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CONFORMED COPY

LOAN NUMBER 7712-CN

Project Agreement

(Xining Flood and Watershed Management Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

QINGHAI PROVINCE

Dated August 11, 2009

PROJECT AGREEMENT

AGREEMENT dated August 11, 2009, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank”) and QINGHAI PROVINCE (“Qinghai” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement of same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. The Bank and Qinghai hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions as defined in the 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. Qinghai declares its commitment to the objectives of the Project. To this end Qinghai shall:
 - (a) carry out the Project in accordance with the provisions of Article V of the General Conditions; and
 - (b) provide 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 shall otherwise agree, Qinghai shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. Qinghai’s Representative is its Governor or Vice Governor or such other person or persons as the Governor or Vice Governor shall designate in writing;
- 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. Qinghai's address is:

Project Management Office of Xining Flood & Watershed Management Project
Xining Water Affairs Bureau
No.9 Wusidajie Street
Xining
Qinghai 810001
People's Republic of China

Facsimile:

0971-6127575

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/ Elaine Sun
Authorized Representative

QINGHAI PROVINCE

By: /s/ Zhangh Guangrong
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

1. In order to ensure the proper carrying out of the Project, Qinghai shall cause Xining Municipality to maintain throughout the period of implementation of the Project an organizational structure for such purpose, and satisfactory to the Bank, which shall include, *inter alia*, the following entities with composition, powers, functions, funds, staffing, facilities and other resources satisfactory to the Bank:
 - (a) the Xining Municipality Project Leading Group (XPLG) to provide overall policy support for implementing the Project, ensure availability of counterpart funds, oversee the proper functioning of XPCO and XPMO, coordinate and enlist the support of all relevant agencies, and disseminate the experiences and lessons gained under the Project;
 - (b) the Xining Municipality Project Coordination Office (XPCO) to carry out coordination of Project implementation among relevant agencies at the municipal level;
 - (c) the Xining Municipality Project Management Office (XPMO) to organize, manage and supervise the implementation of Project activities;
 - (d) the Expert Panel (EP) to provide technical support to the XPMO in Project management and implementation;
 - (e) the County Project Leading Groups (CPLGs) to provide policy guidance for the Project at the relevant county levels;
 - (f) the County Project Coordination Offices (CPCOs) to carry out coordination of Project implementation among relevant agencies at the county level;
 - (g) the County Project Management Offices (CPMOs) to organize, manage and execute the Project activities at the relevant county levels; and
 - (h) the Xining Community Project Management Groups (XCPMGs) to organize farmers to participate in implementation of watershed development and livelihood activities under Part C of the Project.
2. In carrying out the Project, Qinghai shall cause Xining Municipality to implement or cause to be implemented the Financial Management Manual Environmental Management Plan, the Resettlement Action Plan, the Ethnic Minorities

Development Plan and the Pest Management Plan all in a manner and substance satisfactory to the Bank. Without limitation to the foregoing, Qinghai shall cause Xining Municipality to:

- (a) 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, and the displacement of said people in the carrying out of the Project or any part thereof;
 - (b) where the acquisition of land or assets or the displacement of people is unavoidable, before initiating the implementation of any works which would result in such acquisition or displacement, make available to such people compensation and, as applicable, relocate and rehabilitate the displaced people in accordance with the Resettlement Action Plan and in a manner satisfactory to the Bank.
3. Qinghai shall not and shall cause Xining Municipality to not amend, suspend, abrogate or waive the Financial Management Manual, the Environmental Management Plan, the Resettlement Action Plan, the Ethnic Minorities Development Plan and the Pest Management Plan or any provision thereof, without the prior approval of the Bank.
4. Qinghai shall maintain the Dam Safety Panel with at least two (2) experts having experience and qualifications in the relevant technical fields, acceptable to the Bank, and under terms of reference, including a time-table for its activities, satisfactory to the Bank, to, *inter alia*: (i) inspect and evaluate the safety status of Upstream Dams, their appurtenances and performance history; (ii) review and evaluate the owner's operation and maintenance procedures for the Upstream Dams; (iii) provide written reports of findings and recommendations for any remedial work or safety measures necessary to upgrade any Upstream Dam to an acceptable standard of safety; and (iv) to review the design reports and monitor the construction of the Selected Check Dams.
5. Qinghai shall:
 - (a) provide all support and cooperation to the Dam Safety Panel necessary for it to carry out its functions in accordance with its terms of reference;
 - (b) furnish to the Bank all reports received from the Dam Safety Panel and implement the measures recommended by the Dam Safety Panel in respect of any Upstream Dam or any Selected Check Dam in a timely manner satisfactory to the Bank, including preparing for any such Dam if the Bank should request: (i) a Plan for Construction Supervision and Quality Assurance; (ii) an Instrumentation Plan; (iii) an Operation and

Maintenance Plan; (iv) an Emergency Preparedness Plan; and (v) an action plan for carrying out periodic safety inspection, all under procedures and arrangements satisfactory to the Bank;

- (c) without limitation to clause (b) of this paragraph, no later than November 30 in each year, beginning in November 30, 2009, furnish to the Bank for its review and comment a draft annual dam safety action plan, summarizing the actions taken in said year and the actions proposed to be taken in the following calendar year relating to any remedial works or safety measures recommended by the Dam Safety Panel with respect to any Upstream Dam or any Selected Check Dam with the objective of ensuring that the physical works completed or to be completed under the Project are not at risk;
 - (d) taking into account the Bank's comments, finalize and provide to the Bank no later than December 31 in each year, beginning in December 31, 2009, the annual dam safety action plan, satisfactory to the Bank;
 - (e) implement the annual dam safety action plan referred to in clause (d) of this paragraph in a manner satisfactory to the Bank;
 - (f) implement any plan that the Bank has requested to be prepared as referred to in clause (b) of this paragraph above, all in a manner satisfactory to the Bank;
 - (g) carry out training on dam safety for relevant officials including organizing special workshops for collapsed dam analysis all under terms of reference satisfactory to the Bank; and
 - (h) not amend, suspend, abrogate, or waive any plan referred to in clauses (e) and (f) of this paragraph or any provision of any such plan without the prior approval of the Bank.
6. Qinghai shall cause Xining Municipality to: (a) carry out activities under the Project during fiscal year 2009 in accordance with an implementation plan agreed with the Bank; (b) prepare and furnish to the Bank by November 30 in each year, beginning in November 2009, a draft annual implementation plan for review and comment, summarizing the implementation progress of the Project for the said year and the Project activities to be undertaken for the following calendar year, including the activities under the Resettlement Action Plan, the Environmental Management Plan, the Ethnic Minorities Development Plan, the Pest Management Plan, and the Participatory Watershed Management Plan, and the proposed annual budget for the Project; (c) taking into account the Bank's comments, finalize and furnish to the Bank no later than December 31 in each year, beginning in December 31, 2009, the annual implementation plan,

satisfactory to the Bank; and (d) thereafter, ensure the implementation of the Project during the following calendar year in accordance with the annual implementation plan in a manner satisfactory to the Bank. Qinghai shall not and shall cause Xining Municipality to not amend, suspend, abrogate, or waive said annual implementation plan or any provision thereof without the prior approval of the Bank.

7. Qinghai shall carry out or cause to be carried out the construction of the waste water treatment plants included in Part B.1 of the Project under arrangements and in accordance with a time table satisfactory to the Bank in order to ensure that each such plant is completed and fully functional prior to the schedule agreed with the Bank for the completion of construction of the connecting pipelines under Part B.1 of the Project.
8. With respect to watershed management activities to be carried out under Part C of the Project, Qinghai shall cause Xining Municipality to: (a) prepare, prior to carrying out any activity under said Part of the Project in any Selected Sub-watershed, a Participatory Watershed Management Plan for said Sub-watershed, satisfactory to the Bank, which shall, *inter alia*, provide details of the proposed activities, the potential impact on people from improved land and water use for ecological rehabilitation, and contain detailed mitigation measures based on, *inter alia*, the relevant provisions of the Environmental Management Plan, the Resettlement Action Plan and the Ethnic Minorities Development Plan; (b) implement each Participatory Watershed Management Plan in a manner satisfactory to the Bank; and (c) not amend, suspend, abrogate or waive any provision of such plan without the prior approval of the Bank.
9. With respect to flood control, drainage and watershed management works constructed or rehabilitated under the Project, Qinghai shall, in order to ensure the proper operation and maintenance of such systems, prior to the completion of each such system, cause Xining Municipality to prepare and furnish to the Bank for review and comment a proposed operation and maintenance plan for such system and, thereafter, ensure the prompt finalization and implementation of each such plan in a manner satisfactory to the Bank.
10. (a) Qinghai shall, through Xining Municipality, make available to the counties and Xining City included in the Project Area the proceeds of the Loan required by them for purposes of carrying out their respective activities under the Project in accordance with procedures and on terms and conditions satisfactory to the Bank.

(b) For the purpose of carrying out Part C.3 of the Project, Qinghai shall, through Xining Municipality, cause the counties and Xining City included in the Project Area, to utilize the proceeds of the Loan made available to them as set out in clause (a) of this paragraph to provide

Sub-grants to Beneficiaries under Implementation Agreements in accordance with procedures and on terms and conditions satisfactory to the Bank, which shall include the provisions set forth in Annex 2 to this Schedule.

- (c) Qinghai shall, through Xining Municipality, cause each county or Xining City included in the Project Area: (i) to exercise its rights under each Implementation Agreement in such manner as to protect its interests and the interests of Qinghai, Xining Municipality and the Bank and to accomplish the purposes of the Sub-grant; and (ii) to not assign, amend, abrogate or waive any Implementation Agreement or any of its provisions without the prior approval of the Bank.
- 11. Qinghai shall cause Xining Municipality to: (a) install, not later than November 30, 2009, a comprehensive management information system in XPMO and CPMOs; and (b) ensure that XPMO and CPMOs operate said management information system in accordance with guidelines acceptable to the Bank.
 - 12. Qinghai shall and shall cause Xining Municipality to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. Qinghai shall and shall cause Xining Municipality to monitor and evaluate the progress of the Project and prepare Project Reports 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 1 to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Borrower not later than forty-five (45) days after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
- 2. Without limitation to the provisions of paragraph 1 above, Qinghai shall and shall cause Xining Municipality to prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank no later than June 30, 2012, a consolidated mid-term report for the Project, summarizing the results of the monitoring and evaluation activities carried out from the inception of the Project, and setting out the measures recommended to be taken to ensure the efficient completion of the Project and to further the objectives thereof.
- 3. Qinghai shall provide to the Borrower not later than three (3) months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the

General Conditions, all such information as the Borrower or the Bank shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports; Audits

1. Qinghai shall and shall cause Xining Municipality to 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. Qinghai shall and shall cause Xining Municipality to apply in the implementation of the Project the Financial Management Manual for implementing the financial management system referred to in Section II.B.1 of this Schedule in a manner satisfactory to the Bank. Qinghai shall not and shall cause Xining Municipality to not amend, waive, suspend, abrogate or cancel the Financial Management Manual or any provision therein without the prior approval by the Bank.
3. Without limitation on the provision of Part A of this Section, Qinghai shall and shall cause Xining Municipality to prepare and furnish to the Bank as part of the Progress Report not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
4. Qinghai shall have its financial statements and the financial statements of Xining Municipality 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 the Project Implementing Entities. 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 and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

ANNEX 1

Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
<p>Improve the protection of property and safety of people from flood events and bring about sustainable utilization of land and water resources within Xining Municipality through the provision of a greater level of flood protection and enhanced flood management; improved wastewater collection; improved soil and water conservation in catchments; and institutional strengthening and capacity building.</p>	<p>KPI 0.1: The number of population protected from flooding reaches 414,300 by the end of project completion. KPI 0.2: The annual reduction of urban wastewater directly discharged into rivers in Xining totals 2 million tons by the of project completion KPI 0.3: The annual reduction of soil erosion amounts to 898,000 tons by the of project completion</p>	<p>Track annual progress in achieving PDO and recommend adjustment in flood and watershed management to improve project quality, efficiency, and sustainability</p>
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p>Outcome 1: Improvement of flood control capacity and protection of human life and property in Xining city and three counties</p>	<p>KPI 1.1: Proportion of the length of dikes built or rehabilitated to that planned. KPI 1.2: The proportion of the landscapes and green belts created KPI 1.3: Completion of the flood warning and forecasting system in Xining and three counties. KPI 1.4: The area protected from flooding. KPI 1.5: The total economic value of the areas protected from flooding.</p>	<p>Track progress and make changes in the project if necessary during implementation</p>
<p>Outcome 2: Reduction of sewage discharge into rivers</p>	<p>KPI 2.1: Length of wastewater collection networks built/upgraded. KPI 2.2: Percentage of wastewater collected by the network.</p>	<p>Track progress and make changes in the project if necessary during implementation</p>
<p>Outcome 3: Strengthening the capacity for sustainable management and development of watersheds</p>	<p>KPI 3.1: Proportion of the area applied soil erosion reduction and water conservation measures</p>	<p>Track progress and make changes in the project if necessary during implementation</p>
<p>Outcome 4: Capacity building of project management and implementation</p>	<p>KPI 4.1: Number of project staff trained. KPI 4.2: Number of farmers who attend skills training organized by the project.</p>	<p>Track progress and make changes in the project if necessary during implementation</p>

Indicators	Definition	Computation Method and/or Formula
KPI 0.1	<p>Population protected from flooding.</p> <p>The population protected from flooding under the 1:100 flood protection standard in Xining, under the 1:50 standard in Datong and Huangyuan counties, and under the 1:30 standard in Huangzhong County.</p>	<p>Draw on contour maps the areas protected from 1:100 floods in Xining and from 1:50 floods Datong and Huangyuan counties and 1:30 floods in Huangzhong County and then count the population living in the protected areas according to the census and population growth.</p>
KPI 0.2	<p>Reduction of urban wastewater directly discharged into rivers in Xining.</p> <p>Urban wastewater includes both domestic and industrial wastewater generated in project areas. The total amount directly discharged to rivers is measured.</p>	<p>According to the actual measure of the wastewater collected by the wastewater collection systems built by the project or the increase in wastewater flows measured at the inlet of wastewater treatment plants which receive wastewater from wastewater collection systems built by the project.</p>
KPI 0.3	<p>Reduction of soil erosion by the of project completion</p> <p>Soil erosion is when the soil is blown away by the wind or washed away by the rain</p> <p>The reduction will be achieved through project interventions such as vegetation recovery, tree planting, terracing and structures (check dams)</p>	<p>Based line survey to determine the current level of erosion. Periodic surveys/investigation by PMO to monitor the reduction of soil erosion level as a result of project intervention.</p>

Arrangements for Results Monitoring

Indicators of Project Output	Target Values							Data Collection and Reporting		
	Baseline 2008	2009	2010	2011	2012	2013	2014	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
KPI 0.1: The number of population protected from flooding reaches 414,300 persons by the end of project completion. (1,000 persons)	0	43.1	141.3	231.6	317.3	345.2	414.3	Annual	Annual report	Water Resources Bureau /PMO
KPI 0.2: The annual reduction of urban wastewater directly discharged into rivers in Xining totals 2 million tons by the of project completion (1,000 tons)	0	363	518	750	1,453	1,907	2,007	Annual	Annual report	Water Resources Bureau /PMO
KPI 0.3: The annual reduction of soil erosion amounts to 898,000 tons by the of project completion (1,000 tons)	0	144	431	647	802	898	898	Annual	Annual report	Water Resources Bureau /PMO
Indicators of intermediate result										
KPI 1.1: Proportion of dikes constructed or rehabilitated (%)	0	22%	40%	68%	91%	100%	100%	Annual	Annual report	Water resources bureau/PMO
KPI 1.2: The proportion of the landscapes and green belts created	0	11%	29%	40%	72%	83%	100%	Annual	Annual report	Water resources bureau/PMO

KPI 1.3: Completion of the flood warning and forecasting system in Xining and three counties.	Not started	Under construction	Under construction	Completed	Completed	Completed	Completed	Annual	Annual report	Water resources bureau/PMO
KPI 1.4: The area protected from flooding (km ²)	0	7.84	12.84	21.06	23.21	26.06	31.39	Annual	Annual report	Water resources bureau/PMO
KPI 1.5: The total economic value of the areas protected from flooding (RMB million)	0	1,140	2,070	3,440	4,650	5,080	5,340	Annual	Annual report	Water resources bureau/PMO
KPI 2.1: Length of wastewater collection networks built/upgraded (km).	0	1.3	17.4	8.3	25.3	16.1	3.9	Annual	Annual report	Water resources bureau/PMO
KPI 2.2: Percentage of wastewater collected by the network (%)	0	1.8%	25.8%	37.4%	72.4%	95%	100%	Annual	Annual report	Water resources bureau/PMO
KPI 3.1: Proportion of the area applied soil erosion reduction and water conservation measures (%)	0	16%	48%	72%	90%	100%	100%	Annual	Annual report	Water resources bureau/PMO
KPI 4.1: Number of project staff trained each year (persons / year)	0	472	496	536	542	282	0	Annual	Annual report	Water resources bureau/PMO
KPI 4.2: Number of farmers who attend skills training each year (persons / year)	0	560	560	700	525	350	0	Annual	Annual report	Water resources bureau/PMO

ANNEX 2

Procedures and Terms and Conditions of Sub-grants and Implementation Agreements

Section A. Procedures

The procedures and arrangements for providing Sub-grants to Beneficiaries for carrying out Livelihood Support Packages shall be those set out in the Financial Management Manual, the Procurement Manual, the relevant Participatory Watershed Management Manual and the Participatory Watershed Management Plan, including the following:

1. Beneficiaries shall be selected for receiving Sub-grants for Livelihood Support Packages based on the following criteria:
 - (a) all farmers who live in or have land at the Selected Sub-watersheds are eligible for participation in livelihood support activities of the Project;
 - (b) priority will give to poor farmers identified through a participatory process and those farmers that make direct contribution to environmental improvement activities in accordance with the procedures set out in the Participatory Watershed Management Manual;
 - (c) farmers already receiving financial support from other sources with similar objectives will be re-assessed for their eligibility through a participatory process, and may only receive limited support according to the nature of the support from other sources; and
 - (d) Administrative Villages located in the Selected Sub-watersheds will be eligible for village level infrastructure which enhance the activities carried out by farmer Beneficiaries.
2. Qinghai shall cause Xining Municipality to select and approve for financing activities under Part C.3 of the Project to be included in a Livelihood Support Package to be implemented by a Beneficiary based on an appraisal carried out under arrangements and standards satisfactory to the Bank, and as set out in the Financial Management Manual, the Procurement Manual, the Participatory Watershed Management Manual and the relevant Participatory Watershed Management Plan.
3. The amount of a Sub-grant and its payment to a Beneficiary shall be determined in accordance with the procedures set out in the Financial Management Manual, the Procurement Manual, and the Participatory Watershed Management Manual.

4. Each Sub-grant shall be made available to a Beneficiary in the form of cash or kind.

Section B. Terms and Conditions

Each Implementation Agreement shall be entered into with a Beneficiary by any one of the counties or Xining City included in the Project Area. It shall include the following the terms and conditions:

1. The amount of the Sub-grant to be made available to the Beneficiary.
2. Each Sub-grant shall: (a) be denominated in Chinese Yuan; and (b) be made without requiring any repayment or any interest, fees or other charges.
3. It shall describe the activities under the Livelihood Support Package approved for financing under the Implementation Agreement, including the quality standards, technical specifications and other requirements. Each Beneficiary shall undertake to carry out the activities with due diligence and efficiency and in accordance with sound technical, economic, financial, management, social and environmental standards and practices acceptable to the Bank, and as set out in the Participatory Watershed Management Manual and the relevant Participatory Watershed Management Plan, and provide, promptly as needed, the funds, facilities and other resources required for the purpose.
4. Each Beneficiary shall undertake to procure the goods and services to be financed out of the proceeds of the Sub-grant in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement and the provisions of this paragraph, and utilize such goods and services exclusively in the carrying out of its respective activities under Part C.3 of the Project.
5. Each Beneficiary shall undertake to enable the Bank, Qinghai and Xining Municipality to inspect its operation and any relevant records and documents, in respect of the activities financed under the Implementation Agreement.
6. Each Beneficiary shall undertake to:
 - (a) maintain records and accounts of expenditures for the approved activities under the Implementation Agreement and provide this information to Qinghai, Xining Municipality and the Bank as may be requested; and
 - (b) implement the activities under the Implementation Agreement in accordance with the relevant provisions of the Financial Management Manual, the Procurement Manual, the EMP, the Participatory Watershed Management Manual, the Participatory Watershed Management Plan and the Ethnic Minorities Development Plan.

7. The relevant county or Xining City shall carry out or cause to be carried out a review of the completion of the Livelihood Support Package to determine if the activities have been completed in conformity with the agreed quality, technical standards and specifications and thereafter make or cause to be made payment to the Beneficiary in accordance with procedures set out in the Participatory Watershed Management Manual and the Financial Management Manual.
8. The relevant county or Xining City shall retain or cause to be retained the right to suspend or terminate the right of each Beneficiary to the use of the proceeds of the Sub-grant made available under the Implementation Agreement upon failure by such Beneficiary to perform any of its obligations under the Implementation Agreement or upon notice from the Bank that it intends to exercise or has exercised any remedy under Article VII of the General Conditions.