
(c) Unallocated	560,000	
(3) NEPA Component under Part B.4 of the Project		
(a) Equipment	3,890,000	100% of foreign ex- penditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' services and training	490,000	100%
TOTAL	<hr/> 35,300,000	

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:

(a) expenditures under Category (3) unless: (i) the Association shall have been provided with a Financial Agency Agreement, acceptable to the Association, including an opinion of counsel with qualifications acceptable to the Association, that the Financial Agency Agreement has been duly entered into, authorized or ratified by the parties thereto, and is legally binding upon such parties in accordance with its terms; and (ii) that the IDP Subproject for which expenditures have been made shall have been approved by the Association; and

(b) payments made for expenditures prior to the date of this Agreement, except that withdrawals, (i) in an aggregate amount not to exceed SDR 70,000 may be made in respect of Categories 1(a) and 1(b), and (ii) in an aggregate amount not to exceed SDR 350,000 may be made in respect of Category 2 (b), on account of payments made for expenditures before that date but after December 31, 1992.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to support the Borrower's environmental programs, including strengthening the policies, programs and institutional capacity of CAS and NEPA; (b) to improve coordination of environmental monitoring and ecological research; (c) to promote clean industrial production, pollution prevention and waste minimization technologies; (d) to promote the use of economic policies in support of pollution control; and (e) to strengthen capacity to perform environmental impact assessments.

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: CAS Institutional Strengthening

Provision of technical assistance, training and equipment to the Chinese Academy of Sciences in support of the establishment and operation of:

1. the Chinese Ecosystem Research Network (CERN); and
2. the Biodiversity Research and Information Management Program (BRIM).

Part B: NEPA Institutional Strengthening

Provision of technical assistance, training and equipment to the National Environmental Protection Agency and to other Implementing Agencies designated by NEPA in support of the following activities:

1. the establishment and operation of the provincial environmental information system;
2. the expansion, upgrading and operation of a global environmental monitoring system (GEMS) in China;
3. the expansion, upgrading and operation of the national program for research, development and testing of environmental reference materials;

4. the establishment and operation of a cleaner production program for industrial enterprises, including the making of Subloans for IDP Subprojects to be carried out by Implementing Agencies;
5. the strengthening of environmental education programs at the college and university level;
6. the expansion and upgrading of training and human resource development programs of NEPA and provincial and municipal level environmental protection bureaus;
7. the expansion, upgrading and operation of the Environmental and Economic Policy Research Center of NEPA;
8. carrying out three policy studies of:
 - (a) the implementation of the policies and system of pollution discharge fees in China;
 - (b) pollution control policies for town and village enterprises; and
 - (c) development policy for ecological agriculture; and
9. carrying out by NEPA, or by NEPA through Implementing Agencies, of studies of key environmental and ecological issues.

Part C: Environmental Impact Assessment Capability Support

Provision of technical assistance, training and equipment to NEPA to strengthen the capacity of NEPA and the Borrower's Implementing Agencies responsible for carrying out environmental impact assessments (EIAs) by:

1. carrying out EIAs of projects for which funding by the Association or the Bank is being proposed or has been obtained;
2. developing a program to analyze and carry out new approaches and methodologies for performing EIAs; and
3. expanding and upgrading NEPA's program of training and human resource development for performing EIAs.

* * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. (a) 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).
- (b) 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 pre-disclosed 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.

(c) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Association, 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 Association, the Borrower shall use bidding documents based on other internationally recognized standard forms.

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. Goods estimated to cost less than the equivalent of \$200,000 per contract, up to a total aggregate amount equivalent to \$10,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Goods estimated to cost less than the equivalent of \$100,000 per contract, up to a total aggregate amount equivalent to \$3,670,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers from at least three countries eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Equipment under Parts B.3, B.8 and B.9 of the Project estimated to cost less than the equivalent of \$100,000 per contract, up to an aggregate amount not to exceed the equivalent of \$250,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

4. Contracts for goods of a proprietary nature may be awarded after direct negotiations with the suppliers thereof, 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 contracts for goods of a proprietary nature, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of a 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. When payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

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

Section II. Employment of Consultants

1. For the purpose of carrying out the Project, the Borrower shall cause the Implementing Agencies to 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 Consultants Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review of approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

3. 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 Association, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, the Borrower shall use other standard forms agreed with the Association.

SCHEDULE 4

Implementation Program

Part A: Budgeting

For the Borrower's budgeting purposes only, the following are proportional amounts of the Credit proceeds that are expected to be used in carrying out each Part of the Project:

Part of the Project	Amount in US dollar equivalent (millions)
(1) A.1	15.5
(2) A.2	4.5
(3) B.1	6.0
(4) B.2	1.7
(5) B.3	0.8
(6) B.4	6.2
(7) B.5	1.6
(8) B.6	1.3
(9) B.7	0.5
(10) B.8	1.4
(11) B.9	4.7
(12) C.1	2.3

- (13) C.2 2.0
- (14) C.3 0.7

Part B: General Implementation of the Project

1. Without limitation on the reporting requirements of Section 9.06 of the General Conditions, CAS and NEPA shall: (a) provide to the Association semiannual reports on the progress of carrying out the Project; (b) conduct annual reviews of the progress of implementing the Project; and (c) shall conduct such reviews in conjunction with the Association every other year.

2. (a) All training under the project shall be carried out in accordance with training plans satisfactory to the Association, including the requirement that all personnel that participate in overseas training shall report on the lessons learned during such overseas training in a manner and in a format that would permit dissemination of such lessons learned in domestic training.

(b) CAS and NEPA shall carry out a review of all training programs by September 30, 1994 for purposes of identifying new needs for training and making such revisions to training programs as shall be acceptable to the Association.

3. CAS and NEPA shall provide to the Association by November 30, 1993, revisions, acceptable to the Association, to the Project Plan Documents as requested by the Association.

Part C: NEPA Implementation of Parts B.8, B.9, C.1 and C.2 of the Project

1. NEPA shall:

(a) by December 31, 1993, provide to the Association a description of studies that have been pre-identified by the Association and NEPA under Parts B.8 and B.9 of the Project (including associated technical assistance, training and equipment), and terms of reference for such studies, satisfactory to the Association; and

(b) carry out such studies in accordance with such terms of reference.

2. NEPA shall carry out Parts B.9, C.1 and C.2 of the Project in accordance with the criteria and procedures specified below:

(a) The purpose and scope of each proposal (TA Proposal) for technical assistance (TA) to carry out such Parts of the Project, the method of implementation thereof, and the specific allocation thereto of proceeds of the Credit shall be determined by agreement between NEPA and the Association.

(b) Each TA Proposal shall be of high priority in the Borrower's environmental efforts and shall have no equally suitable financing available from the United Nations Development Programme or other external financing agencies.

(c) NEPA shall submit, for the Association's approval, each TA Proposal in a form satisfactory to the Association. The said proposal shall include the following information:

(i) a description of the proposed TA, including a time schedule for, the purposes and objectives of, and the benefits expected from such TA;

(ii) a description of the role of Implementing Agency for the purpose of execution of the proposed study and counterpart staff, if any, to be supplied by the Implementing Agency;

(iii) a description of the expenditures proposed to be financed out of the proceeds of the Credit including an estimate of foreign and local costs of the proposed TA broken down by major items

and showing amounts to be financed by NEPA or an _____ Implementing Agency and out of the proceeds of the Credit, respectively, and an estimated disbursement schedule;

(iv) the manner and form in which the allocated part of the proceeds of the Credit is _____ proposed to be made available to the designated Implementing Agency, including the _____ terms and conditions thereof;

(v) a general description of the arrangements to be made by the Implementing Agency _____ responsible for the execution of the proposed TA for the provision of office space, _____ secretarial facilities, transportation and other operational facilities required for the proposed TA to proceed efficiently;

(vi) the proposed selection procedures, qualifications, terms of reference and duration _____ of service for the consultants to be engaged for the purposes of the proposed TA;

(vii) measures to be taken to comply with paragraph 4(a) below; and

(d) such other information as the Association may reasonably request.

(e) NEPA shall, upon approval of a TA Proposal by the Association, forthwith make the allocated part of the proceeds of the Credit available to the designated Implementing Agency in a manner and form and on the terms and conditions acceptable to the Association.

3. NEPA shall coordinate the carrying out of all TA under Parts B.9, C.1 and C.2 of the Project among the Implementing Agencies and shall monitor the progress thereof in accordance with guidelines _____ satisfactory to the Association.

4. (a) NEPA shall take or cause to be taken all reasonable measures to facilitate the work of consultants in the performance of their services for each TA Proposal approved and make available to them all information relevant thereto.

(b) NEPA shall not permit the amendment or waiver of any material terms and conditions of employment of consultants employed for carrying out any TA, or the grant of any material extension of time specified for the carrying out of any TA, or the grant of any material extension of time or any approval of subcontracts or modifications thereof, or the agreement to substitute personnel of such consultants, without the prior consent of the Association. NEPA shall promptly inform the Association if it proposes to suspend payments under or terminate any contract with such consultants.

(c) NEPA shall furnish to the Borrower and the Association copies of the documents prepared by the consultants engaged for any TA, including reports and drafts thereof, in such number as the Borrower or Association shall reasonably request.

(d) NEPA shall establish arrangements and procedures, satisfactory to the Borrower and the Association, for supervising and directing the work of any consultants employed for any TA and reviewing the reports and recommendations of such consultants with the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) Category 1 for the CAS Special Account; and (ii) Categories 2 and 3 for the NEPA Special Account, all 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 Part A of the Project, in respect of the CAS Special Account, and for Parts B and C of the Project, in respect of the NEPA Special Account, 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: (i) \$2,000,000 for the CAS Special Account, and (ii) \$3,000,000 for the NEPA Special Account, all 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 Accounts 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish said 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 said Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of said Special Account, the Borrower shall furnish to the Association requests for deposits into said 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 said 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 said 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 a 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 a 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 of the respective Parts of the Project, shall equal the equivalent of twice the amount of the respective Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Parts of the Project 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 said 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 a 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 said 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 said 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 a 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 into a 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.

SCHEDULE 6

Procedures and Terms and Conditions for Subloans under Part B.4 of the Project

Part A: Terms and Conditions of Subloans

NEPA shall make a portion of the proceeds available to Subborrowers, through FI as its financial agent for purposes of financing IDP Subprojects under Part B.4 of the Project, under the following principal terms and conditions:

1. Subloans shall bear interest on the principal amount withdrawn and outstanding from time to time, at a fixed rate of seven percent per annum.
2. The repayment periods for Subloans shall not exceed 10 years, including up to 3 years of grace.
3. Each Implementing Agency shall bear the foreign exchange risk associated with its Subloan.
4. Criteria for economic appraisal of proposed IDP Subprojects shall include, inter alia, determination that the pollution reduction option selected for an IDP Subproject is the most cost-effective of at least three feasible options, that the closure of the Subborrower is not the most economic solution and that based on economic analysis, the Subborrower has a positive net present value.
5. Criteria for financial appraisal shall include a determination that the Subborrower is financially viable, as measured by a debt service ratio coverage of no less than 1.4 times after the IDP Subproject is completed and has reached full production capacity.
6. Criteria for technical appraisal shall include an assessment of the impact of the proposed IDP Subproject on pollution prevention and reduction in accordance with cleaner production pollution prevention audit procedures, acceptable to the Association, and compliance with national and local environmental regulations.

7. FI shall not disburse funds for any Subloan unless the Subborrower has:

(i) completed an environmental impact assessment report for the IDP Subproject which has been approved by the responsible environmental protection bureau;

(ii) obtained a wastewater discharge permit for existing operations; and

(iii) obtained a temporary wastewater discharge permit for new operations for the relevant IDP Subproject.

8. Eligible IDP Subprojects shall be for activities which shall have been approved by the Association which will demonstrate, on a pilot basis, new methods and technology to abate pollution caused by industries.

9. The maximum amount of a Subloan shall be \$1,000,000 equivalent. Each Subloan shall finance up to 50% of total IDP Subproject costs or 100% of foreign exchange costs, whichever is greater.

Part B: Implementation Arrangements

NEPA shall enter into a financial agency agreement with an FI, acceptable to the Association, on terms and conditions satisfactory to the Association, under which the FI shall act as financial agent for NEPA in carrying out Part B.4 of the Project and shall be responsible for financial and economic appraisal of IDP Subprojects and disbursement and collection of repayments under Subloans.

Part C: Procedures for Processing Subloans

1. NEPA shall apply, and shall cause FI to apply, the following procedures for processing Subloans:

(a) Prior to appraisal of proposed IDP Subprojects, NEPA shall furnish to the Association for its approval a statement of the eligibility of the IDP Subproject, including a quantification of the environmental impact and a completed cleaner production pollution audit.

(b) After detailed appraisal of proposed IDP Subprojects, NEPA shall furnish to the Association for its approval a full appraisal report, including the financial and economic appraisal carried out by FI. FI shall make a Subloan for an IDP Subproject only after the Association shall have given its approval of the IDP Subproject.

(c) For all IDP Subprojects, NEPA shall furnish to the Association all such information as it shall reasonably request concerning IDP Subprojects, Implementing Agencies and Subloans.

(d) No expenditures for goods or services required for an IDP Subproject shall be eligible for financing out of the proceeds of the Credit unless the Association shall have given its approval or authorization as required under paragraph (b) above and such expenditures shall have been made not earlier than ninety days prior to the date on which the Association received the appraisal reports or IDP Subproject summary under said paragraph (b).

2. Subloans shall be made on terms whereby NEPA and FI shall obtain, by written contract with the Subborrower or by other appropriate legal means, rights adequate to protect the interests of the Association, NEPA and FI, including the right to:

(a) require the Subborrower to carry out and operate the IDP Subproject with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule

3 to this Agreement and (ii) such goods and services shall be used exclusively in the carrying out of the IDP Subproject;

(c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods and the sites, plants and construction included in the IDP Subproject, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Subborrower shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Subborrower to replace or repair such goods;

(e) obtain all such information as the Association or NEPA shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Implementing Agency and to the benefits to be derived from the IDP Subproject; and

(f) suspend or terminate the right of the Subborrower to the use of the proceeds of the Credit upon failure by such Subborrower to perform its obligations under its contract with NEPA.

