

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7898-CN

Project Agreement

(Nanning Urban Environment Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

NANNING MUNICIPALITY

Dated July 23, 2010

PROJECT AGREEMENT

AGREEMENT dated July 23, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and Nanning Municipality (“Nanning” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of the same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and Nanning hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II – PROJECT

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

ARTICLE III – REPRESENTATIVE; ADDRESSES

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

3.02. The Bank's Address is:

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

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

3.03. Nanning's Address is:

Nanning Urban Environment Project Management Office
Room No.11017, Bld No.1,
1 Jiabin Road, Nanning, Guangxi, 530028
People's Republic of China

Facsimile:

86-771-5535881

AGREED at Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Klaus Rohland
Authorized Representative

NANNING MUNICIPALITY

By /s/ Zhou Jiabin
Authorized Representative

SCHEDULE**Execution of the Project****Section I. Implementation Arrangements****A. Project Management**

Nanning shall maintain, until the completion of the Project, the Nanning Municipal Project Management Office (“NPMO”), to be responsible for the implementation of the Project, with terms of reference, staffing and other resources acceptable to the Bank.

B. Anti-Corruption

Nanning shall and shall cause the Project Companies to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

C. Resettlement and Environment Protection

1. Nanning shall:

- (a) take, and shall cause the Project Companies to take, all necessary actions to minimize, to the extent possible, any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, in carrying out the Project and activities described in subparagraph (b)(ii) below;
- (b) for this purpose:
 - (i) prior to the commencement of any works under the Project, implement, and cause the Project Companies to implement, the applicable RAP in a manner satisfactory to the Bank; and
 - (ii) prepare, or shall cause to be prepared resettlement action plans, satisfactory to the Bank, in regard to: (A) Linked Projects; and (B) modification or finalization of design or works of said Linked Projects, such plans to be prepared in accordance with the principles and procedures set forth in the Resettlement Policy Framework, and thereafter, carry out, and cause to be carried out, such resettlement action plans in a manner satisfactory to the Bank before commencing works for any Linked Projects or said modified design/works.

2. Nanning shall implement, and shall cause the Project Companies to implement, the applicable EMP in a manner satisfactory to the Bank, ensure that the Project is implemented in accordance with sound environmental practices and standards, and shall avoid or mitigate against adverse impact on physical cultural resources.
3. Nanning shall, and shall cause the Project Companies to:
 - (a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the EMPs, the RAPs and the Resettlement Policy Framework and the achievement of the objectives of said plans and framework, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank; and
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by March 15 and September 15 of each year, commencing on March 15, 2011, semi-annual reports of the results of the monitoring and evaluation activities with respect to the EMPs, RAPs and Resettlement Policy Framework, together with any revisions proposed to be introduced into said plans and framework in order to achieve their respective objectives.
5. Nanning shall provide, and shall cause the Project Companies to provide, to the Bank for its prior concurrence any proposed modification or waiver of any EMP or RAP or the Resettlement Policy Framework, and put into effect only such modification or waiver as shall have been agreed by the Bank.

D. Subsidiary Agreements

1. Nanning shall:
 - (a) Relend a portion of the proceeds of the Loan to GNWC for purposes of carrying out Part 1 of the Project, under a subsidiary agreement to be entered into between Nanning and GNWC: (i) on the principal terms set forth in paragraphs 1 through 3 of Annex A to this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 11 of Annex A to this Schedule (“Subsidiary Loan Agreement”).
 - (b) Make available a portion of the proceeds of the Loan to each of NXIC, and NCWCIC for purposes of carrying out Part 2 of the Project, under a subsidiary agreement to be entered into between Nanning and each of NXIC and NCWCIC under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth

in paragraphs 4 through 11 of the Annex A to this Schedule (“Subsidiary Agency Agreement”).

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. Nanning shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank by March 15 and September 15 each year, starting March 15, 2011.

B. Financial Management, Financial Reports and Audits

1. Nanning shall maintain, a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. Nanning shall have the financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of Nanning. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

Section III. Procurement

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

**ANNEX A
to
SCHEDULE**

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

For the purposes of Section I, Part D, paragraph 1 of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds under the Subsidiary Loan Agreement shall be those set forth in paragraphs 1 through 3 of this Annex A; and (b) the Subsidiary Loan Agreement with GNWC shall be entered into on the conditions set forth in paragraphs 4 through 11 of this Annex and the Subsidiary Agency Agreements with each of NXIC and NCWCIC shall be entered into on the conditions set forth in paragraphs 4 through 11 of this Annex A.

Terms of Availability

1. The principal amount of each subsidiary loan made by Nanning to GNWC shall be the amount equivalent in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of GNWC's implementation of its Respective Part of the Project.
2. GNWC shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement and the amount of any Premium paid pursuant to Section 2.07(c) of this Agreement) over a period of period of twenty-five (25) years, inclusive of a grace period of five (5) years.
3. GNWC shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

Conditions

The Subsidiary Agreements shall include the following principal conditions:

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

5. Each Project Company shall undertake to procure the goods, works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of its Respective Part of the Project.
6. Each Project Company shall undertake to: (a) ensure that all facilities relevant to its Respective Part of the Project shall at all times be properly operated and maintained and that all necessary repairs and renewals of such facilities shall be made promptly as needed; and (b) enable the Bank, Guangxi and Nanning to inspect such goods and the sites and works included in its Respective Part of the Project, the operation thereof, and any relevant records and documents.
7. Each Project Company shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable to replace or repair such goods.
8. Each Project Company shall undertake:
 - (a)
 - (i) to maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition;
 - (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; and
 - (iii) furnish to the Bank, Guangxi and Nanning, as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year: (A) certified copies of said financial statements or records and accounts, as the case may be, for such year as so audited; and (B) an opinion on such statements by said auditors in such scope and detail as the Bank, Guangxi or Nanning concerned shall have reasonably requested;
 - (b) to prepare and furnish to the Bank, Guangxi and Nanning all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Guangxi or Nanning shall reasonably request; and

- (c)
 - (i) to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Annex B of the Schedule to this Agreement the carrying out of its Respective Part of the Project and the achievement of the objectives thereof; and
 - (ii) to prepare, under terms of reference satisfactory to the Bank, and furnish to Guangxi and Nanning for their review, consolidation in the Project Reports and submission to the Bank, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of its Respective Part of the Project during the period preceding the date of each such report.
- 9.
 - (a) Except as the Bank shall otherwise agree, GNWC shall continue to undertake to produce for each of its fiscal years, total revenues equivalent to not less than the sum of its: (i) total operating expenses; and (ii) the amount by which debt service requirements exceed the provision for depreciations.
 - (b) Before September 30 in each of its fiscal years, GNWC shall, on the basis of forecasts prepared by said Project Company and satisfactory to the Bank, review whether it would meet the requirements set forth in sub-paragraph (a) of this paragraph in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.
 - (c) If any such review shows that GNWC would not meet the requirements set forth in sub-paragraph (a) of this paragraph for said Project Company's fiscal years covered by such review, the Project Company shall promptly take all necessary measures in order to meet such requirements.
 - (d) For purposes of this paragraph, the following terms have the following meanings:
 - (i) The term "total revenues" means the sum of total operating revenues and net non-operating income.
 - (ii) The term "total operating revenues" means revenues from all sources related to operations.
 - (iii) The term "net non-operating income" means the difference between:

- (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (iv) The term “total operating expenses” means all expenses related to the Project Company’s water supply and wastewater operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 3.3% per annum of the average current gross value of the Project Company’s fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.
 - (v) The average current gross value of the Project Company’s fixed assets in operation shall be calculated as one half of the sum of the gross value of the Project Company’s fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.
 - (vi) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
10. Whenever for the purposes of paragraph 9 of this Annex it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.
11. Nanning shall have the right to suspend or terminate the right of its Project Company to the use of the proceeds of the loan made available under the Subsidiary Agreement with said Project Company upon failure by such Project Company to perform its obligations under such agreement.

**ANNEX B
to
SCHEDULE**

Indicators

Intermediate Outcome Indicator	Baseline 2008	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	
I. Integrated Urban Wastewater Treatment								
Annual Net Income (after tax) of wastewater operations of the Guangxi Green City (Nanning) Water Affairs Company (RMB million)	134.1	251.8	259.3	345.1	355.4	366.1	377.1	
A. 2nd Phase of Jiangnan Wastewater Treatment Plant								
Percentage of population in urban districts who have sewer connection	52.1%	59.2%	62.8%	66.4%	70.0%	73.5%	77.1%	
Removal of BOD, COD, TP, and TN by Jiangnan WTPs - Phases I and II (ton/year)	BOD	11836	17020	18920	21489	24294	27331	31451
	COD	24565	35546	39622	45112	51118	57628	66445
	TP	279	408	456	521	593	670	775
	TN	893	1505	1781	2134	2530	2967	3544
B. Nanning Municipality County Towns								
1. Wuming County								
Percentage of county-seat town population who have sewer connection	0%	0%	50%	55%	62%	70%	75%	
Removal of BOD, COD, TP, and TN by WTP (ton/year)	BOD	0	0	1325	1609	2013	2563	2816
	COD	0	0	2032	2428	3114	3981	4389
	TP	0	0	24	29	36	47	51
	TN	0	0	115	144	186	243	273

2. Binyang County								
Percentage of county-seat town population who have sewer connection		0%	0%	50%	58%	65%	68%	70%
Removal of BOD, COD, TP, and TN by WTPP (ton/year)	BOD	0	0	405	492	593	657	715
	COD	0	0	730	889	1075	1196	1305
	TP	0	0	8.9	10.9	13.2	14.7	16
	TN	0	0	81	100	124	140	155
3. Hengxian County								
Percentage of county-seat town population who have sewer connection		0%	0%	50%	58%	65%	68%	70%
Removal of BOD, COD, TP, and TN by WTPP (ton/year)	BOD	0	0	562	672	772	828	840
	COD	0	0	807	964	1108	1188	1205
	TP	0	0	8	10	11	12	12
	TN	0	0	78	93	107	115	117
4. Mashan County								
Percentage of county-seat town population who have sewer connection		0%	0%	50%	55%	60%	63%	65%
Removal of BOD, COD, TP, and TN by WTPP (ton/year)	BOD	0	0	125	144	165	181	194
	COD	0	0	218	252	290	319	344
	TP	0	0	2	3	3	3	4
	TN	0	0	20	24	28	32	35
5. Shanglin County								
Percentage of county-seat town population who have sewer connection		0%	0%	50%	55%	60%	63%	65%
Removal of BOD, COD, TP, and TN by WTPP (ton/year)	BOD	0	0	121	148	160	177	192
	COD	0	0	210	258	282	312	340
	TP	0	0	2	3	3	3	4
	TN	0	0	19	24	27	31	35

II. River Rehabilitation								
A. River Rehabilitation of the Fenghuang River								
Reduction of TP/TN at discharge point (ton/year)	TP (57.5) (2009 level)	0	0	25	25	33	33	50
	TN (167.7) (2009 level)	0	0	66	66	88	88	132
B/C. River Rehabilitation of the Liangqing and Lengtang Rivers								
Removal of TP/TN at discharge point (ton/year)	TP (17.7) (2009 level)	0	0	8	8	10	10	15
	TN (82) (2009 level)	0	0	31	31	41	41	62
III. Technical Assistance								
Revision of regulations for river pollution control (Underway/Completed)		Initiated	Ongoing	Ongoing	Completed	Completed	Completed	Completed
Preparation of a strategic study on improving water ecological environment of the Yongjiang River Reach (Underway/Completed)		Initiated	Ongoing	Ongoing	Completed	Completed	Completed	Completed
Development of pollution control action plans of Fenghuang River, Liangqing River and Lengtang River (Under Preparation/Completed/Under implementation)		Initiated	Preparing	Preparing	Completed	Implement- ing	Implement- ing	Implement- ing

