

CONFORMED COPY

LOAN NUMBER 4354 CHA

Project Agreement

(Irrigated Agriculture Intensification II Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

ANHUI PROVINCE HEBEI PROVINCE HENAN PROVINCE JIANGSU PROVINCE
and
SHANDONG PROVINCE

Dated July 31 , 1998

LOAN NUMBER 4354 CHA

PROJECT AGREEMENT

AGREEMENT, dated July 31, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ANHUI PROVINCE, HEBEI PROVINCE, HENAN PROVINCE, JIANGSU PROVINCE and SHANDONG PROVINCE (collectively, the Project Provinces, and individually, a Project Province).

WHEREAS by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount equal to three hundred million Dollars (\$300,000,000), 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 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) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project;

Section 2.01. (a) Each Project Province 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, and environmental practices, and in accordance with programmatic guidelines acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the provisions of Section 2.01(a) of this Agreement, and except as the Bank and the concerned Project Province shall otherwise agree, each Project Province shall carry out its Respective Part of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. (a) 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 4 to the Loan Agreement.

(b) Without limitation upon the foregoing, all pesticides and other farm chemicals required for the Project shall be selected exclusively from a list of chemicals approved by the Bank and shall be used, handled and stored in accordance with guidelines acceptable to the Bank.

Section 2.03. (a) Each Project Province shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of its Respective Part of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, each Project Province shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, a plan for the future operation of its Respective Part of the Project, and furnish the same to the Borrower, for consolidation pursuant to Section 3.04 of the Loan Agreement, not later than three months after the Closing Date or such later date as may be agreed for this purpose between the Bank and said Project Province; and

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

Section 2.04. (a) Each Project Province 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 Project Province 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 by said Project 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 separate 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 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 standards consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank such other information concerning such 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 Provinces thereunder shall terminate on date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Project Provinces 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.

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 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)

For ANHUI PROVINCE:

Anhui Provincial Office for Comprehensive Agricultural Development
Anhui Financial Bureau
No. 238 Fu Nan Road
Hefei 230061
Anhui Province
People's Republic of China

For HEBEI PROVINCE:

Hebei Provincial Office for Comprehensive Agricultural Development

No. 10 Weiming Street
Shijiazhuang City 050053
Hebei Province
People's Republic of China

For HENAN PROVINCE:

Henan Provincial Office for Comprehensive Agricultural Development
No. 2 Building, Zhengsan Street
Jinshui District
Zhengzhou City 450003
Henan Province
People's Republic of China

For JIANGSU PROVINCE:

Jiangsu Provincial Office for Comprehensive Agricultural Development
No. 254 Zhongshan North Road
Nanjing 210003
Jiangsu Province
People's Republic of China

For SHANDONG PROVINCE:

Shandong Provincial Office for Comprehensive Agricultural Development
No. 1 Shengfuqian Street
Jinan 250011
Shandong 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 any Project Province, may be taken or executed by its Vice Governor responsible for agriculture or by such other person or persons as said Project Province shall designate in writing, and said Project Province 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 the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Jane Loos

Acting Regional Vice President
East Asia and Pacific

ANHUI PROVINCE
HEBEI PROVINCE
HENAN PROVINCE
JIANGSU PROVINCE
SHANDONG PROVINCE

By /s/ Liu Xiaoming

SCHEDULE

Implementation Program

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

A. Project Management

In order to ensure the proper implementation of its Respective Part of the Project, each Project Province shall take the following actions.

1. Said Project Province shall at all times maintain, with terms of reference, staff composition and other resources acceptable to the Bank:

(a) its PPMO, which shall include senior-level representatives from its Water Resources Bureau, its Agriculture Bureau and its Forestry Bureau, to be responsible, inter alia, for the appraisal and supervision of each Subproject under its Respective Part of the Project, for the implementation of the activities under Part B of the Project that are included in its Respective Part of the Project, and for the provision of technical assistance to its agencies responsible for implementation of its Respective Part of the Project; and

(b) a group of scientific and technical experts to be responsible for providing advice to its PPMO on technical matters relating to the Project and for assisting in the evaluation of technical aspects of Subprojects and in the preparation of reports to be prepared by said Project Province pursuant to Part E.2 of this Schedule.

2. Said Project Province shall ensure that its PPMO shall be fully staffed in accordance with the provisions of section 1 of this Part, not later than September 30, 1998.

B. Subprojects

1. Preparation; Eligibility

Each Project Province shall, in accordance with programmatic 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 of Schedule 5 to the Loan Agreement. Each such proposed Subproject shall qualify as a Subproject eligible for financing out of the proceeds of the Loan only if and to the extent said Project Province shall have demonstrated to the satisfaction of the Borrower and the Bank, on the basis of said report, that the conditions set forth below in this Section 1 have been met and the Bank shall have communicated to the Borrower its approval of said Subproject.

(a) The proposed Subproject is technically feasible and economically and financially viable and is designed to earn an economic rate of return of not less than 12%, as determined, in the case of a proposed Subproject for the establishment of a fertilizer or seed processing facility, on the basis of a feasibility study and business plan for said facility carried out in accordance with guidelines acceptable to the Bank.

(b) The proposed Subproject is in compliance with environmental standards acceptable to the Bank, and with all applicable laws and regulations of the Borrower relating to health, safety and environmental protection.

(c) The proposed Subproject is designed to avoid or minimize any involuntary resettlement of persons or loss of their income or productive capacity, but if the proposed Subproject would nevertheless require any acquisition of land that would involve any such resettlement or loss, a resettlement action plan for said persons has been developed in accordance with the provisions of Section 5 of this Part B.

(d) In the case of a proposed Subproject in Shandong requiring water supplied from the Yellow River, the total amount of such water required for said proposed Subproject would not involve any increase in the amount of water currently diverted by Shandong from said river.

(e) In the case of a Subproject involving groundwater extraction, said project has been designed such that:

(i) no wells shall be dug under said project and no such extraction shall occur in areas where the estimated long-term rate of groundwater recharge would be less than the estimated long-term rate of extraction of such water if said project were located in such area; and

(ii) the depth of any well constructed under said project shall not exceed 50 meters.

(f) In the case of a proposed Subproject dependent on one or more Large Dams, arrangements to ensure the safety of said Large Dams have been made in accordance with the provisions of Section 4 of this Part B.

(g) In the case of a proposed township-level Subproject under Part A(2) of the Project involving on-farm development, said proposed Subproject is estimated to be completed within a period of not more than two years.

2. Water Charges

(a) Each Project Province declares its 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. In furtherance of said policy, each Project Province shall, promptly upon completion of the facilities which are constructed or upgraded under its Respective Part of the Project, establish and ensure the collection from the users of water delivered through said facilities, of water charges sufficient to cover: (i) the operation and maintenance costs of said facilities as they are incurred; and (ii) debt repayment and debt service obligations incurred by said Project Province pursuant to Section 3.01(c) of the Loan Agreement in respect of said facilities, as they become due and payable.

(b) To that end, each Project Province shall prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than September 30, 1999, the proposed schedule of said water charges and timetable for its establishment, together with any information pertaining thereto that the Bank may reasonably request, and thereafter promptly take all measures required on its part to introduce such schedule according to said timetable, taking into account the views of the Bank on the matter.

(c) Each Project Province shall review said water charges, at regular intervals not exceeding 3 years each, and adjust said charges as necessary so as to continue to give effect to the provisions of paragraph (a) of this Section 2.

(d) Each Project Province shall maintain a separate accounting for funds collected within its jurisdiction pursuant to the provisions of paragraphs (a), (b) and (c) of this Section 2 and cause all said funds to be used exclusively for the purposes specified in said paragraph (a).

3. Environmental Management and Monitoring

(a) Each Project Province shall carry out its Respective Part of the Project in accordance with an environmental management program acceptable to the Bank.

(b) Hebei, Henan and Shandong shall each maintain policies and procedures adequate to enable it to monitor and control, in accordance with guidelines acceptable to the Bank, groundwater extraction and groundwater levels within its territory, so as to ensure the sustainability of its groundwater supply.

(c) Each Project Province shall monitor the soil fertility of land included in each of its Subprojects in accordance with a monitoring plan acceptable to the Bank.

4. Dam Safety

In order to ensure the safety of each Large Dam, the Project Provinces shall undertake the following actions in accordance with sound engineering practices and on the basis of guidelines acceptable to the Bank.

(a) Anhui, Jiangsu and Shandong shall each:

(i) prepare and furnish to the Bank not later than December 31, 1998, a program of remedial works on the following Large Dam(s) (the Designated Dams), together with an implementation plan to ensure the completion of said remedial works not later than December 31, 2002: (A) Fuzhiling and Longhekou Dams, in the case of Anhui; (B) Xiaotanshan Dam in the case of Jiangsu; and (C) Mahe Dam in the case of Shandong;

(ii) thereafter promptly implement said program in accordance with said implementation plan, taking into account the views of the Bank on the matter; and

(iii) throughout the period of implementation of said remedial works: (A) undertake annual reviews of the progress achieved in the carrying out of said remedial works; (B) prepare and furnish to the Bank, promptly upon the completion of each said review, a report of the results of said review, together with any recommendations to ensure the continued proper implementation of said works; and (C) thereafter, promptly implement said recommendations, taking into account the views of the Bank on the matter.

(b) Prior to the commencement of any works under any Subproject which is served or affected by a Large Dam (other than a Designated Dam), the Project Province in which said dam is located shall:

(i) undertake an inspection and comprehensive safety evaluation of said Large Dam;

(ii) prepare and furnish to the Bank a report on said evaluation, together with any recommendations indicated by said evaluation in order to ensure the safety of said dam and the safety of downstream life, property and activities; and

(iii) promptly implement said recommendations, taking into account the comments of the Bank on the matter.

(c) Each Project Province shall:

(i) undertake and complete, not later than December 31, 2002, an additional inspection and comprehensive safety evaluation of each Large Dam located in its territory;

(ii) promptly upon completion of each said inspection and evaluation, prepare and furnish to the Bank a report on said evaluation, together with any recommendations indicated by said evaluation in order to ensure the safety of said Large Dam and the safety of downstream life, property and activities; and

(iii) promptly implement said recommendations, taking into account the views of the Bank on the matter.

(d) In order to assist it in undertaking the comprehensive safety evaluations referred to in paragraphs (b) and (c) of this Section, each Project Province shall employ one or more independent experts (or, if the Bank shall so request, a panel of independent experts), whose terms of reference, qualifications, and experience shall

be acceptable to the Bank.

(e) Each Project Province shall ensure that each Large Dam within its territory shall be operated and maintained in accordance with sound engineering practices. To that end, each Project Province shall: (i) prepare, under guidelines acceptable to the Bank, and furnish to the Bank, not later than December 31, 2002, an emergency preparedness plan for each Large Dam within its territory; (ii) afford the Bank a reasonable opportunity to exchange views with said Project Province on said plan; and (iii) thereafter, promptly adopt said plan, taking into account the views of the Bank on the matter.

5. Resettlement

If any Subproject included in a Project Province's Respective Part of the Project would involve the involuntary resettlement of persons, said Project Province shall ensure that all such persons shall be resettled prior to the implementation of such Subproject in accordance with a resettlement plan which:

(a) shall have been designed on the basis of policies, planning principles, institutional arrangements and design criteria acceptable to the Bank, so as to improve the living standards and production levels of said persons; and

(b) shall have been approved by the Bank.

C. Institutional Development

1. SIDD Development

(a) Under Part B(2)(a) of the Project, each Project Province shall:

(i) carry out a pilot program, acceptable to the Bank, for the establishment, not later than September 30, 1998 and operation in its territory of SIDDs in accordance with the arrangements set forth in paragraphs (b) through (f) of this Section; and

(ii) prepare, in accordance with guidelines acceptable to the Bank and furnish to the Bank not later than December 31, 1998, a program for the further development of SIDDs within its territory, said program to include implementation plans and institutional arrangements for the establishment of such SIDDs, and a program for the redeployment of provincial and local staff responsible for water resource management; and thereafter, promptly implement said program, taking into account the views of the Bank on the matter.

(b) Each SIDD established within a Project Province pursuant to subparagraph (a)(i) of this Section shall include:

(i) at least (A) one WSC established pursuant to the Borrower's Company Law, to be responsible for operating and maintaining a defined water supply system within said province's territory, and at least 40% of whose directors shall comprise representatives of the users of the water supplied through said system and (B) one WUA to be responsible for operating and maintaining tertiary canals served by the system within said WSC's responsibility and for operating and maintaining onfarm water supply systems which serve its members, and whose members shall comprise all users of water supplied through said onfarm systems; and

(ii) at least one WUA in each prefecture and municipality within said province selected in accordance with guidelines acceptable to the Bank, each to be responsible for operating and maintaining the tertiary canals and onfarm 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 WSC established within a Project Province shall be defined and set forth in a water system operation and maintenance contract, prepared in accordance with guidelines acceptable to the Bank, to be entered into between said province, through its local administration, and said WSC upon the establishment of said WSC, said contract to: (i) define the facilities to be transferred to said WSC and which said WSC shall be responsible to operate and maintain; (ii) set forth the respective responsibilities of said Project Province and said WSC, and the sources and levels of funds, staffing and other resources to be provided to said WSC to enable it to carry out said responsibilities; and (iii) authorize and empower said WSC to collect the water charges referred to in Section 2 of Part B 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 WSC and said users.

(d) The rights and obligations of each WUA established within a Project Province 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 WSC 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 WSC 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 Section 2 of Part B of this Schedule from its members who use water delivered through said facilities.

(e) Each Project Province shall ensure that the right of local governments to utilize customary labor contributions in respect of irrigation and drainage responsibilities assumed by each WSC and WUA established in a SIDDA operating within its territory, shall be assigned to said WSC and WUA under arrangements acceptable to the Bank, promptly upon their establishment.

(f) Each Project Province shall provide technical and financial assistance to each WSC and each WUA established in a SIDDA operating within its territory, under guidelines and in accordance with a schedule acceptable to the Bank, such assistance to be designed to enable said entities properly to carry out their respective responsibilities.

2. Management Information System

Under Part B(2) of the Project, each Project Province shall: (a) take all measures required on its part to ensure that the management information system developed by the CPMO pursuant to Part C.2 of Schedule 5 to the Loan Agreement shall be introduced within its PPMO and linked to the CPMO, not later than December 31, 1999; (b) operate said system in accordance with guidelines acceptable to the Bank; and (c) ensure that said system shall be extended to, and be fully operational in, each of its counties not later than June 30, 2000.

D. Annual Implementation Plans

Each Project Province shall:

1. prepare, in accordance with guidelines satisfactory to the Bank, and furnish to the Borrower not later than November 1 in each calendar year, for summarizing and forwarding to the Bank pursuant to Part D of Schedule 5 to the Loan Agreement, a proposed implementation plan for the carrying out of its Respective Part of the Project during the following calendar year, said plan: (a) to describe, inter alia, the activities proposed to be carried out during said period in respect of the following: construction and maintenance, technical assistance, adaptive research, extension and training, integrated pest management, and environmental management; and (b) to be accompanied by a financing plan therefor and evidence satisfactory to the Bank, that funds in adequate amounts are available for the payment of expenditures to be incurred in the carrying out of said Respective Part of the Project during said period; and

2. thereafter, carry out its Respective Part of the Project during said following

calendar year in accordance with such implementation plan as shall have approved by the Borrower and the Bank.

E. Supervision, Monitoring and Evaluation, and Reporting

1. Supervision

Each Project Province shall supervise the implementation of the Subprojects carried out within its territory in accordance with guidelines acceptable to the Bank. To this end, each Project Province shall: (a) prepare, in accordance with terms of reference acceptable to the Bank, and furnish to the Borrower, not later than November 1 in each calendar year, for forwarding to the Bank pursuant to Part E.1 of Schedule 5 to the Loan Agreement, a proposed supervision plan for the following calendar year; and thereafter, promptly carry out said supervision plan during the following calendar year, taking into account the views of the Bank on the matter; and (b) prepare, in accordance with terms of reference acceptable to the Bank, and furnish to the Borrower not later than 3 months following each supervision, for forwarding to the Bank, a report summarizing the results of said supervision.

2. Monitoring, Evaluation and Reporting

(a) Each Project Province shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of its Respective Part of the Project (including implementation of its Environmental Management Plan) and the achievement of the objectives thereof.

(b) Each Project Province shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Borrower for consolidation and forwarding to Bank pursuant to Part E.2 of Schedule 5 to the Loan Agreement, the following reports:

(i) semi-annual reports, not later than March 15 and September 15 in each calendar year: (A) summarizing: (1) the physical and financial progress of its Respective Part of the Project in respect of the preceding calendar semester; and (2) in the case of Jiangsu, the physical progress of the construction of the Huaiyin Pumping Station No. 2 referred to in Part F of this Schedule; and (B) setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and to further the objectives thereof during the then current calendar semester;

(ii) an annual report, not later than March 15 in each calendar year: (A) summarizing: (1) the results of the monitoring and evaluation activities carried out by it pursuant to this Section 2 in respect of the preceding calendar year; and (2) in the case of each of Hebei, Henan and Shandong, the results of the monitoring activities carried out by it pursuant to Part B.3(b) of this Schedule with respect to groundwater extraction and water tables within its territory; (B) setting forth technical and scientific recommendations for its Respective Part of the Project; and (C) setting out the measures recommended to ensure the efficient carrying out of its Respective Part of the Project and to further the objectives thereof during the then current calendar year; and

(iii) a mid-term report, not later than December 1, 2000, summarizing the results of the monitoring and evaluation activities carried out by it pursuant to this Section 2 from the inception of its Respective Part of the Project, and setting out the status of its Respective Part of the Project, any problems encountered during its implementation, the costs of implementation, and the measures recommended to ensure its efficient completion and to further its objectives.

(c) After furnishing each said report, each Project Province shall review the same with the Bank, and thereafter, promptly take all measures in relation thereto as

shall have been agreed between the Bank and said Project Province.

F. Jiangsu Province

In order to ensure the achievement of the objectives of its Respective Part of the Project, Jiangsu shall: (1) construct its Huaiyin Pumping Station No. 2 in Huaiyin City with a capacity of at least 100 cubic meter per second; (2) carry out said construction with due diligence and efficiency and in accordance with appropriate engineering, and environmental practices; and (3) ensure that said station shall be completed and commissioned not later than December 31, 2002.

