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**LOAN NUMBER 4728-CHA**

# **Project Agreement**

**(Fourth Inland Waterways Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**GUANGDONG PROVINCE**

**and**

**GUANGXI ZHUANG AUTONOMOUS REGION**

**Dated October 11, 2004**

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**LOAN NUMBER 4728-CHA**

**PROJECT AGREEMENT**

AGREEMENT, dated October 11, 2004, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and GUANGDONG PROVINCE (Guangdong) and GUANGXI ZHUANG AUTONOMOUS REGION (Guangxi).

WHEREAS by the Loan Agreement of even date herewith between the 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 ninety one million Dollars (\$91,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Guangdong and Guangxi agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Guangdong and Guangxi, in consideration of the Bank's entering into the Loan 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 and Guangxi each 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 or cause to be carried out its Respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering, economic, financial and power utility practices, and safety and environmental standards acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Guangdong and Guangxi, respectively, shall otherwise agree, Guangdong and Guangxi shall carry out or cause to be carried out its Respective Part of 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 shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Guangdong and Guangxi shall carry out or 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 Agreement and its Respective Part of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Guangdong and Guangxi 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 and Guangxi respectively, a plan for the future operation of its Respective Part of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Guangdong and Guangxi respectively, on said plan.

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

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

### **ARTICLE III**

### **Financial Covenants**

Section 301. (a) Guangdong and Guangxi 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 its operations and financial condition and to register separately the operations, resources and expenditures related to their Respective Part of the Project.

- (b) Guangdong and Guangxi shall:
- (i) have their financial statements (balance sheets, statements of income and expenses and related statements) 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 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 and Guangxi's progress reporting obligations set out in paragraph B.7 and A.1 of Schedule 2 to this Agreement, Guangdong and Guangxi shall prepare and furnish to the Bank financial monitoring reports, in form and substance satisfactory to the Bank, which set forth sources and uses of funds for their Respective Part of the Project, both cumulatively and for the period covered by each said report, showing separately funds provided under the Loan, and explain variances between the actual and planned uses of such funds.

(b) The first such financial management report shall be furnished to the Bank not later than 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 their Respective Part of the Project through the end of such first calendar semester; thereafter, each financial management report shall be furnished to the Bank not later than 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 and Guangxi 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 and Guangxi 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:           Telex:  
Facsimile:

6391           INTBAFRAD           248423 (MCI) or           (202)   477-  
                  Washington, D.C.       64145 (MCI)

For Guangdong:

Guangdong Provincial Waterways Bureau  
195 Yanjiang Zhong Road  
Guangzou 510115  
Guangdong  
People's Republic of China

Facsimile:  
  
0086-20-83372939

For Guangxi:

Guangxi Communications Department  
67 Xinmin Road  
Nanning  
Guangxi  
People's Republic of China

Facsimile:  
  
0771-2805550

Section 5.02. (a) 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 the Governor or the Vice Governor or such

other person or persons as the Governor or the 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.

(b) Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Guangxi may be taken or executed by the Chairman or the Vice Chairman or such other person or persons as the Chairman or the Vice Chairman shall designate in writing, and Guangxi 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

GUANGXI ZHUANG AUTONOMOUS REGION

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) Prequalification

Bidders for contracts for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$15,000,000 equivalent or more each, and contracts for goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

(c) 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.

(d) Notification and Advertising

The invitation to prequalify or 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 Procedures1. National Competitive Bidding

(a) Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$650,000 equivalent for Part A of the Project and \$600,000 equivalent for Part B of the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$15,000,000 equivalent per contract, up to an aggregate amount not to exceed \$2,500,000 equivalent for Part A of the Project and \$5,000,000 equivalent for Part B of the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) The procedures to be followed for National Competitive Bidding under this Part C 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; and
  - (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. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent for Part A of the Project and \$350,000 equivalent for Part B of the Project, may be procured under contracts awarded 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 prequalify for bidding or 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

(a) With respect to the first contract for goods under Part A of the Project and the first contract for goods under Part B of the Project to be procured in accordance with the procedures referred to in Part C.1 above, 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.

(b) With respect to the first contract for works under Part A of the Project and the first contract for works under Part B of the Project to be procured in accordance with the procedures referred to in Part C.1 above, and each contract for works estimated to cost the equivalent of \$5,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(c) With respect to the first contract for goods under Part A of the Project and the first contract for goods under Part B of the Project to be procured in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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 (i) capacity building under Parts A.6 and B.6 of the Project, (ii) supervision of the installation of equipment for the Xiniu Navigation Complex, and (iii) the studies under Part B.7 (a) of the Project, estimated to cost less than \$300,000 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. Selection Based on Consultants' Qualifications

Services for training under Parts A.6 and B.6 of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants under Part B.6 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to the first contract for the employment of a consulting firm under Part A of the Project, the first contract for the employment of a consulting firm under Part B of the Project and each contract for the employment of consulting firms estimated to cost the equivalent of \$300,000 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 estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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**

A. Part A of the Project

1. Guangxi shall:

(a) relend to GXWCDC the proceeds of the Loan made available to it by the Borrower, under a subsidiary loan agreement to be entered into between the Guangxi Communications Department and GXWCDC, under terms and conditions satisfactory to the Bank which shall include, without limitation, those set forth in the Annex to this Schedule 2;

(b) without any limitation or restriction upon any of its other obligations under the Project Agreement, shall cause GXWCDC to perform in accordance with the provisions of the Subsidiary Loan Agreement all the obligations of GXWCDC therein set forth;

(c) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable GXWCDC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; and

(d) shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Bank and Guangxi and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, Guangxi shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

2. Guangxi shall maintain until the completion of the Project the Guangxi Project Management Office with terms of reference, facilities and staff at all times acceptable to the Bank.

B. Part B of the Project

3. Guangdong shall maintain until the completion of the Project the Guangdong Project Management Office with terms of reference, facilities and staff at all times acceptable to the Bank.





4. Guangdong shall:

(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 of income or means of livelihood, temporarily or permanently;

(b) carry out the Guangdong RAP in a manner designed to improve or at least maintain the living standards, income earning capacity and production levels of all Displaced Persons; and

(c) furnish to the Bank any revisions proposed to be introduced into the Guangdong RAP in order to achieve its objectives and, thereafter, introduce such revisions into such plan as shall have been agreed with the Bank.

5. Guangdong shall:

(a) carry out the Guangdong EAP in a manner designed to ensure that the Project is implemented in accordance with sound environmental practices and standards;

(b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with guidelines acceptable to the Bank, the implementation of the Guangdong EAP and the achievement of the objectives of such plan;

(c) by February 15 and August 15 in each year, commencing February 15, 2005, and until completion of the Project, furnish to the Bank reports incorporating the results of the monitoring and evaluation activities during the preceding calendar semester, together with any revisions proposed to be introduced into such plan to achieve its objectives; and

(d) thereafter, introduce such revisions into such plan as shall have been approved by the Bank.

6. In order to ensure the safety of the dam to be constructed under Part B of the Project, Guangdong shall:

(a) during the period of implementation of the Project, continue to employ a panel of qualified experts under terms of reference and with resources acceptable to the Bank, to review the adequacy of the design and construction procedures of such dam and its associated structures;

(b) prepare, in a manner and in accordance with a timetable acceptable to the Bank, a detailed plan for emergency preparedness; and

(c) carry out periodic safety inspections of said dam after its completion.

7. In carrying out Part B.6 of the Project, Guangdong shall carry out the training program in accordance with an annual training plan acceptable to the Bank.

8. Guangdong shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Part B 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 November 15, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of Part B 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

(c) review with the Bank, by March 15, 2007, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Part B 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.

9. In carrying out Part B.1 of the Project, Guangdong shall take all steps required to maintain at all times the embankment protection on the northern bank of Lao-Long-Hu to standards acceptable to the Bank.

10. In carrying out Part B.2 of the Project, Guangdong shall take all actions required to cause the bridges to be completed by June 30, 2007.

**ANNEX TO SCHEDULE 2****Terms and Conditions of the Subsidiary Loan Agreement****A. Terms**

1. The principal amount of the Subsidiary Loan to be made by Guangxi through the Guangxi Communications Department to GXWCDC, shall be the equivalent in terms of Dollars (determined as of the date of, or respective dates of, withdrawal from the Loan Account or payment out of the Guangxi Special Account, as the case may be) of the value of the currency or currencies so withdrawn or paid out on account of the goods, works and services required for Part A of the Project and to be financed out of the proceeds of the Loan, and shall be recovered by Guangxi in Dollars.

2. Guangxi shall recover the Subsidiary Loan from GXWCDC in semi-annual installments over a period not exceeding 20 years, inclusive of a grace period not exceeding 5 years.

3. Guangxi shall charge interest on the Subsidiary Loan amount, withdrawn and outstanding from time to time, at a rate which shall not exceed the rate payable from time to time on the Loan pursuant to Section 2.06 of the Loan Agreement.

4. Guangxi shall charge GXWCDC a commitment charge on the principal amount of the Subsidiary Loan so made available and not withdrawn from time to time, at a rate equal to three-fourths of one percent ( $\frac{3}{4}$  of 1%) per annum.

5. Guangxi shall charge GXWCDC an additional fee in an amount equal to one percent (1%) of the amount of the Subsidiary Loan.

**B. Conditions**

1. GXWCDC shall carry on its operations and conduct its affairs in accordance with sound administrative, engineering, economic and financial practices, and safety and environmental standards acceptable to the Bank, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

2. GXWCDC shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all

necessary repairs and renewals thereof, all in accordance with sound engineering, environmental and financial practices.

3. GXWCDC shall 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 such insurance to cover hazards incident to the acquisition, transportation and delivery of goods required for Part A of the Project and to be 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 GXWCDC to replace or repair such goods.

4. (a) GXWCDC 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 its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) GXWCDC shall:

- (i) have its financial statements (balance sheets, statements of income and expenses and related statements) 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 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.

5. (a) Without limitation upon GXWCDC's reporting obligations set out in paragraph 15 of this Schedule, GXWCDC shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 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 FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover the period not covered by the previous FMR until the end of such calendar semester.

6. (a) Except as the Bank and Guangxi shall otherwise agree, GXWCDC shall maintain, for each of its fiscal years after its fiscal year ending on December 31, 2004, a ratio of total operating expenses to total operating revenues not higher than 73%.

(b) Before June 30 in each of its fiscal years, GXWCDC shall, on the basis of forecasts prepared by GXWCDC and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that GXWCDC would not meet the requirements set forth in paragraph (a) for GXWCDC's fiscal years covered by such review, GXWCDC shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its electricity and shiplock rates) in order to meet such requirements.

(d) For the purposes of this Section:

(i) 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% per annum of the average current gross value of GXWCDC's fixed assets in operation; or other basis acceptable to the Bank, but excluding interest and other charges on debt.

- (ii) The term "total operating revenues" means revenues from all sources related to operations.
- (iii) The average current gross value of GXWCDC's fixed assets in operation shall be calculated as one half of the sum of the gross value of GXWCDC's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

7. Except as the Bank and Guangxi shall otherwise agree, GXWCDC shall not incur any debt unless a reasonable forecast of the revenues and expenditures of GXWCDC shows that the estimated net revenues of GXWCDC for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times the estimated debt service requirements of GXWCDC in such year on all debt of GXWCDC including the debt to be incurred.

For the purposes of this paragraph:

- (a) The term "debt" means any indebtedness of GXWCDC maturing by its terms more than one year after the date on which it is originally incurred.
- (b) 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.
- (c) 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.

- (d) 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 (i) above.

(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 "reasonable forecast" means a forecast prepared by GXWCDC not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and GXWCDC accept as reasonable and as to which the Bank has notified GXWCDC 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 GXWCDC.

(g) Whenever for the purposes of this Section 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.

8. GXWCDC shall:

(a) by June 30 of each year, commencing June 30, 2005, and until completion of the Project, prepare and furnish to the Bank for its review and comments, a five-year rolling business plan; and

(b) thereafter, implement such plan taking into account the comments of the Bank, if any.

9. GXWCDC shall:



(a) procure the goods, works and services required for the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement;

(b) utilize such goods and services exclusively to carry out the Project; and

(c) enable the Bank and Guangxi to inspect such goods and the sites and works under the Project, the operation thereof and any relevant records and documents.

10. GXWCDC shall:

(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 of income or means of livelihood, temporarily or permanently;

(b) carry out the Guangxi RAP in a manner designed to improve or at least maintain the living standards, income earning capacity and production levels of all Affected Persons; and

(c) furnish to the Bank any revisions proposed to be introduced into the RAP in order to achieve its objectives and, thereafter, introduce such revisions into such plan as shall have been agreed with the Bank.

11. GXWCDC shall:

(a) carry out the Guangxi EAP in a manner designed to ensure that the Project is implemented in accordance with sound environmental practices and standards;

(b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with guidelines acceptable to the Bank, the implementation of the Guangxi EAP and the achievement of the objectives of such plan;

(c) by each February 15 and August 15, commencing February 15, 2005, and until completion of the Project, furnish to the Bank and Guangxi, reports incorporating the results of the monitoring and evaluation activities during the preceding calendar semester, together with any revisions proposed to be introduced into such plan to achieve its objectives; and

(d) thereafter, introduce such revisions into such plan as shall have been approved by the Bank.

12. In order to ensure the safety of the dam to be constructed under Part A of the Project, GXWCDC shall:

(a) during the period of implementation of the Project, continue to employ a panel of qualified experts under terms of reference and with resources acceptable to the Bank, to review the adequacy of the design and construction procedures of such dam and its associated structures;

(b) prepare, in a manner and in accordance with a timetable acceptable to the Bank, detailed plan for: (i) construction supervision and quality assurance; (ii) instrumentation; (iii) operation and maintenance; and (iv) emergency preparedness; and

(c) carry out periodic safety inspections of said dam after its completion.

13. In carrying out Part A.6 of the Project, GXWCDC shall carry out the training program in accordance with an annual training plan acceptable to the Bank.

14. In carrying out Part A.7 of the Project, GXWCDC shall carry out the studies in accordance to terms of reference acceptable to the Bank and furnish to the Bank for comments by December 31, 2007, the recommendations of the studies, and, thereafter, prepare and implement an action plan taking into account the comments of the Bank, if any.

15. GXWCDC shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of Part A 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 November 15, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of Part A 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

(c) review with the Bank, by March 15, 2007, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Part A 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.

16. GXWCDC shall, not later than December 31, 2007, enter into an agreement with the Guangxi Youjiang Water Conservancy Development Co. Ltd, Baise Chengbihe Reservoir Administration Bureau, and Baise Electric Power Co. Ltd, in accordance with the Letter of Intent signed among the parties on October 22, 2003, for exchange of information on the safety of the dams and the coordination of water releases from the three upstream dams, Baise, Chengbihe and Dongsun, to ensure the achievement of the purposes, and the safety, of the Naji dam.