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LOAN NUMBER 4803 -CHA

Project Agreement

(Irrigated Agriculture Intensification III Project)

among

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

HEBEI PROVINCE

HENAN PROVINCE

SHANDONG PROVINCE

JIANGSU PROVINCE

AND

ANHUI PROVINCE

Dated December 9, 2005



PROJECT AGREEMENT

AGREEMENT dated December 9, 2005, among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HEBEI PROVINCE (Hebei), HENAN PROVINCE (Henan), SHANDONG PROVINCE (Shandong), JIANGSU PROVINCE (Jiangsu) and ANHUI PROVINCE (Anhui) (Hebei, Henan, Shandong, Jiangsu, and Anhui, each a Project Province, and collectively, the Project Provinces).

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 two hundred million Dollars (\$200,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS, the Project Provinces, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have 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) Each Project Province 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 its Respective Parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, management, financial, and engineering practices, and sound social, environmental, and agricultural 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 Parts of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the concerned Project Province shall otherwise agree, each Project Province shall carry out its Respective Parts of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and works required for each Project Province's Respective Parts of 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Project Provinces shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 2.03. (a) Each Project Province shall carry 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 Parts of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, each Project Province 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 the Project Provinces, a plan designed to ensure sustainability of its Respective Parts of the Project and for continued achievement of the objectives of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with the Project Provinces on said plan.

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

(b) Each Project Province shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its Respective Parts of the Project, the accomplishment of the purposes of Loan, or the performance by each Project Province of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each Project Province 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, resources and expenditures related to its Respective Parts of the Project.

- (b) Each Project Province shall:
- (i) have its 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 the Project Provinces' reporting obligations set out in paragraph 22 of Schedule 2 to this Agreement, each Project Province shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which sets forth sources and uses of funds for its Respective Part of 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;

(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 its Respective Part of 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 each Project Province thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify each Project Province 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 Hebei:

Hebei Provincial Office for Comprehensive Agricultural
Development
No. 46 Weimingnan Street
Shijiazhuang City 050053
Hebei Province
People's Republic of China

Facsimile: 0311-8790-3540

For Henan:

Henan Provincial Office for Comprehensive Agricultural
Development
No. 105 Jinshui Street
Jinshui District
Zhengzhou City 450003
Henan Province
People's Republic of China

Facsimile: 0371-6593-3765

For Shandong:

Shandong Provincial Office for Comprehensive Agricultural
Development
No. 319 Quancheng Street
Jinan 250011
Shandong Province
People's Republic of China

For Jiangsu:

Jiangsu Provincial Office for Comprehensive Agricultural
Development

No. 31-1 Yunnan Road
Nanjing 210003
Jiangsu Province
People's Republic of China

Facsimile: 025-8323-0165

For Anhui

Anhui Provincial Office for Comprehensive Agricultural
Development
Anhui Financial Bureau
No. 238 Fu Nan Road
Hefei 230061
Anhui Province
People's Republic of China

Facsimile: 0551-5100304

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 each Project Province may be taken or executed by the Governor or Vice Governor, as the case may be, or such other person or persons as said Governor or Vice Governor shall designate in writing, and each Project Province 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/ Mr. David Dollar

Authorized Representative

HEBEI PROVINCE

By:/s/ Mr. Yang Shaolin

Authorized Representative

HENAN PROVINCE

By:/s/ Mr. Yang Shaolin

Authorized Representative

SHANDONG PROVINCE

By:/s/ Mr. Yang Shaolin

Authorized Representative

JIANGSU PROVINCE

By:/s/ Mr. Yang Shaolin

Authorized Representative

ANHUI PROVINCE

By:/s/ Mr. Yang Shaolin

Authorized Representative

SCHEDULE 1

Procurement

Section I. General

A. All goods, works and services (other than Consultants' Services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower (other than goods manufactured in the Hong Kong Special Administrative Region or the Macao Special Administrative Region of the Borrower).

B. Other Procurement Procedures

1. National Competitive Bidding

(a) Goods (other than PVC pipes) estimated to cost less than \$500,000 equivalent per contract, PVC pipes irrespective of the per contract cost estimate, and works estimated to cost less than \$10,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

(b) The procedures to be followed for National Competitive Bidding under Part B.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 Procurement Guidelines:

- (i) All invitations to prequalify or to bid shall be advertised: (A) for works, in a newspaper of national circulation in China, except for works estimated to cost less than \$2,000,000 equivalent per contract which may be advertised in a newspaper of provincial circulation; and (B) for goods, in a newspaper of provincial circulation, 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. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

Section III. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 2

Implementation Program

Project Management and Coordination

1. Each Project Province shall, throughout the period of the implementation of its Respective Parts of the Project:

(a) maintain its Provincial Project Leading Group at the provincial level and its Lower-level Project Leading Groups at municipal and county levels, with terms of reference, composition and other resources acceptable to the Bank, to be responsible for: (i) issuing policies and guidelines needed for implementation of its Respective Parts of the Project; (ii) ensuring timely allocation of counterpart funds for the Project Province; and (iii) coordinating and guiding the Project implementation in the Project Province;

(b) maintain its Provincial PMO at the provincial level, with terms of reference, staffing (including representatives from the Provincial Water Resources Bureau and the Provincial Agricultural Bureau) and other resources acceptable to the Bank; to be responsible for day-to-day management and implementation of its Respective Parts of the Project at the provincial level;

(c) maintain its Lower-level PMOs at the municipal and county levels, with terms of reference, staffing (including representatives from the lower level Water Resources Bureaus and the lower level Agricultural Bureaus) and other resources acceptable to the Bank, to be responsible for day-to-day management and implementation of its Respective Parts of the Project at these lower levels; and

(d) maintain a team of mobile scientific and technical experts at the provincial level, with terms of reference, compositions, and other resources acceptable to the Bank, to be responsible for providing advice to its Provincial PMO on technical matters relating to its Respective Parts of the Project.

2. Each Project Province, shall, (i) no later than March 31, 2006, designate additional technical and management staff from the Water Resources Bureaus and the Agricultural Bureaus at provincial and lower levels to its Provincial PMO and the Lower-level PMOs, in adequate numbers, and with qualifications and experience, acceptable to the Borrower and the Bank; and (ii) thereafter maintain the said additional technical and management staff throughout the period of the implementation of its Respective Parts of the Project.

Environmental Management (including Pest Management)

3. For purposes of ensuring that the Project is implemented in accordance with sound environmental practices and standards, each Project Province shall:

(a) Implement its respective Environmental Management Plan and its respective Pest Management Plan, in a manner, satisfactory to the Bank; and

(b) Furnish to the Bank any revisions to said plans for the Bank's prior approval, thereafter, carry out the revised plans in a manner satisfactory to the Bank.

Land Acquisition and Involuntary Resettlement

4. Each Project Province shall:

(a) in the selection of sites to carry out works under the Project, 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) in the event that said works would give rise to Displaced Persons, prior to commencing such works, prepare a resettlement action plan satisfactory to the Bank, in accordance with the policies and procedures in the Policy Framework for Resettlement and Land Acquisition, and thereafter, implement the resettlement action plan so approved by the Bank; and

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

Dam Safety

5. In the event that any irrigation scheme under the Project draws from an existing dam or a dam under construction or rehabilitation (including Shilianghe dam and Xiaotashen dam in Jiangsu, Fengshuiling dam in Anhui, and Gutou dam in Shandong), the concerned Project Province shall apply, or cause to be applied, in the implementation of the schemes, the provisions of the Dam Safety Report, acceptable to the Bank, and:

(a) Arrange for one or more independent dam specialists to: (i) inspect and evaluate the safety status of said dam, its appurtenance and its performance history; (ii) review and evaluate the operation and maintenance procedures for said dam; and (iii) no later than December 31, 2006, provide to the Borrower and the Bank a written report of findings and recommendations for any remedial work or safety-related measures necessary to upgrade said dam to a standard of safety acceptable to the Bank;

(b) In the event substantial remedial work is determined or has been determined to be required following the report of said dam specialists, make arrangements for said work to be designed and supervised by qualified engineers acceptable to the Bank; provided that, in respect of dams of a height of fifteen (15) meters or more, the concerned Project Province, shall: (i) prepare and provide to the Bank for its review and comment, detailed plans for construction supervision and quality assurance, for instrumentation, operation and maintenance, and for emergency preparedness; (ii) implement, and cause to be implemented, said plans in a manner satisfactory to the Bank; and (iii) following completion of construction, carry out and report to the Bank on periodic safety inspections of said dams; and

(c) Without limitations on the foregoing, the Project Province shall, not later than December 31 in each calendar year, beginning on December 31, 2006, furnish an annual report, prepared in accordance with guidelines acceptable to the Bank, on the safety status of all dams under the Project covering pre-flood season, post-flood season, and any natural disaster.

Project Implementation Plan

6. Each Project Province shall:

(a) Carry out, and cause to be carried out, its Respective Parts of the Project in accordance with the Project Implementation Plan, acceptable to the Bank, said plan to include, among other things:

- (i) Criteria and procedures, satisfactory to the Bank, for the selection and approval of WUA Sub-projects and FA Sub-projects and the Sub-grant Beneficiaries;
- (ii) Principles, procedures and schedules, satisfactory to the Bank, for monitoring and evaluation of Project activities, including the implementation of its respective Environmental Management Plan, its respective Pest Management Plan, the Resettlement Policy Framework and the Dam Safety Report;
- (iii) Financial management procedures, including therein reporting requirements and audit requirements, in accordance with the provisions of Article III of this Agreement; and
- (iv) Procurement management procedures, including therein procurement procedures and standard documentation in accordance with the provisions of Schedule 1 to this Agreement.

(b) Furnish to the Bank for its prior approval any proposed amendment to the provisions of said Project Implementation Plan and, thereafter, put into effect such amendment as shall have been agreed with the Bank.

Annual Implementation Plans

7. Each Project Province shall:

(a) prepare, in accordance with guidelines satisfactory to the Bank, and furnish to the Borrower not later than November 15 in each calendar year, beginning on February 15, 2006, for summarizing and forwarding to the Bank pursuant to paragraph 2(a) of Schedule 4 to the Loan Agreement, a proposed implementation plan for the carrying out of its Respective Parts of the Project during the following calendar year, said plan: (i) to describe, inter alia, the activities proposed to be carried out during said period, (ii) to be accompanied by a financing plan therefor and evidence satisfactory to the Bank, that counterpart funds in adequate amounts are available for the payment of expenditures to be incurred in the carrying out of said Respective Parts of the Project during said period; and (iii) also to be accompanied by a supervision plan proposed to be carried out to supervise its Respective Parts of the Project during said period; and

(b) thereafter, carry out its Respective Parts of the Project during said following calendar year in accordance with such implementation plan as shall have been approved by the Borrower and the Bank.

WUAs Development and Irrigation Operation and Maintenance

8. (a) Under Part A.4 of the Project, each Project Province shall establish WUAs in Project townships within said province in accordance with guidelines acceptable to the Bank and the implementation arrangements and schedules specified in the WUA Development Plan, each to be responsible for operating and maintaining the tertiary canals and onfarm water supply systems which serve its members, and whose members shall comprise all users of water supplied through said systems, said WUA to serve as a demonstration for development of other WUAs in the township.

(b) The rights and obligations of each WUA established within a Project Province shall be defined and set forth in a water users contract prepared in accordance with guidelines acceptable to the Bank, to be entered into between said WUA and a local water resources agency responsible for operating and maintaining the facilities through which water used by said WUA is delivered, upon the establishment of said WUA, said contract to: (i) define the facilities

which said WUA shall be responsible to operate and maintain; (ii) set forth the respective responsibilities of said agency and WUA, and the sources, levels of funds and the water service to be provided to said WUA to enable it to carry out said responsibilities; (iii) authorize and empower said WUA to collect the water charges from its members who use water delivered through said facilities, and pay directly to water supplier on the basis of water volume delivered; and (iv) provide for delivery of water based on the measured water volume requested by the WUA.

(c) Each Project Province shall provide technical and financial assistance to each WUA established and operating within its territory, under guidelines and in accordance with a schedule acceptable to the Bank, such assistance to be designed to enable said entities properly to carry out their respective responsibilities.

9. Each Project Province shall, by June 30, 2006, submit to the Bank a plan, including a timetable, for expansion of WUAs in the Project Province, in adequate numbers, satisfactory to the Bank.

10. (a) Each Project Province shall implement a WUA Development Plan, in a manner, satisfactory to the Bank, which shall include the descriptions of, *inter alia*: (i) the principles and requirements by which the WUAs should be established; (ii) schedules and implementation arrangements for development of WUAs in the Project area; (iii) the schedules for increasing water charges collected by WUAs to cover, at least, the costs for operation and maintenance of WUAs, including the costs of bulk water purchased by WUAs; (iv) the procedures for maintaining separate accounts for water charges collected by WUAs; (v) the restriction on use of water charge collections exclusively for irrigation related purposes; (vi) model charters and by-laws for WUAs; and (vii) model water supply contracts between a WUA, and a water supplier, or the relevant local government agency, as the case may be, which defines the rights and obligations of parties thereto.

(b) The Project Provinces shall not amend, suspend, or waive said WUA Development Plan or any provision thereof, without the prior occurrence of the Bank.

11. Each Project Province shall, (i) by June 30, 2006, submit to the Bank for review and comments, a model operation and maintenance plan for irrigation systems which are not covered by WUAs, (ii) prepare specific operation and maintenance plans for each non-WUA project site based on the model operation and maintenance plan taking into account the Bank's comments thereon, said

plans including, inter alia, the installation and operation of water measure facilities and the water charges based on volume of water used which are paid directly to the water supplier; and (iii) thereafter implement said project-site specific plans mentioned in sub-paragraph (ii) above, in a manner, satisfactory to the Bank.

Sub-grants and Sub-projects in the Project Provinces

12. Each Project Province shall ensure that: (a) the WUA Sub-projects and the FA Sub-projects shall be selected, approved and operated in accordance with the requirements of the Project Implementation Plan and its WUA Development Plan; and (b) Sub-grants shall be made in accordance with procedures and on conditions satisfactory to the Bank, which shall include those set forth below in paragraphs 13 and 14 of this Schedule.

13. Each Project Province shall not approve a WUA Sub-project for financing out of the proceeds of the Sub-grants, unless the Borrower has received satisfactory evidence certifying that the requirements set forth in its WUA Development Plan have been met, including: (a) the WUA is organized and managed by farmers; elects its own leaders who are members of the WUA, manages its own budget and operations; is an independent legal entity registered in accordance with the relevant laws of the Borrower; and is legally empowered to collect water charges; (b) the WUA is established based on hydraulic boundaries; (c) the WUA has in place a system to measure the amount of water delivered to the WUA; (d) the WUA has in place a system for the collection of water charges from consumers and for payment directly to the suppliers for measured water delivered; and (e) the WUA has in place, adequate, reliable, and timely water supplies.

14. Each Project Province shall not approve a FA Sub-project for financing out of the proceeds of the Sub-grants, unless the Borrower has received satisfactory evidence certifying that (a) the FA is organized and represented by farmers; elects its own leaders; manages its own budget and affairs; and is an independent legal entity registered in accordance with the relevant laws of the Borrower; (b) the FA has adopted its charters or bylaws in accordance with the relevant laws of the Borrower; and (c) FA has adopted a development plan, satisfactory to the Borrower and the Bank.

Groundwater Management

15. Hebei shall: (i) ensure that new tubewells are not constructed in the Project areas; and that tubewell irrigation areas are not increased in the Project areas; and (ii) monitor and ensure that investment in existing tubewells will not result in net increase in evapo-transpiration (ET) in the Project areas.

16. Hebei shall: (i) no later than December 31, 2006, submit to the Bank for its review and comments, comprehensive groundwater management plans for eight (8) Project water short counties; (ii) thereafter implement said groundwater management plans mentioned in sub-paragraph (i) above taking into account of the Bank comments thereon, in a manner, satisfactory to the Bank; and (iii) no later than June 30, 2008, prepare and thereafter implement the comprehensive groundwater management plans for the remaining Project water short counties, taking into account the Bank's comments thereon, in a manner, satisfactory to the Bank.

17. Each of Hebei, Henan, and Shandong shall: (i) establish and maintain at least two groundwater monitoring points in the tubewell irrigation areas in each Project County; and (ii) monitor groundwater levels, groundwater quality, and groundwater pollution in accordance with the relevant guidelines set forth in the Project Implementation Plan.

Laser Grading Land Leveling

18. Hebei shall: (i) design and carry out two (2) laser grading pilot projects under WUAs in selected water savings pilot demonstration sites; (ii) at the Project mid-term review, monitor and evaluate the pilot laser land leveling experience, benefits and costs; and (iii) thereafter, if the Borrower and the Bank agree, expand laser grading projects to other Project sites of Hebei and to other provinces.

MIS and WUA MES Improvement

19. Each Project Province shall: (i) by June 30, 2006, establish an enhanced management information systems (MIS) at the Provincial PMOs and the Lower-level PMOs, for contract management, implementation management, disbursement management, and monitoring of Project performance indicators; (ii) by June 30, 2006, establish a complementary computerized monitoring and evaluation system for WUAs (WUA MES) at the Provincial PMOs and the Lower-level PMOs for monitoring WUA related performance indicators, and (iii) thereafter maintain and operate said MIS and WUA MES in accordance with the relevant guidelines set forth in the Project Implementation Plan.

Supervision, Monitoring and Evaluation, and Reporting

20. (a) Each Project Province shall maintain policies and procedures adequate to enable it to supervise, monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of its Respective Parts of the Project and the achievement of the objectives thereof.

(b) Each Project Province shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Borrower for consolidation and forwarding to Bank pursuant to paragraph 7 of Schedule 4 to the Loan Agreement, the following reports:

- (i) semi-annual reports, not later than March 15 and September 15 in each calendar year, beginning on March 15, 2006: (A) integrating the results of Project implementation and supervision and summarizing the physical and financial progress of its Respective Parts of the Project in respect of the preceding calendar semester; and (B) setting out the measures recommended to ensure the efficient carrying out of its Respective Parts of the Project and to further the objectives thereof during the then current calendar semester;
- (ii) an annual report, not later than March 15 in each calendar year, beginning on March 15, 2007: (A) presenting: (1) the results of the monitoring and evaluation activities carried out by it pursuant to the sub-paragraph (a) of this paragraph 22 in respect of the preceding calendar year (including, but not limited to, implementation of the social and environmental safeguards measures required for the Project, ground water management in Hebei, Shandong, and Henan; implementation of water saving measures in each Project Province, ET and Laser grading pilot projects in Hebei, development of WUAs, FAs/farmer professional cooperative organizations, non-polluted/green/organic food production, and the technical and scientific findings and recommendations of the technical mobile team); (B) setting forth technical and scientific recommendations for its Respective Parts of the Project; and (C) setting out the measures recommended to ensure the efficient carrying out

of its Respective Parts of the Project and to further the objectives thereof during the then current calendar year; and

- (iii) a mid-term report, not later than June 30, 2008, summarizing the results of the monitoring and evaluation activities carried out by it pursuant to the sub-paragraph (a) of this paragraph 22 from the inception of its Respective Parts of the Project, and setting out the status of its Respective Part of the Project, any problems encountered during its implementation, the costs of implementation, and the measures recommended to ensure its efficient completion and to further its objectives.

(c) After furnishing each said report, each Project Province shall review the same with the Bank, and thereafter, promptly take all measures in relation thereto as shall have been agreed between the Bank and said Project Province.