

CONFORMED COPY

CREDIT NUMBER 3271 CHA

Development Credit Agreement

(Enterprise Reform Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 30, 1999

CREDIT NUMBER 3271 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 30, 1999, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and the 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 (as amended through December 2, 1997), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Paragraph (c) of Section 9.06 of the General Conditions is modified to

read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

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 wherever used in this Agreement:

(a) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) "Changsha" means Changsha Municipality of Borrower's Hunan Province, and any successor thereto.

(c) "Project Cities" means, collectively, Changsha, Shenyang, Wuhan and Wuhu; and "Project City" means, individually, any of the Project Cities.

(d) "Project Implementation Arrangement" means, in respect of each Project City, the arrangement to be entered into between the Borrower and said Project City in accordance with the provisions of Section 3.01(b) of this Agreement, as said arrangement may be amended from time to time, and such term includes all schedules and agreements or arrangements supplemental to the Project Implementation Arrangement; and "Project Implementation Arrangements" means, collectively, all of said arrangements.

(e) "Respective Part of the Project" means, in respect of each Project City, the activities to be carried out by said Project City under the Project.

(f) "Shenyang" means Shenyang Municipality of the Borrower's Liaoning Province, and any successor thereto.

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

(h) "Wuhan" means Wuhan Municipality of the Borrower's Hubei Province, and any successor thereto.

(i) "Wuhu" means Wuhu Municipality of the Borrower's Anhui Province, and any successor thereto.

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 three million seven hundred thousand Special Drawing Rights (SDR 3,700,000).

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 may, for the purposes of the Project, open and maintain in Dollars the following four special deposit accounts, each in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association: (i) one such account for the purposes of Changsha's Respective Part of the Project (the Changsha Special Account); (ii) one such account for the purposes of

Shenyang's Respective Part of the Project (the Shenyang Special Account); (iii) one such account for the purposes of Wuhan's Respective Part of the Project (the Wuhan Special Account); and (iv) one such account for the purposes of Wuhu's Respective Part of the Project (the Wuhu Special Account). Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002, 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and 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 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), (c) and (d) 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, 2009 and ending June 1, 2034. Each installment to and including the installment payable on June 1, 2019 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Development Credit Agreement, shall cause the Project Cities to carry out their Respective Parts of the Project, with due diligence and efficiency and in conformity with appropriate administrative, economic, and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make available to each Project City through its respective province a portion of the proceeds of the Credit under a Project Implementation Arrangement to be entered into between the Borrower and said Project City under terms and conditions which shall have been approved by the Association and which are set forth in Schedule 5 to this Agreement.

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

Section 3.03. The Borrower shall:

(a) (i) cause each Project City to perform, in accordance with the provisions of the Project Implementation Arrangement to which it is a party, all of its obligations therein set forth; (ii) take or cause to be taken all action necessary or appropriate to enable said Project City to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) exercise its rights under each of the Project Implementation Arrangements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any of the Project Implementation Arrangements or any provision thereof.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan, consolidating the plans prepared by the Project Cities and furnished to the Borrower pursuant to each Project City's respective Project Implementation Arrangement and paragraph B.6 of Schedule 5 to this Agreement, designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.05. The Borrower shall prepare, under terms of reference acceptable to the Association, and furnish to the Association:

(a) semi-annual reports, not later than March 15 and September 15 in each

year, beginning March 15, 2000, consolidating the reports prepared by the Project Cities and furnished to the Borrower pursuant to each Project City's respective Project Implementation Arrangement and paragraph B.5(b)(i) of Schedule 5 to this Agreement; and

(b) a mid-term report, not later than September 15, 2000, consolidating the reports prepared by the Project Cities and furnished to the Borrower pursuant to each Project City's Project Implementation Arrangement and paragraph B.5(b)(ii) of Schedule 5 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause each of the Project Cities to maintain 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 said Project City responsible for carrying out the Project or any part thereof.

(b) The Borrower shall cause each of the Project Cities to:

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

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

(c) The Borrower shall or shall cause the respective province of each Project City to:

(i) have the records and accounts for the Special Account for its respective Project City 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 (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this 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 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.

ARTICLE V

Remedies of the Association

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

(a) Any party to any of the Project Implementation Arrangements shall have failed to perform its obligations thereunder.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that any party to any of the Project Implementation Arrangements will be able to perform its obligations thereunder.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that any event specified in paragraph (a) 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 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 a Project Implementation Arrangement has been executed on behalf of the Borrower and each Project City.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Project Implementation Arrangement between the Borrower and each Project City has been duly authorized or ratified by the Borrower and said Project City and is legally binding upon the Borrower and said Project City in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820

People's Republic of China

Cable address:

FINANMIN

Telex:

Beijing 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 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Guangyao

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yukon Huang

Authorized Representative

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) Changsha's Respective Part of the Project		100%
(a) Consultants' services	760,000	
(b) Training	90,000	
(2) Shenyang's Respective Part of the Project		100%
(a) Consultants' services	850,000	
(b) Training	300,000	
(3) Wuhan's Respective Part of the Project		100%

(a) Consultants' services	190,000	
(b) Training	590,000	
(4) Wuhu's Respective Part of the Project		100%
(a) Consultants' services	540,000	
(b) Training	380,000	
TOTAL	3,700,000	

2. 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 exceeding the equivalent of SDR 370,000 may be made on account of payments made for expenditures before that date but after May 1, 1999.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for:

(a) training, regardless of the cost thereof;

(b) consultants' services under contracts awarded to firms costing less than \$100,000 equivalent each, other than the first three (3) contracts awarded to a firm in Shenyang and the first five (5) contracts awarded to a firm in each of Changsha, Wuhan and Wuhu; and

(c) consultants' services under contracts awarded to individuals costing less than \$50,000 equivalent each, other than the first three (3) contracts awarded to an individual in Shenyang and the first five (5) contracts awarded to an individual in each of Changsha, Wuhan and Wuhu; in each case under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to learn from innovative methods for the reform of the Borrower's state owned enterprise sector through: (i) adaptation of potential improvements in enterprise reform methods to local circumstances, (ii) implementation of such improvements on a pilot basis; and (iii) dissemination of lessons learned.

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: Restructuring of Large and Medium Enterprises

1. Carrying out in the Project Cities of diagnostic assessments and pilot restructuring of selected large and medium state owned enterprises through methods adapted to local circumstances.

2. Strengthening of municipal enterprise reform strategies in the Project Cities to facilitate enterprise restructuring to improve enterprise governance.

Part B: Management Development

1. Carrying out of training programs in enterprise management and restructuring in the Project Cities for enterprise managers and municipal officials.

2. Development of policies, institutions and materials for the provision of distance training to enterprise managers and municipal officials in enterprise management and restructuring.

3. Carrying out of pilot programs for the recruitment, selection, development and motivation of enterprise executives.

Part C: Re-training and Re-employment

1. Design of information systems, including software development, to connect labor sources, employers and re-training centers in the Project Cities.
2. Strengthening of re-training and re-employment strategies in the Project Cities to facilitate re-employment in existing enterprises and enterprise creation by laid-off workers.
3. Carrying out of a training program for trainers in re-training programs, development of training materials, and provision of training to laid-off workers in basic entrepreneurial business skills.

Part D: Development of Private Small and Medium Enterprises

1. Development of recommendations for policy reforms in the Project Cities to facilitate the formation and operation of private small and medium enterprises.
2. Development and implementation in the Project Cities of policies, methods and processes, for the support of state owned small and medium enterprise ownership transformation.
3. Development of advisory mechanisms, training materials and model documents for ownership transformation and operation of small and medium enterprises.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Procurement Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and in January 1999, and the following provisions of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Schedule, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants Qualifications

Services which are estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual

consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more and, regardless of the cost thereof, the first three (3) contracts for the employment of a consulting firm for Shenyang and the first five (5) contracts for the employment of a consulting firm for each of Changsha, Wuhan and Wuhu, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more and, regardless of the cost thereof, the first three (3) contracts for the employment of an individual consultant for Shenyang and the first five (5) contracts for the employment of an individual consultant for each of Changsha, Wuhan and Wuhu, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in respect of the Changsha Special Account, Category (1); (ii) in respect of the Shenyang Special Account, Category (2); (iii) in respect of the Wuhan Special Account, Category (3); and (iv) in respect of the Wuhu Special Account, Category (4);

(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: (i) in respect of the Changsha Special Account, an amount equivalent to \$115,000; (ii) in respect of the Shenyang Special Account, an amount equivalent to \$155,000; (iii) in respect of the Wuhan Special Account, an amount equivalent to \$105,000; and (iv) in respect of the Wuhu Special Account, an amount equivalent to \$125,000; in each case to be withdrawn from the Credit Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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

respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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;

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for that Special Account 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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 5

Project Implementation Arrangements

The provisions of this Schedule shall apply for the purposes of Section 3.01(b) of this Agreement.

A. Terms of each Project City's Credit Amount

1. The principal amount of the proceeds of the Credit to be made available to a Project City through its respective province under the Project Implementation Arrangement to which it is a party shall be the equivalent in terms of SDR (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn on account of the cost of goods and services required for said Project City's Respective Part of the Project and to be financed out of the proceeds of the Credit (the Credit Amount).

2. Each Project City's Credit Amount shall be recovered by the Borrower from such Project City through its respective province in semi-annual installments over a period of seventeen (17) years, including five (5) years of grace.

3. A service charge shall be charged on each Project City's Credit Amount withdrawn and outstanding from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

4. A commitment charge shall be charged on the principal amount of the Credit made available to each Project City and not withdrawn from time to time at a rate equal to one-half of one percent (1/2 of 1%) per annum.

B. Conditions of Availability of each Project City's Credit Amount

The Borrower shall make each Project City's Credit Amount available pursuant to a Project Implementation Arrangement, which shall include the following terms and conditions:

1. Project Management. Each Project City shall maintain throughout the period of Project implementation, a project management office established with terms of reference and budgetary resources acceptable to the Association and with competent staff in adequate numbers.

2. Project Implementation. Each Project City shall:

(a) prepare and furnish to the Association no later than October 15 in each year, commencing October 15, 1999, for the Association's review and approval, an annual implementation program for its Respective Part of the Project;

(b) thereafter carry out its Respective Part of the Project in accordance with said work plan as so approved and with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and technical practices, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project; and

(c) promptly inform the Association of any condition which interferes or threatens to interfere with the progress of its Respective Part of the Project, the accomplishment of the purposes of the Credit, or the performance by said Project City of its obligations under the Project Implementation Arrangement to which it is a party.

3. Procurement. Except as the Association shall otherwise agree, each Project City shall ensure that procurement of the consultants' services required for its Respective Part of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

4. Financial Covenants. Each Project City shall:

(a) maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the carrying out of its Respective Part of the Project;

(b) have its records and accounts, including the records and accounts for its respective Special Account, for each year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(c) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested;

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

(e) for all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, (i) maintain, in accordance with subparagraph (a) of this paragraph, 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 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 subparagraph (a) of this paragraph and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures 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.

5. Monitoring and Reporting. Each Project City shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the carrying out of its Respective Part of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference acceptable to the Association, and furnish to the Borrower for consolidation and forwarding to the Association in accordance with Section 3.05 of the Development Credit Agreement:

(i) semi-annual reports, not later than March 15 and September 15 in

each year, beginning March 15, 2000, summarizing the monitoring and evaluation activities performed by it pursuant to subparagraph (a) of this paragraph in respect of the preceding calendar semester and setting forth the physical and financial progress in the implementation of its Respective Part of the Project, both cumulatively, and in respect of the said preceding calendar semester;

(ii) a mid-term report, not later than September 15, 2000, integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of its Respective Part of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the period following such date; and

(c) promptly review with the Association the reports referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of its Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter.

6. Project Completion. Each Project City shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Borrower not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Association and such Project City, for consolidation and forwarding to the Association pursuant to Section 3.04 of the Development Credit Agreement, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with said Project City on said plan.

