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CONFIRMED COPY

LOAN NUMBER 7939-CN

Project Agreement

(Integrated Forestry Development Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

ANHUI PROVINCE
HEBEI PROVINCE
LIAONING PROVINCE
SHANXI PROVINCE
ZHEJIANG PROVINCE

Dated August 13, 2010

PROJECT AGREEMENT

AGREEMENT dated, August 13, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“IBRD”), ANHUI PROVINCE (“Anhui”), HEBEI PROVINCE (“Hebei”), LIAONING PROVINCE (“Liaoning”), SHANXI PROVINCE (“Shanxi”) and ZHEJIANG PROVINCE (“Zhejiang”) (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 Bank (“Loan Agreement”). 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 this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. Each Project Implementing Entity declares its commitment to the objective of the Project. To this end, each Project Implementing Entity shall:
 - (a) carry out its Respective Parts of the Project in accordance with the provisions of Article V of the General Conditions; and
 - (b) provide promptly as needed, the funds, facilities, services and other resources required for its 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. Each Project Implementing Entity’s respective Representative is:
 - (a) Anhui Governor or Vice Governor or such other person or persons as said Governor or Vice Governor shall designate in writing;
 - (b) Hebei Governor or Vice Governor or such other person or persons as said Governor or Vice Governor shall designate in writing;

- (c) Liaoning Governor or Vice Governor or such other person or persons as said Governor or Vice Governor shall designate in writing;
- (d) Shanxi Governor or Vice Governor or such other person or persons as said Governor or Vice Governor shall designate in writing; and
- (e) Zhejiang Governor or Vice Governor or such other person or persons as said Governor or Vice Governor 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. Each Project Implementing Entity's Address is:

For Anhui:

The Finance Department of Anhui Province
No. 238 Funanxi Road
Hefei 230061
People's Republic of China

Facsimile:

86-551-5100162

For Hebei:

The Finance Department of Hebei Province
No. 48 Zhonghuananda Street
Shijiazhuang, Hebei 050051
People's Republic of China

Facsimile:

86-311-87010246

For Liaoning:

The Finance Department of Liaoning Province
No.103 North Nanjing Street
Shenyang, Liaoning 110002
People's Republic of China

Facsimile:

86-24-22834167

For Shanxi:

The Finance Department of Shanxi Province
No.345 Yingze Street
Taiyuan, Shanxi, 030001
People's Republic of China

Facsimile:

86-351- 4045332

For Zhejiang:

The Finance Department of Zhejiang Province
No.37 Huanchengxi Road
Hangzhou Zhejiang 310006
People's Republic of China

Facsimile:

86-0571- 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

ANHUI PROVINCE

By /s/ Zheng Xiaosong
Authorized Representative

HEBEI PROVINCE

By /s/ Zheng Xiaosong
Authorized Representative

LIAONING PROVINCE

By /s/ Zheng Xiaosong
Authorized Representative

SHANXI PROVINCE

By /s/ Zheng Xiaosong
Authorized Representative

ZHEJIANG PROVINCE

By /s/ Zheng Xiaosong
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

Institutional Arrangements

1. Throughout the period of implementation of its Respective Parts of the Project, each Project Implementing Entity shall maintain, the following groups and offices, with membership, terms of reference, staffing and other resources acceptable to the Bank:
 - (a) the Project Leading Group, the Municipal Project Leading Group, and the County Project Leading Group at the provincial, municipal, and the county levels for providing policy guidance, reviewing work plans and budgets, ensuring inter-agency coordination, and evaluating progress of the Project.
 - (b) the Provincial Project Management Office, and the Municipal Project Management Office and County Project Management office at the provincial, municipal, and the county levels for the day-to-day implementation of the Project, including, inter alia, providing technical guidance, reviewing annual work plans and budgets and ensuring quality control under the Project.

Overall Implementation Arrangements

2. Each Project Implementing Entity shall: (i) furnish to the Bank for approval an annual work and budget plan for its Respective Parts of the Project for the next calendar year by December 15 of each year, commencing on December 15, 2010, including a proposed annual work program, procurement plan and budget for Project activities in the following calendar year; and (ii) ensure that Project activities are undertaken in accordance with each approved annual work and budget plan.
3. In the carrying out its Respective Parts of the Project, each of the Project Implementing Entities shall:
 - (a) apply the measures and actions set forth in the Environmental Management Plan (including therein the Environmental Protection Guidelines and the Pest Management Plan) and the Ethnic Minorities Development Plan, all in a manner satisfactory to the Bank; and

- (b) not amend, suspend, or waive any of said Plans, or any provision thereof, without the prior written agreement of the Bank.
4. Each Project Implementing Entity shall apply in the implementation of the Project the Project Implementation Plan in a manner satisfactory to the Bank and shall not amend, suspend, or waive the said plan or any part thereof without the prior written agreement of the Bank. If there are inconsistencies between the Project Implementation Plan and this Agreement, this Agreement shall prevail. The Project Implementation Plan shall include, inter alia:
- (a) a financial management manual setting out financial management, disbursement, and audit procedures consistent with the provisions in Section II.B of Schedule 2 to the Loan Agreement, including the output-based disbursement procedures under Parts A and B of the Project; and
 - (b) the Participatory Planning Manual, including, inter alia, guidelines for Project preparation and implementation on a voluntary basis and steps to be taken for participatory planning in the Project design at the village level to meet the needs of the local communities.
5. Each of the Project Implementation Entities shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Parts A and B of the Project

6. (a) Each of the Project Implementing Entities shall ensure that Sub-project sites are selected according to criteria set out in the PIP, including, inter alia: (i) Sub-project sites shall be located in environmentally degraded areas or in areas providing important environmental benefits; (ii) Sub-project sites shall be outside the boundary of natural habitats, cultural heritage sites and other protected areas; and (iii) Sub-project sites shall only include land free of claims or disputes.
- (b) Each of the Project Implementing Entities shall ensure that all measures are taken to avoid or minimize potential social impacts on local communities, including: (i) villages and households apply to participate in the Project on a voluntary basis; and (ii) resource access restrictions will be decided through a voluntary and participatory process.
7. (a) For the purpose of carrying out Parts A and B of the Project, each of Project Implementing Entities shall make available a portion of the proceeds of the amount allocated from time to time under Category (a) for such Project Implementing Entity respectively set forth in the table in paragraph A.2 of Section IV of Schedule 2 to the Loan Agreement to a Project Beneficiary as a Sub-financing under an Implementation

Agreement with the respective Project Beneficiary in accordance with procedures and on terms and conditions satisfactory to the Bank, which shall include the provisions set forth in Annex 2 to this Schedule.

- (b) Each of the Project Implementing Entities shall exercise its rights under each Implementation Agreement in such manner as to protect its interests and the interests of the Bank and to accomplish the purposes of the Sub-financing. Except as the Bank shall otherwise agree in writing, the Project Implementing Entity shall not assign, amend, abrogate or waive any Implementation Agreement or any of its provisions.

Part C.3 of the Project

- 8. Each of the Project Implementing Entities shall ensure that forestland use certificates will be issued to farmers and/or farmer groups in a timely manner and will cover the Project areas indicated in the Project performance indicators as set out in Annex 1 to the Schedule of the Project Agreement.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

- 1. Each of the Project Implementing Entities shall monitor and evaluate the progress of its Respective Parts of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) of the General Conditions on the basis of the indicators set forth in Annex 1 to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Borrower through SFA not later than sixty (60) days after the end of the period covered by such report for incorporation and forwarding by the Borrower through SFA to the Bank of the overall Project Report.
- 2. Each of the Project Implementing Entities shall, through its PPMO, prepare and furnish to the Borrower through SFA for incorporation and forwarding by the Borrower through SFA to the Bank a mid-term report by no later than March 31, 2013. The mid-term report shall integrate the results of monitoring and evaluating Project performance during the period preceding the date of such report, and recommend measures to ensure efficient Project implementation so as to achieve the Project objectives during the period following the date of such report.

B. Financial Management, Financial Reports; Audits

- 1. Each of the Project Implementing Entities 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 and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to its Respective Parts of the Project.

2. Each of the Project Implementing Entities 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 the Project Implementing Entity. 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 each Project Implementing Entity's Respective Parts of 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 1

Performance Indicators

Project Objective	Project Outcome Indicators	Use of Project Outcome Information
Demonstrate the establishment and management of sustainable multifunction forest plantations with significant environmental benefits	<p>Increase of diversified vegetative cover in selected degraded sites in Project counties</p> <p>Improvement in the management of forest resources (via sample surveys measuring improvements in tree species diversity, vegetative cover, etc. between Project and non-Project sites)</p>	<p>Y3, Y6 slower than expected progress requires revision in the design of Project models</p> <p>Y3, Y6 slow improvement in the management requires improvement in the support provided to farmers.</p>
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p>Part A: <i>Establishment of new multifunction forest plantations</i></p> <p>Sustainable establishment and management of multifunction forests on degraded land implemented:</p> <ul style="list-style-type: none"> (a) Wind breaks and sand break forest (b) Soil & water conservation forests (c) Farmland shelter belts 	<p>Areas of multifunction forests established:</p> <ul style="list-style-type: none"> (a) Wind breaks (21,400 ha) (b) Soil & water conservation forests (589,00 ha) (c) Farmland shelter belt (12,700 ha) 	<p>Y2-6 slow progress requires design adjustment to the Project</p> <p>Y6 values below expectations indicate that key public benefits are not achieved and require change in the plantation models</p>

<p>Part B: <i>Improving existing plantation forests</i></p> <p>Up-graded multifunction forests replacing monoculture and/or degraded forests.</p> <p>Improved management of existing plantation forests</p>	<p>Incremental vegetative cover, including undergrowth, increases by about 10%</p> <p>Number of ha of degraded forests improved (39,600 ha)</p> <p>Number and variety of tree species increase in each upgraded forest site (from monoculture to about three species)</p>	<p>Y3-6 low increases require technical design improvement</p> <p>Y3-6 low increases require technical design improvement</p>
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
<p>Part C: Institutional Support, Project Management and Monitoring and Evaluation (M & E)</p> <p>(a) Households and forest staff trained and improved technologies introduced</p> <p>(b) New forest tenureship supported</p> <p>(c) Project M&E system established generating lessons for up-scaling and transferring Project experiences to other areas</p>	<p>No. of farmers and staff trained (216,000 person.day)</p> <p>No. of existing and new Farmer Associations (FAs) supported under the Project. (20 associations)</p> <p>No. of forest management plans piloted (one mgt. plan in each of the PIEs)</p> <p>M&E system for physical inputs and outputs and Project management established and operated.</p> <p>Area for which forestland use right certificates are granted (a government program independent of the Project)</p>	<p>Y5 facilitates up-scaling and transfer of Project results to other areas</p> <p>Y2-6 slow progress requires Project design adjustment</p> <p>Y3,Y6 success of pilot management plans supports reform of 'logging quota system'</p> <p>Y1 M&E is an essential Project design element to provide the basis for lesson learning and up-scaling</p>

Arrangements for results monitoring

Project Outcome Indicators	Baseline	Target Values (in Cumulative Numbers)						Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	YR6	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
1. Incremental vegetative cover of multifunction forests in selected environmentally degraded areas in Participating Counties (% of vegetative cover per ha)	To be determined through baseline survey	2%	4%	6%	8%	9%	10%	Yr 1, Mid-term, end-project	Surveys	PMC and PMOs
2. Improvement in the management of forest resources (through sample surveys measuring improvements in tree species diversity, vegetative cover, etc. between Project and non-Project sites)	N/A			From 1 to 3 or more species, etc.			From 1 to 3 or more species, etc.	Mid-term, end-project	Surveys	PMC and PMOs
Component Indicators										
Part A: (Establishment of new multifunction forest plantation)										
1.1 Areas of multifunction forests established:										
(a) windbreak and sand break forests (ha)	Zero	4,420	10,750	17,080	21,380	21,380	21,380	Semi-annual	Project Reporting	PMC and PMOs
(b) soil & water conservation forest (ha)	Zero	12,010	29,890	47,770	58,900	58,900	58,900	Semi-annual	Project Reporting	PMC and PMOs
(c) farmland shelter belt (ha)	Zero	2,540	6,340	10,140	12,680	12,680	12,680	Semi-annual	Project Reporting	PMC and PMOs

1.2 Incremental yield increase of crops benefiting from the protection of wind break and farmland shelter belt forests (% yield increase per ha)	To be determined through baseline survey			2%			10%	Yr 1, Mid-term, end-project	Survey	PMC and PMOs
1.3 Incremental farm income from economic trees (RMB Yuan/ha/year)	Zero					400	480	Yr5, Yr6	Socio-economic survey	PMC and PMOs
Part B: <i>(Improving existing plantation forests)</i>										
2.1 Incremental vegetative cover increase (as % of vegetative cover)	To be determined through baseline survey			6%			10%	Yr 1, Mid-term, end-project	Surveys	PMC and PMOs
2.2 Increased number of different tree species in Project sites (tree species/sub-compartment)	One	3 or more	3 or more	3 or more	3 or more	3 or more	3 or more	Semi-annual	Project Reporting	PMC and PMOs
2.3 Number of ha of degraded forest improved (ha)	Zero	7,900	19,800	31,700	39,600	39,600	29,600	Semi-annual	Project Reporting	PMC and PMOs

Part C: (Institutional support and Project Management and M&E)										
3.1 No. of Farmers and staff trained (person.day)	Zero	50,770	105,240	155,630	199,800	209,710	216,000	Semi-annual	Project Reporting	PMC and PMOs
3.2 No. of existing and new farmer associations supported under the project	Zero	10	20	20	20	20	20	Semi-annual	Project Reporting	PMC and PMOs
3.3 M&E system generates lessons for scaling-up and transferring lessons to other areas	N/A		System operating	System operating	System operating	System operating	System operating	Semi-annual	Project Reporting	PMC and PMOs
3.4 Area for which forest right certifications are granted (ha)	Zero			10,960	27,090	43,220	55,050	Semi-annual	Project Reporting	PMC and PMOs
3.5. Number of forest management plans developed	Zero	0	0	5	5	5	5	Semi-annual	Project Reporting	PMC and PMOs

ANNEX 2**Procedures and Terms and Conditions of Implementation Agreements****Section A. Procedures**

1. Project Beneficiaries shall be selected by PIEs for receiving Sub-financings to carry out Sub-projects based on the following criteria, among others:
 - (i) willingness and ability to participate in the Project;
 - (ii) willingness to undertake the establishments of the multifunction forests on the land to which they have land use right;
 - (iii) provision of adequate labor to undertake Project activities; and
 - (iv) signing of an Implementation Agreement that includes, *inter alia*, the provisions of this Annex.
2. Each Project Implementing Entity shall select and approve for financing a Sub-project to be implemented by a Project Beneficiary based on an appraisal carried out under arrangements and standards satisfactory to the Bank as set out in the Project Implementation Plan, including a participatory planning process and taking into account the priorities of Project Beneficiaries and technical quality requirements.

Section B. Terms and Conditions

Each Implementation Agreement shall include the following terms and conditions, among others:

1. The Implementation Agreement shall describe the activities to be implemented by a Project Beneficiary for financing under the Agreement, including, *inter alia*, the scope of works, quality standards, technical specifications, implementation arrangements, disbursement procedures and payment conditions, and supervision and monitoring procedures. Each Project Beneficiary shall undertake to carry out the activities with due diligence and efficiency and in accordance with sound technical, economic, financial, management, social and environmental standards and practices acceptable to the Bank and in accordance with the provisions of the Anti-corruption Guidelines, and provide, promptly as needed, the resources and labor required for the purpose.
2. The Implementation Agreement shall describe the contributions made by the Project Beneficiary and the concerned County government and provide that the Project Beneficiary shall continue to have land use right with respect to the land

subject of the Sub-project and to have the ownership of the forests or economic trees planted on the land.

3. Each Project Beneficiary shall undertake to procure the goods, works, and services to be financed out of the proceeds of the Sub-financing in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works, and services exclusively in the carrying out of its Sub-project.
4. Each Project Beneficiary shall undertake to:
 - (a) implement the Sub-project in accordance with the Project Implementation Plan, the Environmental Management plan (including therein the Environmental Protection Guidelines and the Pest Management Plan), and the Ethnic Minorities Development Plan;
 - (b) provide adequate labor and other necessary inputs to undertake the Sub-project; and participate in training related to the Sub-project; and
 - (c) undertake to enable the Bank and the Project Implementing Entity to inspect its operation in respect of its respective Sub-project.
5. Each Project Implementing Entity shall undertake to:
 - (a) provide funds for seedlings, fertilizers, and part of the labor cost necessary for planting and management of multifunction plantations under Parts A and B of the Project;
 - (b) provide technical assistance to Project Beneficiaries to enable them to establish, upgrade or maintain the plantations under Parts A and Part B of the Project according to the technical and environmental requirements under the Project; and
 - (c) maintain records and accounts of expenditures pertaining to Sub-projects and provide such information to the concerned Project Implementing Entity and the Bank as requested.
6. The concerned Project Implementing Entity shall carry out an inspection of the Sub-project after its completion to determine if the said Sub-project has been completed in conformity with the agreed quality, technical standards and specifications. Based on the inspection, the Project Implementing Entity shall issue an inspection certificate. Thereafter, the concerned Project Implementing Entity shall provide to a Project Beneficiary a Sub-financing for carrying out its respective Sub-project.

7. The concerned Project Implementing Entity shall have the right to suspend or terminate the right of each Project Beneficiary to the use of the proceeds of the Sub-financing made available under the Implementation Agreement upon failure by such Project Beneficiary to perform any of its obligations under the Implementation Agreement or upon notice from the Bank that it intends to exercise or has exercised any remedy under Article VII of the General Conditions.