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CONFORMED COPY

LOAN NUMBER 7938-CN

Project Agreement

(Huai River Basin Flood Management and
Drainage Improvement Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

ANHUI PROVINCE
HENAN PROVINCE
JIANGSU PROVINCE
SHANDONG PROVINCE
HUAI RIVER BASIN COMMISSION

Dated November 3, 2010

PROJECT AGREEMENT

AGREEMENT dated November 3, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank”) and ANHUI PROVINCE (“Anhui”), HENAN PROVINCE (“Henan”), JIANGSU PROVINCE (“Jiangsu”), SHANDONG PROVINCE (“Shandong”) and HUAI RIVER BASIN COMMISSION (“HRBC”) (collectively the “Project Implementing Entities”) (“Project Agreement”) in connection with the Loan Agreement of same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Bank and the Project Implementing Entities hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II – PROJECT

- 2.01. The Project Implementing Entities declare their commitment to the objectives of the Project. To this end:
 - (a) the Project Provinces shall carry out the activities under Parts A, C, D and E of the Project in the Project Area located within their respective Provinces in accordance with the provisions of Article V of the General Conditions;
 - (b) HRBC shall carry out the activities under Part B of the Project and relevant activities under Parts C and E of the Project in accordance with the provisions of Article V of the General Conditions; and
 - (b) the Project Implementing Entities shall provide promptly as needed, the funds, facilities, services and other resources required for their Respective Parts of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entities shall otherwise agree, the Project Implementing Entities shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is, on behalf of:
- (a) Anhui, its Governor or Vice Governor or such other person or persons as the Governor or Vice Governor shall designate in writing;
 - (b) Henan, its Governor or Vice Governor or such other person or persons as the Governor or Vice Governor shall designate in writing;
 - (c) Jiangsu, its Governor or Vice Governor or such other person or persons as the Governor or Vice Governor shall designate in writing;
 - (d) Shandong, its Governor or Vice Governor or such other person or persons as the Governor or Vice Governor shall designate in writing; and
 - (e) HRBC, its Director General or Deputy Director General or such other person or persons as the Director General or Deputy Director General shall designate in writing.

3.02. The Bank’s Address is:

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

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

3.03. The Project Implementing Entities’ Addresses are:

For Anhui:

Anhui Provincial Department of Water Resources
No.48, Jiuhuashan Road
Hefei, 230022
Anhui Province
People’s Republic of China

Facsimile:

0086-551-4651790

For Henan:

Henan Provincial Water Resource Department
No. 10, Weiwu Road
Zhengzhou, 450003
Henan Province
People's Republic of China

Facsimile:

0086-371-65571205

For Jiangsu:

Jiangsu Provincial Water Resource Department
No.5, Shanghai Road
Nanjing, 210029
Jiangsu Province
People's Republic of China

Facsimile:

0086-25-86616315

For Shandong:

Shandong Provincial Water Resource Department
No.127, Lishan Road, Jinan, 250013
Shandong Province
People's Republic of China

Facsimile:

0086-531-86942489

For HRBC:

Huai River Basin Commission
Donghai Road 3055
Bengbu, 233001
Anhui Province
People's Republic of China

Facsimile:

0086-552-3093708

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

ANHUI PROVINCE

By /s/ Zhang Wencai
Authorized Representative

HENAN PROVINCE

By /s/ Zhang Wencai
Authorized Representative

JIANGSU PROVINCE

By /s/ Zhang Wencai
Authorized Representative

SHANDONG PROVINCE

By /s/ Zhang Wencai
Authorized Representative

HUAI RIVER BASIN COMMISSION

By /s/ Qian Min
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

1. In order to ensure the proper carrying out of the Project, the Project Implementing Entities, as the case may be, shall each maintain, throughout the period of implementation of the Project, with composition, terms of reference, powers, functions, staffing and other resources acceptable to the Bank:
 - (a) a Project Leading Group at the provincial level, and in the case of each Project Province other than Jiangsu at each city or county level within said Province where, as the case may be, activities under the Project will be carried out, in order to, *inter alia*, formulate Project related policies, coordinate among relevant agencies and provide overall guidance on implementation;
 - (b) a Project Management Office at HRBC, and the provincial level, and in the case of each Project Province other than Jiangsu at each city or county level within said Province, as the case may be, where activities under the Project will be carried out, in order to, *inter alia*, organize, coordinate and implement respective Project activities; and
 - (c) an Expert Group at the provincial level and in the case of each Project Province other than Jiangsu, at each city level within said Province, as the case may be, where, activities under the Project will be carried out, in order to, *inter alia*, provide technical advice to the corresponding PMO in project management and implementation;

all as set out in the relevant Project Implementation Plan.
2. The Project Implementing Entities shall, in the implementation of the Project, each apply the Project Implementation Plan, in a timely and efficient manner satisfactory to the Bank. The Project Implementing Entities shall not amend, suspend, or waive said Project Implementation Manual or any provision thereof, without the prior written concurrence of the Bank. In the event of any inconsistency between the Project Implementation Plans, the Financial Management Manuals, the Policy Framework for Resettlement and Land Acquisition, the RAPs, the EMPs, the Dam Safety Plans, and the Loan Agreement, the provisions of the Loan Agreement shall prevail.
3. The Project Provinces and HRBC, as the case may be, shall, in carrying out the Project, each apply the measures and actions set forth in the EMPs, the RAPs, the Policy Framework for Resettlement and Land Acquisition, and the Dam Safety

Plans in a timely and efficient manner satisfactory to the Bank. In addition, in carrying out the activities under the Project, the Project Provinces and HRBC, as the case may be, shall:

- (a) take all necessary actions to minimize to the extent possible the acquisition of land or assets of people, any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, and the displacement of said people in the carrying out the Project or any Part thereof; and
 - (b) where the acquisition of land or assets or the displacement of people is unavoidable, before initiating the implementation of any works which would result in such acquisition or displacement, provide to such people compensation and, as applicable, relocate and rehabilitate the Displaced Persons in permanent sites with adequate facilities, including providing all related assistance required in respect thereof, based on adequate consultation with said people all in accordance with the RAPs and the Policy Framework for Resettlement and Land Acquisition, and in a manner satisfactory to the Bank; in those instances where said relocation and rehabilitation assistance provided are of a transitory nature, make arrangements prior to implementing any such works for the permanent and adequate relocation and rehabilitation of such people based on adequate consultation with said people in accordance with the RAPs and the Policy Framework for Resettlement and Land Acquisition and implement such arrangements in a manner and in accordance with a time schedule satisfactory to the Bank.
4. Each Project Province shall furnish to the Bank an annual RAP prepared in accordance with the Policy Framework for Resettlement and Land Acquisition and each Project Implementing Entity shall furnish to the Bank an annual EMP action plan, by November 30 in each year, beginning on November 30, 2011: (a) summarizing the implementing status in said year and the actions to be taken in the following calendar year; and (b) taking into account the Bank's comments, finalize said annual RAP and EMP action plan for implementation during the following calendar year in a manner satisfactory to the Bank.
 5. The Project Provinces shall: (a) carry out measures satisfactory to the Bank for improving the living standard of Displaced Persons affected by the implementation of the Project in accordance with the provisions of the RAPs and the Policy Framework for Resettlement and Land Acquisition; and (b) include appropriate and adequate provisions in the contracts entered into for implementing the Project to ensure the fulfillment of the requirements set out in the EMP together with specification of sanctions to be imposed or other measures to be taken for failure to carry out said requirements.

6. The Project Implementing Entities shall each take or cause to be taken all such action as shall be necessary in the implementation of the Project to protect cultural heritage sites in the relevant area of influence of the Project in accordance with arrangements and procedures satisfactory to the Bank.
7. The Project Provinces and HRBC, as the case may be, shall carry out external monitoring, on an annual basis, under terms of reference finalized taking into account comments made by the Bank, of compliance with the implementation of the RAPs and the Policy Framework for Resettlement and Land Acquisition and provide to the Bank written reports of findings and recommendations within thirty (30) days of each annual review detailing the progress in the implementation of said documents, as well as the measures, if any, to be taken to improve compliance with the implementation thereof. Based on the results of such review, the Project Provinces and HRBC, as the case may be, shall prepare and implement measures that have been finalized taking into account comments made by the Bank, in order to improve compliance with such documents.
8. The Project Implementing Entities shall prior to amending, suspending, or waiving the relevant EMPs, the RAPs, the Policy Framework for Resettlement and Land Acquisition, the Dam Safety Plans or any provision thereof, consult the proposal with the Bank and shall not implement the proposal without obtaining the Bank's prior written concurrence.
9. Each Project Province other than Jiangsu shall maintain its Dam Safety Panel with at least three (3) experts and Jiangsu shall maintain its Dam Safety Plan with at least 2 (two) experts, each having experience and qualifications in the relevant technical fields, acceptable to the Bank, and under terms of reference, including a time-table and adequate budget for its activities, satisfactory to the Bank, to, *inter alia*: (i) inspect and evaluate the status of any Upstream Dam, its appurtenances, and its performance history; (ii) review and evaluate the owner's operation and maintenance procedures; (iii) review and provide comments on the Dam Safety Plans; and (iv) provide a written report to the relevant Project Province and the Bank of findings and recommendations for any remedial work or safety measures necessary to upgrade said Dam to an acceptable standard of safety.
10. Each Project Province shall: (a) cause its Dam Safety Panel to carry out its functions as set out in its terms of reference; (b) provide all support and cooperation to the Dam Safety Panel necessary for it to carry out its functions; (c) based on the recommendations of the Dam Safety Panel in respect of any Upstream Dam, carry out , if necessary, safety measures and/or remedial works, and prepare and implement Dam Safety Plans for the Upstream Dams for which remedial works need to be carried out; (d) prepare and furnish to the Bank no later than November 30 in each year, beginning on November 30, 2010 an annual dam safety action plan, summarizing the actions taken in said year and the actions to be taken in the following calendar year, including the

recommendations relating to any remedial works or safety measures made by the Dam Safety Panel with respect to any Upstream Dam with the objective of ensuring that the physical works completed or to be completed under the Project are not at risk; and (e) implement the annual dam safety action plan. All above actions shall be carried out in a manner and substance satisfactory to the Bank.

11. Each Project Implementing Entity shall: (a) prepare by November 30 in each year, beginning on November 30, 2010 and furnish to the CPMO an annual implementation plan with annual budget for implementation of its respective Project activities to be undertaken during the following calendar year including for implementation of the activities under the RAPs, the EMPs, the Policy Framework for Resettlement and Land Acquisition and the Dam Safety Plans; (b) finalize said plan taking into account comments made by the Bank; and (c) thereafter, ensure the implementation during the following calendar year of said plan in a manner satisfactory to the Bank.
12. For the purpose of carrying out Part A.2 of the project, each Project Province shall:
 - (a) include in its annual implementation plan for calendar year 2011 formulated pursuant to paragraph 11 above, a pilot program comprising:
 - (i) carrying out of rehabilitation of on-farm drainage and irrigation works over a selected area; and
 - (ii) taking adequate steps to facilitate the establishment of an FDIA in respect of the works in such area with the objective of securing the participation of the FDIA in the operation and maintenance of said works under arrangements, satisfactory to the Bank, which shall, *inter alia*: (A) identify the facilities to be rehabilitated; (B) set out the respective responsibilities of the Project Province and the FDIA, including those related to review of the layout and design of the facilities, their construction, and supervision; (C) transfer responsibility to the FDIA to operate and manage said facilities, including drainage operations during flood season and irrigation management during non-flood season, and identify the sources and levels of funds to be provided to said FDIA to enable it to carry out said responsibilities; (D) authorize and empower said FDIA to collect drainage and supply charges from its members who benefit from drainage and use water delivered through said facilities; and (E) require said FDIA to maintain a separate accounting for funds provide to the FDIA by the Province and funds collected by the FDIA within its jurisdiction and cause all said funds to be used exclusively for the purposes of operations and maintenance of the facilities; and

- (b) taking account of the lessons from the implementation of the pilot program referred to in clause (a) above and the Bank's recommendations thereon, revise the FDIA Extension Plan, as needed, and implement said Plan with the revisions as may be approved by the Bank.
- 13. With respect to irrigation and drainage systems constructed or rehabilitated under the Project, the relevant Project Province shall, in order to ensure the proper operation and maintenance of such systems, at least three (3) months prior to the completion of each such system, prepare and furnish to the Bank for review and comment a proposed operation and maintenance plan for such system, including institutional, technical and financial arrangements, and, thereafter, ensure the prompt implementation of each such plan, taking into account the views of the Bank thereon.
- 14. For the purpose of carrying out Part B of the Project, HRBC shall establish by September 30, 2016 a flood disaster assessment and support system at the basin level of Huai River in the Project Area, satisfactory to the Bank, in order to maximize the benefits of all main and on-farm drainage infrastructure systems, such system to be capable of: (a) providing a timely decision making support during flood season to minimize flood damage through collection and processing of real-time data and information observed at the field level and quick assessment of severity degree of flood impact with different flood mitigation alternatives; and (b) providing detailed post-impact assessments of historical flood disasters for future flood-control planning and management through a simulation model developed and operated with the data and information observed and collected from flooding events in the past.
- 15. Each Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

- 1. Each Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in the Annex to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the CPMO not later than forty-five (45) days after the end of the period covered by such report for incorporation and forwarding by the CPMO on behalf of the Borrower to the Bank of the overall Project Report.

2. Without limitation to paragraph 1 above, each Project Implementing Entity shall provide to the Bank: (a) not later than forty-five (45) days after the end of each calendar semester during the implementation of the Project a detailed report setting out the progress achieved in implementing the Project including the EMPs, RAPs, Policy Framework for Resettlement and Land Acquisition, and the Dam Safety Plans; (b) no later than December 31, 2013 a mid-term report in respect of the activities carried out by it under the Project, and review with the Bank the progress achieved in implementing said activities, including the results of the monitoring and evaluation activities carried out from the inception of the Project, and the measures to be taken to ensure the efficient completion of the Project and to further the objectives thereof.
3. Each Project Implementing Entity shall provide to the Borrower not later than three (3) months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the General Conditions, all such information as the Borrower or the Bank shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports; Audits

1. The Project Implementing Entities shall each maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entities including the operations, resources and expenditures related to its Respective Part of the Project.
2. The Project Implementing Entities shall each apply in the implementation of the Project the respective Financial Management Manual for implementing the financial management system referred to in B.1 above including preparing financial management reports, satisfactory to the Bank. The Project Implementing Entities shall not amend, waive, suspend, abrogate or cancel the respective Financial Management Manual or any provision therein without the prior written approval by the Bank.
3. The Project Implementing Entities shall each prepare and furnish to the Bank as part of the Progress Report not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for the respective activities under the Project covering the semester, in form and substance satisfactory to the Bank.
4. The Project Implementing Entities shall each install and operationalize for use the Procurement and Financial Management Information System no later than ninety (90) days after the Effective Date and thereafter apply in the implementation of the Project said system in order to monitor the entire procurement process and financial transactions under the Project. The Project

Implementing Entities shall not amend, waive, suspend, abrogate or cancel said System without the prior written approval by the Bank.

5. The Project Implementing Entities shall each 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 the Project Implementing Entities. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

Section III. Procurement

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

ANNEX

**Results Framework and Monitoring
Table 1: Project Results Framework**

PDO	Project Outcome (PO) Indicators	Use of Outcome Information
<p>The Project Development Objective (PDO) is to provide better and more secure protection against floods and water logging, increase farmland productivity, and reduce property losses in predominantly rural areas in the Huai River basin in the provinces of Jiangsu, Shandong, Anhui and Henan of the Borrower.</p>	<p>PO-1: Targeted rural and urban areas protected from flooding PO-2: Targeted number of people protected from flooding PO-3: Targeted economic losses in urban and rural areas reduced from flooding PO-4: Targeted increase of per capita agricultural incomes of farmers from flood protection; PO-5: Targeted increase of navigation benefits from river improvements.</p>	<p>Track progress and make adjustments when necessary during implementation</p>
Intermediate Results One per Component	Results Indicators for each Component	Use of Intermediate Outcome (IO)
<p><u>Part A:</u> <i>Flood Protection and Drainage Improvement</i></p>	<p>IO-1: Targeted length of dike strengthening IO-2: Targeted length of river improvements IO-3: Targeted number of structures constructed including pumping stations, dike structures and flood control gates and bridges IO-4: Targeted number of O&M plans approved and implemented IO-5: Number of functioning FDIAs established as per requirements IO-6: Targeted number of major actions taken as per the EMPs implemented with budget allocated</p>	<p>Track progress and make adjustments when necessary during implementation</p>
<p><u>Part B:</u> <i>Flood Disaster Assessment and Support System</i></p>	<p>IO-7: Percent of targeted investment completed on flood disaster assessment and decision support system IO-8: Percent of targeted investment completed on hydraulic model IO-9: Accuracy of targeted technical criteria reached by the flood disaster assessment and decision support system</p>	<p>Track progress and make adjustments when necessary during implementation</p>
<p><u>Part C:</u> <i>Institutional Strengthening</i></p>	<p>IO-10: Targeted number of government officials understand and help disseminate the project innovations</p>	<p>Track progress and make adjustments when necessary during implementation</p>
<p><u>Part D:</u> <i>Resettlement Action Plan Implementation</i></p>	<p>IO-11: Targeted number of project-affected people whose incomes and lives maintained or improved IO-12: Targeted number of resettled people whose incomes and lives maintained or improved</p>	<p>Track progress and make adjustments when necessary during implementation</p>
<p><u>Part E:</u> <i>Project Management</i></p>	<p>IO-13: Targeted number of contracts which strictly follow the Bank procurement and financial management guidelines</p>	<p>Track progress and make adjustments when necessary during implementation</p>

Table 2: Arrangements for Results Monitoring

Indicators of Project PDO/Outcome	Target Values								Data Collection and Reporting		
	Baseline 2008-09	2010	2011	2012	2013	2014	2015	Final Target	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
PO-1: Targeted rural and urban areas protected from flooding (km ²)	0	782.6	3516.3	6031.4	7554.3	8621.2	9576.2	9576.2	Annual	Annual report	Water Resources Bureau /PMO
PO-2: Targeted number of people protected from flooding (million)	0	0.55	1.95	3.73	5.18	5.92	6.64	6.64	Annual	Annual report	Water Resources Bureau /PMO
PO-3: Targeted economic losses in urban and rural areas reduced from flooding (RMB Yuan million)	0	21.58	202.4	322.83	477.4	593	699.5	699.5	Annual	Annual report	Water Resources Bureau /PMO
PO-4: Targeted increase of per capita agricultural incomes of farmers from flood protection (RMB Yuan / year)	0	37.75	92.3	136.8	174.5	209.5	233	233	Annual	Annual report	Water Resources Bureau /PMO
PO-5: Targeted increase of navigation benefits from river improvements (RMB Yuan million)	0	102.6	105.6	108.7	111.8	115.1	118.4	118.4	Annual	Annual report	Water Resources Bureau /PMO
IO-1: Targeted length of dike strengthening (km)	0	53.4	111.2	118.4	61.9	50.0	22.5	417.4	Annual	Annual report	Water Resources Bureau /PMO
IO-2: Targeted length of river improvements (km)	0	142.1	364.3	150.4	100.6	185.8	36.9	980.5	Annual	Annual report	Water resources bureau/PMO
IO-3: Targeted number of structures (806) constructed including 182 pumping stations, 427 dike structures and flood control gates and 197 bridges	0	17	142	196	117	314	20	806	Annual	Annual report	Water Resources Bureau/PMO
IO-4: Targeted number of O&M plans approved and implemented	0	0	16	40	50	30	10	146	Annual	Annual report	Water Resources Bureau/PMO
IO-5: Targeted number of functioning of established FDIA as per requirements	0	0	4	4	4	12	12	36	Annual	Annual report	Water Resources Bureau/PMO
IO-6: Targeted number of major actions taken as per the EMPs implemented with budget allocated	0	4	22	15	10	8	0	59	Annual	Annual report	Water Resources Bureau /PMO
IO-7: Percent of targeted investment completed on flood disaster assessment and decision support system	0	3%	30%	25%	25%	10%	7%	100%	Annual	Annual report	Water Resources Bureau/PMO

IO-8: Percent of targeted investment completed on hydraulic model	0	3%	27%	20%	20%	15%	15%	100%	Annual	Annual report	Water Resources Bureau/PMO
IO-9: Accuracy of targeted technical criteria reached by the flood disaster assessment and decision support system											
(i) Data collection rate from Telemetering remote stations	0	0	0	0	0	90%	90%	90%	Annual	Annual report	Water Resources Bureau /PMO
(ii) Error between computed and actual inundated area	0	0	0	0	0	15%	15%	15%			
(iii) Percent of the errors between forecasted and actual flood peak level less than 0.2- 0.3 m	0	0	0	0	0	90%	90%	90%			
IO-10: Targeted number of government officials who understand and help disseminate the project innovations	0	83	117	140	199	245	275	275	Annual	Annual report	Water Resources Bureau/PMO
IO-11: Targeted number of project-affected people whose incomes and lives maintained or improved (acquired 15,546 mu of land permanently and 43,172 mu temporarily)	0	2,075	16,752	27,861	35,355	46,353	57,173	57,173	Annual	Annual report	Water Resources Bureau/PMO
IO-12: Targeted number of resettled people whose incomes and lives maintained or improved	0	471	1,302	3,410	4,808	5,976	7,044	7,044	Annual	Annual report	Water Resources Bureau/PMO
IO-13: Targeted number of contracts which strictly follow the Bank procurement and financial management guidelines	0	47	112	76	44	15	17	311	Annual	Annual report	Water Resources Bureau /PMO