

CONFORMED COPY

CREDIT NUMBER 3222 CHA

Development Credit Agreement

(Second Loess Plateau Watershed Rehabilitation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 17, 1999

CREDIT NUMBER 3222 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 17, 1999, 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 equal to one hundred million Dollars (\$100,000,000) (the Loan);

(C) 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;

(D) the Project Provinces (as defined in Section 1.02 (n) of this Agreement) will carry out the Project and, as part of such assistance, the Borrower will make available to the Project Provinces the proceeds of the Credit as provided in this Agreement and the proceeds of the Loan as provided in the Loan Agreement; 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 Agreement of even date herewith among the Association, the Bank and the Project Provinces;

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 modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "CPMO" means the central project management office referred to in Section 3.04 of this Agreement.

(c) "Environmental Monitoring and Management Plan" means the environmental monitoring and management plan for the Project, included in the Environmental Impact Assessment for the Project dated August 1998, prepared by the Water Environment Assessment and Research Center and the Reconnaissance, Planning, Design and Research Institute of Yellow River Conservancy Commission of MWR, as the same may be amended and supplemented from time to time with the concurrence of the Association.

(d) "Gansu" means the Borrower's Province of Gansu, and any successor thereto.

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

(f) "Inner Mongolia" means the Borrower's Autonomous Region of Inner Mongolia, and any successor thereto.

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

(h) "Large Dam" means any dam which is 10 meters or more in height, or which has a reservoir whose gross storage volume is 2,500,000 cubic meters or more, or which

presents special design complexities, and which serves investments under the Project, together with said dam's associated structures.

(i) "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 Loan and Guarantee Agreements" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(j) "Loess Plateau" means a portion of the Borrower's territory covering approximately 640,000 square kilometers in the upper and middle parts of the drainage basin of the Yellow River.

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

(l) "PMOs" means the project management offices maintained by the Project Provinces pursuant to paragraph A.1(b) of Schedule 2 to the Project Agreement.

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

(n) "Project Provinces" means, collectively, Gansu, Inner Mongolia, Shaanxi and Shanxi, and "Project Province" means any of the Project Provinces.

(o) "Respective Part of the Project" means, in respect of each Project Province, the Project activities to be carried out in said Project Province.

(p) "Shaanxi" means the Borrower's Province of Shaanxi, and any successor thereto.

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

(r) "Shanxi" means the Borrower's Province of Shanxi, and any successor thereto.

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

(t) "Special Accounts" means, collectively, the Gansu Special Account, the Inner Mongolia Special Account, the Shaanxi Special Account and the Shanxi Special Account; and "Special Account" means any of the Special Accounts.

(u) "UMRB" means the Upper and Middle Reach Bureau of YRCC, and any successor thereto.

(v) "YRCC" means Yellow River Conservancy Commission, a commission established within MWR to manage water resources and flood control along the Yellow River, 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 thirty-six million nine hundred thousand Special Drawing Rights (SDR36,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project 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 in a commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment: (i) one for Gansu's Respective Part of the Project; (ii) one for Inner Mongolia's Respective Part of the Project; (iii) one for Shaanxi's Respective Part of the Project; and (iv) one for Shanxi's Respective Part of the Project. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2004 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 February 15 and August 15 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 semiannual installments payable on each February 15 and August 15, commencing August 15, 2009, and ending February 15, 2034. Each installment to and including the installment payable on February 15, 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 the Development Credit Agreement, shall cause the Project Provinces to perform in accordance with the provisions of the Project Agreement all their respective obligations therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purpose of having each Project Province carry out its Respective Part of the Project, the Borrower shall make available to each Project Province part of the proceeds of the Credit on the following principal terms and conditions:

(i) the principal amount so made available to said Project Province shall be the equivalent in terms of Special Drawing Rights (determined as of the dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn on account of the cost of items required for said Project Province's Respective Part of the Project and to be financed out of the proceeds of the Credit (the Credit Amount), and shall be recovered by the Borrower in Dollars;

(ii) the Borrower shall recover the Credit Amount from said Project Province in semi-annual installments over a period of seventeen (17) years, including five (5) years of grace;

(iii) the Borrower shall charge a service charge on the 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; and

(iv) the Borrower shall charge a commitment charge on the principal amount of the Credit so made available and not withdrawn from time to time at a rate equal to one-half of one percent (1/2 of 1%) per annum.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by the Project Provinces pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall maintain a central project management office in UMRB, with functions and responsibilities acceptable to the Association, staffed by competent staff in adequate numbers, to provide technical oversight of the implementation of the Project, and to coordinate Project activities among the Project Provinces, including procurement and training activities.

Section 3.05. The Borrower shall:

(a) prepare, through CPMO, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than December 31 of each year for the Association's review, a work plan and budget for implementation of the Project during the following calendar year and a plan for implementation of training and study tours during the same period, summarizing the work plans, budgets and implementation plans furnished by the Project Provinces pursuant to Parts A.2(a) and A.3(b) of Schedule 2 to the Project Agreement, for said following calendar year, together with copies of said plans and budgets furnished by the Project Provinces; and

(b) thereafter, ensure the carrying out during said following calendar year, of such plans as shall have been approved by the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section, including those for the Special Accounts, 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, 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.

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 of the Project Provinces shall have failed to perform any of its respective obligations under the 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 any of the Project Provinces will be able to perform any of its respective obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01(a) of this Agreement shall occur and shall continue for a period of sixty (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 all conditions precedent to the effectiveness of the Loan Agreement, except only the effectiveness of the Development Credit Agreement, have been fulfilled.

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 Agreement has been duly authorized or ratified by each of the Project Provinces, and is legally binding upon each of the Project Provinces 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
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:

Telex:

Mongolia's
Respective Part of
the Project:

(a) Works under Part A.1(a) of the Project	4,130,000	4,900,000)	80%
(b) Works under Parts A.1(b) and A.2 of the Project	2,590,000	6,900,000)	60%
(c) Livestock	520,000	1,700,000)	80%
(d) Goods (other than livestock)	150,000	---)	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(e) Training, study tours and consultants' services	---	400,000)	100%
(3) Shaanxi's Respective Part of the Project:			
(a) Works under Part A.1(a) of the Project	5,380,000	12,600,000)	80%
(b) Works under Parts A.1(b) and A.2 of the Project	4,130,000	13,900,000)	60%
(c) Goods (other than livestock)	370,000	300,000)	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(d) Training, study tours and consultants' services	70,000	400,000)	100%
(4) Shanxi's Respective Part of the Project:			
(a) Works under Parts A.1(a) of the Project	6,780,000	14,700,000)	80%
(b) Works under Parts A.1(b) and A.2 of the	2,950,000	11,200,000)	60%

Project)	
(c) Goods (other than livestock)	150,000	---)	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(d) Training, study tours and consultants' services	70,000	300,000)	100%
(5) Fee	---	1,000,000)	Amount due under Section 2.04 of the Loan Agreement
TOTAL	36,900,000	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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods and services supplied from such region shall be deemed to be "foreign expenditures"; 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 SDR11,050,000, may be made on account of payments made for expenditures before that date but on or after September 30, 1998.

4. The Association may require withdrawals from the Credit Account, and the Bank may require withdrawals from the Loan Account, to be made on the basis of statements of expenditure for expenditures for: (a) works for Part A of the Project under contracts costing less than \$100,000 equivalent each (other than any of the contracts referred to in Part E.2(b)(iii) of Section I of Schedule 1 to the Project Agreement); (b) works for Part B of the Project under contracts costing less than \$250,000 equivalent each; (c) goods (other than livestock and vehicles) under contracts costing less than \$250,000 equivalent each; (d) livestock under contracts costing less than \$100,000 equivalent each; (e) services provided by consulting firms under contracts costing less than \$100,000 equivalent each; (f) services provided by individual consultants under contracts costing less than \$50,000 equivalent each; and (g) training and study tours, regardless of the cost thereof; all under such terms and conditions as the Association or the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in achieving sustainable development in the Loess Plateau by increasing agricultural production and farmers' incomes and improving ecological conditions in tributary watersheds of the Yellow River, through: (a) the introduction of more efficient and sustainable uses of land and water resources; and (b) the reduction of erosion and sediment flows into the Yellow River.

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: Land Development

1. Cropland Development

Development by households of Loess Plateau land in the Project Provinces through:

(a) (i) terracing of about 89,000 hectares of slope lands; and (ii) construction of small-scale water diversions and carrying out of small-scale groundwater irrigation schemes; and

(b) (i) creation and protection of warping land through the diversion and deposit of sediment; (ii) construction, upgrading and equipping of key dams and warping dams to retain sediment, assist in flood control and make provision for water storage, and to enable the creation of additional irrigated farm land; (iii) construction and equipping of numerous small check dams, construction of small dikes and planting of shrubs, to regulate water flow in gullies, prevent the undercutting of gully sides and stabilize gully heads; and (iv) provision of water cisterns.

2. Slopeland Conservation

Increasing vegetation cover and erosion control capacity in the Project Provinces through: (a) afforestation of about 181,000 hectares of slopeland with trees and shrubs; (b) establishment of about 56,000 hectares of grasslands; (c) protection of about 28,000 hectares of unused land to allow natural revegetation; (d) provision of appropriate livestock in replacement of existing livestock; and (e) improving horticulture by planting fruit and nut-bearing trees on about 72,000 hectares of slopeland, assisting with storage of fruit and establishing or improving seedling nurseries.

Part B: Institutional Development and Training

Carrying out of programs to strengthen the institutional and technical capabilities of the Project Provinces and of the farmers participating in Project activities, consisting of:

(a) development and carrying out of training programs for management and technical staff of the Project Provinces and for farmers, in watershed development, project management, agriculture and forestry techniques, irrigation management, nursery management, livestock and grassland management and computer skills;

(b) development and carrying out of research programs in dryland farming techniques, grassland improvement and forage and grazing management;

(c) upgrading of Project management facilities; and

(d) provision of vehicles and office equipment required for Project implementation.

* * *

The Project is expected to be completed by December 31, 2003.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) in respect of the Gansu Special Account, Category (1); (ii) in respect of the Inner Mongolia Special Account, Category (2); (iii) in respect of the Shaanxi Special Account, Category (3); and (iv) in respect of the Shanxi 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 or the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means:

(i) in respect of the Gansu Special Account, an amount equivalent to \$3,500,000 to be withdrawn from the Credit Account or the Loan Account and deposited into such Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for such Special Account shall be limited to an amount equivalent to \$2,000,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to the eligible Categories in respect of such Special Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of Gansu's Respective Part of the Project pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of \$17,000,000.

(ii) in respect of the Inner Mongolia Special Account, an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into such Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for such Special Account shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to the eligible Categories in respect of such Special Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of Inner Mongolia's Respective Part of the Project pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of \$10,000,000.

(iii) in respect of the Shaanxi Special Account, an amount equivalent to \$3,200,000 to be withdrawn from the Credit Account or the Loan Account and deposited into such Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for such Special Account shall be limited to an amount equivalent to \$1,800,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to the eligible Categories in respect of such Special Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of Shaanxi's Respective Part of the Project pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of \$16,000,000.

(iv) in respect of the Shanxi Special Account, an amount equivalent to \$3,000,000 to be withdrawn from the Credit Account or the Loan Account and deposited into such Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for such Special Account shall be limited to an amount equivalent to \$1,700,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account allocated to the eligible Categories in respect of such Special Account plus the total amount of all outstanding special commitments entered into by the Association or the Bank in respective of Shanxi's Respective Part of the Project pursuant to Section 5.02 of the respective General Conditions shall be equal to or exceed the equivalent of \$15,000,000.

2. Payments out of each 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation for such Special Account and subsequent withdrawals to replenish such 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 such 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 into such Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of such Special Account, the Borrower shall furnish to the Association requests for deposits into such 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 such 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 such Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account and 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 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 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 such Special Account;

(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 or the Loan Account pursuant to the provisions of Section 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit and Loan allocated to the eligible Categories for such Special Account, minus the total amount of all outstanding special commitments entered into by the Association or the Bank in respect of the relevant Project Province's Respective Part of the Project pursuant to Section 5.02 of the respective General Conditions shall equal the equivalent of twice the

amount of the Authorized Allocation for such special Account.

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 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 such 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 such 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 such 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 said 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 to 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.

