

CONFORMED COPY

CREDIT NUMBER 2834 CHA

Development Credit Agreement

(Shanxi Poverty Alleviation Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 7, 1996

CREDIT NUMBER 2834 CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 7, 1996, 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) Shanxi (as defined in Section 1.02(g) of this Agreement) will carry out the Project with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Shanxi 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 Shanxi;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Agroprocessing Sub-loan" means a loan made or proposed to be made by Shanxi out of the proceeds of the Credit for an Agroprocessing Sub-project.

(b) "Agroprocessing Sub-project" means a specific project to be carried out under Part H(1) of the Project utilizing the proceeds of an Agroprocessing Sub-loan.

(c) "Livestock Sub-project" means a specific project to be carried out under Part G(1) of the Project utilizing the goods procured by Shanxi for the purpose and to be financed out of the proceeds of the Credit.

(d) "Luliang" means Luliang Prefecture in Shanxi.

(e) "Project Agreement" means the agreement between the Association and Shanxi, 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.

(f) "Resettlement Action Plan" means the resettlement action plan prepared by the Shanxi Poverty Alleviation Project Management Office and dated July 25, 1995, for the resettlement of persons displaced as a result of the Project.

(g) "Shanxi" means the Borrower's Province of Shanxi.

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

(i) "WF" means the Luliang Women's Federation or the Yuncheng Women's Federation (as the case may be), each of which is an organization operating under the aegis of the All China Women's Federation, an organization of the Borrower.

(j) "WF Sub-loan" means a loan made or proposed to be made by Shanxi, through WF, out of the proceeds of the Credit for a WF Sub-project.

(k) "WF Sub-project" means a specific project to be carried out under Part I(1) of the Project utilizing the proceeds of a WF Sub-loan.

(l) "Yuncheng" means Yuncheng Prefecture in Shanxi.

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 sixty-seven million three hundred thousand Special Drawing Rights (SDR 67,300,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a financial institution and on terms and conditions, both 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, 2002 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 semi-annual installments payable on each February 15 and August 15, commencing August 15, 2006 and ending February 15, 2031. Each installment to and including the installment payable on February 15, 2016 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 Shanxi to perform in accordance with the provisions of the Project Agreement all the obligations of Shanxi 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 Shanxi 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 Shanxi on the following principal terms:

(i) The principal amount so made available: (A) shall be the equivalent in terms of Special Drawing Rights (determined on the date or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies so withdrawn; and (B) shall be recovered by the Borrower in dollars in an amount equal to the equivalent (determined as of the date or respective dates of repayment) of the amount referred to in subparagraph (A) above.

(ii) The Borrower shall recover from Shanxi the principal amount referred to in paragraph (b)(i)(B) of this Section over a period of twenty (20) years, inclusive of a grace period of seven (7) years.

(iii) The Borrower shall charge interest on the principal amount referred to in paragraph (b)(i)(B) of this Section and withdrawn and outstanding from time to time at a rate equal to three and one half percent (3.5%) per annum.

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 Shanxi pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
- (iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a)(i) of this Section and 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 (6) 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, including 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; and
- (iii) furnish 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) Shanxi 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 Shanxi 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 Section 5.01(a) 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 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 Shanxi, and is legally binding upon Shanxi in accordance with its terms.

Section 6.02. 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.

Section 6.03. The provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

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 (MCI) or
64145 (MCI)

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/ Li Daoyu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Russell Cheetham

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
(1) Civil works other than for Part E of the Project	24,200,000	50%
(2) Goods other than for Parts G and I of the Project	22,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(3) Soil and Water Conservation Activities for Part E of the Project	6,400,000	60%
(4) Horticulture Activities for Part F of the Project	6,100,000	40%
(5) Goods and works for Part G of the Project (Livestock)	6,100,000	80%
(6) Goods, works and training for Part I of the Project (WF)	200,000	50%
(7) Consultants' services, training and study tours other than for Part I of the Project	1,500,000	100%
 TOTAL	 67,300,000 =====	

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;

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

(c) the term "Soil and Water Conservation Activities" means dam construction, terracing and afforestation; and

(d) the term "Horticulture Activities" means planting, land preparation and seedling supply.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 6,730,000 may be made on account of payments made for expenditures before that date but after August 1, 1995.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) goods under contracts costing less than \$250,000 equivalent each, (b) works, under contracts costing less than \$1,000,000 equivalent each, (c) consultants' services under contracts awarded to firms, costing less than \$100,000 each, (d) consultants' services under contracts awarded to individuals, costing less than \$50,000 each, and (e) training and study tours; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in alleviation of poverty in the poorest counties of Yuncheng and Luliang through rehabilitation of irrigation systems, upgrading of rural roads, establishment of village water supplies, land development, expansion of livestock raising and horticulture and expansion of primary agricultural processing capacity.

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: Yuncheng Irrigation System

(1) Construction of a pumping complex and associated structures on the bank of the Yellow River in Yuncheng and provision of floating pumps.

(2) Upgrading and expansion of Yuncheng's irrigation system, including rehabilitation and construction of pumping stations, canals and related structures.

Part B: Yuncheng River Beach Development

Development of protected river beach land along the Yellow River in Yuncheng, consisting of:

(1) installation of tubewells and associated electrification, land levelling, upgrading of rural roads and construction of canals;

(2) rehabilitation and construction of fish ponds, construction of a fish hatchery, establishment of a fish farmers' association for the exchange of market information, technical advice and carrying out of applied research; and

(3) development of a nature reserve on undeveloped beach land through the establishment of a forest protection belt and observation facilities.

Part C: Rural Water Supply

Construction of village water supply schemes in Luliang and Yuncheng, including construction of deep well and spring-based systems, diversion schemes and household cisterns.

Part D: Rural Roads

Upgrading of rural roads in Luliang and Yuncheng.

Part E: Luliang Soil and Water Conservation

Implementation of a program of soil and conservation works in small watersheds in Luliang, consisting of construction of sediment control dams, terracing of moderate slope lands and afforestation of steep slopes and wasteland.

Part F: Horticulture

(1) Establishment of fruit and nut tree plantations in Luliang and Yuncheng, including land preparation, upgrading of seedling nurseries and provision of seedlings and plants.

(2) Implementation of a program of horticultural research and training in Luliang and Yuncheng, including (a) construction of a tissue culture laboratory and related facilities, nurseries, storage facilities, (b) carrying out of soil, plant, water and pest management activities, (c) provision of training for farmers and extension personnel and (d) provision of equipment required therefor.

Part G: Livestock

(1) Financing, through the provision on credit terms of livestock and equipment to farmers in Luliang and Yuncheng, of projects to develop livestock farming enterprises.

(2) Implementation of a program in Luliang and Yuncheng to improve veterinary and artificial insemination services and research and training in livestock management, consisting of the provision of vehicles, equipment, bulls and publications, construction and upgrading of facilities, development of research topics and provision of training for farmers and personnel of Shanxi.

Part H: Agroprocessing

(1) Financing, through the provision of loans to selected entrepreneurs in Luliang and Yuncheng, of specific projects to develop and expand the operations of their agroprocessing facilities.

(2) Development and implementation of a program to assist the entrepreneurs referred to in Part H(1) of this Schedule in strengthening the organization, management and operations of their enterprises.

Part I: WF

(1) Financing, through the provision of loans to women in low-income households in Luliang and Yuncheng, of specific projects to establish household livestock production enterprises.

(2) Development and implementation through WF of a training program in Luliang to assist women in developing and managing household livestock production activities, including provision of materials and equipment required therefor.

Part J: Project Management and Institutional Development

(1) Implementation of a program to strengthen Project management by the provincial and prefectural Project offices in Shanxi, consisting of the provision of equipment, vehicles, facilities, study tours and training required therefor.

(2) Implementation of a program of training to improve extension services in Luliang and Yuncheng, including provision of equipment, vehicles and facilities required therefor.

* * *

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

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5), (6) and (7) 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 \$8,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$5,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 15,000,000.

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 in 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 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 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;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) 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.

