

CONFORMED COPY

CREDIT NUMBER 2336 CHA

(Rural Water Supply and Sanitation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 10, 1992

CREDIT NUMBER 2336 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 10, 1992, 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 Gansu Province, Guangxi Zhuang Autonomous Region, Hunan Province, Nei Mongol Autonomous Region, Xinjiang Uygur Autonomous Region and Yunnan Province (the Project Provinces and Regions) with the Borrower's assistance and, as part of such assistance, the Borrower will make available the proceeds of the Credit to the Project Provinces and Regions 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 the Project Provinces and Regions;

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) "Bank" means the International Bank for Reconstruction and Development;
- (b) "CPOs" means the County-level Project Offices to be maintained pursuant to Section I of Schedule 2 to the Project Agreement;
- (c) "MOPH" means the Borrower's Ministry of Public Health;
- (d) "NPO" means the National Project Office to be maintained pursuant to Paragraph 1 of Schedule 3 to this Agreement;
- (e) "PIP" means the annual Project Implementation plan prepared by each Project Province and Region pursuant to Section II, paragraph 1 of Schedule 2 to the Project Agreement; "PIPs" means all of the annual project implementations plans prepared by the Project Provinces and Regions for a given calendar year.
- (f) "Project Agreement" means the agreement between the Association and the Project Provinces and Regions, 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;
- (g) "Project Provinces and Regions" means Gansu Province, Guizhou Autonomous Region, Hunan Province, Nei Mongol Autonomous Region, Xinjiang Uygur Autonomous Region and Yunnan Province; "Project Province and Region" and "Project Province or Region" means any one of the Project Provinces and Regions;
- (h) "PPO" means the provincial- or regional-level project office to be maintained pursuant to Section I of Schedule 2 to the Project Agreement;
- (i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (j) "Renminbi" means the currency of the Borrower.

## 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 seventy-eight million nine hundred thousand Special Drawing Rights (SDR 78,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made or, if the Association shall so agree, to be made, in respect of the reasonable cost of goods and services required for the Project 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 in a bank, a special deposit account 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 4 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 1 and August 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 semiannual installments payable on each February 1 and August 1 commencing August 1, 2002 and ending February 1, 2027. Each installment to and including the installment payable on February 1, 2012 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:

(i) shall carry out Parts D.1 and E.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering standards and practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause the Project Provinces and Regions to perform all of their respective obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Project Provinces and Regions to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts D.1 and E.1 of the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

(c) The Borrower shall make a portion of the proceeds of the Credit available to each Project Province and Region on terms and conditions and in accordance with arrangements satisfactory to the Association.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and works 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. Except as otherwise provided for in this Agreement, 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 respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Parts A, B, C, D.2 and E.2 of the Project shall be carried out by the Project Provinces and Regions pursuant to Section 2.03 of the Project Agreement.

Section 3.04. (a) The Borrower shall, by April 30, 1992, open and maintain, or cause to be opened and maintained six separate revolving accounts, one for the benefit of each Project Province or Region, for purposes of financing local expenditures under the Project, including making an initial deposit from the Borrower's own funds into each revolving fund of an amount equivalent to three months' local expenditures under the Project.

(b) The Borrower shall make deposits, or shall cause deposits to be made, into each such revolving account on a monthly basis of amounts sufficient to maintain a balance equivalent to the initial deposit. Such deposits shall be made from the Borrower's own funds or the respective Project Province's or Region's own funds.

### 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 or any part thereof, including without limitation: (i) maintaining such records and accounts with

respect to Parts D.1 and E.1 of the Project of the departments or agencies of the Borrower responsible for carrying out the Project; and (ii) consolidating the audit of the records and accounts with respect to Parts A, B, C, D.2 and E.2 of the Project Provinces and Regions 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 under Parts D.1 and E.1 of the Project 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 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 controls 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 events are specified:

(a) any Project Province or Region shall have failed to perform any of its obligations under the Project Agreement; and

(b) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Project Province or Region 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, that any event specified in paragraph

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

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as additional conditions 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 shall have approved 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 Agreement has been duly authorized or ratified by each Project Province and Region, and is legally binding upon each Project Province and Region 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/ Gautam S. Kaji

Regional Vice President  
East Asia and Pacific

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
Gansu Province		
(1) Civil works under Part A of the Project in:	20,060,000	
(a) Gansu Province		60%
(b) Guangxi Zhuang Autonomous Region		40%
(c) Hunan Province		35%
(d) Nei Mongol Autonomous Region		10%
(e) Xinjiang Uygur Autonomous Region		45%
(f) Yunnan Province		40%
(2) Goods, equipment, materials and utility vehicles	49,720,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost)
(3) Consultants' services and training	1,150,000	100% of foreign expenditures
(4) Unallocated	7,970,000	
TOTAL	78,900,000	

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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; and

(b) payments made for expenditures in respect of Category (1) unless the Association shall have received evidence, satisfactory to the Association, that actions required by paragraph 3 of Schedule 3 to this Agreement have been taken.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to improve rural health and productivity in poor areas in the Project Provinces and Regions; (b) to develop long-term water and sanitation strategies to identify priority investments at local levels; (c) to develop low-cost and sustainable systems for water supply, water treatment and sanitation; (d) to improve water supply, sanitation and health and hygiene education; (e) to establish and strengthen water supply, sanitation and health education institutions; and (f) to enhance replicability of Project activities.

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: Water Supply

1. Construction of waterworks systems, communal faucet systems, wells with handpumps, rainwater collectors and related facilities.
2. Provision of water quality testing equipment and utility vehicles.
3. Development and dissemination of new water supply technologies through demonstrations and publication and distribution of technical manuals and guidelines.

#### Part B: Sanitation

1. Construction of household, communal and school latrines, animal enclosures and drainage ditches in selected pilot and demonstration villages in counties participating in the Project.
2. Development of replicable sanitation programs.

#### Part C: Health and Hygiene Education

1. Provision of health and hygiene education to all Project counties through training of administrators and key community members at the provincial, county and village levels.
2. Construction and equipping of training facilities and provision of materials and utility vehicles.
3. Development and dissemination of health and hygiene education materials.

#### Part D: Technical Assistance and Training



1. Provision of technical assistance and training in management, finance, procurement and health education at the national level.
2. Provision of technical assistance and training in management, finance, procurement and health education at the provincial, county and village levels.

Part E: Institutional Development and Project Management

1. Provision of technical assistance and equipment in support of institutional development, project management and supervision at the national level.
2. Civil works and provision of technical assistance and equipment in support of institutional development, project management and supervision at the provincial and county levels.

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The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Implementation Program  
for Parts D.1 and E.1 of the Project

1. The Borrower shall maintain NPO through completion of the Project with facilities and functions satisfactory to the Association, staffed by qualified personnel in adequate numbers.
2. The Borrower shall, by October 15th of each year during implementation of the Project:
  - (a) prepare and provide to the Association for its review and approval, a detailed plan of training, institutional development and project management functions to be carried out, and a list of equipment and materials to be financed from the proceeds of the Credit, under Parts D.1 and E.1 of the Project during the next calendar year; and
  - (b) prepare a consolidated report of PIPs and provide such report to the Association for its review and approval.
3. The Borrower shall publish manuals, acceptable to the Association, of design criteria for (a) non-piped water supply facilities and (b) sanitation facilities and shall disseminate the manuals in the Project Provinces and Regions in a manner satisfactory to the Association.
4. The Borrower shall ensure that all non-piped and piped water supply systems financed under the Project shall be planned and designed in accordance with criteria contained in planning and design manuals acceptable to the Association, and that such systems be reviewed and approved in accordance with procedures acceptable to the Association, including, without limitation, review and approval by NPO of all systems costing two million (2,000,000) Renminbi or more.

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:
  - (a) the term "eligible Categories" means Categories (1) - (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 \$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 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 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 said 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 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 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 in respect of the respective Parts of the Project 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 for the Special Account, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the respective General Conditions with respect to the respective Parts of 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 for the Special Account 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 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 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.

