

CONFORMED COPY

LOAN NUMBER 4589 CHA

Project Agreement

(Water Conservation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

BEIJING MUNICIPALITY, HEBEI PROVINCE, LIAONING PROVINCE AND QINGDAO MUNICIPALITY

Dated February 9, 2001

LOAN NUMBER 4589 CHA

PROJECT AGREEMENT

AGREEMENT, dated February 9, 2001, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), BEIJING MUNICIPALITY, HEBEI PROVINCE, LIAONING PROVINCE and QINGDAO MUNICIPALITY (the Project Entities).

WHEREAS: 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 seventy four million Dollars (\$74,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project Entities agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS the Project Entities, in consideration of 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 Loan Agreement and in the General Conditions (as so defined in the Loan Agreement) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Each of the Project Entities declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement and, to this end, shall carry out its Respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and agricultural practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required therefor.

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

Section 2.02. Except as the Bank 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 Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Each of the Project Entities 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 Loan 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 its Respective Part of the Project.

(b) For the purposes of Section 9.08 of the General Conditions referred to in Section 1.01 of the Loan Agreement and without limitation thereto, each of the Project Entities shall:

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

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

Section 2.04. (a) Each of the Project Entities shall, at the request of the Bank, exchange views with the Bank 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 Loan.

(b) Each of the Project Entities shall promptly inform the Bank 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 Loan, or the performance of its respective obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each of the Project Entities shall maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the carrying out of its Respective Part of the Project.

(b) Each of the Project Entities 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 Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year,

(A) certified copies of its financial statements for such year as so audited, and

(B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank may 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 the Loan Agreement becomes effective.

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

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 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 facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank

International Bank for Reconstruction
and Development
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)

Facsimile:

202-477-6391

For Beijing:

Beijing Municipality Finance Bureau
No. 15 Fucheng Road, Haidian District
Beijing 100037
People's Republic of China

Facsimile:

86-10-68414204

For Hebei:

Hebei Provincial Bureau of Finance
No. 14 Hua An Street
Shijiazhuang 050051
Hebei
People's Republic of China

Facsimile:

86-311-7031129

For Liaoning:

Liaoning Provincial Bureau of Finance
No. 103 North Nanjing Street, Heping District
Shenyang 110002
Liaoning
People's Republic of China

Facsimile:

86-24-22834167

For Qingdao:

Qingdao Municipality Finance Bureau
No. 16 Guanhai One Road, Shinan District
Qingdao 266001
Shandong
People's Republic of China

Facsimile:

86-532-2966162

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 (a) Beijing, may be taken or executed by any Vice Mayor of Beijing; (b) Hebei, may be taken or executed by any Vice Governor of Hebei; (c) Liaoning, may be taken or executed by any Vice Governor of Liaoning; or (d) Qingdao, may be taken or executed by any Vice Mayor of Qingdao, or such other person or persons as such Vice Governor or Vice Mayor shall designate in writing, and the Project Entities shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

BEIJING MUNICIPALITY
HEBEI PROVINCE
LIAONING PROVINCE
QINGDAO MUNICIPALITY

By /s/ Zhu Guangyao

Authorized Representative

SCHEDULE 1

Procurement

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 and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section I.

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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

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 (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Borrower).

(c) Notification and Advertising

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

Part C: Other Procurement Procedures

1. Works

(a) National Competitive Bidding

Works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed \$91,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of Small Works

Works for minor undertakings under Parts A(1) and A(2) of the Project, including

canal lining and structures, water intake structures, water wells, drains, small reservoirs, power supply lines, deep plowing, renovation of warehouses and seed stations and installation of pipelines, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$23,500,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three qualified 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 Bank, 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.

(c) Force Account and Community Participation

Works under Parts A(1)(f), A(2)(a) and (b) and A(3)(a) of the Project for access road construction, development of improved seed fields, land leveling, return and reuse of straws and plantation of tree nurseries, shelter-belt forest and trees for economic production, estimated to cost less than \$100,000 per assignment and which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$14,100,000 equivalent or less in the aggregate, may, with the Bank'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 Entity community members hired in accordance with procedures acceptable to the Bank.

2. Goods

(a) National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) International or National Shopping

Goods, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$7,800,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank 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 Bank 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 Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) each contract for works estimated to cost the equivalent of \$500,000 or more; (ii) for each Project Entity, the first contract for works awarded under paragraph 1(a) of Part C of Section I of this Schedule estimated to cost less than \$500,000 equivalent and the first contract for works awarded under paragraph 1(b) of Part C of Section I of this Schedule, in each of the first two years of Project implementation; (iii) each contract for goods estimated to cost the equivalent of \$250,000 or more; and (iv) for each Project Entity, the first contract for goods awarded under paragraph 2(a) of Part C of Section I of this Schedule and the first contract for goods awarded under paragraph 2(b) of Part C of Section I of this Schedule, in each of the first two years of Project implementation, 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

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines); and the following provisions Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines, estimated to cost up to an aggregate amount not to exceed \$2,600,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

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

Part A: Project Management

1. Each Project Entity shall establish, no later than January 31, 2001, and maintain or cause to be maintained, throughout the period of Project implementation:

(a) a project leading group at each of the provincial or municipal level, as the case may be, and at the county level included in its Respective Part of the Project, with composition and responsibilities acceptable to the Bank, to formulate Project-related policies, coordinate among relevant agencies and provide overall guidance on implementation of its Respective Part of the Project; and

(b) a project management office at each of the provincial or municipal level, as the case may be, and at the county level included in its Respective Part of the Project, with functions and responsibilities acceptable to the Bank, with competent staff in adequate numbers, to organize, coordinate and implement Project activities.

2. Each Project Entity shall establish, no later than January 31, 2001, and maintain throughout the period of Project implementation, a mobile specialist team responsible for providing technical advice to the PPMO, under terms of reference and composition satisfactory to the Bank, and shall cause said mobile specialist team to undertake annual reviews of the Subprojects implemented or being implemented under its Respective Part of the Project.

3. Without limitation to the provisions of Section 9.06 of the General Conditions, each Project Entity shall:

(a) prepare, through its respective PPMO, by August 31 in each year, and furnish to the CPMO for forwarding to the Bank by September 30 of each year in accordance with Part C.1(b) of Schedule 4 to the Loan Agreement, a work plan and annual budget for implementation of its Respective Part of the Project during the following calendar year; and

(b) thereafter, ensure the implementation during the following calendar year of such work plan in accordance with the work plan and program approved by the Bank pursuant to Part C.1(c) of Schedule 4 to the Loan Agreement.

4. Each Project Entity shall:

(a) carry out the training, study tours and research under its Respective Part of the Project in accordance with a training, study tour and research program acceptable to the Bank;

(b) to that end: (i) furnish to the Borrower by August 31 in each year for its prior approval and for forwarding to the Bank by September 30 of each year in accordance with Part C.1(b) of Schedule 4 to the Loan Agreement, an annual implementation plan for training, study tours and research for the next calendar year, which program shall be designed to ensure that, on average, at least 20% of the persons participating in said training, including study tours, shall be women; and (ii) furnish to the Borrower for its prior approval and for forwarding to the Bank in accordance with Part C.2(a) of Schedule 4 to the Loan Agreement, the detailed terms of reference and participant lists for each overseas study tour proposed to be carried out under the Project; and

(c) thereafter, implement such plan as shall have been approved by the Borrower and, promptly after completion of any overseas study tour carried out under

the Project, furnish to the Borrower a report on said study tour, including a summary of lessons learned and the applicability of said lessons to the implementation of the Project.

5. Each Project Entity shall:

(a) not later than January 31, 2001, prepare and furnish to the Bank for its review and comment, a general plan for on-lending to and recovery from prefectures and counties included in its Respective Part of the Project, of a part of its Allocated Amount, on substantially the same terms and conditions as the Loan, which plan shall include a commitment by said Project Entity to repay to the Borrower that portion of its Allocated Amount withdrawn in respect of expenditures for environmental monitoring under Part A of the Project and institutional development activities under Part B of the Project;

(b) not later than August 31 in each year, prepare and furnish to the Borrower together with said Project Entity's annual work plan prepared in accordance with Part A.3(a) of this Schedule, for forwarding to the Bank by September 30 in each year together with said work plan, a detailed annual plan for on-lending to and recovery from prefectures and counties included in its Respective Part of the Project, of a part of its Allocated Amount; and

(c) thereafter, carry out said plans, taking into account the Bank's comments thereon.

Part B: Programmatic Approach to Subproject Preparation and Implementation

1. Preparation

Each Project Entity shall, in accordance with project implementation guidelines acceptable to the Bank prepare each investment project under Part A of the Project proposed to be included in its Respective Part of the Project as a Subproject and prepare and furnish to the Borrower a report, including an environmental management plan and, if applicable, a resettlement plan, in respect of said proposed Subproject, for the Borrower's review pursuant to Part B.1(b) of Schedule 4 to the Loan Agreement.

2. Eligibility

Each investment project proposed for inclusion in a Project Entity's Respective Part of the Project shall qualify as a Subproject eligible for financing out of the proceeds of the Loan only if said Project Entity has determined on the basis of an appraisal carried out in accordance with project implementation guidelines acceptable to the Bank that:

(a) the proposed Subproject includes: (i) selection of site-specific irrigation technology, agronomic and forestry measures and irrigation and agriculture management measures; (ii) water balance studies; (iii) detailed engineering designs; (iv) a Subproject implementation plan; (v) an SIDD development plan; (vi) a financing and repayment plan; and (vii) a monitoring and evaluation plan;

(b) the proposed Subproject is technically and economically feasible;

(c) the proposed Subproject is in compliance with environmental standards acceptable to the Bank, and with all applicable laws and regulations of the Borrower and the Project Entity relating to health, safety and environmental protection; and

(d) if the Subproject would involve the resettlement of persons affected by said Subproject, it includes a plan for resettlement and compensation for all said persons which: (A) has been prepared on the basis of the Resettlement Policy Framework; and (B) in the case of a Subproject involving 200 or more such persons, has been furnished to, and approved by, the Bank.

Part C: Environmental Management; Resettlement

1. Each Project Entity shall: (a) ensure that all activities under its Respective Part of the Project shall conform to environmental standards and guidelines satisfactory to the Bank, including the environmental regulations and guidelines issued by the Borrower's National Environmental Protection Agency and said Project Entity's Environmental Protection Bureau; and

(b) to that end, implement the part of the Environmental Mitigation and Monitoring Plan applicable to its Respective Part of the Project, in a manner satisfactory to the Bank.

2. Each Project Entity shall: (a) not later than January 31, 2001, prepare and furnish to the Bank a report identifying groundwater, surface water and soil quality monitoring frequency and monitoring parameters for the monitoring of the environmental impact of its Respective Part of the Project, and providing preliminary information concerning monitoring sites, including specific identification of groundwater, surface water and soil quality monitoring sites for the first year of implementation of its Respective Part of the Project; and

(b) not later than August 31 in each year, prepare and furnish to the Borrower together with said Project Entity's annual work plan prepared in accordance with Part A.3(a) of this Schedule for forwarding to the Bank by September 30 of each year in accordance with Part C.1(b) of Schedule 4 to the Loan Agreement, a report specifically identifying groundwater, surface water and soil quality monitoring sites for the next calendar year.

3. Each Project Entity shall: (a) ensure that all works to be carried out under its Respective Part of the Project shall be planned in accordance with the objective of avoiding, where feasible, any change in land or water use that would result in the involuntary loss by persons of shelter, of productive assets or access to productive assets, or of income or means of livelihood; (b) to this end, ensure that its PPMO gives due attention to said objective in the preparation of annual works plans for its Respective Part of the Project pursuant to paragraph A.3(a) of this Schedule; and (c) if, during the preparation of any such plans, said PPMO determines that such change in land or water use would nevertheless be unavoidable, ensure that said PPMO takes the following actions, and shall confirm to the Bank that said actions have been taken, prior to the commencement of any such works:

(i) prepare a resettlement action plan on the basis of policies, planning principles, institutional arrangements and design criteria acceptable to the Bank and set forth in the Resettlement Policy Framework, so as to improve the living standards and production levels of said persons, and furnish said action plan to the Project Entity and, if more than 200 persons are involved, to the Bank, for approval; and

(ii) carry out such resettlement action plan as shall have been approved by the relevant Project Entity (and the Bank, if more than 200 persons are affected).

Part D: Institutional Development

1. In carrying out Part B(4) of the Project, each Project Entity shall:

(a) install, not later than January 31, 2001, the comprehensive management information system developed and operated by the CPMO under Part D of Schedule 4 to the Loan Agreement, in its PPMO and each Local PMO within the Project Entity; and

(b) operate said management information system in accordance with guidelines acceptable to the Bank.

2. In carrying out Part B(2) of the Project, each Project Entity shall:

(a) develop a groundwater management plan, including water licensing and use controls, limits on new groundwater development and integrated measures to achieve water savings;

(b) take all steps necessary, not later than January 31, 2002, to obtain all necessary approvals for the implementation on a trial basis of said plan in at least one county within the Project Entity; and

(c) take all steps necessary, not later than January 31, 2003, to obtain all necessary technical approvals for the implementation of groundwater management plans in all counties within the Project Area.

3. SIDD Development

(a) Under Part B(1) of the Project, each Project Entity shall carry out a pilot program, acceptable to the Bank, for the establishment and operation in its territory of SIDDs in accordance with the arrangements set forth in paragraphs (b) through (e) of this Section.

(b) Each SIDD established within a Project Entity pursuant to subparagraph (a) of this paragraph shall include: (i) not later than December 31, 2001, at least (A) one WSO to be responsible for operating and maintaining a defined water supply system within said Project Entity's territory, which WSO includes representatives of users of water supplied through said system in water management decision making, and (B) one WUA to be responsible for operating and maintaining tertiary canals served by the system within said WSO's responsibility and for operating and maintaining on-farm water supply systems which serve its members, and whose members shall comprise all users of water supplied through said on-farm systems; and (ii) additional WUAs established in counties within the Project Areas in accordance with a schedule acceptable to the Bank, selected in accordance with guidelines acceptable to the Bank, each to be responsible for operating and maintaining the tertiary canals and on-farm water supply systems which serve its members, and whose members shall comprise all users of water supplied through said systems.

(c) The rights and obligations of each WSO established within a Project Entity shall be defined and set forth in a water system operation and maintenance arrangement, prepared in accordance with guidelines acceptable to the Bank, to be entered into between said Project Entity, through its local administration, and said WSO upon the establishment of said WSO, said arrangement to: (i) define the facilities which said WSO shall be responsible to operate and maintain; (ii) set forth the respective responsibilities of said Project Entity and said WSO, and the sources and levels of funds, staffing and other resources to be provided to said WSO to enable it to carry out said responsibilities; and (iii) authorize and empower said WSO to collect the water charges referred to in paragraph 4 of Part D of this Schedule from the WUAs and other users which use water delivered through said facilities in accordance with the terms of water users contracts to be entered into between said WSO and said users.

(d) The rights and obligations of each WUA established within a Project Entity shall be defined and set forth in a water users contract prepared in accordance with guidelines acceptable to the Bank, to be entered into between said WUA and the WSO or other agency responsible for operating and maintaining the facilities through which water used by said WUA is delivered, upon the establishment of said WUA, said contract to: (i) define the facilities which said WUA shall be responsible to operate and maintain; (ii) set forth the respective responsibilities of said WSO or agency (as the case may be) and WUA, and the sources and levels of funds to be provided to said WUA to enable it to carry out said responsibilities; and (iii) authorize and empower said WUA to collect the water charges referred to in paragraph 4 of Part D of this Schedule from its members who use water delivered through said facilities.

(e) Each Project Entity shall provide technical assistance to each WUA, and technical and, as appropriate, financial assistance to each WSO, established in a SIDD operating within its territory, under guidelines and in accordance with a schedule acceptable to the Bank, such assistance to be designed to enable said WSOs and WUAs properly to carry out their respective responsibilities.

(f) Each Project Entity shall form water user groups in all other parts of the Project Areas with a view to conversion of said water user groups to WUAs when feasible.

4. Water Charges

(a) In furtherance of the policy to recover the recurrent costs of operation and maintenance and a portion of the capital costs of the irrigation facilities, drainage systems and water supply facilities in its territory from users of the water delivered through said facilities, each Project Entity shall establish and ensure collection of volumetric water charges from users of water, which charges shall be increased progressively during the period of Project implementation in order to fully cover, by December 31, 2005: (i) the operation and maintenance costs of said facilities as they are incurred; and (ii) a portion of the capital costs of said facilities.

(b) Each Project Entity shall maintain a separate accounting for funds collected within its jurisdiction pursuant to the provisions of paragraph (a) of this paragraph 4 and cause all said funds to be used exclusively for the purposes of operations and maintenance of the facilities referred to in said paragraph (a) and debt repayment and debt service obligations incurred by said Project Entity in respect of said facilities.

5. Operation and Maintenance of Irrigation Systems

With respect to each Subproject under its Respective Part of the Project involving an irrigation and drainage systems, each Project Entity shall, in order to ensure the proper operation and maintenance of such systems, prior to the completion of each such system, prepare and furnish to the Bank for review and comment a proposed operation and maintenance plan for such system and, thereafter, ensure the prompt implementation of each such plan, taking into account the views of the Bank thereon.

Part E: Monitoring and Evaluation

1. Each Project Entity shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of its Respective Part of the Project and the achievement of the objectives thereof, including detailed monitoring and evaluation of three hydraulic areas within said Project Entity;

(b) prepare, under terms of reference acceptable to the Bank and furnish to the Borrower for consolidation and forwarding to the Bank pursuant to Part E of Schedule 4 to the Loan Agreement:

(i) semi-annual reports, not later than February 28 and August 31 in each year, beginning February 28, 2001, summarizing the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph in respect of the preceding calendar semester, and setting forth the physical and financial progress in the implementation of its Respective Part of the Project, both cumulatively, and in respect of the said preceding calendar semester;

(ii) an annual report, not later than February 28 in each year, summarizing the monitoring and evaluation activities carried out by it pursuant to subparagraph (a) of this paragraph, in respect of the preceding calendar year, and setting forth proposed measures, indicated by said monitoring and evaluation activities, to ensure the continued implementation of said Project Entity's Respective Part of the Project and including the report of its mobile specialist team under Part A.2 of this Schedule; and

(iii) a mid-term report, not later than November 30, 2003, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section E.1, on the progress achieved in the carrying out of its Respective Part of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the

period following such date; and

(c) promptly review with the Borrower and the Bank the reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of its Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Borrower's and Bank's views on the matter.

