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CONFORMED COPY

LOAN NUMBER 7882-CN

Project Agreement

(Shandong Ecological Afforestation Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

SHANDONG PROVINCE

Dated June 17, 2010

PROJECT AGREEMENT

AGREEMENT dated, June 17, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and SHANDONG PROVINCE (“Shandong”, or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement of same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank (“Loan Agreement”). The Bank and Shandong 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 this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. Shandong declares its commitment to the objective of the Project. To this end, Shandong 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 and Shandong shall otherwise agree, Shandong shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. Shandong’s Representative is its Governor or Vice Governor or such other person or persons as said 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. Shandong's Address is:

Shandong Provincial Finance Department
No. 3 Jida Road
Jinan, Shandong Province, People's Republic of China

Facsimile:

86-531- 82920751

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

INTERNATIONAL BANK FOR
RECONSTRUCITON AND DEVELOPMENT

By /s/ Klaus Rohland
Authorized Representative

SHANDONG PROVINCE

By /s/ Jia Wanzhi
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

Institutional Arrangements

1. Throughout the period of implementation of the Project, Shandong shall maintain, and cause to be maintained, the following organizations, with membership, terms of reference, staffing and other resources acceptable to the Bank:
 - (a) the Project Leading Group (PLG) at the provincial level chaired by the Vice Governor responsible for forestry to be responsible for providing policy guidance and support for Project implementation.
 - (b) the Provincial Project Management Office (PPMO) within the provincial forestry bureau to be responsible for overall Project coordination, management, monitoring, annual work plan and budget preparation, quality control and assurance, Project progress reporting, interagency coordination, provision of procurement support, and facilitation of training and technical assistance.
 - (c) a Prefecture Project Leading Group and a County Project Leading Group established in each Project Prefecture and each Project County to be responsible for providing policy guidance, and coordination for implementation of the Project, within such Project Prefecture and Project County.
 - (d) a Prefecture Project Management Office (Prefecture PMO) and a County Project Management Office (County PMO) established in each Project Prefecture and each Project County to be responsible for interagency coordination, Project implementation support, Project supervision, annual work plan and budget preparation, Project progress reporting, coordination in training and technical assistance, within such Project Prefecture and Project County.

Implementation Arrangements

2. Shandong shall: (i) furnish to the Bank for approval an annual work and budget plan for the Project for the next calendar year by December 15 of each year, commencing on December 15, 2010, including a proposed annual work program, procurement plan and budget for Project activities in the following calendar year; and (ii) ensure that Project activities are undertaken in accordance with each

approved annual work and budget plan, taking into account the Bank's comments thereon.

3. Shandong shall apply in the implementation of the Project the following plan and manual in a manner satisfactory to the Bank and shall not amend, suspend, or waive the said plan and manual or any part thereof without the prior written agreement of the Bank.
 - (a) The Project Implementation Plan, including, *inter alia*:
 - (i) Project implementation arrangements, including a training plan;
 - (ii) criteria and procedures for the eligibility of and financing to Project Beneficiaries and selection criteria for the Project sites; and the selection criteria for a prefecture and a county to participate in the Project, including said prefecture and county's commitment and ability to provide required counterpart funding for carrying out the Project in such prefecture and county;
 - (iii) afforestation models based on Project site conditions;
 - (iv) a financial management manual including financial management and audit procedures; and the output-based disbursements procedure and process under Part A of the Project;
 - (v) procurement procedures consistent with the provisions in Section III of Schedule 2 to the Loan Agreement;
 - (vi) the Environmental Management Plan, including the Environmental Protection Guidelines and the Pest Management Plan;
 - (vii) the monitoring, evaluation, and supervision procedures; and
 - (viii) a model Implementation Agreement.
 - (b) The Participatory Planning Manual, including, *inter alia*: (i) guidelines for Sub-project preparation and implementation on a voluntary basis and steps to be taken for participatory planning for Sub-project design at the village level to meet the needs of the local communities; (ii) mitigation measures to be taken to address any social issues that may arise from the community planning process; and (iii) grievance address mechanism to resolve issues arising from the participatory planning process.

4. Shandong shall ensure that Sub-project sites are selected according to criteria set out in the Project Implementation Plan, including, *inter alia*:
 - (a) Sub-project sites should be classified as national and Shandong provincial environmental forest development areas under planning for improvement through afforestation programs;
 - (b) Sub-project sites for the saline coastal areas should be located in areas categorized by severe or extremely severe wind erosion;
 - (c) Sub-project sites should be facing eminent environment degradation and be amenable to treatment;
 - (d) Participation of villages and individual households in the Sub-project should be voluntary; and
 - (e) Sub-project sites should be outside and far removed from natural habitats, cultural heritage areas, or other protected areas, and free of any disputes or claims.
5. For the purpose of carrying out Part A:
 - (a) Shandong shall make available a portion of the proceeds of the amount allocated from time to time under Category 1 set forth in the table in paragraph A.2 of Section IV of Schedule 2 to the Loan Agreement to a Project Beneficiary as a Sub-financing under an Implementation Agreement with the respective Project Beneficiary 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.
 - (b) Shandong shall exercise its rights under each Implementation Agreement in such manner as to protect its interests and the interests of the Bank and to accomplish the purposes of the Sub-financing. Except as the Bank shall otherwise agree, Shandong shall not assign, amend, abrogate or waive any Implementation Agreement or any of its provisions.
6. Shandong shall 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. Shandong shall 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 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 Bank not later than February 15 and August 15 of each year.

2. Shandong shall, through its PPMO, prepare and furnish to the Bank a mid-term report by no later than August 15, 2013. The mid-term report shall integrate the results of monitoring and evaluating Project performance during the period preceding the date of such report, and recommend measures to ensure efficient Project implementation so as to achieve the Project objectives during the period following the date of such report.

B. Financial Management, Financial Reports; Audits

1. Shandong 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 and financial condition of Shandong, including the operations, resources and expenditures related to the Project.
2. Shandong shall have its 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 Shandong. 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

Performance Indicators

PDO	Project Outcome Indicators	Use of Project Outcome Information
Demonstrate effective afforestation models for environmentally degraded areas in support of Shandong's environmental afforestation programs.	Increase of vegetative cover in Project sites (%) Increased number of plant species growing on Project sites (%) Improvement in environmental conditions of Project sites (i.e., decrease in soil erosion and decrease in wind velocity)	These outcome indicators will enable assessment of the suitability of the models for Shandong's environmental forestry programs
Component Outcomes	Component Indicators	Use of Outcomes Monitoring
<i>Part A of the Project: Environmental Plantation Establishment</i>		
Successful re-vegetation models for degraded mountainous areas under different soil and slope land conditions developed and applied Plantation models for saline coastal areas developed and applied	Areas of degraded mountain re-vegetation established (ha): a) limestone mountain areas b) granite/sandstone mountains Areas of wind protection plantations in saline coastal areas established under the project (ha) Length of road and dike/canal protection plantations established (km)	Y2-6 slow progress requires design adjustment in the project Y2-6 slow progress requires design adjustment in the project
<i>Part B of the Project: Technical Support and Project Management</i>		
Propagation technology and seed/seedling supply of local tree and shrub species improved in project nurseries Knowledge of environmental afforestation techniques for key environmental fragile areas improved and extended M&E system generates lessons for up-scaling and transferring project experiences to other areas	No. of different local tree and shrub species available in the Project areas Number of draft technical recommendations/guidelines developed and adopted M&E system for physical and financial inputs and outputs established and operational	Y2 provides necessary inputs for other project activities Y5 provides the technical basis for transferring project lessons Y5 facilitates policy commitment and up-scaling and transfer of project results to other areas Y1 M&E is an essential project design element to provide the basis for lesson learning and up-scaling

Outcome Indicator	Baseline	Target Values (in Cumulative numbers)		Data Collection and Reporting		
		Mid-term	End of project	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Increase of vegetative cover (tree, grass, and shrub) in project sites (%) <i>a) Degraded mountainous area</i> <i>b) Saline coastal area</i>	16 7	36 30	60 55	Mid-term, end-project	Survey	PMO
Increased number of plant species growing on project sites (No.) <i>a) Degraded mountainous area</i> <i>b) Saline coastal area</i>	10 3	30 15	30 15	Mid-term, end-project	Survey	PMO
Improvement in environmental conditions: <i>a) Decrease in soil erosion in mountainous area (percentage of baseline)</i> <i>b) Decrease in wind velocity at 5-10 time of tree height (percentage of baseline)</i>	100 100	90 90	80 85	Mid-term, end-project	Survey	PMO
Component Indicator						
Part A1: Environmental Plantation Establishment						
Areas of degraded mountain re-vegetation established (ha): limestone mountain areas granite/sandstone mountains	0 0	9,300 9,700	18,600 19,400	Semi-annual	Project Reporting	PMO
Areas of wind protection plantations in saline coastal areas established under the project (ha)	0	13,800	27,600	Semi-annual	Project Reporting	PMO
Length of road and dike/canal protection plantations established (km)	0	950	1,900	Semi-annual	Project Reporting	PMO
Part B: Technical Support and Project Management						
No. of different local tree and shrub species available in the project areas	15	38	44	Semi-annual	Project Reporting	PMO
Number of draft technical recommendations/guidelines developed and adopted	0	10	10	Semi-annual	Project Reporting	PMO
M&E system for physical and financial inputs and outputs established and operational	--	Yes	Yes	Semi-annual	Project Reporting	PMO

ANNEX 2

Procedures and Terms and Conditions of Implementation Agreements

Section A. Procedures

1. Project Beneficiaries shall be selected for receiving Sub-financings to carry out Sub-projects based on the criteria acceptable to the Bank, including the following criteria:
 - (i) willingness and ability to participate in the Project;
 - (ii) willingness to undertake the establishments of protective plantations and tree and shrub vegetation on their own land;
 - (iii) provision of adequate labor to undertake project activities; and
 - (iv) signing of an Implementation Agreement that includes, *inter alia*, the provisions of this Annex.
2. County PMO shall select and approve for financing activities under Part A of the Project to be implemented by a Project Beneficiary based on an appraisal carried out under arrangements and standards satisfactory to the Bank, and as set out in the Project Implementation Plan, including a participatory planning process and taking into account the priorities of the Project Beneficiary and technical quality requirements.

Section B. Terms and Conditions

Each Implementation Agreement shall include the following terms and conditions:

1. The Implementation Agreement shall describe the activities to be implemented by a Project Beneficiary for financing under the Agreement, including, *inter alia*, the scope of works, quality standards, technical specifications, implementation arrangements, disbursement procedures and payment conditions, and supervision and monitoring procedures. Each Project 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 as set out in the Project Implementation Plan and in accordance with the provisions of the Anti-corruption Guidelines, and provide, promptly as needed, the resources and labor required for the purpose.

2. The Implementation Agreement shall describe the contributions made by the Project Beneficiary and the County government and provide that the Project Beneficiary continues to have land use right to the land subject of the Sub-project and to own the trees planted on the land. The Implementation Agreement shall describe the crop-sharing arrangements agreed between the Project Beneficiary and the County government in Project areas where plantations would have both public and private benefits, such as planting economic trees or fruit trees.
3. Each Project Beneficiary shall undertake to procure the goods, works, and services to be financed out of the proceeds of the Sub-financing in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement and the relevant provisions in the Project Implementation Plan, and utilize such goods, works, and services exclusively in the carrying out of its respective Sub-project.
4. Each Project Beneficiary shall undertake to:
 - (a) adhere to technical standards and specifications for construction and implementation of the activities as set out in the Project Implementation Plan;
 - (b) commit to management and maintenance of plantations on the Project Beneficiary's land according to Project's requirements set out in the Project Implementation Plan following implementation of the activities;
 - (c) provide adequate labor and other necessary inputs to undertake the activities;
 - (d) participate in training and field visits related to the activities;
 - (e) enable the County PMO, the PPMO, and the Bank to inspect its operation in respect of its respective Sub-project; and
 - (f) implement the Sub-project in accordance with the Project Implementation Plan, including the social and environmental mitigation measures set forth therein.
5. County PMO shall undertake to:
 - (a) contribute the seedlings, and part of the labor cost necessary for the establishment and maintenance of the plantations and vegetations under Part A of the Project;
 - (b) provide technical assistance to Project Beneficiaries to enable them to establish and maintain the plantations and vegetations under Part A of

the Project according to the technical and environmental requirements under the Project; and

- (c) maintain records and accounts of expenditures pertaining to Sub-projects on behalf of Project Beneficiaries and provide such information to the PPMO and the Bank as requested.
6. County PMO shall carry out an inspection of the Sub-project to be carried out by the Project Beneficiary after its completion to determine if the Sub-project has been completed in conformity with the agreed quality, technical standards and specifications. Based on the inspection, County PMO shall issue an inspection certificate.
 7. County PMO shall provide to a Project Beneficiary a Sub-financing for carrying out a Sub-project after the disbursement eligibility criteria set out in paragraph 2, Annex to Schedule 2 to the Loan Agreement have been met.
 8. County PMO shall have the right to suspend or terminate the right of each Project Beneficiary to the use of the proceeds of the Sub-financing made available under the Implementation Agreement upon failure by such Project 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.