Project Agreement

(Heilongjiang Dairy Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

HEILONGJIANG PROVINCE

Dated April 26, 2006
ARTICLE I

Definitions

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

ARTICLE II

Execution of the Project

Section 2.01. (a) Heilongjiang declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out
the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and livestock development practices and social and environmental standards acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Heilongjiang shall otherwise agree, Heilongjiang shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan and proceeds of the Italian Grant shall be governed by the provisions of Schedule 1 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) Heilongjiang shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 2.03. (a) Heilongjiang shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Heilongjiang shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Heilongjiang, a plan for the continued achievement of the objectives of the Project; and

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

Section 2.04. (a) Heilongjiang shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Loan.
(b) Heilongjiang shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan and of the Italian Grant, or the performance by Heilongjiang of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Heilongjiang shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations, resources and expenditures related to the Project.

(b) Heilongjiang shall:

(i) have its records, accounts and financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six(6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 3.02. Without limitation upon Heilongjiang’s reporting obligations set out in paragraph 11 of Schedule 2 to this Agreement, Heilongjiang shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which set forth sources and uses of funds for the Project, both cumulatively and for the period covered by each said report, showing separately funds provided under the Loan and the Italian Grant, and explain variances between the actual and planned uses of such funds.
(b) The first such financial management report shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each financial management report shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

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

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

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

ARTICLE V

Miscellaneous Provisions

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

For the Bank:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America
Cable address: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391
Washington, D.C.

For Heilongjiang:

Heilongjiang Provincial Development
And Reform Commission
World Bank Project Management Office
No. 202 Zhongshan Road,
Nangang District
Harbin 150001
People’s Republic of China

Facsimile:
011-86-451-8263-2146

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Heilongjiang may be taken or executed by its Governor or a Vice Governor of Heilongjiang or such other person or persons as said Governor or Vice Governor shall designate in writing, and Heilongjiang shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People’s Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ David Dollar

Authorized Representative

HEILONGJIANG PROVINCE

By /s/ Li Zhanshu

Authorized Representative
SCHEDULE 1

Procurement and Consultants’ Services

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Borrower).

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $500,000 equivalent per contract and works estimated to cost less than $15,000,000 equivalent per contract, may be procured under contracts awarded: (a) on the basis of National Competitive Bidding; and (b) the following additional provisions:

The procedures to be followed for National Competitive Bidding shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:
(i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in the Borrower’s country, except for civil works contracts that are estimated to cost less than $2,000,000 equivalent each and for goods contracts that are estimated to cost less than $300,000 equivalent each, which may be advertised in a provincial daily newspaper. Such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.

(ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.

(iii) All bidders shall be required to provide security in an amount sufficient to protect Heilongjiang, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.

(iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.

(v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.

(vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by Heilongjiang.

(vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.
(viii) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.

2. **Shopping.** Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. **Community Participation.** Dairy cows to be procured under Part A.1 of the Project, and works and services to be procured under Part C of the Project may be procured on the basis of community participation in accordance with the procedures further elaborated in the Operational Manual approved by the Bank.

Section III. **Particular Methods of Procurement of Consultants’ Services**

A. **Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $300,000 equivalent per contract may comprise entirely national consultants.

B. **Other Procedures**

1. **Quality-based Selection.** Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. **Individual Consultants.** Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to the Bank’s prior approval.
4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods estimated to cost the equivalent of $300,000 or more; (b) each contract for works estimated to cost the equivalent of $1,000,000 or more; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of $100,000 or more; and each contract for consultants' services provided by a firm to be selected pursuant to paragraph B.4 of Section III of this Schedule, regardless of its contract value; and (d) each contract for individual consultants estimated to cost the equivalent of $50,000 or more, and each contract for consultants' services provided by individuals to be selected on a sole-source basis, regardless its contract value. All other contracts shall be subject to Post Review by the Bank.
SCHEDULE 2

Implementation Program

Project Management and Coordination

1. In order to ensure the proper carrying out of the Project, Heilongjiang shall maintain, or cause to be maintained, as the case may be, throughout the period of implementation of the Project, with terms of reference, staffing and other resources acceptable to the Bank:

(a) its Project Leading Group chaired by a Vice Governor of Heilongjiang, with representation from, but not limited to, Heilongjiang Development and Reform Commission, Heilongjiang Bureau of Finance, Heilongjiang Animal Husbandry Bureau, Heilongjiang Environment Protection Bureau, and Heilongjiang Agriculture Commission, to be responsible for: (i) providing overall policy guidance and support; (ii) providing coordination among relevant line agencies and bureaus of Heilongjiang; (iii) coordinating counterpart funding from various agencies and sources; (iv) approval of prefectures/cities and counties to participate in the Project in accordance with criteria acceptable to the Bank; and (v) reviewing the Project’s annual work plans and the Project’s progress reports;

(b) its Technical Advisory Group chaired by the Director of Heilongjiang Animal Husbandry Bureau, with representation from, but not limited to, Heilongjiang Animal Husbandry Bureau, Heilongjiang Livestock Information Center, Heilongjiang Animal Breeding Center, Heilongjiang Dairy Industry Association, and the North-East Agricultural University, to be responsible for providing technical advice and making recommendations on the technical aspects of the Project;

(c) its Provincial PMO, to be responsible for the day-to-day management of Project implementation, including preparation of annual work programs, review of local level work programs, financial management, procurement of goods, works and services, organization of training, and monitoring and evaluation of progress in implementing the Project;

(d) its local project management offices at municipal and county levels, to be responsible for coordination and supervision of the Project activities included within said offices’ respective jurisdictions, including consultations with farmers, identification of participating farmers, coordinating investment planning, monitoring and evaluation of the progress in implementing the Project within said offices’ respective jurisdictions;
(e) its Finance Bureau at provincial and lower level, to be responsible for the on-lending arrangements under the Project, including evaluating the creditworthiness of Sub-loan Beneficiaries, monitoring and collecting Sub-loans, and disbursing the Loan proceeds; and

(f) the working group established in HDIS, to be responsible for, under the management of the Provincial PMO, planning, monitoring and evaluating the implementation of Part B of the Project.

Project Implementation

2. Heilongjiang shall: (i) carry out the annual work program prepared for calendar year 2006 as approved by the Bank with due diligence and efficiency during said calendar year; and (ii) prepare, under guidelines acceptable to the Bank, and furnish to the Bank not later than December 31 in each calendar year for the Bank’s review, beginning on December 31, 2006, an annual work program setting forth the activities proposed to be implemented under the Project during the following calendar year, and consolidating the proposed plans of activities to be carried out during said following year under the Sub-projects. Thereafter, Heilongjiang shall ensure that such program as shall have been approved by the Bank shall be implemented with due diligence and efficiency during said following year.

3. (a) Heilongjiang shall carry out the Project in accordance with the Operational Manual, acceptable to the Bank, which manual shall include: (i) criteria and procedures, satisfactory to the Bank, for the selection of Sub-projects and the Sub-loans Beneficiaries; (ii) detailed on-lending arrangements, which specify, among others, that Heilongjiang shall not pass on any foreign exchange risk to individual farmers; (iii) a financial management manual, satisfactory to the Bank, including therein reporting requirements, financial management and audit procedures, in accordance with the provisions of Article 3 of this Agreement; and (iv) the procurement arrangements and standard bidding documents to be followed under the Project in accordance with Schedule 1 to the Project Agreement.

(b) Heilongjiang shall not amend, suspend, or waive said Operational Manual or any provision thereof, without the prior concurrence of the Bank.

4. A Sub-project under Parts A.1, A.3, and A.4 shall not be eligible for financing out of the proceeds of a Sub-loan unless the cattle sheds, related facilities, and animal feeds have been put in place to house and care for the dairy cows to be procured under the respective Sub-project. Without limitation on the foregoing, Heilongjiang shall: (a) appraise, select and monitor Sub-projects in accordance with the provisions of the Operational Manual, acceptable to the Bank and the relevant provision of this Agreement; (b) make Sub-loans in accordance with procedures and on terms and conditions acceptable to the Bank, which shall
include those set forth in the Annex to this Schedule; and (c) ensure that at least half of the Sub-loan Beneficiaries should be households who do not own dairy cattle.

5. In order to ensure the sustainability of Heilongjiang’s Animal Breeding Center, Heilongjiang shall maintain charge prices for the semen produced by said center at levels sufficient to cover the full cost of production of said semen. Heilongjiang shall review and adjust said prices at regular intervals so as to continue to give effect to the objective of ensuring full cost recovery of the production of said semen.

6. Heilongjiang shall, from time to time as required for the implementation of Parts A and B of the Project and for the preparation of tender documents for procurement of dairy cows, engage consultants, in adequate numbers, with expertise, terms of reference, qualification and experience, acceptable to the Borrower and the Bank.

7. Heilongjiang shall:

(a) carry out the following surveys in accordance with terms of reference acceptable to the Bank: (i) a technical baseline survey, not later than June 30, 2006; (ii) bi-annual socio-economic and dairy production surveys not later than June 30 of each even calendar year, starting June 30, 2008; and (iii) an annual interest rate survey for prevailing interest rates for similar investments in Heilongjiang not later than January 31 of every calendar year starting January 31, 2007; and

(b) promptly after the completion of each said survey, furnish a report thereon to the Bank for its review and comment.

Competitive Research Sub-grants and Competitive Research Sub-projects

8. Heilongjiang shall maintain during the implementation of Part C.4 of the Project, a Research Committee, with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for the overall management, monitoring and evaluation of the Competitive Research Sub-projects under Part C.4 of the Project, including: (i) developing procedures for evaluating and approving research proposals; (ii) approval of Competitive Research Sub-grants; (iii) monitoring the progress of each Competitive Research Sub-project’s implementation; and submitting semi-annual progress reports thereof to the Provincial PMO and the Bank; and (iv) disseminating to the public the outcomes of successful Competitive Research Sub-projects through publications.

9. For a Competitive Research Sub-project to be eligible for financing out of the proceeds of the Italian Grant, the Competitive Research Sub-project must meet the eligibility criteria established by the Research Committee, acceptable to
the Bank, including: (i) the objective of the proposed research proposal is to develop technologies that reduce greenhouse gas emissions and increase carbon sequestration; (ii) the research proposal has a clear plan for transferring and disseminating the technologies to end-users in the communities; and (iii) the research proposal has included monitoring indicators and milestones for assessing the environmental impacts of the Competitive Research Sub-projects.

10. To award a Competitive Research Sub-grant by the Research Committee, the following criteria should be met: (i) each Competitive Research Sub-grant Beneficiary should meet the eligibility criteria established by the Research committee, acceptable to the Bank; (ii) each Competitive Research Sub-grant shall not exceed RMB150,000 equivalent, unless the Bank shall otherwise agree; and (iii) Heilongjiang shall enter into a written contract with each Competitive Research Sub-grant Beneficiary under terms and conditions, satisfactory to the Bank, which shall include the obligation of the Competitive Research Sub-grant Beneficiary to: (A) carry out the research activity approved by the Research Committee with due diligence and efficiency, in accordance with appropriate financial, managerial, and technical practices, and sound safety and environmental standards acceptable to the Bank, and provide promptly as needed the additional funds, and other resources required for the Competitive Research Sub-project; (B) submit a semi-annual progress report and a final completion report to the Research Committee on the progress made in carrying out the Competitive Research Sub-project; (C) procure the goods and services to be financed under a Competitive Research Sub-project in accordance with the provisions of Schedule 1 to this Agreement; and ensure that said goods and services are exclusively utilized for carrying out the Competitive Research Sub-project; and (D) maintain adequate records and accounts with respect to the Competitive Research Sub-project and the use of the Competitive Research Sub-grant; and provide such information to Heilongjiang, the Borrower, or the Bank, if they may reasonably request them.

Monitoring and Reporting

11. (a) Heilongjiang shall maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Bank, the carrying out of the Project, and the achievement of the objectives thereof.

(b) Heilongjiang shall prepare, under terms of reference acceptable to the Bank, and furnish to the Bank the following reports:
(i) semi-annual reports, not later than February 28 and August 30 in each year, commencing on August 30, 2006, summarizing the monitoring and evaluation activities carried out by it pursuant to paragraph (a) above in respect of the preceding calendar semester, consolidating the semi-annual reports furnished to it by each Sub-loan Beneficiary pursuant to Paragraph 4(i) of the Annex to this Schedule, and setting forth the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of the objectives thereof during the then current calendar semester; and

(ii) a mid-term report, not later than June 30, 2008, summarizing the monitoring and evaluation activities carried out by it pursuant to paragraph (a) above in respect of the period preceding the date thereof, and setting forth the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following such date.

(c) Heilongjiang shall, after furnishing each report referred to in paragraph (b) of this Schedule, review said report with the Bank, and promptly take all measures required to ensure the continued efficient implementation of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Bank’s views on the matter.
Sub-loan Beneficiary Eligibility

1. (a) In the case that the Sub-loan Beneficiary is an individual or a household, said individual or household must be selected based on a weighed point system, following the criteria set forth in the Operational Manual, including: (i) at least one member of the household must be literate; (ii) the individual should be experienced or skilled with livestock raising either as an owner or a worker; (iii) the household should have sufficient labor power to carry out the Sub-project; (iv) the individual or household should have the financial ability to repay the Sub-loan in accordance with its terms; and (v) if the dairy cows are raised at an individual household site, the household must have space available for sheds and the household must be close to a milking station.

(b) In the case that the Sub-loan Beneficiary is an enterprise, such enterprise must be selected following the criteria set forth in the Operational Manual, including:

(i) it is an legal entity registered according to the laws of the Borrower with authority to borrow and carry out the Sub-project;

(ii) it has the organization, management, staff and other resources required for the efficient carrying out of its operations, including its respective Sub-project;

(iii) it has the technical skills and experience required for the carrying out of its respective Sub-project; and

(iv) its majority ownership (at least 51% of the ownership) is held by smallholders each of whom owns less than 10 adult cows.

Sub-project Eligibility

2. Each Sub-loan shall be made for a Sub-project under Parts A.2 through A.4 of the Project, which Heilongjiang shall have determined, on the basis of an
appraisal carried out in accordance with guidelines acceptable to the Bank, meets the following requirements:

(a) said Sub-project is technically feasible, and economically, financially and commercially viable;

(b) (i) said Sub-project is in compliance with environmental standards satisfactory to the Bank, and with all applicable laws and regulations of the Borrower relating to health, safety and environmental protection; (ii) the Sub-project Beneficiary has carried out an environmental screening for the Sub-project, in accordance with principles set forth in the EIA; and (iii) if the environmental screening carried out in accordance with principles set forth in the EIA concludes that an environmental management plan is required, said environmental management plan has been prepared and approved by the Borrower and the Bank; and

(c) if said Sub-project involves the involuntary resettlement of Displaced Persons, all such persons have been resettled and compensated prior to commencing civil works under such Sub-project in accordance with a resettlement action plan satisfactory to the Bank, and in accordance with the principles and procedures set forth in the Resettlement Policy Framework.

Terms of Sub-loans

3. Each Sub-Loan shall be made by Heilongjiang on the following principal terms:

(a) The principal amount of each Sub-loan made to a Sub-loan Beneficiary for a Sub-project under Parts A.1, A.2, and A.4 of the Project shall be the amount withdrawn from the Loan Account or paid out of the Special Account on account of the cost of goods, works, or services required for such Sub-project and to be financed out of the proceeds of the Loan. Said Sub-loan Beneficiary: (i) shall be charged interest on such principal amount withdrawn and outstanding from time to time at a rate not less than the then prevailing rate charged by the Borrower’s commercial financial institutions acceptable to the Bank for similar investments, whichever is lower, based on the annual interest rate survey conducted pursuant to the provisions of paragraph (7)(a)(iii) of Schedule 2 to the Project Agreement, however, the said interest should not be lower than the interest of the Loan set forth in Section 2.06 of the Loan Agreement; and (ii) shall repay such principal amount over a period not to exceed six (6) years, inclusive of a grace period not to exceed two years.
(b) The principal amount of each Sub-loan made to a Sub-loan Beneficiary for a Sub-project under Part A.3 of the Project shall be the amount withdrawn from the Loan Account or paid out of the Special Account on account of the cost of goods, works, and services required for such Sub-project and to be financed out of the proceeds of the Loan. Said Sub-loan Beneficiary: (i) shall be charged interest on such principal amount withdrawn and outstanding from time to time at a rate not less than the then prevailing rate charged by the Borrower’s commercial financial institutions acceptable to the Bank for similar investments, whichever is lower, based on the annual interest rate survey conducted pursuant to the provisions of paragraph (7)(a)(iii) of Schedule 2 to the Project Agreement, however, the said interest should not be lower than the interest of the Loan set forth in Section 2.06 of the Loan Agreement; and (ii) shall repay such principal amount over a period not to exceed eight years, inclusive of a grace period not to exceed three years.
Conditions of Sub-loans

4. In respect of each Sub-loan, the Project county in which the Sub-project is to be implemented shall obtain, by a written contract with its Sub-loan Beneficiary, or by other appropriate legal means, rights adequate to protect the interest of such Project county, Heilongjiang, the Borrower and the Bank, including that each Sub-loan Beneficiary shall undertake to:

   (a) carry out its Sub-project, with due diligence and efficiency, in accordance with appropriate technical, financial, managerial, and livestock development practices, and consistent with sound health, safety, social, and environmental standards acceptable to the Bank, and provide promptly as needed the funds, and other resources required for the Sub-project;

   (b) if its respective Sub-project involves the involuntary resettlement of Displaced Persons, prior to commencing civil works under said Sub-project, take and cause to be taken all measures necessary to ensure that all such persons shall be resettled in accordance with a resettlement action plan, satisfactory to the Bank, in accordance with the principles and procedures set forth in the Resettlement Policy Framework;

   (c) if the environmental screening carried out in accordance with principles set forth in the EIA concludes that an environmental management plan is required, said Sub-project shall be carried out in accordance with said environmental management plan approved by the Bank;

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

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

   (f) enable the Bank to inspect the goods and the sites and works included in its respective Sub-project, the operation thereof and any relevant records and documents;
(g) at all times maintain and operate its equipment and facilities, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and industry practices;

(h) maintain adequate records and accounts;

(i) (A) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank the implementation of its Sub-project, (B) prepare, under terms of reference acceptable to the Bank, and furnish to Heilongjiang, semiannual reports, not later than January 31 and July 31 of each year summarizing said monitoring activities carried out during the preceding calendar semester; (C) afford Heilongjiang and the Bank a reasonable opportunity to exchange views with said beneficiary on each said report, and (D) thereafter, promptly take all measures required to ensure the continued efficient carrying out of its Sub-project, based on the conclusions and recommendations of said report and the views of the Bank on the matter; and

(j) provide all such information as Heilongjiang, the respective Project county, the Borrower or the Bank may reasonably request regarding the management, operations and financial condition of the Sub-project Beneficiary (including its current year financial statement, records or accounts).

5. Heilongjiang shall:

(a) exercise its rights in relation to each Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under this Agreement and achieve the purposes of the Project; and

(b) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any portion thereof, without the prior approval of the Bank.
Schedule 3

Project Performance Indicators

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<td>• Targeted dairy farmers participating in smallholder and Dairy Park-based milk production sell more high quality milk.</td>
<td>3 farms 6 parks</td>
<td>7 farms 14 parks</td>
<td>7 farms 20 parks</td>
<td>7 farms 20 parks</td>
<td># bulls tested</td>
<td># bulls tested</td>
<td>Semi-annual progress reports</td>
<td>Milk Recording System Baseline survey &amp; socioeconomic surveys (every two years) &amp; annual inter rate survey</td>
<td>PPMO/HDIA/HABC</td>
</tr>
<tr>
<td>• A sustainable system of bull selection and progeny testing is functioning.</td>
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<td>PPMO</td>
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<tr>
<td>• Targeted dairy demonstration farms and parks are equipped with functioning manure treatment units and selected pastures.</td>
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<table>
<thead>
<tr>
<th>Results Indicators for Each Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component One :</td>
</tr>
<tr>
<td>• Targeted number of smallholder dairy farms, dairy parks and demonstration farms established.</td>
</tr>
<tr>
<td>• Anticipated increase in dairy productivity at household and parks dairy levels achieved.</td>
</tr>
</tbody>
</table>
- Number of dairy farmer associations established.
- Number of technician and farmer trained.
- Credit monitoring and collection of loans

<table>
<thead>
<tr>
<th>Component Two:</th>
<th>Number of dairy farmer associations established.</th>
<th>Number of technician and farmer trained.</th>
<th>Credit monitoring and collection of loans</th>
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<tbody>
<tr>
<td></td>
<td>350 technicians 3825 farmers As defined in operations manual</td>
<td>820 technicians 8925 farmers As defined in operations manual</td>
<td>1060 technicians 12750 farmers As defined in operations manual</td>
</tr>
<tr>
<td></td>
<td>1070 technicians 12750 farmers As defined in operations manual</td>
<td>1070 technicians 12750 farmers As defined in operations manual</td>
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<td></td>
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<tr>
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<td>350</td>
<td>3825</td>
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<td>PP/MO/HDIA PP/MO/HABC</td>
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<tr>
<td></td>
<td>PP/MO/HEPB</td>
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Component Three:
- Number of cows under milk recording (MR).
- Level of semen production and Inter-bull ranking of HABC bulls

<table>
<thead>
<tr>
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<th>Number of cows under milk recording (MR).</th>
<th>Level of semen production and Inter-bull ranking of HABC bulls</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10,000 cows 40,000 cows 80,000 cows 120,000 150,000 cows</td>
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</tr>
<tr>
<td></td>
<td>3,000 ha 6,500 ha 11,000 ha 16,500 ha 16,500 ha</td>
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<tr>
<td></td>
<td>14 treatment units 20 treatment units 20 treatment units 20 treatment units</td>
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</tr>
<tr>
<td></td>
<td>3 5 6 8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 2 3 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7 8 9 10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PP/MO/HDIA PP/MO/HABC</td>
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</table>

Component Four:
- Project progress, financial and procurement reports are initiated and submitted in a timely manner;
- Project impact/outcome monitoring indicators regularly updated.

<table>
<thead>
<tr>
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<th>Project progress, financial and procurement reports are initiated and submitted in a timely manner; Project impact/outcome monitoring indicators regularly updated.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 semi-annual progress reports 2 FMRs 1 baseline survey 1 semi-annual progress reports 2 FMRs 1 baseline survey</td>
</tr>
<tr>
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<td>Annual work plan 2 semi-annual progress reports 2 FMRs Annual work plan 2 semi-annual progress reports 2 FMRs</td>
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<td>Annual work plan 2 semi-annual progress reports 2 FMRs 1 mid-term review report by June 30, 2008 1st impact survey</td>
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<td>Annual work plan 2 semi-annual progress reports 2 FMRs 1st impact survey 1 completion report</td>
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<tr>
<td></td>
<td>1 semi-annual progress reports 2 FMRs 2nd impact survey 1 completion report</td>
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<td>Annual work plans Semi-annual progress &amp; Fin. Managment. Reports</td>
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<tr>
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<td>Regular project M&amp;E Baseline survey Socioeconomic surveys</td>
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<th>PP/MO/HABC</th>
<th>PP/MO/HEPB</th>
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<tbody>
<tr>
<td>Regular project M&amp;E Milk recording system Semi-annual progress reports</td>
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