

CONFORMED COPY

CREDIT NUMBER 2870 CHA  
LOAN NUMBER 4028 CHA

Project Agreement

(Gansu Hexi Corridor Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

GANSU PROVINCE

Dated July 2, 1996

CREDIT NUMBER 2870 CHA  
LOAN NUMBER 4028 CHA

PROJECT AGREEMENT

AGREEMENT, dated July 2, 1996, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and GANSU PROVINCE (Gansu).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the People's Republic of China (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to sixty-one million eight hundred thousand Special Drawing Rights (SDR 61,800,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Gansu agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by the Loan Agreement of even date herewith between the Borrower and the Bank, the Bank has agreed to make available to the Borrower an amount equal to sixty million dollars (\$60,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that Gansu agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(C) WHEREAS Gansu, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, and the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Loan Agreement and the General Conditions (as so defined in the Development Credit Agreement and the Loan Agreement, respectively) have the respective meanings therein set forth, and, wherever used in this Agreement, except in Section 5.03 hereof), reference to the Association, the Credit or the Credit Account shall also be deemed as reference to the Bank, the Loan and the Loan Account, respectively.

ARTICLE II

Execution of the Project

Section 2.01. (a) Gansu declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, engineering and environmental practices, 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 Association and Gansu shall otherwise agree, Gansu shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. 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 this Agreement.

Section 2.03. (a) Gansu shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions referred to in Section 1.01 of the Development Credit Agreement and in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions referred to in Section 1.01 of the Loan Agreement (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 referred to in Section 1.01 of the Development Credit Agreement and Section 9.08 of the General Conditions referred to in Section 1.01 of the Loan Agreement, and without limitation thereto, Gansu shall:

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

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

Section 2.04. (a) Gansu shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) Gansu shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by Gansu of its

obligations under this Agreement.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) Gansu shall maintain records and accounts adequate to reflect in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of Gansu responsible for carrying out the Project.

(b) Gansu shall:

(i) have the records and accounts referred to in paragraph (a) of this Section each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

### ARTICLE IV

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

Section 4.01. This Agreement shall come into force and effect on the date upon which both the Development Credit Agreement and the Loan Agreement become effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of Gansu thereunder shall terminate on the earlier of the following two dates:

(i) the date on which both the Development Credit Agreement and the Loan Agreement shall terminate in accordance with their terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement or the Loan Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify Gansu of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions referred to in Section 1.01 of the Development Credit Agreement, or under the General Conditions referred to in Section 1.01 of the Loan Agreement.

### ARTICLE V

#### Miscellaneous Provisions

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

For the 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)

For Gansu:

Gansu Provincial Bureau of Finance  
616 West Donggang Road  
Lanzhou 730000  
China

Cable address:

2398

Telex:

72148 FBOGP

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 Gansu may be taken or executed by any Vice Governor of Gansu or such other person or persons as such Vice Governor shall designate in writing, and Gansu shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. As long as the Bank has not given notice to the contrary to Gansu and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of Gansu to consult with, and to furnish information, documents, plans, reports, records and statements to, the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to, Gansu shall be satisfied to the extent such obligations are fulfilled by the Association; and

(c) all actions taken (including the giving of approvals or granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Loan Agreement, and in the name and on behalf of both the Association and the Bank.

Section 5.04. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Harold Messenger

Acting Regional Vice President  
East Asia and Pacific

GANSU PROVINCE

By /s/ Li Daoyu

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of Part B.1 of this Section I.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

(c) Notification and Advertising

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

3. The following provisions shall apply to works procured under contracts awarded in accordance with the provisions of Part B.1 or C.1 of this Section I.

(a) Prequalification

Bidders for works contracts estimated to cost \$5,000,000 equivalent or more each shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$77,300,000 equivalent, and goods estimated to cost less than \$200,000 equivalent per contract, but not less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$6,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of

paragraphs 3.3 and 3.4 of the Guidelines.

## 2. International Shopping

Goods estimated to cost less than \$100,000 equivalent, and \$50,000 equivalent or more, per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

## 3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, and housing materials, and production inputs for Part D of the Project, regardless of the cost thereof, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

## 4. Procurement of Small Works

Works estimated to cost less than \$200,000 equivalent per contract, up to an amount not to exceed \$45,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

## 5. Force Account and Beneficiary Participation

Works for land reclamation and preparation, salt leaching, on-farm works, ancillary structures, rural and farm roads under Part B(2) of the Project, for water and electricity supply systems under Part D(1) thereof and for afforestation under Part E thereof, which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$48,900,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines or by the use of Project beneficiaries hired in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

### 2. Prior Review

With respect to each contract for works estimated to cost the equivalent of \$2,000,000 or more and to each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance

with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

## SCHEDULE 2

### Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 2.01(b) of this Agreement.

#### A. Project Management

In order to ensure the proper carrying out of the Project, Gansu shall at all times maintain, with terms of reference, composition, and resources acceptable to the Association:

1. a Project management bureau, at the provincial level, to be responsible for the overall management of Project implementation;
2. a panel of experts to be responsible for providing technical advice to the PMB;
3. a consultative committee of local government representatives at each of the prefectural, township, city and county levels to be responsible for consulting with the PMB on implementation of the land settlement program under Part D of the Project and for ensuring full involvement of the local governmental authorities in said program;
4. a settlement advisory and coordination committee, to be responsible for providing advice to the PMB on the detailed planning, design and implementation of the land settlement program under Part D of the Project and for ensuring full participation of Settlers and existing residents in the Irrigation Areas in such design and implementation;
5. a county emigration and settlement leading group in each county from which Settlers will emigrate under Part D of the Project, chaired by the county chief or a deputy county chief and comprising the heads of the township emigration and settlement leading groups, to be responsible for the planning and oversight of the implementation of the settlement program under said Part D, as well as of the rehabilitation and restoration of environmentally degraded areas in its county after the emigration of the Settlers; and
6. a Project implementation leading group at each of the city, county and state farm levels, to be responsible for oversight of Project implementation at its level.

#### B. Annual Programs

Gansu shall:

1. prepare, under guidelines acceptable to the Association, and furnish to the Association not later than November 30 in each calendar year, a proposed work program for the implementation of the Project (including the Voluntary Land Settlement Plan) during the following calendar year (including a proposed budget therefor); and

2. thereafter, implement such work program during such following year as shall have been approved by the Association.

C. Environmental Action Plan

In order to ensure that the Project is implemented in accordance with sound health, safety and environmental standards, Gansu shall take all measures necessary to carry out the Project in accordance with an environmental action plan acceptable to the Association.

D. Part A of the Project (Changma Dam)

Dam Safety

1. In order to ensure the safety of the existing Shuang Ta and Che Jinxia dams in the Irrigation Areas and their associated structures (Existing Dams) and the dam to be constructed under Part A of the Project and its associated structures (Changma Dam), Gansu shall take the following actions:

(a) Gansu shall undertake, on the basis of guidelines acceptable to the Association and complete, not later than December 31, 1998, a program of remedial works on the Existing Dams.

(b) Gansu shall continue to employ one or more panel of experts, with membership, terms of reference and resources acceptable to the Association (the Panel), to be responsible for reviewing the adequacy of the design and construction of the Changma Dam and the adequacy of remedial works to be carried out on the Existing Dams and for periodic inspections of the Changma Dam and the Existing Dams.

(c) Gansu shall ensure that the Panel shall, on the basis of guidelines acceptable to the Association:

(i) undertake periodic reviews of the Changma Dam and the design thereof, throughout the period of construction thereof and of the Existing Dams during the period in which remedial works thereon are being carried out; and

(ii) prepare and furnish to Gansu and the Association, upon completion of each said review, a report of the results of said review, together with any recommended changes to be introduced into the design or construction of the Changma Dam or the Existing Dams.

(d) Promptly upon receipt of each report furnished by the Panel to Gansu, Gansu shall introduce the changes recommended by said report, taking into account the comments of the Association on the matter.

(e) Gansu shall:

(i) ensure that the Changma Dam and the Existing Dams shall be inspected by the Panel in accordance with sound engineering practices at intervals and under arrangements acceptable to the Association, in order to identify any deficiencies in the condition of the Changma Dam or the Existing Dams, or in the quality and adequacy of the maintenance or methods of operation thereof, which may endanger the safety of the Changma Dam or the Existing Dams, and promptly rectify any such deficiencies; and

(ii) to this end, prepare and furnish to the Association, appropriate arrangements for said inspection not later than one year prior



to the planned completion of Changma Dam and thereafter, promptly implement said arrangements, taking into account the views of the Association on the matter.

#### Resettlement

2. Gansu shall take and cause to be taken all measures necessary to ensure that all persons displaced as a result of Part A of the Project shall be resettled in accordance with the Resettlement Action Plan so as to restore or improve the living standards and productivity of such persons.

#### E. Part D of the Project (Land Settlement)

1. Gansu shall take all measures necessary to ensure that the emigration of all Settlers to the Irrigation Areas shall be implemented on a voluntary basis and in a manner designed to improve their living standards and productivity. To this end, Gansu shall:

(a) carry out the emigration of the Settlers in accordance with the Voluntary Land Settlement Plan;

(b) lease to each of the Settlers, under arrangements acceptable to the Association, including a written lease agreement:

(i) 0.13 hectares of land in the Irrigation Areas for purposes of cultivation, on terms whereby said land shall be leased to the Settlers for a duration of at least thirty (30) years on a rent-free basis; and

(ii) up to an additional 0.13 hectares of land in the Irrigation Areas for a duration of at least 10 years on a rent-paying basis, with an option to renew.

2. Gansu shall establish, not later than December 31, 1996, and thereafter operate the credit facility included in Part D(4) of the Project under arrangements acceptable to the Association.

#### F. Part E of the Project (Afforestation)

Gansu shall take all measures necessary to ensure that by December 31, 1998 and at all times thereafter, the forest area referred to in Part E of the Project shall be properly protected and maintained under arrangements satisfactory to the Association.

#### G. Part F of the Project (Institutional Development)

Gansu shall carry out the training program included in Part F of the Project in accordance with a time-bound action plan acceptable to the Association.

#### H. Operation and Maintenance of Irrigation Areas

1. In order to ensure the proper planning, development and management of water resources of the Shule River Basin in Gansu, Gansu shall:

(a) establish and operate, a water resources management bureau not later than December 31, 1998, with terms of reference, staffing and other resources acceptable to the Association;

(b) prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association, not later than December 31, 1999, a plan for the operation and maintenance of the Irrigation Areas; and

(c) thereafter, implement such plan with due diligence, taking into account the comments of the Association on the matter.

2. (a) In furtherance of its policy to recover the recurrent costs of operation and maintenance of the irrigation facilities included in the Irrigation Areas, including those constructed under the Project, from the users of the water delivered

through said facilities, taking into account the need to provide incentives to encourage the efficient use of water and to relate the charges on the users thereof to their ability to pay and income levels, Gansu shall, promptly upon completion of said facilities, through the bureau referred to in Part H.1 above, establish and collect from said users, water charges sufficient to cover (i) the operation and maintenance costs of said facilities as they are incurred and (ii) the cost of replacement of structures, equipment and installations in respect of said facilities.

(b) To that end, Gansu shall prepare and furnish to the Association not later than December 31, 1999, the proposed schedule of such water charges to be established and collected, together with any information pertaining thereto that the Association may reasonably request, and thereafter promptly introduce such schedule taking into account the Association's comments thereon.

(c) Gansu shall review and adjust the above charges in consultation with the Association, at regular intervals not exceeding five years each so as to continue to give effect to the provisions of paragraph (a) above.

(d) Gansu shall maintain a separate accounting for funds collected pursuant to the provisions of the above paragraphs and cause all said funds to be used exclusively for the purposes specified therein.

#### I. Monitoring and Reporting

1. Gansu shall maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the carrying out of the Project, including the Environmental Action Plan, the Voluntary Land Settlement Plan and the Resettlement Action Plan, and the achievement of the objectives thereof.

2. Gansu shall prepare, under terms of reference acceptable to the Association, and furnish to the Association, (a) semiannual reports, not later than January 31 and July 31 in each calendar year, integrating the results of the monitoring and evaluation activities performed pursuant to Part I.1 of this Schedule during the preceding calendar semester in respect of the Project as a whole, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the then current calendar semester, (b) annual reports, not later than March 31 in each calendar year, integrating the results of the monitoring and evaluation activities performed pursuant to Part I.1 of this Schedule during the preceding calendar year in respect of the Environmental Action Plan, the Voluntary Land Settlement Plan and the Resettlement Action Plan, and setting out any revisions indicated by said monitoring and evaluation activities to said plans and (c) two interim assessment reports, one not later than January 31, 2000 and the other not later than January 31, 2003, integrating the results of the monitoring and evaluation activities performed pursuant to Part I.1 of this Schedule during the period preceding the date thereof and setting out the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following such date.

3. After furnishing each report referred to in Part I.2 of this Schedule, Gansu shall review the same with the Association, 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 Association's views on the matter, and (if applicable) introduce all such revisions to the Environmental Action Plan, the Voluntary Land Settlement Plan and the Resettlement Action Plan as shall have been agreed with the Association.

