

CONFORMED COPY

LOAN NUMBER 4179 CHA

Shanxi Project Agreement

(Wanjiazhai Water Transfer Project)

between

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

and

SHANXI PROVINCE

Dated August 29 , 1997

LOAN NUMBER 4179 CHA

SHANXI PROJECT AGREEMENT

AGREEMENT, dated August 29, 1997, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and SHANXI PROVINCE (Shanxi).

WHEREAS by the Loan Agreement of even date herewith between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to four hundred million dollars (\$400,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Shanxi agree to undertake such obligations toward the Bank as are set forth in this Agreement;

WHEREAS Shanxi, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. Shanxi declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall:

(a) carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial and technical practices and sound health, safety and environmental standards, and provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project; and

(b) cause YRDPC to perform in accordance with the provisions of the YRDPC Project Agreement, all of the obligations of YRDPC therein set forth, take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable YRDPC to perform such obligations, and not take or permit to be taken any action which would prevent or interfere with such performance.

Section 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement and except as the Bank and Shanxi shall otherwise agree, Shanxi shall carry out the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.03. each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, thExcept as the Bank 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 Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.04. (a) Shanxi shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 this Agreement and Part B of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, Shanxi shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Shanxi, a plan designed to ensure the continued achievement of the objectives of Part B of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with Shanxi on said plan.

Section 2.05. (a) Shanxi shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) Shanxi shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by Shanxi of its obligations under this Agreement.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) Shanxi 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 Shanxi responsible for carrying out the Project or any part thereof.

(b) Shanxi shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors

acceptable to the Bank;

(ii) furnish to the Bank 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 Bank shall have reasonably requested; and

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

#### ARTICLE IV

##### Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Shanxi thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Shanxi thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

For Shanxi:

Shanxi Provincial Finance Bureau  
No. 345 Yingze Street  
Taiyuan 030001  
People's Republic of China

Cable address:

6299

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Shanxi may be

taken or executed by [any Vice Governor of Shanxi] or such other person or persons as such Vice Governor shall designate in writing, and Shanxi shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Acting Regional Vice President  
East Asia and Pacific

SHANXI PROVINCE

By /s/ Zhou Wenzhong

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions 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) Prequalification

Bidders for works and for the production and supply of pipes shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of Contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$10,000,000 equivalent or more each, and contracts for goods shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more each.

(c) Preference for Domestically Manufactured Goods and Domestic

## Contractors

The provisions 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 and works to be carried out by domestic contractors.

### (d) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

### (e) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

## Part C: Other Procurement Procedures

### 1. Goods

#### (a) Limited International Bidding

Environmental and hydrologic forecasting equipment may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

#### (b) National Competitive Bidding

Except as otherwise provided in paragraph (c) of this Section 1, goods estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$48,059,700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

#### (c) National Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$3,14,900,000 equivalent, 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.

### 2. Works

#### National Competitive Bidding

Works estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$35,569,600,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 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 Bank 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 Bank, and with the provisions of said paragraph 1.

### 2. Prior Review

With respect to (a) each contract for works estimated to cost the equivalent of \$5,000,000 or more, and \$10,000,000 or more, (b) the first three contracts for works to be procured pursuant to the provisions of Part C.2 of this Section I, (c) each

contract for goods estimated to cost the equivalent of \$31,000,000 or more, and (d) the first three contracts for goods to be procured pursuant to the provisions of Part C.1(b) of this Section I, 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

### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

### Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Quality-based Selection

Services under Part B of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

#### 2. Single Source Selection

Services for detailed engineering designs under Part A of the Project may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

#### 3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

### Part D: Review by the Bank of the Selection of Consultants

#### 1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

#### 2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual

consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

### 3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## SCHEDULE 2

### Implementation Program

#### A. Part A of the Project

##### 1. Subsidiary Loan

(a) Shanxi shall relend the proceeds of the Loan made available to it by the Borrower and allocated from time to time to Categories (1), (2)(a) and, (2)(b), (3)(a) and (4)(a) to YRDPC under a subsidiary loan agreement to be entered into between Shanxi and YRDPC under terms and conditions which shall have been approved by the Bank and which shall include the following:

(i) the principal amount of the Subsidiary Loan shall be denominated and repayable in dollars and shall be repaid by YRDPC to Shanxi over a period of twenty years, inclusive of a grace period of five years;

(ii) YRDPC shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to the rate payable by Shanxi pursuant to Section 3.01(b)(ii) of the Loan Agreement; and

(iii) YRDPC shall pay a commitment charge on the principal amount of the Subsidiary Loan not withdrawn from time to time at a rate equal to three fourths of one percent (0.75%) per annum.

(b) Shanxi shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of Shanxi, the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, Shanxi shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

##### 2. Fen Dam Safety

In order to ensure the safety of the Fen Dam and downstream life, property and activities, Shanxi shall, through its bureau responsible for operation of the Fen Dam, take the following actions.

###### (a) Operation and Maintenance and Emergency Preparedness Plans

Shanxi shall continue to carry out a plan for the operation and maintenance of the Fen Dam and an emergency preparedness plan for said dam, both acceptable to the Bank.

###### (b) Periodic Inspections

Shanxi shall ensure that inspections of the Fen Dam and of its operation and maintenance shall be undertaken at intervals of not more than two years, with the first inspection to be completed by October 31, 1998, in accordance with sound engineering practices and on the basis of guidelines acceptable to the Bank, by qualified and experienced independent experts, in order to identify any deficiencies in the condition of the Fen Dam or in the quality and adequacy of the maintenance or methods of operation of said dam or of its plan for emergency preparedness, which may endanger the safety of said dam or of downstream life, property or activities, and to

rectify any such deficiencies promptly. To this end, Shanxi shall employ, not later than February 15, 1998, a panel of independent experts whose qualifications, experience and terms of reference shall be acceptable to the Bank, to be responsible for undertaking such periodic inspections of the Fen Dam. Shanxi shall ensure that said panel shall prepare and furnish to Shanxi and the Bank, promptly upon completion of each said inspection, a report on the results of said inspection, together with any measures recommended to be taken to ensure the safety of the Fen Dam and downstream life, property and activities, the first such report to be furnished to the Bank not later than November 15, 1998. Shanxi shall afford the Bank a reasonable opportunity to exchange views with Shanxi on each report furnished by said panel, and thereafter shall implement the measures recommended by said report, taking into account the comments of the Bank on the matter.

B. Part B of the Project

1. Shanxi shall ensure that Sub-projects under Part B(5) of the Project shall be appraised and monitored, and Sub-loans for said Sub-projects, including the arrangements for the processing of Sub-loans by a commercial bank as fiscal agent for Shanxi, shall be made, all in accordance with policies and procedures acceptable to the Bank, which shall include inter alia, those set forth or referred to in the Sub-loans Operations Manual and in the following provisions of this Part B the following Sections of this Part B. To this end, Shanxi shall, through Taiyuan, establish, not later than December 31, 1997 and thereafter at all times maintain throughout the period of Project implementation, an office with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for the appraisal and monitoring of Sub-projects and the financial management of Sub-loans.

2. Sub-loans shall be made on the terms and conditions set forth in the Annex to this Schedule.

3. Shanxi shall: (i) exercise its rights in relation to each Sub-project in such manner as to protect the interests of the Borrower and the Bank, comply with its obligations under this Agreement and achieve the purposes of the Project; and (ii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without the prior approval of the Bank.

C. Complementary Investments

In order to ensure the efficient and economic use of the raw water to be transferred from the Yellow River to Taiyuan under the Project, Shanxi, through Taiyuan's water supply authority, shall complete, under guidelines, and in accordance with a program, both acceptable to the Bank, and not later than June 30, 20012, a program of investments complementary to the Project, consisting of:

1. construction of a surface water treatment plant, pipelines, and three booster pumping stations and provision of training to personnel responsible for operation and management of said facilities in financial management, and in operation and management of said facilities;

2. construction and rehabilitation of wastewater treatment plants, installation of interceptors and secondary and tertiary sewers, and provision of training to personnel responsible for management of said plants in financial management and plant operations; and and

3. resettlement of persons displaced as a result of the activities referred to above in paragraphs 1 and 2 of this Part C..

D. Resettlement under the Project and the Complementary Investment Program

Shanxi shall take, and shall cause to be taken all measures necessary to ensure that all persons displaced as a result of the Project and the Complementary Investment Program shall be resettled in accordance with the Project Resettlement Action Plan so as to improve the living standards and productivity of all such persons.

E. Monitoring and Evaluation

1. Shanxi shall maintain policies and procedures adequate to enable it to monitor



and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the implementation of Part B of the Project and the Complementary Investment Program (including the implementation of the Project Resettlement Action Plan as it relates to such program), and the achievement of their respective objectives.

2. Shanxi shall prepare, under guidelines acceptable to the Bank, and furnish to the Bank semi-annual reports, not later than April 15 and October 15 of each Fiscal Year, integrating the results of said monitoring and evaluation activities performed during the preceding calendar semester, consolidating (in the case of the October 15 reports) the reports furnished to it by the Beneficiaries pursuant to Section 7(g) of the Annex to this Schedule, and setting out (a) the measures recommended to ensure the continued efficient implementation of Part B of the Project and the Complementary Investment Program (including implementation of the Project Resettlement Action Plan) and the achievement of their respective objectives during the following twelve month period, including any proposed revisions to the Project Resettlement Action Plan indicated by said monitoring and evaluation activities, and (b) the proposed program of works for the Complementary Investment Program during the following 12 month period, including designs and a financing plan therefor.

3. Shanxi shall afford the Bank a reasonable opportunity to exchange views with Shanxi on each said report, and shall thereafter (a) introduce the revisions and implement the recommendations proposed in said report, and (b) implement the program of works proposed by said report, all with due diligence and efficiency, taking into account the views of the Bank on the matter.

F. Water Tariffs and Groundwater Extraction

1. Taiyuan Water Supply Tariffs

(a) Shanxi shall cause Taiyuan's water supply authority:

(i) until January 1, 2002, to refrain from incurring any debt, if after the incurrence of such debt, the ratio of debt to equity would be greater than 70 to 30;

(ii) commencing January 1, 2002, to refrain from incurring any debt unless a reasonable forecast of the revenues and expenditures of said authority shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.2 times its estimated debt service requirements in such year on all debt, including the debt to be incurred; and

(iii) to earn, for each Fiscal Year after the Fiscal Year ending on December 31, 2001, an annual return of not less than 2% of the average current net value of the fixed assets of said authority in operation.

(b) Before June 30 in each Fiscal Year, Shanxi shall, on the basis of forecasts prepared by it and satisfactory to the Bank, review whether Taiyuan's water supply authority would meet the requirements set forth in paragraph (a)(iii) of this Section in respect of such year and the next following Fiscal Year and shall furnish to the Bank a copy of such review upon its completion. If any such review shows that said requirements would not be met for the Fiscal Years covered by such review, Shanxi shall promptly take and cause to be taken all measures (including, without limitation, adjustments of the structure or levels of water tariffs charged by Taiyuan's water supply authority) in order to ensure that said requirements are met.

(c) For the purposes of this Section:

(i) The terms used in sub-paragraphs (a)(ii) and (a)(iii) of this Section shall have the meanings set forth in Sections 4.02(b) and 4.03(d) of the YRDPC Project Agreement, except that the references to YRDPC in said Sections of the YRDPC Project Agreement shall be deemed to refer to Taiyuan's water supply authority.

(ii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of Taiyuan's water

supply authority not

allocated to cover specific liabilities.

(iii) Wherever, for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

## 2. Capital Transfers to YRDPC

Shanxi shall transfer to YRDPC as a capital contribution, not later than December 31 of each of the calendar Fiscal Years 1997 through and including 2001, all Incremental Water Supply Revenues produced during said year. For purposes of this Section, the term "Incremental Water Supply Revenues" means the Fiscal Year, the difference between total revenues of Shanxi from all sources related to water supply during a said year and total revenues of Shanxi from all sources related to water supply during the next preceding year.

## 3. Shanxi Groundwater Extraction

In order to ensure the extraction of groundwater on an environmentally sustainable basis, Shanxi shall take the following actions.

(a) Shanxi shall, through its Price Bureau, develop, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than February 15, 1998, a program designed to ensure that not later than February 1, 2001 June 30, 2002 and at all times thereafter, the structure and levels of tariffs for all water supplied in Shanxi, shall be the same, regardless of whether the water is supplied through a municipal or provincial water supply authority or is obtained independently by the user of such water.

(b) Shanxi shall, through its Water Conservancy Bureau, develop, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than February June 15, 1998, a program designed to ensure that groundwater extraction in Shanxi shall be limited at all times to environmentally sound levels.

(c) Shanxi shall afford the Bank a reasonable opportunity to exchange views with Shanxi on the programs referred to in paragraphs (a) and (b) of this Section and shall thereafter carry out said programs with due diligence and efficiency, taking into account the comments of the Bank on the matter.

## ANNEX to SCHEDULE 2

### Sub-loans

The provisions of this Annex shall apply for purposes of Part B.2 of Schedule 2 to this Agreement.

### Enterprise Eligibility Criteria

1. Each Sub-loan for a Sub-project shall be made exclusively to a Beneficiary, which shall have established to the satisfaction of Shanxi, on the basis of guidelines acceptable to the Bank, that:

(a) it is an entity possessing legal person status, duly established and operating under the laws of the Borrower, with authority to borrow and carry out the Sub-project;

(b) it is creditworthy and has a sound financial structure and the organization, management, staff and other resources required for the efficient carrying out of its operations, including the Sub-project; and

(c) any proposed use in the Sub-project of patented or otherwise legally protected technology is consistent with its legal rights and obligations with respect to such technology.

## Sub-project Eligibility Criteria

2. Each Sub-loan shall be made to a Beneficiary for a Sub-project which Shanxi shall have determined, on the basis of an appraisal (including an environmental assessment) carried out in accordance with guidelines acceptable to the Bank, meets the following requirements:

(a) said Sub-project is technically feasible, and economically and financially and commercially viable; and is estimated to have a financial rate of return of at least 11% and an economic rate of return of at least 11%; and

(b) said Sub-project (i) is in compliance with environmental standards satisfactory to the Bank, and with all applicable laws and regulations of the Borrower relating to health, safety and environmental protection, and (ii) has been developed in accordance with the recommendations of an environmental impact assessment which has been approved by the environmental protection bureau responsible for the locality in which said Sub-project is located, and includes appropriate mitigation measures, based on said recommendations, to remedy any adverse impact on the environment.^1 Terms

3. The principal amount of each Sub-loan to a Beneficiary shall be [denominated and repayable in dollars]the equivalent in terms of dollars (determined as of the date or respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn for payments made by Shanxi under said Sub-loan (Dollar Amount), and shall be repaid by said Beneficiary to Shanxi in such currency as Shanxi shall specify in amounts equivalent to the Dollar Amount (determined as of the date or respective dates of repayment), over a period of not more than 8 years, inclusive of a grace period of not more than 3 years.

4. Each Beneficiary shall pay: (a) interest on the principal amount of the Sub-loan made to it and withdrawn and outstanding from time to time at a rate equal to or greater than the sum of (i) the rate payable by Shanxi pursuant to Section 3.01(b)(ii) of the Loan Agreement plus (ii) 2%; and (b) a commitment charge on the principal amount of said Sub-loan not withdrawn from time to time at a rate equal to three fourths' of one percent (0.75%) per annum.

5. No expenditure for a Sub-project shall be eligible for financing out of the proceeds of a Sub-loan unless:

(a) Shanxi shall have furnished to the Bank an appraisal report for said Sub-project and said Sub-loan shall have been approved by the Bank; or

(b) said Sub-loan shall have been a free limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account. For purposes of this Annex, a free limit Sub-loan shall be a Sub-loan (other than the first three Sub-loans made by Shanxi) which shall not exceed the sum of \$1,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan provided for in any outstanding agreement between the Borrower and the Bank or the Association, the proceeds of which have been or are being used to finance goods and services directly and materially related to said Sub-project, the foregoing amount being subject to change from time to time as determined by the Bank.

6. The aggregate amount of all Sub-loans made to any one Beneficiary and shall not exceed the equivalent of \$1,500,000, and the aggregate amount of all Sub-loans made for any one Sub-project shall not exceed the lesser of: (a) the estimated cost of said Sub-project (excluding the cost of land and civil works, and excluding taxes), ; and (b) the equivalent of \$1,500,000. The proceeds of each Sub-loan for a Sub-project shall be utilized exclusively to finance expenditures for goods and services required for said Sub-project.

## Other Conditions

7. Each Sub-loan to a Beneficiary shall be made on conditions whereby said Beneficiary shall undertake to:

(a) carry out its operations, including its respective Sub-project, with due

diligence and efficiency, in accordance with sound financial, managerial and technical practices, and consistent with appropriate health, safety and environmental practices acceptable to the Bank, and provide promptly as needed the funds, and other resources required for the purpose, and maintain adequate records and accounts;

(b) procure the goods and services required for its respective Sub-project in accordance with the provisions of Schedule 1 to this Agreement, and utilize said goods and works exclusively in the carrying out of said Sub-project;

(c) take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover the hazards incident to the acquisition, transportation, and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be payable in a currency freely usable by the enterprise to replace or repair such goods;

(d) enable the Bank to inspect the goods and the sites and works included in its respective Sub-project, the operation thereof and any relevant records and documents;

(e) at all times maintain and operate its equipment and facilities, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and industry practices;

(f) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition, have its records, accounts and financial statements for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank, and furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, for forwarding to the Bank should the Bank so require, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as Shanxi and, the Bank if applicable, the Bank, shall have reasonably requested; and

(g) (i) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank^ the implementation of its Sub-project, and of the air and waste water emissions from its plants, (ii) prepare, under terms of reference acceptable to the Bank, and furnish to Shanxi for forwarding to the Bank pursuant to Part E of Schedule 2 to this Agreement, annual reports, not later than September 1 of each Fiscal Year summarizing said monitoring activities carried out during the current Fiscal Year, (iii) afford Shanxi and the Bank a reasonable opportunity to exchange views with said enterprise each said report, and (iv) thereafter, promptly take all measures required to ensure the continued efficient carrying out of its Sub-project, based on the conclusions and recommendations of said report and the views of the Bank and Shanxi on the matter.

