

CONFORMED COPY

CREDIT NUMBER 2294 CHA

(Tarim Basin Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 28, 1991

CREDIT NUMBER 2294 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 28, 1991, 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 Project will be carried out by XINJIANG UYGUR AUTONOMOUS REGION (Xinjiang) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Xinjiang the proceeds of the Credit as provided in this 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 between the Association and Xinjiang;

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) "ABC" means the Agricultural Bank of China, a specialized banking institution established and operating under the laws of the Borrower;

(b) "ha" means hectare;

(c) "km" means kilometer;

(d) "Project Agreement" means the agreement between the Association and Xinjiang, 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.

(e) "Project Area" means the Yerqiang River Basin in Kashgar Prefecture, the Weigan River Basin in Akesu Prefecture and the Tarim River Basin in Akesu and Bayingoleng Prefectures, all within the territory of Xinjiang;

(f) "Project Entities" means farming cooperatives, local seed processing ginneries, agricultural machinery centers, hydro-power companies, feed mills, water conservancy, agricultural and animal husbandry bureaus and other entities engaged in carrying out the Project at the local level;

(g) "Regional PMO" means the regional-level project management office established by Xinjiang and referred to in Schedule 2, paragraph 1 (a) to the Project Agreement;

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

(i) "Xinjiang" means Xinjiang Uygur Autonomous Region of the People's Republic of China.

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 ninety-three million eight hundred thousand Special Drawing Rights (SDR 93,800,000).

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 shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 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 semiannual installments payable on each February 15 and August 15 commencing February 15, 2002 and ending August 15, 2026. Each installment to and including the installment payable on August 15, 2011 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Xinjiang to perform in accordance with the provisions of the Project Agreement all the obligations of Xinjiang 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 Xinjiang to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to Xinjiang on terms and conditions satisfactory to the Association.

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 Xinjiang pursuant to Section 2.04 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall:

(a) maintain, or cause to be maintained, in accordance with sound accounting practices, records and accounts reflecting expenditures for which payments are made out of the Special Account;

(b) 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;

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

(d) furnish, or cause to be furnished, 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 (h) of the General Conditions, the following additional events are specified:

(a) Xinjiang shall have failed to perform any of its 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 Xinjiang will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely the event specified in paragraph (a)

of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower's State Council has approved the Development Credit 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 Agreement has been duly authorized or ratified by Xinjiang, and is legally binding upon Xinjiang 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

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zhu Qizhen

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu

Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works:		
(a) land reclamation and improvement under Part A of the Project;	21,200,000))))	50%
(b) other civil works under the Project	27,400,000))	55%
(2) Goods:		
(a) machinery and equipment;	21,500,000))	100% of foreign expenditures, 100% of local expenditures
(b) vehicles, other than passenger vehicles;	2,500,000)))	(ex-factory cost) and 75% of local
(c) construction materials and agrochemicals	17,800,000)))	expenditures for other items procured locally
(d) improved live- stock breeds	1,200,000))	
(3) Consultants' services, over- seas training and study tours	1,500,000	100%
(4) Local training	700,000	20%
TOTAL	93,800,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 5.6 million equivalent, may be made in respect of Categories (1) through (3) on account of payments made for expenditures before that date but after December 31, 1990.

SCHEDULE 2

Description of the Project

The objectives of the Project are, within the Project Area: (i) to increase agricultural and livestock production in low-yield farmlands and wastelands in order to raise rural incomes and alleviate poverty; (ii) to improve and expand irrigation systems and promote efficient use of water; (iii) to strengthen high-yield seed production and distribution for cotton and grain crops; and (iv) to support environmentally sound development.

The Project consists of the following parts to be carried out in the Project Area, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Irrigation and Drainage in the Yerqiang and Weigan River Basins

1. Lining of about 390 km of canals in Yerqiang and about 350 km of canals in Weigan; construction of two water diversion structures.

2. Construction of about 165 km of drainage canals and associated structures (bridges and culverts) in Yerqiang; and construction of about 260 km of new main and branch drainage canals, desilting of about 410 km of main and branch drains and construction of associated structures in Weigan.

3. Construction of about 175 new tubewells in Yerqiang.

4. Reclamation of about 42,000 ha of wasteland in Yerqiang and about 38,000 ha of wasteland in Weigan.

5. Upgrading of about 65,000 ha of low-yielding cropland in Yerqiang and about 55,000 ha of low-yielding cropland in Weigan.

6. Monitoring and research addressing drainage, salinity control, irrigation and water-quality techniques and soil fertility in Yerqiang and Weigan.

Part B: Hydropower

1. Construction of a hydroelectric power generation station of 21 megawatt capacity in Yerqiang, about 325 km of transmission lines, three substations and a switchyard in order to connect the existing county power distribution system.

2. Investment in afforestation along conveyance canals; provision of technical assistance and training for sanitation and environmental protection and monitoring; and carrying out of a resettlement plan.

Part C: Agricultural Development in the Yerqiang and Weigan River Basins

1. Provision of improved agricultural extension services to about 104 townships, including provision of vehicles, construction and equipping of county agricultural technical extension centers (CATECs) and training of extension personnel.

2. Upgrading of the Kuche and Shache Research Experiment Stations.

3. Carrying out a program to increase the volume, purity and quality of cotton, corn and wheat seeds by:

(a) increasing seed production and distribution capacity in Yerqiang and Weigan through expansion of existing seed farms by about 430 ha in Yerqiang and new development of about 6,400 ha (net area) of seed farms in Weigan and provision of new and upgraded seed drying, storage and inspection facilities in 5 counties in Yerqiang; and

(b) upgrading and construction of seven seed processing centers in Yerqiang and three seed processing centers in Weigan.

4. Establishment of three new agricultural machinery centers in Weigan and provision of training equipment for repair and overhaul of agricultural machinery in Yerqiang and Weigan.

5. Carrying out a 5-year program of agronomic trials to increase production on about 24,000 ha of low-fertility land.

6. Provision of a hail suppression system, including a meteorological forecasting facility, equipment, vehicles, materials and training.

Part D: Livestock Development

1. Improvement of livestock services, including provision of equipment in support of the Kashgar and Akesu Prefecture livestock research and training centers, and provision of technical assistance and equipment in support of county and township animal husbandry, veterinary and grassland stations.

2. Carrying out feed and shelter programs by improving pasture lands, constructing about 50 livestock shelters and about 15 watering wells for livestock and drinking water in Weigan, establishing 9 feed mills in Weigan, establishing 4 straw ammoniation stations in Yerqiang, and financing mixed-crop and livestock farm development.

3. Improvement of specialized farms for sheep and goat development by:

(a) improving the Maigaiti Sheep Stud Farms (Yerqiang) and the Kuche Sheep Stud Farm (Weigan);

(b) establishing sheep and goat research and experiment stations, providing a training program for key personnel and technical assistance for planning and evaluating experimental work; and

(c) improving 13 sites for specialized goat production in Bachu and Maigaiti counties.

Part E: Ecosystem Restoration of the Tarim River

1. Establishment of the Tarim River Basin management system by:

(a) constructing access roads to improve communications and transport among monitoring stations for hydrology, meteorology, ecology and desert research;

(b) constructing office buildings and monitoring stations and carrying out surveys and designs for civil works along the Tarim River;

(c) providing equipment and vehicles for such monitoring stations; and

(d) providing technical assistance in hydrology, ecology and desert research environmental monitoring techniques and mathematical modelling of surface groundwater movement.

* * *

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$7,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the 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 replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the 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 the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible

Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit 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 the 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 the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the 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 the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

