

**CONFORMED COPY**

**LOAN NUMBER 4742 - CHA**

**GEF TRUST FUND GRANT NUMBER TF053359 - CHA**

# **Project Agreement**

**(Guangdong Pearl River Delta Urban Environment Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**GUANGDONG PROVINCE**

**Dated July 5, 2004**

**LOAN NUMBER 4742 - CHA  
GEF TRUST FUND GRANT NUMBER TF053359 - CHA**

**PROJECT AGREEMENT**

AGREEMENT, dated July 5, 2004, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and GUANGDONG PROVINCE (Guangdong).

WHEREAS (A) by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to make a loan to the Borrower in the amount of one hundred twenty-eight million Dollars (\$128,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Guangdong agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of Parts B.2, C.1, C.2, D.2 and E.4 of the Project; the Bank has determined that such assistance would be in accordance with Resolution No./ 94-02 of the Executive Directors dated May 24, 1994, establishing the GEF Trust Fund; and by an agreement of even date herewith between the Borrower and the Bank acting as an implementing agency of the GEF (the GEF Trust Fund Grant Agreement), GEF is agreeing to provide such assistance in an aggregate amount of ten million Dollars (\$10,000,000) (the GEF Trust Fund Grant); and

WHEREAS Guangdong, in consideration of the Bank's entering into the Loan Agreement and the GEF Trust Fund Grant Agreement with the Borrower, has 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, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

**ARTICLE II**

**Execution of the Project**

Section 2.01. (a) Guangdong 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

and cause to be carried out, the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and sound social and environmental standards acceptable to the Bank, and shall provide, and cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan and of the GEF Trust Fund Grant Agreement shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Guangdong shall carry out, and shall cause to be carried 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, respectively) in respect of the Project and of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Guangdong shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Guangdong, a plan for the continued achievement of the objectives of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Guangdong on said plan.

Section 2.04. (a) Guangdong shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Loan and of the GEF Trust Fund Grant.

(b) Guangdong shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan and of the GEF Trust Fund Grant, or the performance by Guangdong of its obligations under this Agreement.

## **ARTICLE III**

### **Financial Covenants**

Section 3.01. (a) Guangdong shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) Guangdong shall:
  - (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
  - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
  - (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 3.02. (a) Without limitation upon Guangdong's reporting obligations set out in paragraph 17 of Schedule 2 to this Agreement, Guangdong shall prepare and furnish, and cause to be prepared and furnished, to the Bank financial monitoring reports, in form and substance satisfactory to the Bank, which set forth sources and uses of funds for the Project, both cumulatively and for the period covered by each said report, showing separately funds provided under the Loan and the GEF Trust Fund Grant, and explains variances between the actual and planned uses of such funds.

(b) The first such financial monitoring report shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each financial monitoring report shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

**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 Guangdong thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Guangdong 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, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(1-202) 477-6391

For Guangdong:

Guangdong Provincial Office for World Bank Project  
26 Cang Bian Road  
Guangzhou 510030  
People's Republic of China

Facsimile:

(86 20) 83330007

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Guangdong may be taken or executed by its Governor or a Vice Governor or such other person or persons as said Governor or Vice Governor shall designate in writing, and Guangdong shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

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

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ David Dollar

Authorized Representative

GUANGDONG PROVINCE

By /s/ Zou Jiayi

Authorized Representative

## **SCHEDULE 1**

### **Procurement**

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B

(a) Grouping of contracts

To the extent practicable, (i) contracts for works shall be grouped in bid packages estimated to cost \$7,000,000 equivalent or more each; and (ii) contracts for goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Borrower).

(c) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(d) Notification and Advertising

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



Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$7,000,000 equivalent per contract, up to an aggregate amount not to exceed \$154,700,000 equivalent, and goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:

- (i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in China and such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.
- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders shall be required to provide security in an amount sufficient to protect the Borrower, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.

- (vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower.
- (vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined, (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.
- (viii) Each contract financed with the proceeds of the Loan shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.

2. International or National Shopping

Goods, including computer hardware and software and other equipment, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured on the basis of international shopping procedures or, in the event such goods are readily available from more than one domestic supplier at competitive prices, on the basis of national shopping procedures, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works estimated to cost the equivalent of \$6,000,000 or more, and each contract for goods estimated to cost the equivalent of

\$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for a study and workshops on overcoming constraints to inter-municipal cooperation among the municipalities in the Pear River Delta, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for geotechnical survey and for the hazardous waste survey and market assessment under Part B of the Project, and services for training and study tours under Parts B and E of the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for: (a) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) the provision of training and studies under Part E of the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates (or, in the case of single source selection, the qualifications, experience), and terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review.

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## **SCHEDULE 2**

### **Implementation Program**

#### Project Management

1. Guangdong shall:

(a) Throughout the period of implementation of the Project, maintain the Guangdong Project Management Office, under the direction of qualified and experienced managers, staffed with competent personnel in sufficient number, and provided with adequate resources, all in a manner satisfactory to the Bank; said Project Management Office to be responsible for overall project coordination, management and monitoring; inter-agency coordination and procurement support; Project budget preparation; progress reporting including on cost management; environmental improvement assessment; and implementation of the institutional strengthening activities.

(b) Cause Guangzhou to maintain throughout the period of implementation of the Project, the Guangzhou Project Management Office, under the direction of qualified and experienced managers, staffed with competent personnel in sufficient number, and provided with adequate resources, all in a manner satisfactory to the Bank; said Project Management Office to be responsible at the municipal level for the coordination, management and monitoring of Project activities related to Guangzhou.

#### Resettlement and Environment Protection

2. Guangdong shall:

(a) Take, and cause Guangzhou and all Participating Entities, as the case may be, 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.

(b) For this purpose, implement, and cause Guangzhou and all Participating Entities, as the case may be, to implement the Resettlement Action Plans and the Resettlement Policy Framework in a manner satisfactory to the Bank.

(c) Provide, and cause Guangzhou and all Participating Entities, as the case may be, to provide, to the Bank for its prior concurrence any proposed modification or waiver of any of the Resettlement Action Plans, the Resettlement Policy Framework, or any provisions thereof, prior to putting into effect such modification or waiver.

3. Guangdong shall:

(a) Implement, and shall cause Guangzhou and all Participating Entities, as the case may be, to implement, the Environmental Management Plan and the

Environmental Management Framework in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound environmental standards and practices.

(b) Provide, and cause Guangzhou and all Participating Entities, as the case may be, to provide to the Bank for its prior concurrence any proposed modification or waiver of the Environmental Management Plan, or of the Environmental Management Framework, or any provisions thereof, prior to putting into effect such modification or waiver.

4. Guangdong shall, and shall cause Guangzhou and all Participating Entities, as the case may be, 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 Environmental Management Plan, the Environmental Management Framework, the Resettlement Action Plans and the Resettlement Policy Framework, the achievement of the objectives of said Plans and Frameworks, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;

(b) Prepare under terms of reference satisfactory to the Bank, and furnish to the Bank by January 31 and July 31 of each year, commencing in 2005, semi-annual reports of the results of such monitoring and evaluation activities, together with any revisions proposed to be introduced into such Plans or Frameworks in order to achieve their respective objectives.

(c) Introduce such revisions into said Plans or Frameworks as shall have been agreed with the Bank.

#### Parts A and B of the Project

5. For purposes of Parts A and B of the Project, Guangdong shall:

(a) Allocate and make available to Guangzhou part of the proceeds of the Loan under terms and conditions acceptable to the Bank which shall include, without limitation, the following:

(i) The principal amount shall be made available in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account or payment from the Special Account) of the value of the currency or currencies so withdrawn.

(ii) The following shall be recovered over a period of twenty (20) years, inclusive of a grace period of five (5) years: (A) the principal amount so made available; and (B) an amount equal to one percent (1%) of such principal amount.

- (iii) Interest shall be charged on such principal amount 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 the provisions of Section 2.06 of this Agreement.
- (iv) A commitment fee shall be charged on such principal amount of the Loan so made available and not withdrawn from time to time at a rate equal to three fourths of one percent (3/4 of 1%) per annum.

(b) Cause Guangzhou to: (i) carry and cause to be carried out Parts A and B of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utilities practices and sound social and environmental standards acceptable to the Bank, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (ii) without limitation on the foregoing, take all measures necessary to ensure that Parts A and B of the Project are implemented in accordance with the Resettlement Action Plans and the Resettlement Policy Framework, as the case may be, and the Environmental Management Plan.

(c) Cause Guangzhou to: (i) procure and cause to be procured the goods, works and consultants' services for Parts A, and B of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, and utilize and cause to be utilized such goods, works and consultants' services exclusively in the carrying of Parts A and B of the Project.

(d) Cause Guangzhou to enable the Borrower, Guangdong and the Bank to inspect such goods and the sites and works included in Parts A and B of the Project, the operation thereof, and any relevant records and documents.

(e) Cause Guangzhou 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 by Guangzhou to replace or repair such goods.

(f) Cause Guangzhou to:

- (i) maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project;

- (ii) have the financial statements referred to in clause (i) of this sub-paragraph (f) for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
  - (iii) furnish to the Bank and Guangdong as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in clause (i) of this sub-paragraph, for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
  - (iv) furnish to the Bank and Guangdong such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank or Guangdong may from time to time reasonably request.
- (g) Cause Guangzhou to:
- (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Borrower, the Bank and Guangdong, the carrying out of Parts A and B of the Project and the achievement of the objectives thereof; and
  - (ii) prepare, under terms of reference satisfactory to the Bank and to Guangdong and provide to the Bank and Guangdong semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (g) on the progress achieved in the carrying out of Parts A and B of the Project during the period preceding the date of each such report.

6. For purposes of Part A of the Project, Guangdong shall cause Guangzhou to re-lend to GSTC a portion of the Loan proceeds made available to Guangzhou by Guangdong in accordance with the provisions of paragraph 5 above, pursuant to a Subsidiary Loan Agreement satisfactory to the Bank, and under terms and conditions acceptable to the Bank which shall include, without limitation, the following:

- (a) (i) The principal amount so re-lent shall be the amount in Dollars (on the date or respective dates of withdrawal from the Loan Account or payment from the Special Account) of the value of



the currency or currencies so withdrawn on account of Part A of the Project.

- (ii) Guangzhou shall recover from GSTC the principal amount so made available together with an amount equal to one percent (1%) of such principal amount, over a period of 15 years, including a grace period of 5 years.
- (iii) Guangzhou shall charge interest on such principal amount, withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable to the Loan pursuant to the provisions of Section 2.06 of the Loan Agreement.
- (iv) Guangzhou shall charge a commitment charge on such principal amount not withdrawn from time to time at a rate equal to three-fourths of one percent ( $3/4$  of 1%) per annum.

(b) GSTC shall undertake to: (i) carry out Part A of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices, and sound social and environmental standards acceptable to the Bank, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (ii) without limitation on the foregoing, take all measures necessary to ensure that Part A of the Project is implemented in accordance with its respective Resettlement Action Plans and with the Environmental Management Plan.

(c) GSTC shall undertake to procure the goods, works and consultants' services for Part A of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of Part A of the Project.

(d) GSTC shall undertake to enable Guangzhou, Guangdong and the Bank to inspect such goods and the sites and works included in Part A of the Project, the operation thereof, and any relevant records and documents.

(e) GSTC 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 by GSTC to replace or repair such goods.

- (f) GSTC shall undertake to:
  - (i) 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, to Guangdong and to Guangzhou, as soon as available, but in any case not later than six (6) months after the end of each such year certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Bank, Guangdong or Guangzhou shall have reasonably requested; and all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Guangdong and Guangzhou shall reasonably request.
  
- (g) GSTC shall undertake to:
  - (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and to Guangdong the carrying out of Part A of the Project and the achievement of the objectives thereof; and
  - (ii) prepare, under terms of reference satisfactory to the Bank, to Guangdong and Guangzhou, and submit to Guangzhou and Guangdong for further consolidation into reports to be provided to the Bank, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (g) on the progress achieved in the carrying out of Part A of the Project during the period preceding the date of each such report.

7. Guangdong shall, through Guangzhou, cause GSTC to undertake commencing in Fiscal Year 2005:

(a) To produce for each fiscal year total revenues equivalent to not less than the sum of: (i) its total operating expenses (including for maintenance); and (ii) the amount by which debt service requirements exceeds the provision for depreciation.

(b) Not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred;

(c) (i) To review by September 30 of each year, on the basis of forecasts prepared in a manner satisfactory to the Bank, whether it would meet the requirements set forth in sub-paragraphs (a) and (b) of this paragraph 7, in respect of such year and the next following fiscal year and furnish to the Bank the results of such review upon its completion; and

(ii) if any such review shows that it would not meet such requirements for the fiscal years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs and charges) in order to meet such requirements.

8. For purposes of sub-paragraphs (a) and (b) of paragraph 7 above,

(a) The term “total revenues” means the sum of total operating revenues and net non-operating income.

(b) The term “total operating revenues” means revenues from all sources related to operations.

(c) The term “total operating expenses” means all expenses related to 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 GSTC’s fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(d) The average current gross value of GSTC’s fixed assets in operation shall be calculated as one half of the sum of the gross value of its 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.

(e) 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.

(f) The term “debt” means any indebtedness of GSTC maturing by its terms more than one (1) year after the date on which it is originally incurred.

(g) Debt shall be deemed to be incurred:

(i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and

(ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(h) The term “net revenues” means the difference between:

(i) the sum of revenues from all sources related to operations and net non-operating income, and

(ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(i) The term “net non-operating income” means the difference between:

(i) revenues from all sources other than those related to operations; and

(ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in clause (i) above.

(j) The term “reasonable forecast” means a forecast prepared by GSTC not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and GSTC accept as reasonable and as to which the Bank has notified GSTC of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of GSTC.

(k) Whenever, for the purposes of this Schedule, 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.

9. Guangdong shall cause Guangzhou to: (a) exercise its rights under the Subsidiary Loan Agreement with GSTC in such manner as to protect the interests of the Borrower,

the Bank, Guangdong, and Guangzhou, and to accomplish the purposes of the Loan; and (b) except as the Bank and Guangdong may otherwise agree, not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provisions thereof.

10. Guangdong shall cause Guangzhou by October 31, 2004, to furnish to the Bank for review and comments, a draft plan for the management of sludge that will be produced by the wastewater facilities to be constructed under Part A of the Project and by the wastewater treatment facilities in Guangzhou City; and thereafter, finalize and implement said plan, taking into account the Bank's comments thereon.

#### Part B of the Project

11. For purposes of Part B of the Project, Guangdong shall, through Guangzhou:

(a) Promptly upon completion of the works under Part B of the Project but no later than January 1, 2007, establish the Guangzhou Hazardous Waste Treatment Center as a corporate entity, duly registered and operating in accordance with the Borrower's laws and procedures; said Center to assume the functions and responsibilities of GHWMC in respect of the new hazardous waste treatment facility.

(b) Cause said Guangzhou Hazardous Waste Treatment Center to:

- (i) complete, by no later than July 1, 2006, under terms of reference acceptable to the Bank, a study of the fees and charges necessary for full cost recovery of hazardous waste collection and disposal services provided to industrial and commercial users, said study to include a detailed time-bound action plan, acceptable to the Bank, for the recovery of cost commencing not later than January 1, 2007;
- (ii) provide the report of such study, including said time-bound action plan, to the Bank for its review and comment; and
- (iii) thereafter, implement said action plan giving due consideration to the Bank's comment thereon.

Part C of the Project

12. For purposes of Part C of the Project, Guangdong, through its PMO, shall:

(a) By no later than July 31, 2005, complete the formulation of a policy and institutional framework for collaboration among contiguous municipalities, districts or towns in environmental infrastructure development; said framework to establish overall principles and guidelines for the sharing of costs and responsibilities in investment in, and in operation and maintenance of environmental services facilities; and to provide institutional and financial models for the construction and management of shared facilities.

(b) Provide such framework to the Bank for its review and comment.

(c) Thereafter, take all necessary action, including obtaining all necessary governmental approvals therefore, to put said framework into effect.

13. On the basis of the policy and institutional framework for shared environmental infrastructure referred to in paragraph 12 above, Guangdong shall:

(a) By no later than December 31, 2005, provide to the Bank for its appraisal and approval eligible investment proposals for environmental infrastructure facilities shared by contiguous municipalities, districts or towns (each an inter-municipal environmental infrastructure sub-project); to be eligible for appraisal and approval by the Bank, the proposal for each such sub-project would have to provide evidence satisfactory to the Bank that:

- (i) two or more contiguous municipalities, districts or towns, are committed to sharing the costs of investment, operation and maintenance of the proposed environmental infrastructure facility in accordance with the principles and procedures set forth in the framework referred to in paragraph 12 above;
- (ii) environmental and social impact assessments have been carried out in a manner satisfactory to the Bank, and as may be necessary, environmental management plans and resettlement action plans, acceptable to the Bank, have been prepared in accordance with the Environmental Management Framework and the Resettlement Policy Framework;
- (iii) appropriate technical design, acceptable to the Bank, has been undertaken; and
- (iv) the proposed environmental infrastructure facility will be operated as a revenue-earning facility;

(b) Upon the Bank's approval of any of such inter-municipal environmental infrastructure sub-projects, carry out, and cause the relevant Participating Entities to carry out said sub-project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utilities practices, and sound environmental and social standards acceptable to the Bank; and provide, and cause the Participating Entities to provide, promptly as needed, the funds, facilities and other resources required for the purpose.

(c) Undertake to procure, and to cause to be procured, the goods, works and consultants' services for each such inter-municipal environmental infrastructure sub-project in accordance with the provisions of Schedule 1 to this Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of such sub-project.

(d) Undertake to enable, and cause the Participating Entities to enable, Guangdong, the Borrower and the Bank to inspect the goods, sites and works included in each such inter-municipal environmental infrastructure sub-project, the operation thereof, and any relevant records and accounts.

(e) Undertake to cause the Participating Entities to:

(i) maintain policies and procedures adequate to enable them to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and to Guangdong the carrying out of their respective inter-municipal environmental infrastructure sub-project, and the achievement of the objectives thereof; and

(ii) prepare, under terms of reference satisfactory to the Bank and to Guangdong and submit to Guangdong for further consolidation into reports to be provided 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 their respective sub-project during the period preceding the date of each such report.

(f) Undertake to cause the Participating Entities, unless otherwise agreed with the Bank, within one year following the commissioning of their respective inter-municipal environmental infrastructure sub-project, to commence collecting tariffs, fees or other charges, with the objective of achieving over time full cost recovery for the services provided by such infrastructure;

(g) For each of the first three such inter-municipal environmental infrastructure sub-projects which shall have been approved by the Bank, make available

to the relevant Participating Entities, in accordance with the guidelines set forth in the framework referred to in paragraph 12 above:

- (i) a GEF Capital Sub-grant to finance part of the cost of goods and works required for the construction of the environmental infrastructure facility under said sub-project. The GEF Capital Sub-grant is to be disbursed in two installments: (A) 30% of said sub-grant will be disbursed when expenditures for the sub-project total 30% of the appraised sub-project cost; and (B) the remaining 70% of the sub-grant will be disbursed when expenditures equal the total appraised sub-project cost; and
- (ii) a GEF O&M Sub-grant, which GEF O&M Sub-grant is to be disbursed in two equal installments: (A) the first installment to be disbursed 6 months after commissioning of the environmental infrastructure facility; and (B) the second installment to be disbursed 18 months after commissioning of said facility; and

(h) In respect of each such inter-municipal environmental infrastructure sub-project so approved by the Bank, obtain by written agreement or other legal means rights adequate to protect the interest of Guangdong, the Borrower and the Bank.

#### Part D of the Project

14. For purposes of Part D of the Project, Guangdong shall cause GDEPB to:

(a) by no later than December 31, 2005, prepare under terms of reference satisfactory to the Bank, and provide to the Bank for its review and comment, a water quality monitoring program for the Pearl River Delta; and

(b) thereafter, take all necessary action, including obtaining all necessary governmental approval, to put such program into effect in a manner satisfactory to the Bank.

#### Industrial Pollution Control Action Plan

15. Guangdong shall cause Guangzhou:

(a) to carry out the Industrial Pollution Control Action Plan in a manner satisfactory to the Bank; and

(b) furnish to the Bank any proposed modification or amendment to said Plan and take into account the Bank's comments in implementing such modification or amendment.



### Part E of the Project

16. For purposes of Part E of the Project, Guangdong shall:

(a) by no later than January 1, 2005, prepare and provide to the Bank for its review and comment, a time-bound plan for training and institutional strengthening and for carrying out the studies and reviews under Part E of the Project; and

(b) thereafter, carry out said plan in a manner satisfactory to the Bank, giving due consideration to the Bank's view thereon.

### Reporting and Monitoring

17. Guangdong shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare under terms of reference satisfactory to the Bank and furnish to the Bank, on or about January 31 and July 31 of each year, commencing in 2005, a semi-annual report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 17 and incorporating the reports prepared and submitted by, or on behalf of Guangzhou, GSTC and the Participating entities, as the case may be, pursuant to the provisions of paragraphs 5(g), 6(g) and 12(e) above, respectively; each such report to (i) set out physical progress in the implementation of the Project, both cumulatively, and in respect of the preceding calendar semester, and explain variances between the actual and planned Project implementation; and (ii) set forth the status of procurement under the Project as at the end of the period covered by said report;

(c) prepare under terms of reference satisfactory to the Bank and furnish to the Bank on or about June 30, 2007, a mid-term report on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Bank by December 31, 2007, or such later date as the Bank shall request, the report referred to in sub-paragraph (c) of this paragraph 17, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.