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CONFORMED COPY

LOAN NUMBER 7541-CN

Project Agreement

(Bengbu Integrated Environment Improvement Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

ANHUI PROVINCE

Dated May 26, 2008

PROJECT AGREEMENT

AGREEMENT dated May 26, 2008, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and ANHUI PROVINCE (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of the same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Implementing Entity shall: (a) carry out, and cause the Project Participants and Project Companies to carry out, the Project in accordance with the provisions of Article V of the General Conditions; and (b) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out, and shall cause to be carried out, the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is Governor or a Vice Governor or such other person or persons as said Governor or a Vice Governor shall designate in writing, and the Project Implementing Entity shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

3.02. The Bank's Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Bengbu Municipal Development and Reform
Commission/Project Management Office
Administrative Office Center
Donghai Avenue
Bengbu Municipality
Anhui Province 233040
Peoples Republic of China

Facsimile:

86-552-3131703

AGREED at 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

ANHUI PROVINCE

By /s/ Sun Zhigang
Authorized Representative

SCHEDULE

Execution Of The Project

Section I. Implementation Arrangements

A. Project Management

1. The Project Implementing Entity shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:
 - (a) The Project Leading Group, chaired by a Vice-Mayor of Bengbu Municipality, which group is responsible for providing overall policy guidance and overseeing Project implementation.
 - (b) The Municipal Project Management Office, established under the Development and Reform Commission of Bengbu Municipality, which office is responsible for: (i) coordinating and monitoring Project implementation, including consolidating Project Reports and Project costs; and (ii) implementing Parts 4(b) and 4(c) of the Project.
 - (c) The Project Management Office, established by each of Huaiyuan, Wuhe and Guzhen Counties, which office is responsible for coordinating and monitoring Project implementation within its respective jurisdiction, including quality control in planning and construction, preparation of Project Reports, and oversight of performance by implementing agencies and its Respective Project Companies, consolidating Project costs, and processing applications for disbursement.

B. Anti-Corruption

The Project Implementing Entity shall carry out, and cause the Project Participants and Project Companies to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

C. Resettlement and Environment Protection

1. The Project Implementing Entity shall:
 - (a) take, and shall cause the Project Participants and Project Companies to take, all necessary actions to minimize, to the extent possible, any involuntary loss by persons of shelter, productive assets or access to

productive assets or income or means of livelihood, temporarily or permanently, in carrying out the Project and the Related Activities; and

- (b) for this purpose:
 - (i) prior to the commencement of any works under the Project and the Related Activities implement, and cause the relevant Project Participants and Project Companies to implement, the applicable RAP in a manner satisfactory to the Bank; and
 - (ii) whenever implementation of any Related Activity or modification of Project design or works would give rise to Displaced Persons, provide, and cause the Project Participant concerned and its Respective Project Company to provide (before commencing said Related Activity), to the Bank for its review, a resettlement action plan prepared in accordance with the principles and procedures set forth in the Resettlement Policy Framework and, thereafter, implement in a manner satisfactory to the Bank such resettlement action plan as shall have been accepted by the Bank.

2. The Project Implementing Entity shall:

- (a) in carrying out the Project, implement, and shall cause each Project Participant and each Project Company to implement, the applicable EMP in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards; and
- (b) in carrying out the Related Activities, conduct and shall cause Project Participants and Project Companies to conduct, environmental assessments and prepare and implement environmental management plans pursuant thereto, all in a manner satisfactory to the Bank and designed to ensure that the Related Activities are implemented in accordance with sound environmental practices and standards.

3. The Project Implementing Entity shall, and shall cause the Project Participants and Project Companies to:

- (a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the relevant EMP and RAP and the Resettlement Policy Framework and the achievement of the objectives of said plans and framework, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank; and

- (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by February 15 and August 15 of each year, commencing on February 15, 2009, semi-annual reports of the results of the monitoring and evaluation activities with respect to the relevant EMP and RAP and the Resettlement Policy Framework referred to in sub-paragraph (a) above, together with any revisions proposed to be introduced into said plans and framework in order to achieve their respective objectives.
- 4. The Project Implementing Entity shall provide, and shall cause the Project Participants and their Respective Project Companies to provide, to the Bank for its prior concurrence any proposed modification or waiver of an EMP, a RAP or the Resettlement Policy Framework, and put into effect only such modification or waiver as shall have been agreed by the Bank.

D. Financial Arrangements

- 1. The Project Implementing Entity shall allocate to each Project Participant a portion of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:
 - (a) The Project Implementing Entity shall make available the principal amount, which has been allocated to each Project Participant, in Dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of the Project (in whole or part) to be implemented within the jurisdiction of the Project Participant.
 - (b) The Project Implementing Entity shall recover such principal amount so made available (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of twenty-five (25) years, inclusive of a grace period of eight (8) years.
 - (c) The Project Implementing Entity shall charge interest on such principal amount, withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

E. Subsidiary Agreements

- 1. The Project Implementing Entity shall cause each Project Participant to relend a portion of the proceeds of the Loan, which was allocated to it pursuant to Section I, paragraph D.1 of this Schedule, to its Respective Project Company for purposes of carrying out said Project Company's Respective Parts of the Project, under a subsidiary agreement to be entered into between the Project Participant and its Respective Project Company: (a) on the principal terms set forth in

paragraphs 1 through 3 of Annex A to this Schedule; and (b) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 12 of the Annex A to this Schedule.

2. The Project Implementing Entity shall ensure that each Project Participant:
 - (a) Causes each of its Respective Project Company to: (i) perform, in accordance with the provisions of the Subsidiary Agreement to which said Project Company is a party, all of the obligations of said Project Company therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Company to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance.
 - (b) Exercises its rights under each Subsidiary Agreement to which said Project Participant is a party in such manner as to protect the interests of the Borrower, the Bank, the Project Implementing Entity and said Project Participant, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Agreement to which said Project Participant is a party or any provision thereof.

Section II. Project Monitoring, Reporting, and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank by February 15 and August 15 each year, starting February 15, 2009.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit

of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.

Section IV. Other Undertakings

1. The Project Implementing Entity shall cause Bengbu Municipality to: (a) carry out a study, prepared in accordance with terms of reference acceptable to the Bank, on institutional reforms necessary to optimize the efficiency of water-related sector agencies and furnish the results of said study to the Bank by February 15, 2011; and (b) begin implementation of recommendations of said study by August 15, 2011, taking into account the Bank's comments thereon.
2. The Project Implementing Entity shall cause WCIC by August 15, 2012: (a) to enter into a contract with a professional management company, acceptable to the Bank, to manage infrastructure services in the Mohekou Industrial Zone in Wuhe County; and (b) to introduce load-based charges for industrial wastewater treatment within said industrial zone.
3. The Project Implementing Entity shall cause Bengbu Municipality to:
 - (a) furnish to the Bank by February 15, 2009, a time-bound action plan for reducing pollution by chemical industries in Bengbu City, including: (i) relocation of such industries to the Mohekou Industrial Zone or other dedicated location; (ii) discontinuation of production by producers that are not relocating; and (iii) modification of production technology to reduce pollution; and
 - (b) implement said plan, taking into account the Bank's comments thereon.

**ANNEX A
to
SCHEDULE**

**Principal Terms and Conditions of the
Subsidiary Agreements**

For the purposes of Section I, paragraph E.1 of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds shall be those set forth in paragraphs 1 through 3 of this Annex; and (b) the Subsidiary Agreements shall be entered into on the conditions set forth in paragraphs 4 through 12 of this Annex.

Terms of Availability

1. The principal amount of each subsidiary loan made by a Project Participant to its Respective Project Company, shall be the amount equivalent in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of its Project Company's Respective Part of the Project.
2. Each Respective Project Company shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of not more than twenty-five (25) years, inclusive of a grace period of eight (8) years.
3. Each Respective Project Company shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

Conditions

The Subsidiary Agreements shall include the following principal conditions:

4. Each Project Company shall undertake to: (a) carry out its Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank (including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower) and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (b) without limitation on the foregoing, take all measures necessary to ensure that its Respective Parts of the Project shall be implemented in accordance with the RAP, EMP and Resettlement Policy Framework.

5. Each Project Company shall undertake to procure the goods, works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of its Respective Parts of the Project.
6. Each Project Company shall undertake to enable the Bank, the Project Implementing Entity and Project Participant concerned to inspect such goods and the sites and works included in the Respective Parts of the Project, the operation thereof, and any relevant records and documents.
7. Each Project Company shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover 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 made payable in a currency freely usable to replace or repair such goods.
8. Each Project Company shall undertake:
 - (a) With respect to:
 - (i) BDC and B3WTC, to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition; and
 - (ii) other Project Companies, to maintain records and accounts adequate to reflect the operations, resources and expenditures related to their Respective Parts of the Project.
 - (b) With respect to:
 - (i) BDC and B3WTC, to have their financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and
 - (ii) other Project Companies, to have the records and accounts referred to in subparagraph (a)(ii) above audited in accordance with appropriate auditing principles consistently applied and by independent auditors, both acceptable to the Bank.

- (c) To furnish to the Bank, the Project Implementing Entity and Project Participant concerned, as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year: (i) certified copies of said financial statements or records and accounts, as the case may be, for such year as so audited; and (ii) an opinion on such statements by said auditors in such scope and detail as the Bank, Project Implementing Entity and Project Participant concerned shall have reasonably requested.
 - (d) To prepare and furnish to the Bank, Project Implementing Entity and Project Participant concerned, all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Project Implementing Entity, and Project Participant concerned shall reasonably request.
 - (e)
 - (i) To maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Annex B of the Schedule to this Agreement, the carrying out of its Respective Parts of the Project and the achievement of the objectives thereof; and
 - (ii) to prepare, under terms of reference satisfactory to the Bank, and furnish to Project Implementing Entity for its review, consolidation in the Project Reports and submission to the Bank, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of its Respective Parts of the Project during the period preceding the date of each such report.
9.
 - (a) Except as the Bank shall otherwise agree, BDC and B3WTC, each, shall undertake to produce for each of its fiscal years beginning in FY 2010, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciations.
 - (b) Before August 15 in each of its fiscal years, each said Project Company shall, on the basis of forecasts prepared by said Project Company and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (a) of this paragraph in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.
 - (c) If any such review shows that said Project Company would not meet the requirements set forth in sub-paragraph (a) of this paragraph for said Project Company's fiscal years covered by such review, said Project

Company shall promptly take all necessary measures in order to meet such requirements.

- (d) For purposes of this paragraph 9, the following terms have the following meanings:
- (i) The term “total revenues” means the sum of total operating revenues and net non-operating income.
 - (ii) The term “total operating revenues” means revenues from all sources related to operations.
 - (iii) The term “net non-operating income” means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
 - (iv) The term “total operating expenses” means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 3.3% per annum of the average current gross value of the Project Company’s fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
 - (v) The average current gross value of the Project Company’s fixed assets in operation shall be calculated as one half of the sum of the gross value of said Project Company’s fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
 - (vi) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
10. (a) Except as the Bank shall otherwise agree, BDC and B3WTC, each, shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Project Company shows that the estimated net revenues of the Project Company for each fiscal year during the term of

the debt to be incurred shall be at least 1.1 times the estimated debt service requirements of the Project Company in such year on all debt of said Project Company, including the debt to be incurred.

- (b) For the purposes of this paragraph 10:
- (i) The term “debt” means any indebtedness of the Project Company maturing by its terms more than one (1) year after the date on which it is originally incurred.
 - (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (iii) The term “net revenues” means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
 - (iv) The term “net non-operating income” means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
 - (v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
 - (vi) The term “reasonable forecast” means a forecast prepared by the Project Company not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Project Company accept as reasonable and as to which the Bank

has notified the Project Company of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Company.

11. Whenever for the purposes of paragraphs 9 and 10 of this Annex it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.
12. Each Project Participant shall have the right to suspend or terminate the right of its Project Company to the use of the proceeds of the loan made available under the Subsidiary Agreement with said Project Company upon failure by such Project Company to perform its obligations under the agreement.

**ANNEX B to SCHEDULE
Indicators
Arrangements for results monitoring**

Project Outcome Indicators	Target Values								Data Collection and Reporting		
	Baseline 2005	2008	2009	2010	2011	2012	2013	6/30 2014	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
KPI 0.1: Increase in the area of Bengbu that is protected from flooding by storm water runoff	60%	60%	60%	60%	60%	70%	80%	95%	Annually	Semi-annual reports	Utility companies/ WRB/BMPMO
KPI 0.2: Reduction of pollution discharges from Bengbu to the Huai River (expressed in Tonnes of COD/year)	20,260	20,260	20,260	20,000	19,500	19,000	18,500	18,000	Annually	Semi-annual reports	EPB/BMPMO
KPI 0.3: Improved reliability of Bengbu's water supply (days of emergency supply)	30	30	30	30	30	30	90	90	Annually	Semi-annual reports	Utility companies/ BMPMO
KPI 0.4: Break-even for wastewater and/or water services				1.00	1.00	1.00	1.00	1.00	Annually	Semi-annual reports	Utility companies/ BMPMO
Intermediate Outcome Indicators											
KPI 1.1: Number of flood control pumping stations completed (at Tianhe, Longzi, Wuxiaojie, Wanxiaogou, Xiaobengbu and Sanpu)	0	0	0	0	1	2	3	5	Annually	Semi-annual reports	WRB/BMPMO
KPI 1.2: Linear meters of sewers built/upgraded	0%	0%	0%	18%	35%	64%	90%	100%	Annually	Semi-annual reports	Utility companies/ BMPMO
KPI 1.3: Cubic meters of sediments desilted from drainage canals	0%	0%	0%	0%	0%	75%	81%	100%	Annually	Semi-annual reports	WRB/BMPMO

KPI 2.1: Proportion of coverage of wastewater networks	20%	20%	30%	30%	40%	50%	60%	80%	Annually	Semi-annual reports	County agencies/ BMPMO
KPI 2.2: Proportion of wastewater collected and treated	20%	20%	30%	30%	40%	50%	60%	80%	Annually	Semi-annual reports	County agencies/ BMPMO
KPI 3.1: Increase in the water level of Tianhe Lake (m)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	Annually	Semi-annual reports	WRB/BMPMO
KPI 4.1: Proportion of total revenue to total expenditures for wastewater and/or water services				1.00	1.00	1.00	1.00	1.00	Annually	Semi-annual reports	Utility companies/ BMPMO

