

CONFORMED COPY

LOAN NUMBER 8001-CN

Project Agreement

(Zhejiang Qiantang River Basin Small Town Environment Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

ZHEJIANG PROVINCE

Dated March 3, 2011

PROJECT AGREEMENT

AGREEMENT dated March 3, 2011 entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and ZHEJIANG PROVINCE (“Zhejiang” 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 Zhejiang hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined and modified 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. Zhejiang declares its commitment to the objectives of the Project. To this end, Zhejiang shall:
 - (a) carry out, and cause the Project Participants and Project Companies 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 Zhejiang shall otherwise agree, Zhejiang shall carry out, and shall cause to be carried out, the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. Zhejiang’s Representative is its Governor or a Vice-Governor or such other person or persons as said Governor or a Vice-Governor shall designate in writing, and Zhejiang shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

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. Zhejiang's Address is:

No.37 Huancheng Xi Road
Hangzhou 310006
Zhejiang
People's Republic of China

Facsimile:

0086-571-87058475

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

ZHEJIANG PROVINCE

By/s Chen Jiayuan
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Project Management

1. Zhejiang shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, 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 (“PLG”) chaired by the Vice Secretary General of Zhejiang, comprising all relevant agencies at the Provincial level and responsible for liaising with central government agencies concerning the Project and providing overall policy guidance;
 - (b) the Provincial Project Management Office (“PPMO”) established within Zhejiang’s Construction Commission and responsible for overall Project implementation coordination, and interagency coordination;
 - (c) a Leading Group established at the level of each Project City/County responsible for overall policy guidance, and Project implementation coordination;
 - (d) a Project Management Office (“PMO”) in each Project County/City responsible for implementing its Respective Part of the Project and ensuring implementation by its Project Companies of their Respective Parts of the Project; and
 - (e) a Project Implementation Unit (“PIU”) in each of the Project Companies for implementing their Respective Parts of the Project.

B. Anti-Corruption

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

C. Resettlement, Environment Protection, Cultural Heritage Conservation and Dam Safety

1. Zhejiang shall:
 - (a) take, and shall cause the Project Participants and Project Companies 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 under the Project and Linked Activities, implement, and cause the relevant Project Participants and Project Companies to implement, the applicable RAP in a manner satisfactory to the Bank; and
 - (ii) whenever: (A) Linked Activities; or (B) modifications of Project design or works would give rise to Displaced Persons, provide, and cause the Project Participant and Project Company concerned before commencing any works related thereto, to provide to the Bank for its review, a resettlement action plan prepared in accordance with the principles and procedures set forth in the Resettlement Policy Framework and, thereafter, implement in a manner satisfactory to the Bank such resettlement action plan as shall have been accepted by the Bank.
2. Zhejiang in carrying out the Project shall implement, and shall cause each Project Participant and Project Company to implement, the applicable EMP in a manner satisfactory to the Bank, ensure that the Project and the Linked Activities are implemented in accordance with sound environmental practices and standards, and where applicable, shall avoid or mitigate against adverse impact on physical cultural resources.
3. Zhejiang shall, and shall cause each Project Participant and Project Company as the case may be to:
 - (a) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the EMPs (including, measures for avoidance of or mitigation against adverse impact on physical cultural resources), the RAPs, the Resettlement Policy Framework, the Dam Safety Plan and

any remedial/construction works at the Project Dams and the achievement of the objectives of said plans and framework, including the engagement of experienced and qualified independent monitoring experts acceptable to the Bank; and

- (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank:
 - (i) by March 1 and September 1 of each year, commencing on September 1, 2011, semi-annual reports of the results of the monitoring and evaluation activities with respect to the EMPs and RAPs of the applicable Project Participant as shall have been agreed by the Bank annually; and
 - (ii) by March 1, commencing March 1, 2012 annual reports of the results of the monitoring and evaluation activities with respect to the Dam Safety Plan and any dam remedial/construction works referred to in sub-paragraph (a) above;

together with any revisions proposed to be introduced into said plans in order to achieve their respective objectives.

- 4. Zhejiang shall provide, and shall cause the Project Participants and the Respective Project Companies concerned as the case may be to provide, to the Bank for its prior concurrence any proposed modification or waiver of any EMP or RAP or the Resettlement Policy Framework or the Dam Safety Plan, and put into effect only such modification or waiver as shall have been agreed by the Bank.

D. Financial Arrangements

- 1. Zhejiang shall cause:
 - (a) Zhuji City and Wucheng District to relend a portion of the proceeds of the Loan allocated to them respectively to: (i) the Zhuji City Water Affairs Group Co. Ltd.; and (ii) the Xinfan Reservoir Management Division of Wucheng District 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 the Project Participant and its Respective Project Company: (A) on the principal terms set forth in paragraphs 1 through 3 of Annex A to this Schedule; and (B) 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.

- (b) each of the Project Participants (other than Zhuji City and Wucheng District with respect to Part I of the Project) to enter into a subsidiary implementation agreement (“Subsidiary Implementation Agreement”) with its Project Company to set forth the obligations of the Project Company to carry out its Respective Parts of the Project, such agreements to be entered into under terms and 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. Zhejiang shall cause each Project Participant to exercise its rights under each Subsidiary Agreement to which said Project Participant is a party in such manner as to protect the interests of the Borrower, the Bank, Zhejiang and said Project Participant, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Agreement to which said Project Participant is a party or any provision thereof.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. Zhejiang shall monitor and evaluate the progress of the Project and prepare Project 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 Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank by March 1 and September 1 each year, starting September 1, 2011.

B. Financial Management, Financial Reports and Audits

1. Zhejiang 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. Zhejiang 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 Zhejiang. 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 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. Zhejiang shall cause the concerned Project Participants:
 - (a) by no later than January 30, 2012, to furnish to the Bank a time-bound operation and maintenance action plan prepared following terms of reference satisfactory to the Bank for:
 - (i) the management of water supply in the Wucheng District;
 - (ii) the management of wastewater in Jiande City, Qujiang District, Youbu Town/Lanxi County, and Jiangshan Town/Pan'an County; and
 - (iii) the management of solid waste in Jiande City; and
 - (b) by no later than June 30, 2012, to commence implementation of the action plans referred to in paragraph (a) of this Section, taking into account the comments, if any, made by the Bank thereon.
2. Without limitation to the provisions of Section 8 of Annex A to this Schedule, Zhejiang shall cause:
 - (a) each of Project Participants implementing water supply activities under Part I of the Project in Zhuji City and Wucheng District or wastewater treatment activities under Part II of the Project in Jiande City, Qujiang District, Youbu Town/Lanxi City, Jiangshan Town/Pan'an County to furnish to the Bank by September 1 each year, starting September 1, 2012, audited financial statements related to the water supply or waste water operations of the Project Companies of the Project Participants concerned and financial projections, in accordance with terms of reference satisfactory to the Bank, for their respective Project Companies; and
 - (b) Jiande City to furnish to the Bank by September 1 each year, starting September 1, 2010, a financial report covering costs and revenues from its solid waste operations and financial projections in accordance with terms of reference satisfactory to the Bank, for its Project Company.

**ANNEX A
to
SCHEDULE**

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

Terms of On Lending under the Subsidiary Loan Agreements

1. The principal amount of each subsidiary loan made by a Project Participant to its Respective Project Company, 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 Project Company's Respective Parts of the Project.
2. Each Project Company shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement and any Premia paid pursuant to Section 2.07 of the Loan Agreement) over a period of not more than twenty (20) years, inclusive of a grace period of five (5) years.
3. Each Project Company 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 Agreements

The Subsidiary Loan Agreements and Subsidiary Implementation Agreements shall include the following principal conditions:

4. Each Project Company shall undertake to:
 - (a) carry out its Respective Parts of the Project and Linked Activities with due diligence and efficiency and in accordance with appropriate management, financial, engineering, and operational and maintenance practices and the 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 Parts of the Project and as applicable the

Linked Activities shall be implemented in accordance with the relevant RAP, EMP, Dam Safety Plan and the Resettlement Policy Framework.

5. Each Project Company shall undertake to procure the goods, 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 goods, works and consultants' services exclusively in the carrying out of its Respective Parts of the Project.
6. Each Project Company shall undertake to enable the Bank, the Borrower, Zhejiang and the Project Participant concerned to inspect such goods and the sites and works included in the Respective Parts of the Project, the operation thereof, and any relevant records and documents.
7. Each Project Company shall undertake:
 - (a) to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with good business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity there under to be made payable in a currency freely usable to replace or repair such goods; and
 - (b) to properly operate and maintain all facilities relevant to its Respective Parts of the Project and, when needed, promptly make repairs and renewals of such facilities.
8. Each Project Company shall undertake:
 - (a) to maintain records and accounts adequate to reflect the operations, resources and expenditures related to its Respective Parts of the Project;
 - (b) to have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited as set forth in Section IV.2(a) of the Schedule to this Agreement; and
 - (c) by September 1 each year, 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 Company shall undertake to furnish to the Bank as soon as available but in any case not later than September 1 in each Fiscal Year:

- (a) certified copies of said financial statements or records and accounts, as the case may be, for such year as so audited pursuant to sub-paragraph 8(b) above; and
 - (b) an opinion on such statements by said auditors in such scope and detail as the Bank shall have reasonably requested.
- 10. Each Project Company shall undertake to prepare and furnish to the Bank, Zhejiang, and the Project Participant concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Zhejiang, and the Project Participant concerned shall reasonably request.
- 11. Each Project Company shall undertake:
 - (a) 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 Parts of the Project and the achievement of the objectives thereof; and
 - (b) to prepare, under terms of reference satisfactory to the Bank, and furnish to Zhejiang 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 (a) of this sub-paragraph on the progress achieved in the carrying out of its Respective Parts of the Project and the Linked Activities during the period preceding the date of each such report.
- 12. Each Project Participant shall have the right to suspend or terminate the right of its Project Company to the use of the proceeds of the loan made available under the Subsidiary Agreement with said Project Company upon failure by such Project Company to perform its obligations under such Subsidiary Agreement.

ANNEX B
to
SCHEDULE
Indicators
CHINA: Zhejiang Qiantang River Basin Small Town Environment Project
Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
The project development objective is to assist Zhejiang Province in improving access to sustainable urban environmental infrastructure in selected cities, districts and towns in the Qiantang River Basin.	(1) <u>Water Supply</u> : Number of people served with potable water supply (2) <u>Wastewater</u> : Amount of COD, TN, and TP reduced (tons/year) (3) <u>Solid Waste</u> : Number of people served with sanitary solid waste collection and disposal (4) <u>Institutional</u> : Number of agreed O&M plans operationalized (5) <u>Financial</u> : Number of project areas/ cities tariffs/ user fees introduced	To track overall progress toward meeting the Project Development Objectives
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
1. Water Supply Component		
- Expansion of water supply and distribution capacity	- % of potable water connection to households - % of full cost covered by tariffs	Monitoring water supply plant and distribution services and financial performances of water supply companies.
2. Wastewater Component		
- Expansion of wastewater collection & treatment capacity	- % of wastewater collected and treated - % of O&M treatment cost covered by tariffs	Monitoring wastewater collection and treatment services and financial performance of waste water companies.
3. Solid Waste Component		
- Expansion of solid waste collection & landfill capacity	- Number of open solid waste dumps closed - % of solid waste collected & sanitarily disposed - % of O&M cost covered by user fees	Monitoring solid waste collection and disposal services, and financial performance of sector.
4. Institutional Strengthening Component		
- Support project implementation and capacity building	- Completion of TA/ studies / training on sustainable environmental infrastructure service provision in small towns	Measuring actions on required institutional capacity building activities.

Arrangements for results monitoring

Project Outcome Indicators	Baseline 2009	Target Values					Data Collection and Reporting		
		YR1 2011	YR2 2012	YR3 2013	YR4 2014	YR5 2015	Frequency	Data Collection Instruments	Responsibility for Data Collection
(1) <u>Water Supply</u> : Number of people served with potable water supply in project areas	60,000	157,000	172,000	256,000	316,000	360,000	Annual	Progress Reports	Local PMOs/ PPMO
(2) <u>Wastewater</u> :									
Amount of COD reduced (tons/year)	-	-	2,411	2,961	3,394	3,745			
Amount TN reduced (tons/year)	-	-	154	189	216	239			
Amount TP reduced (tons/year)	-	-	25	35	40	45			
(3) <u>Solid Waste</u> : Number of people served with sanitary solid waste collection and disposal	-	-	155,000	162,000	168,000	175,000			
(4) <u>Institutional</u> : Number of agreed O&M plans operationalized (cumulative)	-	-	6	6	6	6			
(5) <u>Financial</u> : Number of project areas tariffs/ user fees introduced (cumulative)	7	7	9	9	11	11			
Intermediate Outcome Indicators									
1. Water Supply Components							Annual	Progress Reports	Local PMOs/ PPMO
(1.1) % of potable water connections to households:									
a. Zhuji City	30	75	80	85	90	95			
b. Wucheng District	0	0	0	50	80	95			
(1.2) % of full costs covered by water supply tariffs:									
a. Zhuji City	80	80	80	90	90	100			
b. Wucheng District	-	-	-	80	90	100			

2. Wastewater Components							Annual	Progress Reports	Local PMOs/ PPMO
(2.1) % wastewater collected and treated:									
a. Jiande City	-	-	55	65	75	85			
b. Qujiang District	-	-	60	65	70	80			
c. Lanxi City Youbu Town	-	-	30	45	65	70			
d. Pan'an County Jianshan Town	-	-	-	50	55	65			
e. Pan'an County Shenze District	-	-	-	-	10	30			
f. Pan'an County Yunshan District	-	-	50	55	65	75			
g. Tonglu County Jiangnan Town	-	-	50	55	65	75			
h. Longyou County	-	-	60	65	75	85			
(2.2) % of O&M treatment cost covered by wastewater tariffs:									
a. Jiande City	-	-	90	90	100	100			
b. Qujiang District	-	-	80	80	90	90			
c. Lanxi County Youbu Town	-	-	50	50	70	70			
d. Pan'an County Jianshan Town	-	-	50	50	70	70			
3. Solid Waste Component							Annual	Progress Reports	Local PMOs/ PPMO
(3.1) Cumulative number of open solid waste dumps closed in Jiande City	-	-	-	-	1	3			
(3.2) % of solid waste collected and disposed at a sanitary landfill in Jiande City	-	-	70	80	90	90			
(3.3) % of O&M cost covered by solid waste user fees in Jiande City	-	-	-	10	10	20			

