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**LOAN NUMBER 8042 -CN**

# **Project Agreement**

**(Sichuan Small Towns Development Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**SICHUAN PROVINCE**

**Dated June 30, 2011**

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## **PROJECT AGREEMENT**

AGREEMENT dated June 30, 2011, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and SICHUAN PROVINCE (“Sichuan” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of the same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and Sichuan hereby agree as follows:

### **ARTICLE I – GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in Appendix 1 to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

### **ARTICLE II – PROJECT**

- 2.01. Sichuan declares its commitment to the objective of the Project. To this end, Sichuan shall:
  - (a) carry out and cause the Project Participants to carry out the Project in accordance with the provisions of Article V of the General Conditions; and
  - (b) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Sichuan shall otherwise agree, Sichuan shall and shall cause the Project Participants to carry out the Project in accordance with the provisions of the Schedule to this Agreement.

### **ARTICLE III – REPRESENTATIVE; ADDRESSES**

- 3.01. Sichuan’s Representative is the Governor or the Vice Governor of Sichuan, or such other person or persons as may be designated in writing by either the Governor or Vice Governor.

3.02. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

|                               |                              |                |
|-------------------------------|------------------------------|----------------|
| Cable:                        | Telex:                       | Facsimile:     |
| INTBAFRAD<br>Washington, D.C. | 248423(MCI) or<br>64145(MCI) | 1-202-477-6391 |

3.03. Sichuan's Address is:

Foreign Affairs and Debts Division  
Sichuan Provincial Finance Department  
37 Nanxin Street  
Chengdu City  
Sichuan Province  
People's Republic of China

Facsimile:  
  
(86-28) 8666-7231

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By/s/ Klaus Rohland  
  
Authorized Representative

SICHUAN PROVINCE

By/s/ WEI Hong  
  
Authorized Representative

## SCHEDULE

### Execution of the Project

#### Section I. Implementation Arrangements

##### A. Project Management

1. Sichuan shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following entities, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:
  - (a) the Provincial Leading Group chaired by the Director General or the Deputy Director General of the Sichuan Provincial Finance Bureau, or her/his delegate, comprising all relevant agencies at the Provincial level, which shall be responsible for liaising with the related central government agencies concerning the Project and providing overall policy guidance;
  - (b) the Provincial Project Management Office established within Sichuan's Housing and Urban-Rural Development Department, which shall be responsible for overall Project implementation coordination, and interagency coordination;
  - (c) a Leading Group established at the level of each Project County District, which shall be responsible for facilitating the approval process of design, coordination, mobilization of counterpart funds, resolving issues encountered during Project implementation, overseeing Project implementation, and engineering completion acceptance;
  - (d) a Project Management Office in each Project County/District, which shall be responsible for implementing its Respective Part of the Project and ensuring implementation by its Project Agencies of their Respective Part of the Project; and
  - (e) a Project Implementation Unit in each of the Project Agencies, which shall be responsible for implementing its Respective Part of the Project.
2. Sichuan shall, not later than three (3) months after the Effective Date or prior to the commencing of the bidding process for any works to be procured under the Project, whichever occurs first, employ under terms of reference satisfactory to the Bank, consultants to assist Sichuan and the Project Participants in Project management and supervision.

**B. Anti-Corruption**

Sichuan shall and shall cause the Project Participants to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

**C. Resettlement, Environmental Protection and Cultural Heritage Conservation**

1. Sichuan shall:

(a) take, and shall cause the Project Participants 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, in carrying out the Project and activities described in subparagraph (b)(ii) below;

(b) for this purpose:

(i) prior to the commencement of any works financed from the proceeds of the Loan, implement, and cause the relevant Project Participants to implement the applicable RAP in a manner satisfactory to the Bank; and

(ii) whenever modification of Project design or works would give rise to Displaced Persons, provide, and cause the Project Participant(s) and Project Agency(ies) concerned, before commencing any works related thereto, to provide to the Bank for its review, a resettlement action plan and, thereafter, implement in a manner satisfactory to the Bank such resettlement action plan as shall have been accepted by the Bank.

2. Sichuan, in carrying out the Project, shall implement, and shall cause each Project Participant to implement, the applicable EMP in a manner satisfactory to the Bank, ensure that the Project is implemented in accordance with sound environmental practices and standards, and where applicable, shall avoid or mitigate against adverse impact on physical cultural resources.

3. Sichuan shall, and shall cause each Project Participant 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 EMPs, including measures for avoidance of or mitigation against adverse impact on physical cultural resources, the RAPs, and the achievement of the objectives of said plans, including the

engagement of experienced and qualified independent monitoring consultants acceptable to the Bank; and

- (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by March 31 and September 30 of each year, commencing on March 31, 2012, semi-annual reports of the results of the monitoring and evaluation activities with respect to the EMPs and RAPs, together with any revisions proposed to be introduced into said plans in order to achieve their respective objectives.
- 4. Sichuan shall provide, and shall cause the Project Participants concerned to provide, to the Bank for its prior concurrence any proposed modification or waiver of any EMP or RAP and put into effect only such modification or waiver as shall have been agreed by the Bank in writing.
  - 5. If the provisions of any EMP or RAP is inconsistent with the terms or conditions of the Loan Agreement or this Project Agreement, the latter agreement shall prevail.

**D. Financial Arrangements**

- 1. Sichuan shall relend to: (a) Daying County, Pengshan County, Zizhong County, respectively; and (b) Chengdu Municipality, Nanchong Municipality, Meishan Municipality, and Panzhihua Municipality, respectively, and then, in turn; (c) Chengdu Municipality shall relend to Xinjin County; (d) Nanchong Municipality shall relend to Shunqing District and Jialing District, respectively; (e) Meishan Municipality shall relend to Hongya County; and (f) Panzhihua Municipality shall relend to Miyi County, in each case a portion of the proceeds of the Loan allocated to Categories (1) through (4) for purposes of the carrying out their Respective Parts of the Project, under a subsidiary loan agreement (“Subsidiary Loan Agreement”) to be entered into between: (g) Sichuan and each of Daying County, Pengshan County, Zizhong County, Chengdu Municipality, Nanchong Municipality, Meishan Municipality, and Panzhihua Municipality, respectively; (h) Chengdu Municipality and Xinjin County; (i) Nanchong Municipality and Shunqing District; (j) Nanchong Municipality and Jialing District; (k) Meishan Municipality and Hongya County, and; (l) Panzhihua Municipality and Miyi County, in each case: (i) on the principal terms set forth in paragraphs 1 through 3 of Annex A to this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 12 of the Annex A to this Schedule.
- 2. Sichuan shall ensure that:
  - (a) each of the Project Counties/Districts:

- (i) enters into a subsidiary agency agreement with its Project Agency, whereby the Project Agency agrees: (A) to perform, in accordance with the provisions of the Subsidiary Agency Agreement to which said Project Agency is a party, all of the obligations of said Project Agency therein set forth; (B) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Agency to perform such obligations; and (C) not take or permit to be taken any action which would prevent or interfere with such performance; and
  - (ii) exercises its rights under each Subsidiary Agency Agreement to which said Project County/District is a party in such manner as to protect the interests of the Borrower, the Bank, Sichuan and said Project Counties/Districts, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Agency Agreement to which said Project County/District is a party or any provision thereof.
3. If the provisions of any Subsidiary Loan Agreement or Subsidiary Agency Agreement is inconsistent with the terms or conditions of the Loan Agreement or this Project Agreement, the Loan Agreement and this Project Agreement shall prevail.

## **Section II. Project Monitoring, Reporting and Evaluation**

### **A. Project Reports**

1. Sichuan shall monitor and evaluate the progress of the Project and prepare Project Progress Reports for the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex B to this Schedule. Each such Project Progress Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank by March 31 and September 30 each year, starting March 31, 2012.
2. Sichuan shall, not later than December 31, 2013, review with the Borrower and the Bank (mid-term review) the progress made in the implementation of the Project, together with any recommendation the Borrower or the Bank may have on the needs for Project restructuring.

**B. Financial Management, Financial Reports and Audits**

1. Sichuan shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. Sichuan shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of Sichuan. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

**Section III. Procurement**

All works and consultants' services required for the Project to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.

**Section IV. Other Undertakings**

1. Sichuan shall cause each of the relevant Project Counties/Districts implementing road investments under Part I of the Project:
  - (a) by no later than June 30, 2013, to furnish to the Bank a time-bound action plan, prepared following terms of reference satisfactory to the Bank, for the operation, maintenance and management of their respective roads, including, *inter alia*, the institutional, financial, social and infrastructure planning requirements thereof; and
  - (b) by no later than January 1, 2014 to commence implementation of the action plans referred to in (a) of this Section, taking into account the comments, if any, made by the Bank thereon.
2. Sichuan shall cause each of the relevant Project Counties/Districts implementing canal and embankment investments under Part I of the Project:
  - (a) by no later than June 30, 2013, to furnish to the Bank a time-bound action plan, prepared following terms of reference satisfactory to the Bank, for the management of its canal and embankment investments, including, *inter alia*, the institutional, financial, and infrastructure planning requirements; and



- (b) by no later than January 1, 2014 to commence implementation of the action plans referred to in (a) of this Section, taking into account the comments, if any, made by the Bank thereon.
- 3. Sichuan shall cause each of the relevant Project Counties/Districts implementing storm and sewerage drainage investments under Part I of the Project:
  - (a) by no later than June 30, 2013, to furnish to the Bank a time-bound action plan, prepared following terms of reference satisfactory to the Bank, for the management of its storm and sewerage drainage investments, including, *inter alia*, the institutional, financial, and infrastructure planning requirements; and
  - (b) by no later than January 1, 2014 to commence implementation of the action plans referred to in (a) of this Section, taking into account the comments, if any, made by the Bank thereon.
- 4. Sichuan shall cause each of the relevant Project Counties/Districts implementing water supply network investments under Part I of the Project:
  - (a) by no later than June 30, 2013, to furnish to the Bank a time-bound action plan, prepared following terms of reference satisfactory to the Bank, for the management of its water supply network investments including, *inter alia*, the institutional, financial, and infrastructure planning requirements; and
  - (b) by no later than January 1, 2014 to commence implementation of the action plans referred to in (a) of this Section, taking into account the comments, if any, made by the Bank thereon.
- 5. Sichuan shall cause Xinjin County:
  - (a) by no later than June 30, 2013, to furnish to the Bank a time-bound action plan, prepared following terms of reference satisfactory to the Bank, for the operation, maintenance and management of its wastewater investments, including, *inter alia*, the institutional, financial, cost-recovery and infrastructure planning requirements; and
  - (b) by no later than January 1, 2014, to commence implementation of the action plan referred to in (a) of this Section, taking into account the comments, if any, made by the Bank thereon.

**ANNEX A  
to  
SCHEDULE**

**Principal Terms and Conditions of the  
Subsidiary Loan Agreements and Subsidiary Agency Agreements**

**Terms of On Lending under the Subsidiary Loan Agreements**

1. The principal amount of each subsidiary loan made by: (a) Sichuan, as lender, on the one hand, to each of Daying County, Pengshan County, Zizhong County, Chengdu Municipality, Nanchong Municipality, Meishan Municipality, and Panzhihua Municipality, respectively, as borrower, on the other hand, (b) Chengdu Municipality to Xinjin County, (c) Nanchong Municipality to Shunqing District, (d) Nanchong Municipality to Jialing District, (e) Meishan Municipality to Hongya County, and (f) Panzhihua Municipality to Miyi County, shall be the amount equivalent in Dollars (on the respective dates of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of its Respective Parts of the Project.
2. Each of Daying County, Pengshan County, Zizhong County, Chengdu Municipality, Nanchong Municipality, Meishan Municipality, Panzhihua Municipality, Xinjin County, Shunqing District, Jialing District, Hongya County, and Miyi County shall repay such respective principal amounts (including the fee paid pursuant to Section 2.03 of the Loan Agreement and any premia paid for caps and collars) over a period of not more than twenty-five (25) years, inclusive of a grace period of six (6) years.
3. Each of Daying County, Pengshan County, Zizhong County, Chengdu Municipality, Nanchong Municipality, Meishan Municipality, Panzhihua Municipality, Xinjin County, Shunqing District, Jialing District, Hongya County, and Miyi County shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

**Conditions of Subsidiary Agency Agreements**

The Subsidiary Agency Agreements shall include the following principal conditions:

4. Each Project Agency shall undertake to: (a) carry out its Respective Part(s) of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering, and operational and maintenance practices and social and environmental standards of the Project (including in accordance

with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower) and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (b) without limitation on the foregoing, take all measures necessary to ensure that its Respective Part(s) of the Project shall be implemented in accordance with the relevant RAP and EMP.

5. Each Project Agency shall undertake to procure the works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such works and consultants' services exclusively in the carrying out of its Respective Part(s) of the Project.
6. Each Project Agency shall undertake to enable the Bank, the Borrower, Sichuan and the relevant Project County/District to inspect such sites and works included in the Respective Part(s) of the Project, the operation thereof, and any relevant records and documents.
7. Each Project Agency shall undertake to properly operate and maintain all facilities relevant to its Respective Part(s) of the Project and, when needed, promptly make repairs and renewals of such facilities.
8. Each Project Agency shall undertake:
  - (a) to maintain records and accounts adequate to reflect the operations, resources and expenditures related to its Respective Part(s) of the Project; and
  - (b) to have the records and accounts referred to in sub-paragraph 8(a) above audited in accordance with appropriate auditing principles consistently applied and by independent auditors, both acceptable to the Bank.
9. Each Project Agency shall undertake to furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each Fiscal Year: (i) certified copies of said records and accounts for such year as so audited pursuant to sub-paragraph 8(b) above; and (ii) an opinion on such statements by said auditors in such scope and detail as the Bank shall have reasonably requested.
10. Each Project Agency shall undertake to prepare and furnish to the Bank, Sichuan, and the relevant Project County/District all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Sichuan, and the relevant Project County/District shall reasonably request.
11. Each Project Agency shall undertake:

- (i) to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Annex B of the Schedule to this Agreement, the carrying out of its Respective Part(s) of the Project and the achievement of the objectives thereof; and
  - (ii) to prepare, under terms of reference satisfactory to the Bank, and furnish to Sichuan for its review, consolidation in the Project Reports and submission to the Bank, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph on the progress achieved in the carrying out of its Respective Part(s) of the Project during the period preceding the date of each such report.
12. Each of the Project Counties/Districts shall have the right to suspend or terminate the right of its Project Agency to the use of the proceeds of the loan made available under the Subsidiary Agency Agreement with said Project Agency upon failure by such Project Agency to perform its obligations under the agreement.

**ANNEX B  
to  
SCHEDULE**

**Indicators  
CHINA: Sichuan Small Towns Development Project**

| <b>PDO</b>                                                                                                                      | <b>Project Outcome Indicators</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Use of Project Outcome Information</b>                                     |
|---------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| <p>The project development objective is to improve priority infrastructure in participating small towns in Sichuan Province</p> | <ul style="list-style-type: none"> <li>(1) Urban Roads (new urban areas): Increased population with access to the road network</li> <li>(2) Urban Roads (existing urban areas): Reduced travel time along the selected traffic corridor</li> <li>(3) Canal and Embankment Improvement (flood protection function): Increased percentage of length of food protection standard compliance</li> <li>(4) Canal and Embankment Improvement (water quality improvement): Improved water quality in canal.</li> <li>(5) Institutional: Number of agreed OMM plans operationalized. Adoption of a strategy and policies recommended by Xinjin Urban-Rural Integration Study</li> </ul> | <p>To verify achievement of the PDO and associated outcome of the project</p> |
| <b>Intermediate Outcomes</b>                                                                                                    | <b>Intermediate Outcome Indicators</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Use of Intermediate Outcome Monitoring</b>                                 |
| <p>Urban Roads</p>                                                                                                              | <p>Length of roads constructed (km, for new urban areas) and upgraded (km, for existing urban areas)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p>Measuring physical progress towards achieving project objectives</p>       |
| <p>Water Supply and Drainage Network</p>                                                                                        | <p>Length of water supply and drainage pipeline installed (km)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>Measuring physical progress towards achieving project objectives</p>       |
| <p>Canal and Embankment</p>                                                                                                     | <p>Length of river cleaned and length (km) of river embankment rehabilitated (km)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>Measuring physical progress towards achieving project objectives</p>       |

|                             |                                                                                                                             |                                                                                                                           |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Institutional Strengthening | Satisfactory completion of TA/Studies/training on sustainable environmental infrastructure service provision in small towns | Measuring required institutional capacity building outcomes which are essential to meeting Project Development Objectives |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|