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LOAN NUMBER 7531-CN

# Project Agreement

(Shandong Power Plant Flue Gas Desulphurization Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

SHANDONG PROVINCE

Dated July 17, 2008

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## **PROJECT AGREEMENT**

AGREEMENT dated July 17, 2008, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and SHANDONG PROVINCE (“Project Implementing Entity”) (“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 Entity 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 Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall: (a) carry out, and cause the 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 the Project Implementing Entity shall otherwise agree, the Project Implementing Entity 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 Governor or a Vice Governor of Shandong Province.
- 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 Entity's Address is:

Shandong Provincial Finance Bureau  
No. 3 Jida Road  
Jinan, Shandong Province  
People's Republic of China

Facsimile:

86-531-82920751

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

INTERNATIONAL BANK FOR  
RECONSTRUCITON AND DEVELOPMENT

By /s/ David Dollar  
Authorized Representative

SHANDONG PROVINCE

By /s/ Li Zhaoqian  
Authorized Representative

## **SCHEDULE**

### **Execution of the Project**

#### **Section I. Institutional and Other Arrangements**

##### **Project Management**

1. The Project Implementing Entity shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, composition, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:
  - (a) the Project Leading Group established at the provincial level, chaired by a Vice Governor of Shandong to be responsible for providing overall guidance and coordination for the Project implementation; and
  - (b) the Project Management Office to be responsible for coordinating the implementation of Part A of the Project and implementing Part B of the Project.

##### **Resettlement and Environment Protection**

2. The Project Implementing Entity shall:
  - (a) take, and shall cause the 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 Part A of the Project;
  - (b) for this purpose and prior to the commencement of any civil works under Part A of the Project, implement, and cause the Project Companies, to implement its respective Resettlement Action Plan in a manner satisfactory to the Bank; and
  - (c) provide, and cause each Project Company to provide, to the Bank for its prior concurrence any proposed modification or waiver of its respective Resettlement Action Plan, prior to putting into effect such modification or waiver.
3. The Project Implementing Entity shall, and shall cause the Project Companies to:
  - (a) implement its respective Environmental Management Plan in a manner satisfactory to the Bank and designed to ensure that the Project is

implemented in accordance with sound environmental standards and practices; and

- (b) provide to the Bank for its prior concurrence any proposed modification or waiver of its respective Environmental Management Plan, or any provisions thereof, prior to putting into effect such modification or waiver.
4. The Project Implementing Entity shall, and shall cause the Project Companies to:
- (a) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of its respective Environmental Management Plan and its respective Resettlement Action Plan, the achievement of the objectives of said Plans including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;
  - (b) prepare under terms of reference satisfactory to the Bank, and furnish to the Bank by February 28 each year, commencing February 28, 2009, annual reports of the results of such monitoring and evaluation activities, together with any revisions proposed to be introduced into such Plans in order to achieve their respective objectives; and
  - (c) introduce such revisions into said Plans as shall have been agreed with the Bank.

#### **Subsidiary Loan Agreements**

5. (a) The Project Implementing Entity shall relend the portions of the proceeds of the Loan, which was allocated to it pursuant to paragraph 1 of Section I of Schedule 2 to the Loan Agreement to each of the Project Companies under a subsidiary loan agreement to be entered into between the Project Implementing Entity and said Project Company for the purposes of carrying out each Project Company's Respective Parts of the Project ("Subsidiary Loan Agreement"): (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 9 of the Annex A to this Schedule.
- (b) The Project Implementing Entity shall exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower, the Bank and the Project Implementing Entity and to accomplish the purposes of the Loan. Except as the Borrower and the Bank shall otherwise agree, the Project Implementing Entity shall not

assign, amend, abrogate or waive any Subsidiary Loan Agreement or any of its provisions.

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

**A. Project Reports**

1. The 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 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 February 28 and August 31 each year, starting August 31, 2008.

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

1. The Project Implementing Entity 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 the Project.
2. Without limitation on the provisions of Part B of this Section, the Project Implementing Entity shall prepare and furnish to the Bank as part of the Project Report not later than one (1) month after the end of each calendar semester, interim unaudited financial reports for the Project covering the calendar semester, in form and substance satisfactory to the Bank.
3. The Project Implementing Entity 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 the Project and 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.

**ANNEX A  
to  
SCHEDULE**

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

For the purposes of paragraph 5 of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds shall be those set forth in paragraphs 1 through 3 of this Annex; and (b) the Subsidiary Loan Agreements shall be entered into on the conditions set forth in paragraphs 4 through 9 of this Annex.

**Terms of Availability**

1. The principal amount of each Subsidiary Loan made by the Project Implementing Entity to each of the Project Companies, 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 the Project Company's Respective Parts of the Project.
2. Each Project Company shall repay: (a) such principal amount; and (b) an amount equal to the fee pursuant to Section 2.03 of the Loan Agreement, of such principal amount, over a period of not more than seventeen (17) years, inclusive of a grace period of four (4) 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**

The Subsidiary Loan Agreements shall include the following principal conditions:

4. Each Project Company shall undertake to: (a) carry out its Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank, 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 shall be implemented in accordance with its respective Resettlement Action Plan and the Environmental Management Plan.

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 their Respective Parts of the Project.
6. Each Project Company shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound 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 thereunder to be made payable in a currency freely usable to replace or repair such goods.
7. With respect to its Respective Parts of the Project, each Project Company shall undertake to:
  - (a) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of its respective Sub-project and the achievement of its objectives;
  - (b) 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 Sub-project;
  - (c) at the Bank's or the Borrower's or the Project Implementing Entity's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower, the Bank and the Project Implementing Entity;
  - (d) enable the Borrower, the Bank and the Project Implementing Entity to inspect the Sub-project, its operation and any relevant records and documents; and
  - (e) prepare and furnish to the Borrower, the Bank and the Project Implementing Entity all such information as the Borrower or the Bank or the Project Implementing Entity shall reasonably request relating to the foregoing.
8. Each Respective Project Company shall undertake to:



- (a) 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) prepare, under terms of reference satisfactory to the Bank, and furnish to Project Implementing Entity 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 (e) on the progress achieved in the carrying out of its Respective Parts of the Project during the period preceding the date of each such report.
9. The Project Implementing Entity 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 Loan Agreement with said Project Company upon failure by such Project Company to perform its obligations under the agreement.

**ANNEX B  
to  
SCHEDULE**

**Project Performance Indicators**

<b>Project Objective</b>	<b>Outcome Indicators</b>	<b>Use of Outcome Information</b>
The project development objective is to reduce SO <sub>2</sub> emissions in the heat and power sector and enhance the capacity of regulatory authorities to monitor and enforce compliance with their SO <sub>2</sub> emissions reduction program in Shandong Province	Total SO <sub>2</sub> emissions in Shandong reduced	Gauge the effectiveness of Shandong's SO <sub>2</sub> control program
<b>Intermediate Results One per Component</b>	<b>Results Indicators for Each Component</b>	<b>Use of Results Monitoring</b>
<b>Part A:</b> Installation of FGD for four (4) Sub-projects	Installation of FGDs which perform according to design specifications and are completed within the allocated budget and projected schedule; removal efficiency and SO <sub>2</sub> emission rate (mg/Nm <sup>3</sup> )	Monitoring of implementation progress and action plan to address possible delay and performance deficiency
	Timely disbursement of the Bank loan proceeds	Implementation delays of project
<b>Part B:</b> Technical Assistance (TA) to strengthen the technical and institutional capacity of SPEPB to implement SO <sub>2</sub> emission reduction		
Strengthen SPEPB's capacity in SO <sub>2</sub> control	Policies, rules, procedures and standards on SO <sub>2</sub> control and SO <sub>2</sub> emissions monitoring issued and implemented	Progress on the issuing of policies, rules, procedures and standards on SO <sub>2</sub> control and SO <sub>2</sub> emissions monitoring will flag how well SPEPB is institutionally positioned to implement its SO <sub>2</sub> control program.

<b>Intermediate Results One per Component</b>	<b>Results Indicators for Each Component</b>	<b>Use of Results Monitoring</b>
Improve emission monitoring to facilitate SO <sub>2</sub> control	Installation and successful performance of Continuous Emissions Monitors (CEMs) including data transfer to the monitoring center from all sites which installed FGDs	The rate of installation and successful performance of CEMs in heat and power plants will indicate how well SO <sub>2</sub> emissions in the heat and power sector can be monitored and thus controlled.
Strengthen enforcement of regulations to ensure compliance	Full collection of SO <sub>2</sub> emission fee according to requirements and noncompliance with emission standards penalized	Percentage of fee collection for SO <sub>2</sub> emissions and noncompliance will indicate to what extent regulation enforceability needs further improvement