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**CONFORMED COPY**

**LOAN NUMBER 4856-CHA**

# **Project Agreement**

**(Second Guangdong Pearl River Delta Urban Environment Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**GUANGDONG PROVINCE**

**Dated May 8, 2007**

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## **PROJECT AGREEMENT**

Agreement dated May 8, 2007, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and GUANGDONG PROVINCE (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement of same date between the 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, and shall cause the Project Municipalities to:
  - (a) carry out 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 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, and shall cause the Project Municipalities to 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 the Governor or a Vice Governor of Guangdong Province; or such other person or persons as said Governor or a Vice Governor shall designate in writing, and the Project Implementing Entity 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, NW  
Washington, DC 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:

Guangdong Provincial Office for World Bank Project  
26 Cang Bian Road  
Guangzhou 510030  
People's Republic of China

Facsimile:  
  
(86 20) 83330007

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/ Mr. David Dollar  
  
Authorized Representative

GUANGDONG PROVINCE

By: /s/ Mr. Yang Shaolin  
  
Authorized Representative

## SCHEDULE

### Execution of the Project

#### Section I. Institutional and Other Arrangements

##### **Project Management.**

1. The Project Implementing Entity shall maintain, or 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 Guangdong Provincial Government Office for World Bank Projects (“GDPMO”), under the direction of qualified and experienced managers, staffed with competent personnel in sufficient number, and provided with adequate resources, all in a manner satisfactory to the Bank; said GDPMO to be responsible for overall Project coordination, quality assurance, inter-agency coordination and procurement support; and project reporting;

(b) each Leading Group established by each Project Municipality, chaired by a Vice Mayor, which group is responsible for providing overall coordination for Project preparation and implementation within its respective jurisdiction;

(c) each Project Management Office (“PMO”) established by each Project Municipality to oversee implementation of the Project within its respective jurisdiction; and

(d) the PIU established by FWGC responsible for preparation and implementation of its Respective Part of the Project; the PIU established by Foshan Water Resources Bureau responsible for preparation and implementation of Part A.3 of the Project; and the PIU established by Foshan Environment Protection Bureau responsible for preparation and implementation of Part A.4 of the Project.

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

2. The Project Implementing Entity shall:

(a) shall cause the Project Municipalities or the Project Companies, as the case may be, 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;

(b) for this purpose and prior to the commencement of any works under the Project, cause Foshan to implement the Resettlement Action Plan, in a manner satisfactory to the Bank; and

(c) cause Foshan to provide to the Bank for its prior concurrence any proposed modification or waiver of the Resettlement Action Plan, prior to putting into effect such modification or waiver.

3. The Project Implementing Entity shall cause each Project Municipality 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.

(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 cause each Project Municipality 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 the 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 15 and August 15 of each year, commencing February 15, 2008, semi-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.

(c) Introduce such revisions into said plans as shall have been agreed with the Bank.

**Financial Arrangements.**

5. The Project Implementing Entity shall allocate to each Project Municipality an amount of the Loan under arrangements satisfactory to the Bank, which shall include, without limitation, the following principal terms:

(a) The Project Implementing Entity shall make available the principal amount, which has been allocated to each Project Municipality, in Dollars (on the date, or respective dates, of withdrawal from the Loan Account) of the value of the currency or currencies so withdrawn on account of its Respective Part of the Project.

(b) The Project Implementing Entity shall recover: (i) such principal amount so made available; and (ii) an amount equal to one percent (1%) of such principal amount, or such other percentage as may be determined by the Bank from time to time pursuant to Section 2.04 of the Loan Agreement, over a period of twenty (20) years, inclusive of a grace period of five (5) years.

(c) The Project Implementing Entity shall charge interest 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 Section 2.05 of the Loan Agreement.

(d) The Project Implementing Entity shall charge a commitment fee on the principal amount of the Loan so made available and not withdrawn from time to time at a rate equal to three-fourths of one percent ( $3/4$  of 1%) per annum.

#### **Subsidiary Loan Agreements.**

6. The Project Implementing Entity shall cause each Project Municipality to relend the portions of the proceeds of the Loan, which was allocated to it pursuant to paragraph 5 of this Schedule for the purposes of carrying out its Respective Part of the Project, to each of the Respective Project Company under a subsidiary loan agreement to be entered into between said Project Municipality and the Respective Project Company: (a) on the principal terms set forth in paragraphs 1 through 4 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 5 through 13 of Annex A to this Schedule.

7. The Project Implementing Entity shall cause each Project Municipality to: (a) exercise its rights under the Subsidiary Loan Agreement with its Respective Project Company in such manner as to protect the interests of the Borrower, the Bank, Guangdong, and the Project Municipality, and to accomplish the purposes of the Loan; and (b) except as the Bank and the Project Implementing Entity may otherwise agree, not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provisions thereof.

#### **Project Implementation.**

8. For carrying out Part A.5 of the Project, by December 31, 2007, the Project Implementing Entity shall cause Foshan, through its project management office, to engage a consulting firm, under terms of reference, acceptable to the Bank, to provide required training and technical assistance for institutional strengthening under said part of the Project.

9. Twelve (12) months prior to the commissioning of the centralized sludge treatment facility to be constructed in Nanzhuang under Part A.2(a) of the Project, the Project Implementing Entity shall cause Foshan to furnish to the Bank an analysis of the least cost solution (including the location of the disposal site) for disposal of treated sludge from such facility and take the Bank's comments into account when deciding on the treated sludge disposal site.

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

### **A. Project Reports.**

1. The Project Implementing Entity 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 not later than February 15 and August 15 each year.

2. The Project Implementing Entity shall provide to the Borrower not later than six (6) 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; 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. 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 6 of the Schedule to this Agreement: (a) the terms of availability of the Loan proceeds to each Project Company shall be those set forth in paragraphs 1 through 4 of this Annex; and (b) the Subsidiary Loan Agreements shall be entered into on the conditions set forth in paragraphs 5 through 13 of this Annex.

**Terms of Availability**

1. The principal amount of each Subsidiary Loan made by a Project Municipality to each of 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 Respective Part of the Project.
2. Each Project Company shall repay: (a) such principal amount; and (b) an amount equal to one percent (1%), or such other percentage as may be determined by the Bank from time to time pursuant to Section 2.04 of the Loan Agreement, of such principal amount, 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 applicable from time to time to the Loan pursuant to Section 2.05 of the Loan Agreement.
4. Each Project Company shall pay a commitment charge on the principal amount of the Loan so made available and not withdrawn from time to time at a rate equal to three-fourths of one percent (3/4 of 1%) per annum.

**Conditions**

The Subsidiary Loan Agreements shall include the following principal conditions:

5. 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 facilitate the implementation of the



Resettlement Action Plan (in the case of Foshan) and the Environmental Management Plan prepared by its respective Municipality.

6. 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 Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of its Respective Part of the Project.

7. Each Project Company shall undertake to enable the Bank, the Borrower, the Project Implementing Entity and the Project Municipality concerned to inspect such goods and the sites and works included in its Respective Part of the Project, the operation thereof, and any relevant records and documents.

8. 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.

9. Each Project Company 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 cash flow 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, the Project Implementing Entity and the Project Municipality concerned, 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, Project Implementing Entity or the respective Project Municipality 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, the Project Implementing Entity or the respective Project Municipality shall reasonably request.

(d) Prepare and furnish to the Bank, Project Implementing Entity and the Project Municipality concerned all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank, Project Implementing Entity, and/or said Project Municipality shall reasonably request.

- (e) Each Respective Project Company shall undertake to:
  - (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank and to the Project Implementing Entity the carrying out of its Respective Part of the Project and the achievement of the objectives thereof; and
  - (ii) prepare under terms of reference satisfactory to the Bank and on or about January 31 and July 31 of each year, commencing on January 31, 2008, furnish to the Project Implementing Entity and its respective Project Municipality for its review, consolidation 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 Part of the Project during the period preceding the date of each such report.

10. Except as the Bank shall otherwise agree, each of the Project Companies shall undertake:

(a) To produce for each fiscal year, commencing in Fiscal Year 2008, total revenues equivalent to not less than the sum of: (i) its total operating expenses (including for maintenance); (ii) the increase in working capital (other than cash); and (iii) the amount by which debt service requirements exceeds the provision for depreciation.

(b) Not to incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred:

- (i) commencing in Fiscal Year 2008, shall be at least 1.2 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred; and
  - (ii) commencing in Fiscal Year 2010, shall be at least 1.3 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred.
- (c) (i) To review by September 30 of each year, on the basis of forecasts prepared in a manner satisfactory to the Bank, whether it would meet the requirements set forth in sub-paragraphs (a) and (b) of this paragraph 10, in respect of such year and the next following fiscal year and furnish to the Bank the results of such review upon its completion; and

- (ii) if any such review shows that it would not meet such requirements for the fiscal years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs and charges) in order to meet such requirements.

11. For purposes of sub-paragraphs (a) and (b) of paragraph 10 above:

(a) The term “total revenues” means the sum of total operating revenues and net non-operating income.

(b) The term “total operating revenues” means revenues from all sources related to operations.

(c) The term “total operating expenses” means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight line basis at a rate of not less than 3.3% per annum of the average current gross value of each Project Company’s fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(d) The average current gross value of each Project Company’s fixed assets in operation shall be calculated as one half of the sum of the gross value of its fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(e) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(f) The term “debt” means any indebtedness of each Project Company maturing by its terms more than one (1) year after the date on which it is originally incurred.

(g) Debt shall be deemed to be incurred:

- (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and
- (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

- (h) The term “net revenues” means the difference between:
  - (i) the sum of revenues from all sources related to operations and net non-operating income; and
  - (ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (i) The term “net non-operating income” means the difference between:
  - (i) revenues from all sources other than those related to operations; and
  - (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in clause (i) above.

(j) The term “reasonable forecast” means a forecast prepared by each of the Project Companies not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Project Company accept as reasonable and as to which the Bank has notified the Project Company of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Company.

(k) Whenever, for the purposes of this Annex, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

(l) With respect to FWGC, all definitions set out in this paragraph 11 shall be deemed to refer only to the company’s wastewater operations.

12. Each Project Municipality, as the case may be, 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.

13. For carrying out Part B.2 of the Project, JBWC shall, by December 31, 2007, engage a consulting firm, under terms of reference and with qualifications and experience satisfactory to the Bank, to provide required training and technical assistance for institutional strengthening under said part of the Project.

**ANNEX B  
to  
SCHEDULE**

**Indicators**

**Second Guangdong Pearl River Delta Urban Environment Project  
Arrangements for monitoring of key performance indicators**

Outcome Indicators	Baseline (2005)	Target Values		Data Collection and Reporting		
		MTR	ICR	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
1. Reductions in pollution discharges entering the PRD river network from Foshan and Jiangmen Municipalities (as measured by key pollution monitoring indicators).	2005 discharge levels of COD, BOD, Nitrogen and Phosphorus, from EA reports.	Some evidence of reductions in monitored discharge levels after WWTPs begin operations.	Evidence of measurable reductions in monitored discharge of levels of key indicators (COD, BOD, N and P).	<ul style="list-style-type: none"> <li>• Environmental monitoring reports.</li> <li>• Financial reports.</li> <li>• User sample survey reports, as required (MTR &amp; ICR stages).</li> <li>• Project progress reports.</li> <li>• Supervision mission reports.</li> <li>• Evaluation mission reports (MTR and ICR stages).</li> </ul>	<ul style="list-style-type: none"> <li>• EPB and WWTPs monitoring networks.</li> <li>• User sample survey reports.</li> <li>• Financial reporting.</li> <li>• Data on land use right transfer values from municipal Land Administration Bureaus.</li> </ul>	<ul style="list-style-type: none"> <li>• EPB and WWTPs.</li> <li>• PMOs.</li> <li>• Consulting firm(s), hired by PMOs.</li> </ul>
Foshan	Foshan: COD 8175 t/y NH4-N 537 t/y	Reduction: COD 1500 t/y (18.3%) NH4-N 80 t/y (14.9%)	Reduction: COD 2500 t/y (30%) NH4-N 150 t/y (27.9%)			
Jiangmen	Jiangmen: COD 16425 t/y NH4-N 1643 t/y		Reduction: COD 14235 t/y (86%) NH4-N 1095 t/y (66%)			
2. Evidence of improvement in the effectiveness in operations, management and finances of wastewater utility	No evidence of improvement.	Evidence of some improvement.	Evidence of considerable improvement.	--	--	--

Outcome Indicators	Baseline (2005)	Target Values		Data Collection and Reporting		
		MTR	ICR	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
services assisted under the project.						
3. Compliance rate for key indicators (COD, BOD, N and P) with river quality standards at measurement stations in Foshan and Jiangmen.				--	--	--
Foshan	Foshan: COD 37 mg/l BOD 6.3 mg/l NH4-N 4.22 mg/l TP 0.37 mg/l		Foshan: COD 40 mg/l BOD 10 mg/l NH4-N 2.0 mg/l TP 0.4 mg/l	--	--	--
Jiangmen	Jiangmen: COD 35 mg/l BOD 9.5 mg/l NH4-N 1.8 mg/l TP 0.29 mg/l		Jiangmen: COD 30 mg/l BOD 6 mg/l NH4-N 1.5 mg/l TP 0.3 mg/l	--	--	--
4. Increases in land use rights for residential, commercial and industrial properties adjacent to project areas.	2005 baseline data (in Foshan and Jiangmen EA reports).	Anecdotal evidence of some increases in riverside properties values after WWTPs begin operations.	Properties adjacent to rivers experience greater value increase than average for Foshan and Jiangmen urban areas.	--	--	--

Results Indicators for Each Component	Baseline (BL)	Target Values		Data Collection and Reporting		
		MTR	ICR	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
<b>Foshan Components:</b> Evidence of satisfactory completion of works, as planned.	Not yet started.	Partial completion; work satisfactory.	Full completion, as planned.	--	--	--
Increased percentage of wastewater collected and treated before discharge.	50%	75%	80%	--	--	--
Increase in ratio of actual wastewater tariff to recommended cost recovery tariff.	28%	65%	80%	--	--	--
<b>Jiangmen Component:</b> Evidence of satisfactory completion of works, as planned.	Not yet started.	Partial completion; work satisfactory.	Full and satisfactory completion, as planned.	--	--	--
Increased percentage of wastewater collected and treated before discharge.	22%	60%	70%	--	--	--
Increase in ratio of actual wastewater tariff to recommended cost recovery tariff.	35%	65%	80%	--	--	--
<b>Institutional Strengthening &amp; Training:</b> Evidence of satisfactory completion of component, as planned.	Not yet started.	Partial completion; work satisfactory.	Full and satisfactory completion, as planned.	--	--	--
Evidence of proactive and effective management of emerging problems, and timely and honest reporting of progress and concerns by project managers.	Not yet started.	Satisfactory MTR rating.	Satisfactory ICR rating.	--	--	--