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DOCUMENTS

LOAN NUMBER 3874 CHA
CREDIT NUMBER 2710 CHA

Provinces Project Agreement

(Yangtze Basin Water Resources Project)

AMONG

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

HUBEI PROVINCE

and

HUNAN PROVINCE

Dated *July 18*, 1995

LOAN NUMBER 3874 CHA
CREDIT NUMBER 2710 CHA

PROVINCES PROJECT AGREEMENT

AGREEMENT, dated *July 18* 1995, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), and HUBEI PROVINCE and HUNAN PROVINCE (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 make available to the Borrower an amount in various currencies equivalent to seventy four million eight hundred thousand Special Drawing Rights (SDR 74,800,000), 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 that LHPC agrees to undertake such obligations towards the Association as are set forth in the LHPC Project 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 in various currencies equivalent to one hundred million dollars (\$100,000,000), 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 that LHPC agrees to undertake such obligations towards the Bank as are set forth in the LHPC Project Agreement;

WHEREAS the Borrower has agreed, on the terms and conditions set forth in the Development Credit Agreement and the Loan Agreement, to relend to (i) Hubei Province amounts in various currencies equivalent to 28,600,000 Special Drawing Rights out of the proceeds of the Credit and 38,000,000 dollars out of the proceeds of the Loan, and (ii) Hunan Province amounts in various currencies equivalent to 46,200,000 Special Drawing Rights out of the proceeds of the Credit and 62,000,000 dollars out of the proceeds of the Loan;

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, the Preamble to this Agreement and in 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, reference to the Association, the Credit or the Credit Account shall also be deemed as reference to the Bank, the Loan or the Loan Account, respectively.

ARTICLE II

Execution of the Project

Section 2.01. (a) Each of Hubei and Hunan declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, Hubei shall carry out Parts A, B and C of the Project and Hunan shall carry out Parts D and E of the Project, in each case with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, agricultural and environmental practices, and each shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for their respective parts 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, the Project Provinces shall carry out their respective parts of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) Hunan shall relend the portion of the proceeds of the Credit and the Loan related to Part F of the Project made available to it under the terms of Section 3.03 of the Development Credit Agreement and Section 3.01 of the Loan Agreement to LHPC under a subsidiary loan agreement to be entered into between Hunan and LHPC, under terms and conditions which shall have been

approved by the Association which shall include the following principal terms and conditions:

- (i) repayment within twenty (20) years, including five (5) years of grace with amortization based on level repayments of principal;
- (ii) interest to be paid at a rate of four percent (4%) per annum;
- (iii) commitment charges to be paid at the rate of 0.5% per annum; and
- (iv) foreign exchange risk to be borne by LHPC.

(b) Hunan shall exercise its rights under the LHPC Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Association and Hunan and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, Hunan shall not assign, amend, abrogate or waive the LHPC Subsidiary Loan Agreement or any provision thereof.

Section 2.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, B, C, D and E of 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 2.04. (a) The Project Provinces 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 applicable to the Development Credit Agreement and in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions applicable to 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 this Agreement and their respective parts of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, the Project Provinces shall each:

- (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 each of the

Project Provinces, a plan designed to ensure the continued achievement of their respective parts of the Project;

- (ii) afford the Association a reasonable opportunity to exchange views with Hubei or Hunan, as the case may be, on their respective plans; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 2.05. (a) The Project Provinces shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of their obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) The Project Provinces shall each promptly inform the Association of any condition which interferes or threatens to interfere with the progress of their respective parts of the Project, the accomplishment of the purposes of the Credit, or the performance by the Project Provinces of their respective obligations under this Agreement and, in the case of Hunan, under the LHPC Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each of the Project Provinces 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 their respective parts of the Project and of the departments or agencies of the Project Provinces responsible for carrying out their respective parts of the Project.

(b) Each of the Project Provinces 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 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 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 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 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.

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

Telex:

197688 (TRT)
248423 (RCA)
64145 (WUI) or
82987 (FTCC)

For Hubei Province:

Hubei Provincial Bureau of Finance
Shuiguo Lake,
Wuhan, Hubei
China

Telex:

40251 HBCPB CN

For Hunan Province:

Provincial Water Resources
Project Management Office,
No.62 Shaoshan Road,
Changsha, Hunan 410007
China

Telex:

982055 HWPED CN

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 Hubei or Hunan, as the case may be, or by Hubei or Hunan, as the case may be, on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Governor or Vice Governor of such other person or persons as said Governor or Vice Governor shall designate in writing, and each of Hubei and Hunan shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signatures 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 the District of Columbia, United States of America, as the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

1st Nicholas C. Hope

By *Acting* Regional Vice President
East Asia and Pacific

HUBEI PROVINCE
HUNAN PROVINCE

1st Zhou Wenfang

By Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part D.1 (a) of this Section, the Association's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, each of the Project Provinces shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, each of the Project Provinces shall use bidding documents based on other international recognized standard forms agreed with the Association.

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

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Goods, estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$16,000,000 for Hubei Province and \$8,000,000 for Hunan Province, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association, except that:

- (i) goods, estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$1,500,000 for Hubei Province and \$1,200,000 for Hunan Province, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association; and
- (ii) contracts for grass seed, feeder calves, fish seed, breeding stock and other items of a comparable nature acceptable to the Association required under Parts A and B of the Project, up to an aggregate amount equivalent to \$5,000,000, may be awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines in accordance with procedures acceptable to the Association.

2. Works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association; provided however, that works for small canals, drains, land development and minor site preparation estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$7,500,000 for Hubei Province and \$5,000,000 for Hunan Province, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three contractors eligible under the Guidelines, in accordance with procedures acceptable to the

Association; provided further that works, estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$20,000,000 for Hubei Province and \$ 10,000,000 for Hunan Province, may be carried out through force account in accordance with procedures acceptable to the Association. To the extent practicable, contracts for works shall be grouped into bid packages estimated to cost the equivalent of \$50,000 or more.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract (i) for works estimated to cost the equivalent of \$2,000,000 or more, and (ii) goods estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2(d) shall be furnished to the Association prior to the making of the first payment out of said Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

1. In order to assist the Project Provinces in carrying out their respective parts of the Project, the Project Provinces shall each employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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, the Project Provinces shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Project Provinces shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provision 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 individuals 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

A. Self-financing Irrigation and Drainage Districts

The Project Provinces shall each:

(a) (i) prepare and by December 31, 1995 adopt time bound implementation plans, satisfactory to the Association, for the establishment and operation of WSCs and WUAs; and (ii) thereafter carry out said implementation plans in a manner satisfactory to the Association;

(b) (i) by March 31, 1996 complete a cost recovery study for the operation of WSCs and WUAs, in accordance with terms of reference satisfactory to the Association; and (ii) by June 30, 1996: (a) set water charge rates and provide related policy support for WSCs and WUAs established in accordance with the provisions of paragraph (a) hereof, sufficient for each such organization to ensure that at a minimum its full operations and maintenance costs and all debt repayment and servicing obligations are covered by such rates; and (b) authorize and empower WSCs, and WUAs to collect water charges;

(c) provide to each WSC established pursuant to sub-paragraph A(a) (i) of this Schedule support through the year 2001 and equivalent to that provided to existing governmental entities retaining equivalent functions and responsibilities to those assumed by such WSCs; and

(d) assign or cause to be assigned, by June 30, 1996, each WSC and WUA established pursuant to sub-paragraph A(a) (i) of this Schedule to the rights of county and local governments to customary labor in respect of irrigation and drainage responsibilities assumed by said WSCs and WUAs.

B. Infrastructure

1. The Project Provinces each shall:

(a) ensure that the designs and construction of each dam constructed or improved under or related to their respective parts of the Project in their respective territories exceeding 10 meters

in height or 2,500,000 cubic meters in storage volume are independently reviewed for safety; and

(b) (i) cause all dams, reservoirs and irrigation systems rehabilitated or constructed in their respective territories under the Project to be operated, maintained and inspected periodically in accordance with sound engineering practice, under arrangements satisfactory to the Association; and (ii) furnish to the Association by no later than December 31, 1996, for its review draft operation and maintenance plans for the irrigation and drainage subprojects carried out under Parts A and D of the Project.

2. Hunan Province shall cause LHPC to maintain the dam safety panel of independent international and local experts, satisfactory to the Association, for periodic inspection and review of the construction of the Jiangya Dam under Part F of the Project.

C. Environmental Management and Resettlement

1. (a) The Project Provinces shall each ensure that all activities under the Project within their respective territories shall conform to environmental standards and guidelines, including the environmental regulations and guidelines issued by the National Environmental Protection Agency and its Provincial Environmental Protection Bureau which shall be satisfactory to the Association; and

(b) to that end, but without limitation to the provisions of subparagraph (a) above, the Project Provinces shall cause to be implemented the Environmental Monitoring and Management Plan for Parts A.2 and F of the Project and the Resettlement Plan, both in a manner satisfactory to the Association.

2. The Project Provinces shall cause those counties and townships in whose territories Affected Persons reside: (a) to enter into appropriate arrangements satisfactory to the Association by no later than September 30, 1995 with LHPC for the carrying out of the Resettlement Plan, with respect to such persons; and (b) to maintain their resettlement offices with competent staff in adequate numbers and with responsibilities and functions acceptable to the Association to implement the Resettlement Plan.

D. Cost Recovery

1. Hunan Province shall cause those prefectures, counties, municipalities and towns benefitting from the flood protection measures taken under Part F of the Project to pay flood protection fees to the Hunan Provincial Flood Protection Fund, established January 1, 1995, from which LHPC shall receive fees in accordance with the provisions of paragraph 4 of Schedule 2 to the LHPC Project Agreement.

2. Hunan Province shall do all things necessary to ensure that the relevant power company in Hunan Province enters into a power sales agreement with LHPC by June 30, 1998 in accordance with Section 4.02 of the LHPC Project Agreement.

E. Project Management

1. The Project Provinces shall each maintain or cause to be maintained:

(a) a project leading group at each of the provincial, prefectural and county levels included in the Project to formulate Project-related policies, coordinate among relevant agencies and provide overall guidance on Project implementation, with composition and responsibilities acceptable to the Association; and

(b) a project management office at the provincial level to undertake day-to-day implementation and coordination of Project activities, with functions and responsibilities acceptable to the Association, staffed by qualified and experienced staff in adequate numbers.

2. Hubei Province shall maintain its provincial leading group office for Parts A, B and C of the Project, with functions and responsibilities satisfactory to the Association, staffed by qualified and experienced staff in adequate numbers.

3. The Project Provinces shall ensure that all training, including study tours and work study, and research and studies under their respective parts the Project shall be carried out in accordance with training and research programs acceptable to the Association. To that end, the Project Provinces shall cause their respective project management offices by June 30 of each year commencing in 1995 to prepare and furnish to the Association for its

approval plans for the research, training and study tours to be carried out in the next year, and thereafter carry out such plans in a manner satisfactory to the Association.

4. The Project Provinces shall each by December 31, of each year, commencing in 1995, prepare and furnish to the Association for its review, a work plan and annual budget for Project implementation for the following year, and thereafter carry out such plans in a manner satisfactory to the Association.

5. Without limitation to the reporting provisions of Section 9.06 of the General Conditions, the Project Provinces shall each:

(a) furnish to the Association by June 30 and December 31 of each year during implementation of their respective parts of the Project a report on the progress made by the Project Provinces in carrying out their respective parts of the Project; and

(b) participate in the mid-term review of the progress of and prospects for Project implementation carried out with the Association and the Borrower pursuant to the provisions of Section 3.02(e) of the Development Credit Agreement.

INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

CERTIFICATE

I hereby certify that the foregoing is a true copy of
the original in the archives of the International
Bank for Reconstruction and Development and the
International Development Association.



FOR SECRETARY