

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N027 CHA

Interim Fund Project Agreement

(National Rural Water Supply Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of International Development Association

and

Hebei Province
Hubei Province
Jiangxi Province Nei Mongol Autonomous Region
and Yunnan Province

Dated August 14, 1997

INTERIM FUND CREDIT NUMBER N027 CHA

INTERIM FUND PROJECT AGREEMENT

AGREEMENT, dated August 14, 1997, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996, and HEBEI PROVINCE, HUBEI PROVINCE, JIANGXI PROVINCE, NEI MONGOL AUTONOMOUS REGION and YUNNAN PROVINCE (the Project Provinces).

WHEREAS (A) by the Interim Fund Resolution, the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

WHEREAS (B) by the Interim Fund Development Credit Agreement of even date herewith between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and the Administrator, the Administrator has agreed to make available to the Borrower an amount in various currencies equivalent to fifty one million four hundred thousand Special Drawing Rights (SDR 51,400,000), on the terms and conditions set forth in the Interim Fund Development Credit Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Administrator as are set forth in this Agreement; and

WHEREAS the Project Provinces, in consideration of the Administrator's entering into the Interim Fund Development Credit Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Interim Fund Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Each of the Project Provinces declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Interim Fund Development Credit Agreement, and, to this end, shall carry out its respective parts of Parts A, B, C.1(b) and C.2 of the Project (the Provincial Parts of the Project) with due diligence and efficiency and in conformity with appropriate administrative, financial, sanitation, health, engineering and environmental standards and practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for such Parts.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Administrator and the Project Provinces shall otherwise agree, each Project Province shall carry out its respective parts of the Provincial Parts of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Administrator shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Interim Fund Credit shall be governed by the provisions of Schedule 4 to the Interim Fund Development Credit Agreement.

Section 2.03. Each Project Province shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and its respective parts of the Provincial Parts of the Project.

Section 2.04. (a) Each Project Province shall, at the request of the Administrator, exchange views with the Administrator with regard to the progress of its respective parts of the Provincial Parts of the Project in its territory, the performance of its obligations under this Agreement and other matters relating to the purposes of the Interim Fund Credit.

(b) Each Project Province shall promptly inform the Administrator of any condition which interferes or threatens to interfere with the progress of its respective parts of the Provincial Parts of the Project in its territory, the accomplishment of the purposes of the Interim Fund Credit, or the performance by such Province of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each Project Province shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its respective parts of the Provincial Parts of the Project of the departments, agencies and administrative subdivisions of such Project Province responsible for carrying out such parts of the Project in its territory.

(b) Each Project Province shall:

(i) have the records and accounts referred in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;

(ii) furnish to the Administrator as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Administrator shall have reasonably requested; and

(iii) furnish to the Administrator such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Administrator shall from time to time reasonably request.

Section 3.02. Each Project Province shall:

(a) have the records and accounts for any water plant facility in which investments in an amount greater than Yuan 5,000,000 equivalent have been made under Part A of the Project within its territory, audited at the end of its first full fiscal year of operation in accordance with auditing principles consistently applied by independent auditors acceptable to the Administrator; and

(b) furnish to the Administrator as soon as available, but in any case no later than six (6) months after the end of such year, the report of such audit by said auditors.

Section 3.03. In respect of each investment under Part A of the Project within its respective territory, each Project Province shall, commencing not later than the second full fiscal year of operations of such investment, ensure that water charges will be established and collected annually at a level sufficient to cover administrative costs, operation and maintenance costs, taxes, plus the greater of (a) interest charges and depreciation, or (b) debt service payments.

ARTICLE IV

Effective Date; Termination;
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Interim Fund Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Administrator and of the Project Provinces thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Interim Fund Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty (20) years after the date of this Agreement.

(b) If the Interim Fund Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Administrator shall promptly notify the Project Provinces of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

Section 4.04. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the

Association in accordance with the Interim Fund resolution and such decision of said Executive Directors, as of the date notified by the Administrator to the Borrower.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association and the Administrator:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Hebei Province:

Hebei Province Government
Wei Ming Jie
Shijiazhuang, Hebei Province 050000

Telex:

26240 PBLST CN

For Hubei Province:

Hubei Provincial Government
Hong Shan Lu
Wuchang
Wuhan, Hubei Province 430071

Telex:

40251 HBCPB CN

For Jiangxi Province:

Jiangxi Provincial Government
69 Beijing Xi Lu
Nanchang, Jiangxi Province 330046

Telex:

226508 MMJX CN

For Nei Mongol Autonomous Region:

Nei Mongol Autonomous Region Government
Xin Hua Da Jie
Huhehaote, Nei Mongol Autonomous Region 010050

Telex:

6944148 NMFAO CN

For Yunnan Province:

Yunnan Provincial Government
Wu Hua Shan
Kunming, Yunnan Province 650021

Telex:

64075 FAOYN CN

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of each Project Province may be taken or executed by the Governor or Vice Governor of said Project Province, and on behalf of the Nei Mongol Autonomous Region by the Chairman or Vice Chairman of said Region, or such other person or persons as such Governor or Vice Governor, or Chairman or Vice Chairman, as the case may be, shall designate in writing, and said Project Province or the Region shall furnish to the Administrator sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the Interim Trust Fund established with
funds contributed by certain members of the International
Development Association pursuant to Resolution No. IDA 184
of the Board of Governors of the International Development
Association

By /s/ Yukon Huang

Acting Regional Vice President
East Asia and Pacific

HEBEI PROVINCE
HUBEI PROVINCE
JIANGXI PROVINCE
NEI MONGOL AUTONOMOUS REGION
and YUNNAN PROVINCE

By /s/ Zhou Wenzhong

Authorized Representative

SCHEDULE 1

Implementation Program for the Provincial Parts of the Project

Part A: Project Management

Each Project Province shall:

(a) maintain its PPO; and

(b) cause its respective Project Counties each to maintain its CPO; in each case staffed with qualified personnel in adequate number, and with functions and responsibilities satisfactory to the Administrator, including the organization, implementation and supervision of the carrying out of the Provincial Parts of the Project at the levels of the Project Provinces and Project Counties.

Part B: Project Implementation

1. (a) Each Project Province shall, by October 15 of each year, starting in 1997, submit to the NPO for its review, approval and consolidation into an AWP, a comprehensive annual work plan for the implementation of the Provincial Parts of the Project within its territory during the following calendar year, including resettlement inventories or action plans, as shall be required by the Resettlement Policy Framework.

(b) Each Project Province shall ensure that all investments under Part A of the Project that are included in such annual work plans shall meet the technical standards of the Design Manual.

(c) Each Project Province shall ensure that resettlement inventories and action plans:

(i) shall be prepared on the basis of the policies and procedures set out in the Resettlement Policy Framework; and

(ii) shall be satisfactory to the Administrator.

2. Each Project Province shall carry out its respective part of the Provincial Parts of the Project in accordance with each AWP (including, as the case may be, resettlement inventories and/or action plans) in a manner satisfactory to the Administrator.

3. Each Project Province shall through its respective PPO: (a) appraise all investments under Part A of the Project as included in any annual work plan referred to in paragraph 1 of this Part B within its respective territories with an estimated value of more than Yuan 500,000 but not exceeding Yuan 3,000,000, and review in particular the quality of the engineering and financial preparation and the overall feasibility of such proposed investments; and (b) submit all such investments under Part A of the Project with an estimated value of more than Yuan 3,000,000 to the NPO for appraisal.

4. For all investments under Part A of the Project with an estimated value of more than Yuan 500,000, the relevant county quality assurance office shall be retained to verify that construction practices and standards have met design specifications.

5. Each Project Province shall, through its respective CPOs, complete the baseline survey under Part C.2 of the Project for villages within its territory receiving water under Part A of the Project in 1998, and, by December 1, 1997, provide a copy of their final reports to NPO.

6. Each Project Province shall: (i) complete the study of hygiene practices under Part B.1 of the Project within its territory in accordance with terms of reference acceptable to the Administrator and provide a copy thereof to the NPO by March 15, 1998; (ii) based on the recommendations of said study, and taking into account the Administrator's comments on the consolidated study furnished by the NPO to the Administrator in accordance with paragraph 1(d) of Schedule 3 to the Interim Fund Credit Agreement, prepare by September 1, 1998, a time-bound health education information program satisfactory to the Administrator; and (iii) deliver such program to community teachers, health practitioners and villagers in the Project Counties within its territory in accordance with its terms.

7. Each Project Province shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 2 to this Agreement, the carrying out of its respective part of the Provincial Parts

of the Project (including the implementation of the Resettlement Policy Framework) and the achievement of the objectives thereof within its territory;

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the NPO for its consolidation and submission to the Administrator, a semi-annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of its respective parts of the Provincial Parts of Project during the periods ending on June 30 and December 31 of each year, with the first such period to end on June 30, 1998 and setting out the measures recommended to ensure the efficient carrying out of such parts of the Project and the achievement of the objectives thereof during the next semi-annual period following such date; such reports shall be submitted within one month following the end of the relevant reporting period. Notwithstanding the above, the report to be submitted not later than July 31, 1998 shall cover the two immediately preceding semi-annual periods.

SCHEDULE 2

Performance Indicators

Water Supply

- the number of villagers in Project Counties newly served by Project supplied water meeting the Borrower's rural water quality standards.
- the percentage of investments carried out under Part A of the Project that meet the requirement of the revenue covenant set out in Section 3.03 of this Agreement.

Health and Sanitation

- the number of sanitary latrines constructed in villages in the Project Counties in addition to those constructed under Part B.3 of the Project.
 - the percentage point improvement in the washing of hands before food preparation and eating by the villagers in the Project Counties.
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