

CONFORMED COPY

CREDIT NUMBER 1764 CHA

Development Credit Agreement

(Xinjiang Agricultural Development Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 14, 1987

CREDIT NUMBER 1764 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 14, 1987, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; 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;

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

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

(b) "Project Areas" means areas in Bole, Zhaosu, Jinghe, Emin, Yumin, Hami, Turpan, Kuitun or Yining; or in such other locations in the northern part of the Borrower's Xinjiang Uygur Autonomous Region as may be agreed between the Borrower and the Association; and

(c) "XAITC" means the Xinjiang Agriculture, Industry and Trade Corporation, an administrative entity of the Borrower, existing as part of the Xinjiang Uygur Autonomous Region, under the overall supervision of the Borrower's Ministry of Agriculture, Animal Husbandry and Fisheries, 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 fifty seven million three hundred thousand Special Drawing Rights (SDR 57,300,000).

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 (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be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 shall, for the purposes of the Project, open and maintain in dollars a special account in a bank and on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1992 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 at the rate of one-half of one percent (1/2 of 1%) per annum on the principal amount of the Credit not withdrawn from time to time. The commitment charge shall accrue from a date sixty days after the date of the Development Credit Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or shall be cancelled.

(b) 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 January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 1997, and ending January 15, 2037. Each installment to and including the installment payable on January 15, 2007 shall be one-half of one percent (1/2 of 1%) of such principal amount, and each installment thereafter shall be one and one-half percent (1-1/2%) of such principal amount.

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 carry out the Project through XAITC with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural and engineering practices, and shall 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 carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof (including XAITC).

(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 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 reports, 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:

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

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

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

(iv) ensure that such records and accounts are included in the annual audit report of such audit as to whether the statements of fiscal year, together with the procedures involved in their preparation, can be relied upon to related withdrawals. referred to in paragraph (b) of this Section and that the contains a separate opinion by said auditors expenditures submitted during such and internal controls support the

ARTICLE V

Effective Date; Termination

Section 5.01. 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 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing
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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ Han Xu

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) Civil works	16,400,000	50%
(2) Equipment, materials, vehicles and livestock	40,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local ex- penditures for other items pro- cured locally
(3) Consultants' services and overseas train- ing	800,000	100%
TOTAL	SDR 57,300,000	

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:

(a) 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 410,000, may be made from Category 2 in respect of expenditures for construction machinery incurred before that date but after July 1, 1986; and

(b) no withdrawals shall be made in respect of expenditures for the construction or upgrading of any agro-processing plant under Part D of the Project

unless the provisions of paragraph 3 of Schedule 4 to this Agreement shall first have been complied with in respect of such plant.

SCHEDULE 2

Description of the Project

The objectives of the Project is to assist in the further development of the Borrower's Xinjiang Uygur Autonomous Region by expanding the Irrigated area for crop production, improving pastures, promoting livestock development and upgrading as well as establishing selected agro-processing plants in the Project Areas. The Project will serve as a model for more efficient use of the Region's land for increasing agricultural production.

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: Irrigation and Land Development

Improvement of crop production by the construction of irrigation works and land development on about 32,300 ha., upgrading of related rural roads and the provision of equipment, materials and vehicles.

Part B: Pasture Improvement

Improvement of about 44,700 ha. pasture through the provision of seeds, fertilizer and equipment, and the construction of fencing.

Part C: Livestock Development

Provision of livestock for breed improvement, veterinary and livestock-related equipment and materials, and vehicles as well as the construction of about 180,000 square meter.(sq.m) of animal sheds.

Part D: Agro-Processing

Construction and upgrading of about seven agro-processing plants including slaughterhouses (with cold storage and freezing facilities), wool processing plants, cotton seed oil plants and raisin production faculties, as well as the provision of equipment and materials for such facilities.

(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:

(a) 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 410,000, may be made from Category 2 in respect of expenditures for construction machinery incurred before that date but after July 1, 1986; and

(b) no withdrawals shall be made in respect of expenditures for the construction or upgrading of any agro-processing plant under Part D of the Project unless the provisions of paragraph 3 of Schedule 4 to this Agreement shall first have been complied with in respect of such plant.

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Construction and upgrading of about seven agro-processing plants including slaughterhouses (with cold storage and freezing facilities), wool processing plants, cotton seed oil plants and raisin production facilities, as well as the provision of equipment and materials for such facilities.

Part E: Provision of Infrastructure Facilities

Construction of about 200,000 sq.m. of warehousing, garage, community and residential facilities required in connection with the Project,

Part F: Institutional Strengthening

Upgrading Project-related skills and capabilities of Project personnel through the provision of consulting services, training and miscellaneous office equipment.

* * *

The Project is expected to be completed by December 31, 1991.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Boilers and storage bins for agro-processing plants estimated to cost less than

\$3,000,000 equivalent and miscellaneous equipment estimated to cost, in the aggregate, less than \$1,000,000 (including truck trailers, small agricultural implements, pumps and motors), may be procured under contracts awarded through local competitive procedures satisfactory to the Association.

2. Items or groups of items estimated to cost less than the equivalent of \$150,000 per contract, up to an aggregate amount not to exceed the equivalent of \$4,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Civil works (including land development, irrigation and building construction) may be carried out by state farm and branch company construction teams in accordance with force account and other local procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract procured in accordance with the procedures described in Part A hereof and all other contracts estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

1. In carrying out the Project, the Borrower shall establish and maintain (i) the Xinjiang Foreign Investment Management Office (XFIMO) in XAITC; (ii) a Project office in each Project branch company; and (iii) a Project unit in each Project state farm and enterprise, all with staffing, functions and responsibilities acceptable to the Association.

2. The Borrower shall carry out training of local state farm personnel under Part F of the Project in accordance with a schedule acceptable to the Association.

3. Prior to inviting bids in respect of each agro-processing plant under Part D of the Project, XAITC shall submit, for the Association's review and concurrence, a detailed, up-to-date feasibility report including a financial analysis in respect of such plant, inter alia, demonstrating economic and financial rates of return satisfactory to the Association.

4. Except as the Association may otherwise agree, prior to inviting bids in respect of each agro-processing plant under Part D of the Project, XAITC shall submit, for the Association's review and concurrence, a detailed proposal for waste disposal facilities in respect of such plant.

5. (a) Proceeds of the Credit provided to agro-processing enterprises for purchasing agro-processing equipment shall be provided on terms and conditions satisfactory to the Association.

(b) Proceeds of the Credit provided to state farms for land development shall be fully recovered through appropriate contractual arrangements on terms equivalent to the blended cost of all funds provided for such purpose.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2 and 3 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 SDR 4,100,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Association shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Association requests for replenishment of the Special Account at such intervals as the Association shall specify. On the basis of such requests, the Association shall withdraw from the Credit Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Association, prior to or at the time of such request,

such documents and other evidence as the Association shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Association when either of the following situations first arises:

(i) 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

(ii) the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Association 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. No further deposit by the Association into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Credit Account.

