

CONFORMED COPY

CREDIT NUMBER 3233 CHA
LOAN NUMBER 4485 CHA

Project Agreement
(Fourth Rural Water Supply and Sanitation Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

ANHUI PROVINCE
FUJIAN PROVINCE
GUIZHOU PROVINCE and
HAINAN PROVINCE

Dated September 17, 1999

CREDIT NUMBER 3233 CHA
LOAN NUMBER 4485 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 17, 1999 among the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and Anhui Province, Fujian Province, Guizhou Province and Hainan Province (the Project Provinces).

WHEREAS (A) by the Development Credit Agreement of even date herewith between People's Republic of China (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to twenty-two million two hundred thousand Special Drawing Rights (SDR 22,200,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(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 sixteen million dollars (\$16,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS the Project Provinces, 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, have 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), 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) Each of the Project Provinces 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 its Respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, sanitation, health, engineering and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for such Respective Part of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Project Provinces shall otherwise agree, each Project Province shall carry out its Respective Part of the Project in accordance with the Implementation Program set forth in Schedule 1 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 4 to the Development Credit Agreement.

Section 2.03. Each Project Province 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 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) in respect of the Project Agreement and its Respective Part of the Project.

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

(b) Each Project Province shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of its Respective Part of the Project, the accomplishment of the purposes of the Credit, or the performance by such Province of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each Project Province shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its Respective Part of the Project of the departments or agencies of such Project Province responsible for carrying out parts of the Project in its territory.

(b) Each Project Province shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with

appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; 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.

Section 3.02. Each Project Province shall:

(a) have the records and accounts for any water plant facility within its territory in which investments in an amount greater than Yuan 5,000,000 equivalent have been made under Part A of the Project, audited at the end of its first full fiscal year of operation in accordance with auditing principles consistently applied by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case no later than six (6) months after the end of such year, the report of such audit by said auditors; and

(c) 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.

Section 3.03. In respect of each water supply facility under Part A of the Project within its respective territory, each Project Province shall, commencing not later than the second full fiscal year of operations of such facility, ensure that water charges will be established and collected annually at a level sufficient to cover administrative costs, operation and maintenance costs and taxes, plus the greater of (a) interest charges and depreciation, or (b) debt service payments.

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 the Project Provinces 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; or

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

(b) If the Development Credit Agreement or the Loan Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify the Project Provinces 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 addresses 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Anhui Province:

Anhui Provincial Government
85 Chang Jing Road
Hefei 23001
Anhui Province
People's Republic of China

Cable address:

1818

For Fujian Province:

Fujian Provincial Government
76 Hualin Road Fuzhou 350003
Fujian Province
People's Republic of China

For Guizhou Province:

Guizhou Provincial
Government Provincial
Government Headquarters Ba Jiao Tan Guiyang 55004
Guizhou Province
People's Republic of China

For Hainan Province:

Hainan Provincial
Government 59 Haifu Road
Haikou 570203
Hainan Province
People's Republic of China

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of each Project Province may be taken or executed by the Governor or Vice-Governor of said Project Province, or by such other person or persons as such Governor or Vice-Governor shall designate in writing, and said Project Province 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 any of the Project Provinces and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Loan Agreement:

(a) the obligations of each Project Province 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, each of the Project Provinces 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 Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

ANHUI PROVINCE
FUJIAN PROVINCE
GUIZHOU PROVINCE
HAINAN PROVINCE

By /s/ Zhu Guangyao

Authorized Representative

SCHEDULE 1

Implementation Program For the Provincial Parts of the Project

For the purposes of Section 2.01(b) of this Agreement, the Implementation Program shall consist of the provisions set forth or referred to below. Project Management

1. Each Project Province shall:

(a) maintain its PPO; and

(b) cause its respective Project Counties each to maintain its CPO, in each case staffed with qualified personnel in adequate number, and with functions and responsibilities satisfactory to the Association, including the organization, implementation and supervision of the carrying out of the Provincial Parts of the Project at the levels of the Project Provinces and Project Counties.

2. (a) Each Project Province shall, by October 15 of each year, starting in 1999, submit to the NPO, for it to review, consolidate into an AWP and furnish to the Association in accordance with the provisions of paragraph 1(c)(i) of Schedule 3 to the Development Credit Agreement, a comprehensive annual work plan for the implementation of the Provincial Parts of the Project within its territory during the following calendar year, including resettlement inventories or action plans, as shall be required by the Resettlement Policy Framework.

(b) Each Project Province shall ensure that all investments under Part A of the Project that are included in such annual work plans shall meet the technical standards of the Design Manual.

(c) Each Project Province shall ensure that resettlement inventories and action plans:

(i) shall be prepared on the basis of the policies and procedures set out in the Resettlement Policy Framework; and

(ii) shall be satisfactory to the Association.

3. Each Project Province shall carry out its Respective Part of the Project in accordance with each AWP (including, as the case may be, resettlement inventories or action plans), which has been accepted by the Association pursuant to paragraph 1(c)(ii) of Schedule 3 to the Development Credit Agreement, in a manner satisfactory to the Association. Without limitation upon the foregoing, if the Respective Part of the Project would involve the involuntary resettlement of persons, each Project Province shall ensure that all such persons shall be resettled prior to commencing any works under said Respective Part of the Project, in accordance with a resettlement inventory or action plan prepared in accordance with the provisions of paragraph 2(c) of this Schedule 1, satisfactory to the Association.

4. Each Project Province shall through its respective PPO: (a) appraise all investments under Part A of the Project as included in any annual work plan referred to in paragraph 2 of this Schedule within its respective territory with an estimated value of more than Yuan 500,000 but not exceeding Yuan 3,000,000, and review in particular the quality of the engineering and financial preparation and the overall feasibility of such proposed investments; and (b) submit all such investments under Part A of the Project with an estimated value of more than Yuan 3,000,000 to the NPO for appraisal in accordance with the provisions of paragraph 1(b) of Schedule 3 to the Development Credit Agreement.

5. For all investments under Part A of the Project with an estimated value of more than Yuan 500,000, the relevant county quality assurance office shall verify that construction practices and standards have met design specifications and the technical standards of the Design Manual.

6. Each Project Province shall cause its Project Counties, through their respective CPOs, to complete the baseline survey under Part C.2 of the Project for villages within its territory will be receiving water under Part A of the Project in the year 2000, and, by December 1, 1999, provide a copy of their final reports to NPO.

7. Each Project Province shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators satisfactory to the Association, the carrying out of its Respective Part of the Project (including the implementation of the Resettlement Policy Framework) and the achievement of the objectives thereof within its territory; and

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the NPO for its consolidation and submission to the Association, a semi-annual report summarizing the results of the monitoring and evaluation activities performed pursuant to paragraph 7(a) of this Schedule, and setting forth physical and financial progress in the carrying out of its respective part of the Provincial Parts of the Project during the periods ending on June 30 and December 31 of each year, with the first such period to end on June 30, 2000 and setting out the measures recommended to ensure the efficient carrying out of such parts of the Project and the achievement of the objectives thereof during the next semi-annual period following such date; such reports shall be submitted within one month following the end of the relevant reporting period. Notwithstanding the above, the report to be submitted not later than July 31, 2000 shall cover the two immediately preceding semi-annual periods.

