

CONFORMED COPY

CREDIT NUMBER 2710 CHA

Development Credit Agreement

(Yangtze Basin Water Resources Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 18, 1995

CREDIT NUMBER 2710 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 18, 1995 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 Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and, by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to one hundred million dollars (\$100,000,000) (the Loan);

(C) Parts A, B, C, D and E of the Project will be carried out by Hubei Province (as herein defined) and Hunan Province as herein defined (both Hubei Province and Hunan Province hereinafter collectively referred to as the Project Provinces) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Project Provinces a portion of the proceeds of the Loan and a portion of the proceeds of the Credit as provided in this Agreement;

(D) Part F of the Project will be carried out by Lishui Hydro and Power Corporation (hereinafter called LHPC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to LHPC, through Hunan Province, a portion of the proceeds of the Loan and a portion of the proceeds of the Credit as hereinafter provided;

(E) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreements (as hereinafter defined);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein

set forth and the following additional terms have the following meanings:

(a) "Affected Person" and "Affected Persons" means individually the person and collectively the persons whose right title or interest in any property is acquired or is intended to be acquired or whose property is otherwise possessed or intended to be possessed and who as a result thereof has been or would be displaced or dispossessed from his/their habitat or land or precluded from carrying out his/their business, occupation or work or dispossessed of any portion of his/their property on account of the execution of Part F.1 of the Project.

(b) "Hubei Special Account" and "Hunan Special Account" mean the accounts referred to in Section 2.02(b) of this Agreement.

(c) "Charter of LHPC" means the Charter of the Lishui Hydro and Power Corporation, as approved by MWR in February 1993.

(d) "Environmental Management and Monitoring Plan" means the environmental management and monitoring plan related to the Project approved by and dated September, 1994 as the same may be supplemented and amended from time to time with the approval of the Association.

(e) "Ha" means hectare.

(f) "Hubei Province" means the Hubei Province, a political subdivision of the Borrower, or any successor thereto.

(g) "Hunan Province" means the Hunan Province, a political subdivision of the Borrower, or any successor thereto.

(h) "LHPC" means the Lishui Hydro and Power Corporation, an enterprise incorporated, existing and operating under the laws of the Borrower.

(i) "LHPC Project Agreement" means the agreement to be among the Association, the Bank and LHPC, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the LHPC Project Agreement.

(j) "LHPC Subsidiary Loan Agreement" means the agreement to be entered into between Hunan Province and LHPC pursuant to Section 2.02(a) of the Provinces Project Agreement, and such term includes all schedules to the LHPC Subsidiary Loan Agreement.

(k) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time. and such term includes the "General Conditions Applicable to the Loan and

Guarantee Agreements" of the Bank dated January 1, 1985, as applied to said agreement, and all schedules and agreements supplemental to the Loan Agreement.

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

(m) "Project Provinces" means Hubei Province and Hunan Province.

(n) "Project Agreements" means the Provinces Project Agreement and the LHPC Project Agreement collectively, and "Project Agreement" means either of the Provinces Project Agreement or the LHPC Project Agreement.

(o) "Project Leading Group" or "Project Leading Groups" means the project leading group or project leading groups referred to in Part E.1(a) of Schedule 2 to the Provinces Project Agreement.

(p) "Provinces Project Agreement" means the agreement among the Association, the Bank and Hubei Province and Hunan Province, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Provinces Project Agreement.

(q) "Provincial PMOs" means the provincial project management offices referred to in Part E.1(b) of Schedule 2 to the Provinces Project Agreement.

(r) "Resettlement Plan" means the plan for the resettlement and rehabilitation of approximately 12,600 people in connection with the construction of the Jiangya Dam under Part F.1 of the Project, as described in the Environmental Management and Monitoring Plan, as said resettlement plan may be supplemented and amended from time to time with the approval of the Association.

(s) "Special Accounts" means the Hubei Special Account and the Hunan Special Account, collectively, and "Special Account" means either of the Special Accounts.

(t) "WSCs" and "WUAs" mean, respectively, the water supply corporations and the water user associations to be established by the Project Provinces in accordance with Part A of Schedule 2 to the Provinces Project Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy four million eight hundred thousand Special Drawing Rights (SDR 74,800,000).

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 may, for the purposes of the Project, open and maintain in dollars two special deposit accounts, for Parts A, B and C and Parts D, E and F respectively, in a bank and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment, to be known as the Hubei Special Account and the Hunan Special Account respectively. Deposits into, and payments out of the Special Accounts shall be made in accordance with the provisions of Schedule 4 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 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 per cent (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 January 15 and July 15 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 January 15 and July 15 commencing July 15, 2005 and ending January 15, 2030. Each installment to and including the installment payable on January 15, 2015 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, and without limitation or restriction upon any of its other obligations under the Development

Credit Agreement, the Borrower shall (A) cause each of the Project Provinces to perform all their respective obligations set forth in the Provinces Project Agreement; (B) cause LHPC to perform all its obligations under the LHPC Project Agreement; (C) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces and LHPC to perform such obligations; and (D) not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

(a) by December 31 of each year, commencing in 1995, furnish to the Association, for its review and comments, proposed work plans and annual budgets for the implementation of the Project for the following fiscal year; and thereafter implement such plans and budgets taking into account the comments thereon by the Association;

(b) take all such measures as are necessary to enable LHPC to charge, collect and adjust the power tariffs pursuant to Section 4.02 (a) of the LHPC Project Agreement;

(c) periodically inspect, and cause independent experts to inspect, under arrangements satisfactory to the Association, the dam and related structures constructed under Part F.1 of the Project, and the dams and related structures to be repaired under Part A.1 of the Project, 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. To this end, the Borrower shall provide to the Association for the Association's review and comments a plan for said arrangements no later than one year before the completion of the dam and related structures constructed or repaired under Part F.1 and A.1 of the Project;

(d) take all steps necessary to ensure that LHPC and the Project Provinces carry out their respective parts of the Environmental Management and Monitoring Plan and the Resettlement Plan; and

(e) not later than December 31, 1997, carry out a midterm review with the Association, the Project Provinces and LHPC of the progress of and prospects for Project implementation.

Section 3.03. The Borrower shall relend the proceeds of the Credit to Hubei Province and to Hunan Province respectively, in amounts corresponding to amounts withdrawn from the Credit Account on account of expenditures under Parts A, B and C and Parts D, E and F of the Project, respectively, on the following principal terms and conditions:

(i) repayment within twenty (20) years, including five (5) years' of grace;

(ii) interest to be paid on the amounts withdrawn from time to time at a rate of four (4%) percent per annum;

(iii) commitment fee to be paid on the unwithdrawn amount from time to time at the rate of 0.5%; and

(iv) the foreign exchange risk shall be borne by the respective Project Provinces.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, 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 after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

ARTICLE IV

Financial 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 records and accounts reflecting expenditures for which payments are made out of the Special Accounts.

(b) The Borrower shall:

(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 months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

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

Section 4.02. For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

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

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) Hubei Province, Hunan Province or LHPC shall have failed to perform any of its obligations under its respective Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Hubei Province, Hunan Province or LHPC will be able to perform its obligations under its respective Project Agreement.

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

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

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

(a) The event specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) Any event specified in paragraph (d) of Section 5.01 of this Agreement shall occur.

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 LHPC Subsidiary Loan Agreement has been executed on behalf of Hunan Province and LHPC; and

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

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that (i) the Provinces Project Agreement has been duly authorized or ratified by the Project Provinces, and is legally binding upon the Project Provinces in accordance with its terms; (ii) that the LHPC Project Agreement has been duly authorized or ratified by LHPC and is legally binding on LHPC in accordance with its terms; and (iii) that the LHPC Subsidiary Loan Agreement has been duly authorized by Hunan and LHPC and is legally binding upon Hunan and LHPC 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.

Section 6.04. The obligations of the Borrower under the Article IV of this Agreement and the provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

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:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhou Wenzhong

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Nicholas C. Hope

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit and of the Loan, the allocation of the amounts of the Credit and of the Loan 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) | Amount of the Loan Allocated (Expressed in Dollar Equivalent) | % of Expen- ditures to be Financed |
|--|---|--|--|
| Hubei: Parts A, B and C of the Project | | | |
| (1) Works | 10,700,000 | 12,500,000 | 40% |

| | | | | |
|-------------------------------------|--|------------|------------|---|
| (2) | Goods (excluding locally procured fertilizers and commodities under Part B of the Project) | 15,750,000 | 19,000,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |
| (3) | Consultants' services, training, study tours, research and studies | 2,150,000 | 2,500,000 | 100% |
| (4) | Unallocated | - | 4,000,000 | |
| Hunan: Parts D and E of the Project | | | | |
| (5) | Works | 6,800,000 | 8,500,000 | 30% |
| (6) | Goods | 4,100,000 | 5,100,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |
| (7) | Consultants' services, training, study tours, research and studies | 1,200,000 | 1,600,000 | 100% |
| LHPC: Part F of the Project | | | | |
| (8) | Works | | | |
| | (a) Jiangya Main Dam | 15,200,000 | 19,000,000 | 75% |
| | (b) Other Works | 2,800,000 | 3,500,000 | 50% |
| (9) | Goods | 13,200,000 | 16,500,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |
| (10) | Consultants' services, training, study tours, research and studies | 2,900,000 | 3,600,000 | 100% |

Parts D, E and F of the Project

| | | |
|------------------|------------|-------------|
| (11) Unallocated | - | 4,200,000 |
| Total | 74,800,000 | 100,000,000 |

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 exceeding the equivalent of (a) SDR 5,440,000, may be made in respect of categories (1) through (3) and (b) SDR 8,830,000 may be made in respect of categories (5) through (10); in each on account of payments made for expenditures before that date but after August 18, 1994.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures: (i) for goods under contracts not exceeding \$300,000 equivalent; (ii) for works under contracts not exceeding \$2,000,000 equivalent; (iii) for consultants' services by firms, studies under contracts not exceeding \$100,000 equivalent; (iv) for individual consultants under contracts not exceeding \$50,000 equivalent; and (v) for training, 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 objectives of the Project are to assist the Borrower to: (i) raise agricultural production and incomes in Hubei Province, Hunan Province and the middle Yangtze River Basin; (ii) reduce the risk and impact of floods in said areas; (iii) strengthen operation and maintenance capabilities with respect to irrigation and draining schemes of Hubei and Hunan Provinces; and (iv) support institutional reform in the management of water resources in both provinces.

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:

I. Water Resources and Agricultural Development in Hubei Province

PART A: Irrigation and Drainage

1. Rehabilitating irrigation and drainage schemes in the concerned areas of Zhanghe, Dongfeng, Yindan and Wenxia through, inter alia:

(a) lining of canals, raising embankments, construction of retaining walls and culverts, and the repair or replacement of other canal structures;

(b) widening of irrigation and drainage ditches and levelling land;

(c) repairing or replacing of other irrigation and drainage structures, including aqueducts, tunnels, sluices, culverts and farm bridges;

(d) rehabilitation of selected dams and reservoirs;

(e) strengthening of flood discharge systems; and

(f) strengthening of operations and maintenance capabilities through the installation of water monitoring and measurement systems.

2. Improving flood control and drainage facilities in the Sihui command area through, inter alia:

- (a) upgrading of dikes;
- (b) increasing of the discharge and flood handling capacity of the Tiangnan River through dredging operations, strengthening, embankments, upgrading sluices, installing pump stations and lining sections of the river bank;
- (c) installation of drainage pumps; and
- (d) construction of new local drainage networks and improvement of low yield water-logged land.

Part B: Aquaculture, Forestry, Grassland Development and Soil Improvement

1. Improving about 17 small lakes and reservoirs covering approximately 12,000 ha and farm ponds covering approximately 900 ha, through, inter alia:

- (a) strengthening and raising of embankments, constructing new dikes, installing fish screens, and constructing bridges and farm management and storage facilities;
- (b) increasing of stocking of fish, turtle and crab seed and the supply of feed and fertilizer input;
- (c) upgrading and construction of production ponds; and
- (d) construction of hatcheries.

2. Planting forests in watershed areas along the Yangtze and Han rivers covering approximately 16,720 ha and strengthening forestry training capabilities.

3. Improving approximately 19,525 ha of grasslands for cattle fattening and upgrading livestock feeding capabilities through constructing silage and storage facilities, wells and access tracks.

4. Developing fertilizer supply capacity through: (a) the construction of six fertilizer blending plants, fertilizer supply stations and fertilizer storage facilities; and (b) the upgrading of institutional facilities and capabilities for research and training.

Part C: Institutional Strengthening in Water Resources Management

1. Strengthening the institutional capacity of Hubei Province to manage water resources, including design, research and training capabilities at the provincial and subprovincial level.

2. Establishing, on a pilot basis, self-financing irrigation and drainage districts through the creation of WSCs for the operation and maintenance of reservoirs and main and branch canals, and WUAs for the operation and maintenance of lower level irrigation schemes and as purchasers of water from WSCs.

II. Water Resources in Hunan Province

Part D: Irrigation and Drainage

1. Constructing irrigation systems in Tieshan and Liuduzhai command areas covering approximately 50,000 ha, including:

- (a) constructing canals and related structures, including tunnels, aqueducts, culverts, gates, laterals and sub-laterals;
- (b) constructing a storage reservoir and an approximately 6 km conveyor canal for Yueyang City;

(c) installing a pump station and minor power station in the Linduzhai irrigation command area; and

(d) strengthening operations and maintenance capabilities through the installation of water monitoring and measurement systems.

2. Strengthening research, design and management capabilities with respect to the Dongting Lake drainage area.

Part E: Institutional Strengthening Water Resources Management

1. Strengthening the institutional capacity of Hunan Province to manage water resources, including upgrading project planning and preparation capabilities and training capabilities.

2. Establishing, on a pilot basis, self-financing irrigation and drainage districts through the creation of WSCs for the operation and maintenance of reservoirs and main and branch canals, and WUAs for the operation and maintenance of lower level irrigation schemes and as purchasers of water from WSCs.

Part F: Flood Control, Power Generation and Institutional Strengthening in the Lishui River Basin

1. Constructing the Jiangya Multipurpose Dam on the Loushui River in the Lishui River Basin using roller compacted concrete technology.

2. Strengthening the institutional capabilities of LHPC to manage the development of the Lishui River Basin, including its management information and water resource information systems.

3. Resettlement and rehabilitation of Affected Persons.

* * *

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

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means for the Hubei Special Account, Categories (1), (2) and (3); and for the Hunan Special Account, Categories (5), (6), (7), (8), (9) and (10); all as set forth in the table in paragraph 1 of Schedule 1 to the Development Credit 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Development Credit Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to (i) for the Hubei Special Account, \$6,000,000; and (ii) for the Hunan Special Account, \$9,000,000; all to be withdrawn from the Credit Account or the Loan Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation with respect to (i) the Hubei Special Account and (ii) the Hunan Special Account, shall be limited to an amount equivalent to \$4,000,000 and \$6,000,000 respectively, until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of SDR 30,000,000.

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 the 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 deposit into said 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 or the Loan Account and deposit in 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 or the Loan 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 or the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of 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 the Development Credit Agreement or from the Loan Account in accordance with the provisions of Section 2.02 of the Loan Agreement and Article V of the General Conditions applicable thereto;

(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, or to the Bank pursuant to Section 3.01 of the Loan Agreement, in respect of the audit of the records and accounts for said Special Account;

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

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories for said Special Account, minus the amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the respective 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 and the Loan Account of the remaining

unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories for said 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 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 or the Bank) 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 or the Bank such outstanding amount.

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

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

