

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7558-CN

Project Agreement

(Xi'an Sustainable Urban Transport Project)

between

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

and

XI'AN MUNICIPALITY

Dated September 29, 2008

PROJECT AGREEMENT

AGREEMENT dated September 29, 2008, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and XI’AN MUNICIPALITY (“Xi’an Municipality”) (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between the PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. 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 this 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 the Project in accordance with the provisions of Article V of the General Conditions and this Agreement, and, without limitation thereto and unless the Bank shall otherwise agree, ensure that the Project is carried out in accordance with the provisions of Schedule 1 to this Agreement;
 - (b) provide promptly as needed the funds, facilities, services and other resources required for the Project;
 - (c) onlend the proceeds of the Loan to IIC pursuant to the terms and conditions of a Subsidiary Loan Agreement, satisfactory to the Bank, which terms and conditions shall, without limitation, include those set out in Schedule 2 to this Agreement and the following:
 - (i) the principal amount shall be made available in Dollars (determined on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn;

- (ii) the principal amount so made available shall be recovered over a period of twenty-five (25) years, inclusive of a grace period of six (6) years;
 - (iii) interest shall be charged on such principal amount withdrawn and outstanding from time to time at a rate equal to the rate of interest applicable from time to time to the Loan pursuant to the provisions of Section 2.04 of the Loan Agreement; and
 - (iv) a Front-end Fee shall be charged at a rate equal to the rate paid by the Borrower to the Bank pursuant to Sections 2.03 of the Loan Agreement;
- (d) cause IIC to: (i) perform, in accordance with the provisions of the Subsidiary Loan Agreement all of the obligations of IIC therein set forth; (ii) cause IIC to provide promptly as needed the funds, facilities, services and other resources required for the Project, including securing domestic loans in such principal amounts as shall be needed to meet the Project counterpart funds requirements, all under terms and conditions satisfactory to Xi'an and the Bank, in a timely manner and pursuant to the annual work programs and Project implementation schedule set forth in the Project Implementation Plan; (iii) take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable IIC to perform such obligations; and (iv) not take or permit to be taken any action which would prevent or interfere with such performance; and
- (e) exercise its rights under the Subsidiary Loan Agreement, in such manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any part thereof.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank shall otherwise agree, the Project Implementing Entity shall carry out, and shall cause IIC to carry out, the Project in accordance with the provisions of Schedule 1 to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity's Representative is the Mayor or Vice-Mayor of the Xi'an Municipality.

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:

No. 159, Bei Yuan Men
Xi'an
People's Republic of China
710007

Facsimile:

86-(0)29-8721-0878

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

XI'AN MUNICIPALITY

By /s/ Yang Guangxin
Authorized Representative

SCHEDULE 1

Execution of the Project

Section I. Institutional and Other Arrangements

Project Management

1. The Xi'an Municipality shall maintain throughout the period of implementation of the Project, in a manner and substance satisfactory to the Bank, the Project Steering Committee headed by its Vice-Mayor and with representation of: (a) the following Xi'an Municipality line agencies: Xi'an Development and Reform Commission, Xi'an Municipal Finance Bureau, Xi'an Municipal Planning Bureau, Xi'an Municipal Construction Bureau, Xi'an Municipal Environmental Protection Bureau, Xi'an Municipal Communication Bureau, Xi'an Municipal Civil Administration Bureau, Xi'an Municipal National Land and Resources Bureau, Xi'an Municipal Cultural Heritage Bureau, and Xi'an Municipal Public Security Bureau; and (b) the IIC, and assigned with such powers, funds and other resources as shall be necessary to achieve its purposes of providing overall policy guidance and coordination in Project implementation.

Project Implementation

2. The Project Implementation Entity shall implement and cause IIC to implement the Project in accordance with the provisions of the Project Implementation Plan (PIP) in a manner and substance satisfactory the Bank. The Project Implementation Plan shall not be amended, abrogated, suspended or waived without the prior approval by the Bank.
3. The Project Implementation Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Social and Environment Protection

4. The Project Implementing Entity shall, in the carrying out of the Project, implement or cause to implement the RAPs, the RPF, and the EMP, all in a manner and substance satisfactory to the Bank. Without limitation to the foregoing the Project Implementing Entity shall and shall cause IIC to:
 - (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, make available to such people compensation in accordance with the RAPs and the RPF and all resettlement action plans prepared pursuant to the terms of said RPF, and before the carrying out of the works which would result in such acquisition or displacement, all in a manner satisfactory to the Bank.
- 5. The Project Implementing Entity shall not amend, suspend, or waive the RAPs, the RPF and resettlement action plan or plans prepared pursuant thereto, and the EMP or any provision thereof, without the prior concurrence of the Bank.
- 6. The Project Implementing Entity shall 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 area of influence of the Project in accordance with arrangements or procedures satisfactory to the Bank.
- 7. The Project Implementing Entity undertakes that no activity shall be eligible for financing under Parts B.1(i), B.2 and B.3 of the Project unless the Project Implementing Entity has prepared in respect of said Parts of the Project a resettlement action plan or plans in accordance with the RPF and the Bank has provided its approval to said plan or plans. The Project Implementing Entity shall implement or cause to implement said parts of the Project in accordance with said resettlement action plan or plans and other measures, satisfactory to the Bank, to mitigate any adverse environmental impact in accordance with the provisions of the EMP.

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 acceptable to the Bank. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Borrower not later one (1) month after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
- 2. The 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 that Section.

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, in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall maintain and apply in the implementation of the Project, the Project Financial Manual. The Project Implementing Entity shall not amend, waive, suspend, abrogate or cancel the Project Financial Manual or any provision therein without the prior approval by the Bank.
3. Without limitation on the provisions of Part A.1 of this Section, the Project Implementing Entity shall prepare and furnish to the Bank as part of the Project Report, interim un-audited financial reports for the Project covering the calendar semester period of each Project Report, in form and substance satisfactory to the Bank.
4. 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 Section III of Schedule 2 to the Loan Agreement.

SCHEDULE 2

Principal Terms and Conditions of the Subsidiary Loan Agreement

The terms and conditions of the Subsidiary Loan Agreement referred to in Section 2.01(c) of this Agreement shall include the following:

1. IIC shall undertake to: (a) carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering 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 the Project shall be implemented in accordance with the PIP, RAP, the RPF (including any resettlement actions plans prepared thereto) the EMP, and the Project Financial Manual, as the case may be. IIC shall not amend, abrogate, suspend or waive without the prior approval by the Bank any of these documents or any provisions thereof.
2. IIC shall undertake to procure the goods, works and 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 services exclusively in the carrying out of the Project.
3. IIC shall undertake to enable the Bank and the Project Implementing Entity to inspect such goods and the sites and works included in Parts A and B of the Project, the operation thereof, and any relevant records and documents.
4. IIC shall undertake to take out and maintain with responsible insurers insurance of any goods required for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery of the goods to the place of use or installation. Any indemnity for such insurance shall be made payable in a currency freely usable to replace or repair such goods.
5. IIC shall undertake to:
 - (a) maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations and financial condition;
 - (b) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (c) furnish to the Bank and the Project Implementing Entity, as soon as available but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Bank or the Project Implementing Entity shall have reasonably requested; and all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank or the Project Implementing Entity shall reasonably request; and
 - (d) prepare and furnish to the Bank and the Project Implementing Entity all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank and/or Project Implementing Entity shall reasonably request.
- 6. IIC shall undertake to:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Bank and the Project Implementing Entity, and furnish to the Project Implementing Entity for its review, consolidation and submission to the Bank in accordance with paragraph A.1 of Section II of Schedule 1 to this Agreement, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (a) of this paragraph 6 on the progress achieved in the carrying out of the Project. Each such report shall cover a six (6) month calendar period in each year, that is from January through June and from July through December, commencing on July 1, 2008, and shall be finished not later than thirty (30) days after the end of the period covered by such report; and
 - (c) provide such other information and reports as the Project Implementing Entity may request in order to enable the Project Implementing Entity to fulfill its obligations under the Project Agreement.
- 7. IIC shall undertake to maintain throughout the period of implementation of the Project units headed by managers with terms of reference and qualifications acceptable to the Bank, and assigned with such powers, functions, qualified staffing in adequate numbers and other resources as shall in each case be necessary for IIC to implement the Project and carry out all its responsibilities undertaken in the Subsidiary Loan Agreement, in particular regarding project management, procurement, financial management, construction management,

land acquisition, resettlement and compensation, environmental management, and monitoring and reporting, all in a manner and substance satisfactory to the Bank.

8. IIC shall undertake to: (a) consult members of the public at least twice during Project implementation on the impacts and benefits of the Project using participatory processes under terms of reference and in accordance with methodologies acceptable to the Bank; (b) furnish to the Bank, for its review and comments, reports integrating the results of the above-mentioned public consultations and setting out the measures recommended to address the issues raised by the public during the public surveys; and (c) thereafter take all measures required to carry out the conclusions and recommendations of said reports and the Bank's views on such reports, if any. The above-mentioned consultations should take place by December 31, 2011, and June 30, 2013, and the relevant reports shall be furnished to the Bank by February 28, 2011, and August 31, 2013, respectively.
9. IIC shall undertake to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
10. The Project Implementing Entity shall have the right to suspend or terminate the right of IIC to the use of the proceeds of the Loan made available under the Subsidiary Loan Agreement or to obtain a refund of all or any part of the amount of said proceeds then withdrawn, upon: (a) failure by IIC to perform any of its obligations under the Subsidiary Loan Agreement; (b) misuse of any of the proceeds of the Loan made available under the Subsidiary Loan Agreement; (c) failure by IIC to use said proceeds in accordance with the provisions of the Subsidiary Loan Agreement; and (d) notice from the Bank that it intends to exercise or has exercised any remedy under Article VII of the General Conditions.