

CONFORMED COPY

CREDIT NUMBER 2744 CHA

Development Credit Agreement

(Southwest Poverty Reduction Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 18, 1995

CREDIT NUMBER 2744 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;

WHEREAS (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 forty seven million five hundred thousand dollars (\$47,500,000) (the Loan);

WHEREAS (C) the Project will be carried out by the Borrower, through the Borrower's Leading Group Office for Poverty Alleviation, at the national level, and at the provincial level by Guangxi, Guizhou and Yunnan (each as herein defined) (said provinces hereinafter collectively referred to as the Project Provinces and individually as Project Province) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Guangxi the proceeds of the Loan and to the Project Provinces a portion of the proceeds of the Credit as provided in this Agreement; and

WHEREAS (D) 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 Loan Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association dated January 1, 1985, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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 Bank, 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Beihai", "Fangcheng" and "Nanning" mean, respectively, Beihai Municipality, Fangcheng Municipality and Nanning Municipality, each a political subdivision of the Borrower in Guangxi, and any successors thereto.
- (b) "BPRESZ" means the Beihai Poverty Reduction Enterprise Zone established by Beihai, and any successor thereto.
- (c) "Guangxi" means the Guangxi Zhuang Autonomous Region, a political subdivision of the Borrower, and any successor thereto.
- (d) "Guizhou" means the Guizhou Province, a political subdivision of the Borrower, and any successor thereto.
- (e) "LGOPA" means the Leading Group Office for Poverty Alleviation of the Borrower.
- (f) "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 January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.
- (g) "PMOs" means the project management offices maintained by each of the Project Provinces in accordance with the provisions of paragraph of A.2 (a) of Schedule 4 to this Agreement.
- (h) "Project Implementation Agreement" means the agreements to be entered into between the Borrower with each of Guangxi, Guizhou and Yunnan in accordance with Section 3.01(b) of this Agreement.
- (i) "Special Accounts" means the Borrower Credit Special Account and the Borrower Loan Special Account, collectively, established pursuant to Section 2.02(b) of this Agreement, and "Special Account" means either of the Special Accounts.
- (j) "TVEs" means township and village enterprises in each of the Project Provinces participating under Part E of the Project.

(k) "WBPO" means the World Bank Project Office maintained by LGOPA in accordance with the provisions of paragraph A.1 of Schedule 4 to this Agreement.

(l) "Yunnan" means the Yunnan Province, a political subdivision of the Borrower, 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 one hundred twenty eight million, six hundred thousand Special Drawing Rights (SDR 128,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall for the purposes of the Project, open and maintain in dollars two special deposit accounts, for Parts A, B.1, C, D, E and F and for Part B.2 respectively, in a bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment, to be known as the Borrower Credit Special Account and the Borrower Loan Special Account respectively. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 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 March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 1 and September 1 commencing September 1, 2005 and ending March 1, 2030. Each installment to and including the installment payable on March 1, 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. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall:

(i) carry out the Project at the national level through LGOPA, and shall cause the Project Provinces to carry out the Project at the provincial and county levels, all with due diligence and efficiency and in conformity with appropriate administrative, financial, health, education, labor, agricultural, engineering and environmental protection and management practices; and

(ii) provide, promptly, as needed, the funds, facilities, services and other resources, required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall cause the Project to be carried out at the provincial and county levels pursuant to a project implementation agreement, acceptable to the Association, to be entered into between the Borrower and each Project Province, under which:

(i) the Project Province shall carry out its respective parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, health, education, agricultural, labor and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required;

(ii) the Project Province shall establish and maintain the provincial level project management organizations as set out in paragraph A.2 of Schedule 4 to this Agreement; and

(iii) the proceeds of the Credit for the respective parts of the Project shall be made available to the Project Province on the terms and conditions set forth in paragraph (c) of this Section.

(iv) Except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, fail to enforce, or waive any Project Implementation Agreement or any provision thereof.

(c) The Borrower shall relend a portion of the proceeds of the Credit required to carry out the Project at the provincial and county levels to each Project Province on terms and conditions satisfactory to the Association, including the following principal terms and conditions: (i) repayment within twenty (20) years, including six (6) years of grace; (ii) interest to be paid on the amounts withdrawn from time to time at a fixed rate of two percent (2%) per annum; (iii) commitment fee to be paid on the unwithdrawn amount from time to time at the rate of half of one percent (0.5%); and (iv) all foreign exchange risks incurred during the period of repayment by each of the Project Provinces shall be paid by said Project Province.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) 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) in respect of the Project shall be carried out by the Project Provinces pursuant to the Project Implementation Agreements, and by the Borrower in respect of the Project being carried out at the national level.

(b) The Borrower shall provide to the Association annual consolidated reports with request to carrying out the obligations referred to in paragraph (a) of this Section by the 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 the 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 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 the Borrower, and the Project Provinces responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

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

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified

copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

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

(ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal control 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 (h) of the General Conditions, the following additional event is specified, namely that a party to a Project Implementation Agreement shall have failed to perform its obligations under such Project Implementation Agreement.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following 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 Project Implementation Agreement for each Project Province shall have been executed on behalf of such Project Province and the Borrower; 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 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 Agreements provided to the Association pursuant to Section 6.01(a) of this Agreement have been duly authorized or ratified and executed and delivered on behalf of all parties thereto and are legally binding on the parties thereto in

accordance with their respective 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:

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

SCHEDULE 1

Withdrawal of the Proceeds of the Credit and 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 Expenditures to be Financed
(1) (a) Works, including crop establish- ment and livestock maintenance (other than for Part B.2 of the Project)	20,760,000	-----	20%
(b) Works for Part B.2 of the Project	-----	21,300,000	55%
(2) (a) Goods (other than under Part B.2 of of the Project		57,660,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally.
(b) Goods for Part B.2 of the Project	-----	24,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local ex- penditures for other items procured locally.
(3) Tuition assistance and medical assistance under Part A of the Project	10,950,000	-----	100%
(4) (a) Consultants' services, training (other than under Part B.1 of the Project) and study tours, other than under Part B.2 of the Project	8,420,000	-----	100%

(b) Consultants' services and training under Part B.2 of the Project	-----	700,000	100%
(5) Research contracts	4,950,000	-----	50%
(6) Labor training and placement under Part B.1 of the Project	23,080,000	-----	70%
(7) Operating costs for project management	1,480,000	-----	50%
(8) Unallocated	1,300,000	700,000	
Total	128,600,000	47,500,000	

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;

(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;

(c) "crop establishment and livestock maintenance" means the expenditures incurred in accordance with the crop establishment and livestock maintenance program under Part D of the Project;

(d) "tuition assistance and medical assistance" means expenditures for tuition fees and medical assistance (including salary supplements and bonuses and medical services) under Part A of the Project;

(e) "research contracts" means expenditures incurred for research activities under Parts D and F of the Project;

(f) "labor training and placement" means expenditures incurred for transport costs, fees and other costs to be met by relocating workers under Part B.1 of the Project; and

(g) "operating costs for project management" means expenditures for office consumables (including telephone, facsimile and other communications expenses), staff travel and associated subsistence of the project management offices (excluding salaries and the cost of premises) to be calculated in accordance with procedures approved by the Association.

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 SDR 12,860,000 and \$ 4,750,000, respectively, may be made on account of payments made for expenditures before that date but after January 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under each contract not exceeding \$200,000 equivalent; (ii) works under each contract not exceeding \$2,000,000 equivalent; (iii) consultants' services by firms under each contract not exceeding \$100,000 equivalent; (iv) for individual consultants under each

contract not exceeding \$50,000 equivalent; (v) for training; (vi) for operating costs for project management; (vii) for research contracts; (viii) for labor training and placement; and (ix) for crop establishment and livestock maintenance; 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: (i) develop a multisectoral rural development project approach to poverty reduction; (ii) facilitate an increase in labor mobility from the poor areas to better off rural and rapidly growing urban areas based on market incentives; (iii) upgrade poverty monitoring at the national and local levels; (iv) significantly reduce absolute poverty in thirty five of the very poorest counties in southwestern China; and (v) counteract upland environmental destruction through land and pasture improvement and soil conservation works.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Association may agree from time to time to achieve such objectives:

Part A: Strengthening of Education and Health Services

1. Facilitating the development of locally-managed education systems for, and enhancing the delivery of primary education to, the poor at the village level through:

- (a) primary school renovation and construction;
- (b) supporting tuition assistance and nutritional supplements for poor students;
- (c) the provision of textbooks, instructional equipment and furniture;
- (d) salary support for additional teaching staff; and
- (e) teacher and management training.

2. Facilitating the development of locally funded and managed health systems and enhancing their quality and access, for the poor at the village level through, inter alia:

- (a) facility construction and renovation, provision of equipment for new health clinics and equipment upgrading at existing health clinics;
- (b) the establishing of cooperative health funds;
- (c) the training of health administrators at the county and provincial level and of staff of village level health centers; and
- (d) strengthening of public health programs in disease prevention and control and maternal and child health.

Part B: Improving Rural Voluntary Labor Mobility

1. Facilitating voluntary labor mobility through, inter alia:

- (a) developing demand-driven job placement systems emphasizing local markets;
- (b) promoting on-the-job training by enterprises on a cost reimbursement basis; and
- (c) strengthening monitoring capabilities with respect to worker safety and living conditions.

2. Supporting municipal employment generation for the upland rural poor in Guangxi through:

(a) supporting job-creation initiatives in small and medium sized, labor intensive industrial and agricultural enterprises in Beihai, Nanning and Fangcheng; and

(b) supporting the provision of affordable non-subsidized accommodation for single migrant workers in Fangcheng and Nanning.

Part C: Upgrading Rural Infrastructure

Upgrading rural infrastructure facilities through, inter alia:

(a) constructing approximately 1,600 km of roads to link approximately 565 villages in remote mountainous areas to existing country roads;

(b) constructing low-cost water supply facilities for approximately 663,000 people in about 990 villages;

(c) increasing access to electricity and alternative forms of energy through (i) the erection and installation of approximately 875 km of transmission lines and associated equipment, and (ii) and the provision of bio-gas digesters and improved stoves; and

(d) constructing and improving soil conservation, irrigation and drainage works for approximately 15,600 ha of existing and new rice paddy and upland crops, including the upgrading of the irrigation capacity of the Fengguo Reservoir system in Yunnan.

Part D: Upgrading Land Use and Farmer Incomes

Generating sustainable increases in agricultural incomes for approximately 600,000 households through, inter alia:

(a) extending improved agriculture and smallholder livestock management techniques and inputs to approximately 300,000 households;

(b) establishment of tree crop nurseries and provision of saplings and tree crop management extension (for high altitude and red soil varieties);

(c) intensification of staple crop production on available flat land;

(d) terracing for improved water and soil conservation; and

(e) providing extension and farmer training services and enhancing agricultural research.

Part E: Developing Town and Village Enterprises

Augmenting off-farm employment opportunities in small towns and rural areas through investment in approximately 210 labor-intensive commercially viable agro-processing, mineral, service and handicraft TVEs and farmers markets.

Part F: Institution Building and Poverty Monitoring

1. Institutional strengthening of LGOPA and the PMOs with respect to their capabilities in project design and implementation, procurement, accounting and monitoring and evaluation techniques.

2. Establishing a poverty monitoring system for the Project Provinces with the capacity to provide comprehensive poverty profiles, analyze the accuracy of targeting benefits to the absolute poor and to measure and evaluate the impact of Parts A through E of the Project.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods, Works and Services

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provision of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods The provision of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. Limited International Bidding

Contracts for pesticides and specialized agroprocessing and research equipment, up to an aggregate amount equivalent to \$7,000,000, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) Goods, other than vehicles, up to an aggregate amount equivalent to \$73,000,000, and (b) works, up to an aggregate amount equivalent to \$70,000,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract, up to \$15,400,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$142,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for 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 Guidelines, Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for (i) works estimated to cost the equivalent of \$2,000,000 or more, (ii) goods estimated to cost the equivalent of \$200,000 or more, and (iii) the first three contracts for goods and works to be awarded by each of the Project Provinces under National Competitive Bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

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 Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank and Borrower and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contracts value to \$100,000 equivalent to above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

A. Overall Project Management

1. The Borrower shall maintain the WBPO to manage overall Project implementation including procurement, accounting and training activities, with functions and responsibilities acceptable to the Association, staffed by competent staff in adequate numbers.

2. The Borrower shall cause each of the Project Provinces:

(a) to maintain a project management office at the provincial and county level to undertake day-to-day implementation and coordination of Project activities, with functions and responsibilities acceptable to the Association, staffed by qualified and experienced staff in adequate numbers; and

(b) to prepare and furnish to the Association for review a detailed statement of approved budgetary allocations, by December 1 of each year, for Project implementation for the following year.

B. Project Implementation

1. Overall Implementation

(a) The Borrower shall ensure that the local and overseas training and study tours and consultants' services shall be provided in accordance with plans agreed with the Association, and, to that end, shall cause WBPO to prepare and furnish to the Association by December 1 of each year the proposed plans for training, study tours and technical assistance under the Project for the next calendar year.

(b) The Borrower shall ensure that all Project activities shall conform to environmental standards and guidelines, including the environmental regulations and guidelines issued by the National Environmental Protection Agency and its Provincial Environmental Protection Bureau, satisfactory to the Association. To that end, the Borrower shall implement, and ensure that each of the Project Provinces implement, its respective portion of the Environmental Assessment Report in a manner satisfactory to the Association.

(c) The Borrower shall ensure that:

(i) all proposed land acquisitions under the Project are reviewed by the relevant provincial, prefectural or county land administration bureaus in accordance with existing national regulations of the Borrower; and

(ii) all persons whose rights to land and other assets are compulsorily acquired under the Project receive adequate compensation for assets, in accordance with principles and procedures satisfactory to the Association.

To this end the Borrower shall ensure that the Project Provinces shall cause their respective PMOs:

(A) to notify the Association through the WBPO of any acquisition of land and other assets which will result from the Project;

(B) prior to undertaking any such acquisition, to submit to the Association for approval through the WBPO the compensation plan relative to such acquisition; and

(C) to implement the approved acquisition and compensation plan.

(d) The Borrower shall:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about April 30, 1997, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (i) of this Section, on the progress achieved in the carrying out 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 the Project and the achievement of the objectives thereof during the period following such date; and

(iii) review with the Association by June 30, 1997, or such later date as the Association shall request, the report referred to in paragraph (ii) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. Implementation of Part A of the Project

The Borrower shall ensure that the Project Provinces:

- (i) make appropriate arrangements acceptable to the Association for the financing on a grant basis of annual tuition fees for approximately 90,000 primary school students selected on the basis of criteria acceptable to the Association; and
- (ii) establish and thereafter maintain and fund on an adequate basis cooperative health care funds in eligible villages, all as determined on the basis of criteria acceptable to the Association.

3. Implementation of Part B.1 of the Project

The Borrower shall ensure that:

- (i) the relocation of all persons shall be undertaken only on a strictly voluntary basis on the basis of consultation procedures and relocation arrangements acceptable to the Association;
- (ii) finalize and implement, by no later than September 15, 1995 revised monitoring and reporting systems at the national, provincial and county level, based on an assessment of existing reporting systems for the treatment of relocated persons, including with respect to non-discriminating labor practices and work place safety;
- (iii) by March 15 and September 15 of each year, commencing September 15, 1995, a comprehensive relocated persons monitoring report covering relocation under Part B.1 of the Project during the preceding 6 month period be forwarded to the Association for its review and comment.

4. Implementation of Part B.2 of the Project

(a) The Borrower shall ensure that an enterprise shall be eligible for financing under Part B.2 of the Project only upon its agreement with Beihai, Nanning or Fancheng, as the case may be, to (A) a business development plan providing for at least seventy percent (70%) of full-time jobs to be reserved for persons relocated under Part B.1 of the Project, and (B) onlending terms that provide for the payment of interest at a rate no less than the prevailing rate charged by the Agricultural Development Bank of China for loans for similar payments and similar maturities.

(b) The Borrower shall ensure that:

- (i) Beihai undertakes a program for site and building sales and leases for BPRES acceptable to the Association, which program shall provide, inter alia, that funding may only be made available in respect of expenditures for buildings to be sold or rented when a pre-sale or pre-lease agreement (as the case may be) has been concluded with respect to at least 50% of the floor space concerned;
- (ii) low-income housing to be provided under Part B.2 of the Project is designed and constructed in accordance with criteria acceptable to the Association; and
- (iii) for the first 10 years after the completion of buildings under Part B.2 of the Project at least 70% of the units in each of said buildings be rented to relocated workers from the Project areas, as determined in accordance with criteria acceptable to the Association.

5. Implementation of Part C of the Project

The Borrower shall cause each of the Project Provinces to (a) ensure that the designs and construction of each dam constructed or improved under the Project in their respective territories exceeding 10 meter in height or 2,500,000 cubic meters in storage volume are independently reviewed for safety; and (b) ensure that all dams

rehabilitated or constructed in their respective territories under the Project be operated, maintained or inspected periodically in accordance with sound engineering practice, under arrangements satisfactory to the Association.

6. Implementation of Part D of the Project

(a) The Borrower shall cause each of the Project Provinces to grant or cause to be granted to each household unit which participates under Part D of the Project the exclusive right to use the land upon which Project activities are to be undertaken by such household for a term of not less than 50 years (in the case of wastelands and other lands planted with perennial crops under Part D of the Project) and not less than 30 years (in the case of existing cropped lands).

(b) The Borrower shall ensure that:

(i) all pesticides acquired under the Project shall have been approved by the Association; and

(ii) the storage, handling, distribution and use of such pesticides shall be consistent with guidelines satisfactory to the Association.

7. Implementation of Part E of the Project

(a) The Borrower shall cause each of the Project Provinces:

(i) to ensure that the provincial environmental protection bureau (A) determines which enterprises under Part E of the Project require effluent treatment facilities and (B) requires such enterprises to make prompt arrangements for the design and installation of such facilities;

(ii) to ensure that the final designs for effluent treatment for each plant under the Project have been approved by the relevant provincial environmental protection bureau prior to beginning construction of such plant; and

(iii) to ensure that each such enterprise shall monitor and treat effluents from such plants adequately before disposal, under the supervision of such bureau.

(b) The Borrower shall ensure that the provincial financial departments of the Project Provinces shall relend a portion of the proceeds of the Credit to enterprises under Part E of the Project through the local finance bureaux in the form of loans bearing interest at rates of no less than the prevailing rate charged by the Agricultural Development Bank of China for loans for similar purposes and for similar maturities.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means (i) for the Borrower Credit Special Account, Categories (1)(a), (2)(a), (3), (4)(a), (5), (6) and (7) for the Borrower Loan Special Account, Categories 1(b), 2(b) and 4(b); and (ii) all as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit 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)

\$11,000,000 for the Borrower Credit Special Account; and (ii) \$3,000,000 for the Borrower Loan Special Account; to be withdrawn from the Credit Account or the Loan Account, as the case may be, 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 Borrower Credit Special Account and (ii) the Borrower Loan Special Account, shall be limited to an amount equivalent to \$7,000,000 and \$1,500,000, respectively, until the aggregate amount of withdrawals from (i) the Credit Account and (ii) 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 40,000,000 and \$10,000,000 respectively.

2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for 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, as the case may be, and deposit into the 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, as the case may be, and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of said Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account or the Loan Account, as the case may be, 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 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, as the case may be, pursuant to the provisions of Section 6.02 of the respective General Conditions; or

(d) once the total unwithdrawn amount of the Credit or the Loan, as the case may be, allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association or the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation for the relevant Special Account.

Thereafter, withdrawal from the Credit Account or the Loan Account, as the case may be, of the remaining unwithdrawn amount of the Credit or the Loan, as the case may be, 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 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 a Special Account (or, if the Association shall so request, refund to the Association or the Bank, as the case may be) 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, as the case may be, 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.

[Redacted]