Loan Agreement

(Gansu and Xinjiang Pastoral Development Project)

between

PEOPLE’S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 6, 2003
LOAN AGREEMENT

AGREEMENT, dated November 6, 2003, between PEOPLE’S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of Parts A.2, B.4, D and E of the Project to be carried out in the GEF-assisted Project Counties (as defined in GEF Trust Fund Grant Agreement), the Bank has determined that such assistance would be in accordance with Resolution No. 94-2 of the Executive Directors dated May 24, 1994, establishing the GEF Trust Fund, and by an agreement of even date herewith between the Borrower and the Bank acting as an implementing agency of the GEF (the GEF Trust Fund Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equal to ten million five hundred thousand Dollars ($10,500,000) (the GEF Trust Fund Grant);

(C) the Project will be carried out by Gansu Province (Gansu) and Xinjiang – Uyghur Autonomous Region (Xinjiang) with the Borrower’s assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to Gansu and Xinjiang, as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and Gansu and Xinjiang (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:
ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (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) “Beneficiaries Participation Sub-Manuals” means the Gansu Beneficiaries Participation Sub-Manual dated July 17, 2003, adopted by Gansu and the Xinjiang Beneficiaries Participation Sub-Manual dated July 17, 2003, adopted by Xinjiang, both referred to in paragraph 8 of Schedule 2 to the Project Agreement, each manual identifying the beneficiary groups and types of activities to be undertaken by said beneficiaries, and setting out the process and forum for meaningful consultation with and informed participation of said beneficiaries; and a “Beneficiaries Participation Sub-manual” means either of said sub-manuals.

(b) “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) “Dam Safety Review Guidelines” means the Dam Safety Review Guidelines dated July 17, 2003, referred to in paragraph 7 of Schedule 2 to the Project Agreement, which sets out the procedure for reviewing the safety of dams that may be included in the Project and the criteria for application of said guidelines.

(d) “Environmental Management and Monitoring Plans” and “EMMPs” mean: (i) the Gansu Environmental Management Plan dated July 17, 2003, adopted by Gansu, and (ii) the Xinjiang Environmental Management Plan, dated July 17, 2003, adopted by Xinjiang, both referred to in paragraph 5 of Schedule 2 to the Project Agreement, in each case setting out the environmental protection measures in respect of Gansu and Xinjiang’s Respective Parts of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plans, as said plans may be revised from time to time with the agreement of the Bank; and “Environmental Management and Monitoring Plan” and “EMMP” mean either of said plans.

(e) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 of the Project Agreement.
(f) “Gansu” means the Borrower’s Gansu Province, and any successor thereto.

(g) “Gansu Special Account” means the account referred to in Section 2.02 (b)(i) of this Agreement.

(h) “Multi-Ethnic Groups Development Strategies” means: (i) the Gansu Multi-Ethnic Groups Development Strategy, dated July 17, 2003, adopted by Gansu, and (ii) the Xinjiang Multi Ethnic Groups Development Strategy, dated July 17, 2003, adopted by Xinjiang, both referred to in paragraph 6 of Schedule 2 to the Project Agreement, in each case setting forth the strategy and activities incorporated into Gansu and Xinjiang’s Respective Parts of the Project, to ensure: (i) meaningful consultation with and informed participation of minority nationality communities in the design and implementation of Project activities in locations in which such communities reside, (ii) Project benefits which are socially and culturally acceptable to such communities, and (iii) reduction, mitigation and off-setting of potential adverse impacts on such communities, as said strategies may be amended from time to time with the agreement of the Bank; and a “Multi Ethnic Development Strategy” means either of said strategies.

(i) “Project Agreement” means the agreement between the Bank and Gansu and Xinjiang of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement.

(j) “Project Counties” means, collectively, those counties, districts and county-level cities within Gansu and Xinjiang which are carrying out the Project or any part thereof; and a “Project County” means any of the Project Counties.

(k) “Project Implementation Manuals” means, collectively: (i) the Gansu Project Implementation Manual dated July 17, 2003, including sub-manuals, prepared by Gansu, and (ii) the Xinjiang Project Implementation Manual, dated July 17, 2003, including sub-manuals, prepared by Xinjiang, both referred to in paragraph 9 of Schedule 2 to the Project Agreement, as said manuals, including sub-manuals, may be amended from time to time with the agreement of the Bank; and a “Project Implementation Manual” means either of said manuals.

(l) “Project Leading Groups” means, collectively, the groups established in each Project Province and in each of the Project Counties by their respective levels of government to be responsible for the activities set forth in paragraph 1 of Schedule 2 to the Project Agreement; and a “Project Leading Group” means any of the Project Leading Groups.

(m) “Project Management Offices” means, collectively, the offices established at the provincial level, and in each of the Project Prefectures/cities, Project Counties and Project Townships by the respective levels of government, under the guidance of the respective Project Leading Groups, to be responsible for the activities set
forth in paragraph 2 of Schedule 2 to the Project Agreement; and a “Project Management Office” means any of the Project Management Offices.

(n) “Project Prefectures/cities” means, collectively, those prefectures/cities within Gansu and Xinjiang that have one or more Project Counties within their respective jurisdiction; and a “Project Prefecture/city” means any of the Project Prefectures/cities.

(o) “Project Provinces” means, collectively, Gansu and Xinjiang; and a “Project Province” means either of said Project Provinces.

(p) “Project Townships” means, collectively, those townships within the Project Counties that are carrying out the Project or any part thereof; and a “Project Township” means any of the Project Townships.

(q) “Respective Part of the Project” means in respect of each Project Province, the activities under the Project carried out or to be carried out by said Project Province.

(r) “Special Accounts” means, collectively, the Gansu Special Account and the Xinjiang Special Account; and a “Special Account” means either of said Special Accounts.

(s) “Sub-project” means a specific investment project selected for financing under Parts A.1, A.2, B.1, B.2, B.3, C.1, and C.2 of the Project in accordance with the provisions of paragraph 11 of Schedule 2 to the Project Agreement; and “Sub-projects” means, collectively, all such Sub-projects.

(t) “Technical Advisory Groups” means, collectively, the groups of experts established at the provincial level and in each of the Project Counties by the respective levels of government to provide technical advice to the respective Project Leading Groups, and technical support to the respective Project Management Offices, in accordance with the provisions of paragraph 3 of Schedule 2 to the Project Agreement; and “Technical Advisory Group” means any of said Technical Advisory Groups.

(u) “Xinjiang” means the Borrower’s Xinjiang-Uyghur Autonomous Region, and any successor thereto.

(v) “Xinjiang Special Account” means the account referred to in Section 2.02 (b)(ii) of this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Gansu or Xinjiang.
ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to sixty-six million two hundred seventy thousand Dollars ($66,270,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the carrying out of the Project and to be financed out of the proceeds of the Loan and in respect of which the withdrawal from the Loan account is requested; and (ii) in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, open and maintain in Dollars:

(i) a separate special deposit account for purposes of Gansu’s Respective Part of the Project; and

(ii) a separate special deposit account for purposes of Xinjiang’s Respective Part of the Project,

in each case in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.
(b) For the purposes of this Section:

(i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.

(iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on May 15 and November 15 in each year.
Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause each of Gansu and Xinjiang to perform in accordance with the provisions of the Project Agreement all the respective obligations of Gansu and Xinjiang therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Gansu and Xinjiang to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) To this end, the Borrower shall make part of the proceeds of the Loan available to each of Gansu and Xinjiang under the following principal terms and conditions:

(i) the principal amount so made available to Gansu and Xinjiang shall be the equivalent in terms of Dollars (determined as of the date or respective dates of withdrawal from the Loan Account, or payment out of the respective Special Account, as the case may be) of the value of the currency or currencies so withdrawn or paid out on account of the cost of items required for the Respective Parts of the Project and to be financed out of the proceeds of the Loan, and shall be recovered by the Borrower in Dollars (the respective Loan Amounts).

(ii) the Borrower shall recover from each of Gansu and Xinjiang the respective Loan Amounts in semi-annual installments over a period of twenty (20) years, inclusive of a grace period of five (5) years;

(iii) the Borrower shall charge each of Gansu and Xinjiang interest on the respective Loan Amounts withdrawn and outstanding from time to time at a rate which shall not exceed the rate payable by the Borrower pursuant to Section 2.06 of this Agreement; and

(iv) the Borrower shall charge each of Gansu and Xinjiang: (A) a commitment fee on the principal amount of the Loan so made available and not withdrawn from time to time at a rate which
shall not exceed three-fourths of one percent (3/4 of 1%) per annum; and (B) an additional fee in an amount equal to one percent (1%) of the respective Loan Amounts.

(c) The Borrower shall maintain throughout the period of implementation of the Project, the Central Project Management Office, within the Ministry of Agriculture with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for overall Project supervision and coordination between Gansu and Xinjiang, including in respect of training, study tours and Project monitoring, evaluation and reporting.

Section 3.02. Except 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 the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that 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) shall be carried out by Gansu and Xinjiang in respect of their Respective Parts of the Project 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 Loan 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 separate 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 Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank’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 Accounts 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, including a separate opinion of 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 Bank such other information concerning said records and accounts, and the audit thereof as the Bank may from time to time reasonably request.

ARTICLE V
Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) Either Gansu or Xinjiang shall have failed to perform any of its respective obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that either Gansu or Xinjiang will be able to perform its respective obligations under the Project Agreement.

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the GEF Trust Fund Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Trust Fund Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, or termination is not caused
by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely that an 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 Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, the GEF Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) the Project Agreement has been duly authorized or ratified by each of Gansu and Xinjiang, and is legally binding upon each of Gansu and Xinjiang in accordance with its terms; and

(b) the GEF Trust Fund Grant Agreement has been duly authorized or ratified by the Borrower and is legally binding upon the Borrower 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

Representative 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

Facsimile:

(86-10) 68 55 11 25

For the Bank:

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

Cable address: Telex: Facsimile:
INTBAFRAD 248423 (MCI) or (1-202) 477-6391
Washington, D.C. 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 Beijing, People’s Republic of China, as of the day and year first above written.

PEOPLE’S REPUBLIC OF CHINA

By /s/ Zou Jiayi

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative
**SCHEDULE 1**

*Withdrawal of the Proceeds of the Loan*

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gansu’s Respective Part of the Project:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Works:</td>
<td>6,243,800</td>
<td>44%</td>
</tr>
<tr>
<td>(b) Goods:</td>
<td>29,087,800</td>
<td>100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally.</td>
</tr>
<tr>
<td>(c) Consultants’ services</td>
<td>1,295,700</td>
<td>91%</td>
</tr>
<tr>
<td>(d) Training and study tours</td>
<td>1,260,000</td>
<td>100% of foreign expenditures and 80% of local expenditures</td>
</tr>
</tbody>
</table>

| **Xinjiang’s Respective Part of the Project:** |                                                     |                               |
| (a) Works:                              | 11,978,100                                         | 57%                           |
| (b) Goods                               | 13,385,400                                         | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally. |
| (c) Consultants’ services               | 890,700                                            | 91%                           |
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; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region, and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed “foreign expenditures”; and

(b) the term “local expenditures” means expenditures that are not foreign expenditures.

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: (a) for Gansu, in an aggregate amount not exceeding $3,870,000, may be made in respect of Categories (1)(a), (b) and (c) set forth in the table in paragraph 1 of this Schedule; and (b) for Xinjiang, in an aggregate amount not exceeding $1,520,000, may be made in respect of Category (2) set forth in the table in paragraph 1 of this Schedule, all on account of payments made for expenditures before that date but after April 1, 2003.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than $300,000 equivalent each; (b) goods under contracts costing less $100,000 equivalent each; (c) consultants’ services under contracts with firms costing less than $100,000 equivalent each; (d) consultants’ services under contracts with individuals
costing less than $50,000 equivalent each; and (e) training and study tours, all under such terms and conditions as the Bank shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to promote sustainable natural resource management through the improvement of livestock production and marketing systems which would increase income for herders and farmers in Gansu Province and Xinjiang-Uyghur Autonomous Region.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Grassland Management and Forage Improvement

Carrying out a program to promote the sustainable management of rangelands, grasslands and artificial pastures and to increase the supplies of quality feed and forage, said program to include the following:

1. Development, testing, extension and evaluation of new systems to grow annual and perennial forage and fodder, including irrigation development and construction of deep wells to provide water for forage and fodder cultivation.

2. Grassland management and improvement, through the development and implementation, using participatory methods, of grassland resource management plans and grassland management and pastoral development systems, including reseeding, fencing of degraded grassland, construction of water tanks to provide water for livestock and herders; carrying out of grassland and biodiversity surveys and preparation of grassland resource maps; development and implementation of pastoral risk management strategies.

Part B: Livestock Production Improvement

Carrying out a program to develop sustainable livestock production systems and increase productivity through improvement in livestock genetics, and in animal husbandry practices and management, said program to include the following:

1. Support for fine wool and mutton sheep breeding, multiplication and fattening in nuclear breeding stations, multiplication farms and household production.

2. Support for beef breeding and fattening in household production.

3. Development of dairy production through the construction of high-yielding dairy cattle multiplication farms; establishment of a milk quality control center; and support to small-scale dairy farmers to expand their production scale and improve their production practices.

5. Construction and equipping of county artificial insemination stations and veterinary stations.

Part C: Market Systems Development

Carrying out a program to improve the marketing systems for livestock and livestock products, said program to include the following:

1. Development of market infrastructure through the construction and rehabilitation of livestock markets and shearing stations; construction of wool storage facilities, milking stations and milk collection stations.

2. Assistance to rural enterprises and farm entrepreneurs to increase production efficiency, profitability and value added of farms and processing enterprises.

3. Support to local marketing initiatives, through the promotion and development of farmer and herder trading groups; reorganization of wool selling systems, including promotion and information regarding fine wool production.

4. Development of market information services, market research activities and activities for the promotion and management of product quality, including identification and adoption of quality measurement standards for pastoral products.

Part D: Applied Research, Training and Extension

1. Carrying out of a program of applied research to identify, develop and adapt relevant technologies and practices for: sustainable grassland utilization and ecosystem management, improved livestock efficiency, productivity and quality, and market systems development.

2. Development of training programs; provision of training to trainers and to technical staff at the country level for the efficient transfer of technical and management knowledge; and provision of training for herders, producers, herder and farmer marketing groups, households and medium-size farms in grassland management, forage production, livestock breeding and feeding for production and product quality, livestock husbandry and management, and use of market information.

3. Carrying out of a program of extension services through participatory demonstrations, household visits, group discussions and leading enterprise-led training.
Part E: Project Management, Monitoring and Evaluation

1. Carrying out of a program to strengthen the implementation capacity of Project management offices and to promote community participation in Project activities.

2. Carrying out of studies to support the development of grassland management policies.

3. Establishment of a Project implementation monitoring and evaluation system, that monitors, inter alia, integrated ecosystem management, carbon sequestration, biodiversity status in managed grasslands and the social and environmental impacts of the Project.

* * *

The Project is expected to be completed by December 31, 2009.
### SCHEDULE 3

**Amortization Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (Expressed in Dollars)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 15, 2009</td>
<td>1,960,000</td>
</tr>
<tr>
<td>November 15, 2009</td>
<td>1,975,000</td>
</tr>
<tr>
<td>May 15, 2010</td>
<td>1,990,000</td>
</tr>
<tr>
<td>November 15, 2010</td>
<td>2,005,000</td>
</tr>
<tr>
<td>May 15, 2011</td>
<td>2,025,000</td>
</tr>
<tr>
<td>November 15, 2011</td>
<td>2,040,000</td>
</tr>
<tr>
<td>May 15, 2012</td>
<td>2,055,000</td>
</tr>
<tr>
<td>November 15, 2012</td>
<td>2,075,000</td>
</tr>
<tr>
<td>May 15, 2013</td>
<td>2,090,000</td>
</tr>
<tr>
<td>November 15, 2013</td>
<td>2,105,000</td>
</tr>
<tr>
<td>May 15, 2014</td>
<td>2,125,000</td>
</tr>
<tr>
<td>November 15, 2014</td>
<td>2,140,000</td>
</tr>
<tr>
<td>May 15, 2015</td>
<td>2,160,000</td>
</tr>
<tr>
<td>November 15, 2015</td>
<td>2,175,000</td>
</tr>
<tr>
<td>May 15, 2016</td>
<td>2,195,000</td>
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<tr>
<td>November 15, 2016</td>
<td>2,215,000</td>
</tr>
<tr>
<td>May 15, 2017</td>
<td>2,230,000</td>
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<tr>
<td>November 15, 2017</td>
<td>2,250,000</td>
</tr>
<tr>
<td>May 15, 2018</td>
<td>2,265,000</td>
</tr>
<tr>
<td>November 15, 2018</td>
<td>2,285,000</td>
</tr>
<tr>
<td>May 15, 2019</td>
<td>2,305,000</td>
</tr>
<tr>
<td>November 15, 2019</td>
<td>2,325,000</td>
</tr>
<tr>
<td>May 15, 2020</td>
<td>2,340,000</td>
</tr>
<tr>
<td>November 15, 2020</td>
<td>2,360,000</td>
</tr>
<tr>
<td>May 15, 2021</td>
<td>2,380,000</td>
</tr>
<tr>
<td>November 15, 2021</td>
<td>2,400,000</td>
</tr>
<tr>
<td>May 15, 2022</td>
<td>2,420,000</td>
</tr>
<tr>
<td>November 15, 2022</td>
<td>2,440,000</td>
</tr>
<tr>
<td>May 15, 2023</td>
<td>2,460,000</td>
</tr>
<tr>
<td>November 15, 2023</td>
<td>2,480,000</td>
</tr>
</tbody>
</table>

*The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.*
SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means: (i) in respect of Gansu’s Respective Part of the Project, Category (1); and (ii) in respect of Xinjiang’s Respective Part of the Project, Category (2), all as 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, works and services required for the Project and to be financed out of the proceeds of the Loan 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 the amount of $2,700,000 in respect of the Gansu Special Account and the amount of $1,900,000 in respect of the Xinjiang Special Account, in each case to be withdrawn from the Loan Account and deposited into the respective Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of $2,000,000 in respect of the Gansu Special Account, and the amount of $1,200,000 in respect of the Xinjiang Special Account, until: (i) in respect of the Gansu Special Account, the aggregate amount of withdrawals from the Loan Account allocated to Category (1) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Gansu’s Respective Part of the Project shall be equal to or exceed the equivalent of $15,000,000, and (ii) in respect of the Xinjiang Special Account, the aggregate amount of withdrawals from the Loan Account allocated to Category (2) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Xinjiang’s Respective Part of the Project shall be equal to or exceed the equivalent of $10,000,000.

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

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

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

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan 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 respective Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts; or

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or
(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for the Respective Part of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for the Respective Part of the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of any 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 Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into any 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 Bank shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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