
LOAN NUMBER 3336-PRC

PROJECT AGREEMENT

(Hunan Dongjiang Lake Integrated Environmental Protection and Management Project)

between

ASIAN DEVELOPMENT BANK

and

HUNAN PROVINCIAL GOVERNMENT

ZIXING CITY GOVERNMENT

DATED 16 MARCH 2016

PRC 47070

PROJECT AGREEMENT

PROJECT AGREEMENT dated 16 March 2016 between ASIAN DEVELOPMENT BANK ("ADB") of one part, and HUNAN PROVINCIAL GOVERNMENT ("HPG") and ZIXING CITY GOVERNMENT ("ZCG"), of the other part.

WHEREAS

(A) by a Loan Agreement of even date herewith between the People's Republic of China ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of one hundred thirty million Dollars (\$130,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the loan be made available, through HPG, to ZCG and that HPG and ZCG agrees to undertake certain obligations towards ADB set forth herein; and

(B) HPG and ZCG, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

ARTICLE II

Particular Covenants

Section 2.01. (a) HPG and ZCG shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, HPG and ZCG shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to HPG and ZCG, and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. HPG and ZCG shall make available, and shall cause ZIFC to make available, promptly as needed, the funds, facilities, services, land and other resources as required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, ZCG shall employ, and cause ZIFC to employ, competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, ZCG shall procure, and cause ZIFC to procure, all items of expenditures to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to the Loan Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. ZCG shall carry out, and cause ZIFC to carry out, the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. ZCG shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) ZCG shall, and shall cause ZIFC to, take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, ZCG undertakes and causes ZIFC to undertake, to insure, or cause to be insured, the Goods to be imported for the Project against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.

Section 2.06. ZCG shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB, HPG and ZCG shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) HPG and ZCG shall, and shall cause ZIFC to, promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of their obligations under this Project Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB, HPG and ZCG shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, HPG, ZCG, ZIFC, and the Loan.

Section 2.08. (a) HPG and ZCG shall, and cause ZIFC to, furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of ZCG as it relates to the Project; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, ZCG shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, ZCG shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by ZCG of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) HPG and ZCG, as the case may be, shall cause ZIFC to, (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements for the Project audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Loan proceeds and compliance with the financial covenants of the Loan Agreement as well as on the use of the procedures for imprest fund and statement of expenditures) and a Management Letter; and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and Management Letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

(c) HPG and ZCG shall, and shall cause ZIFC to, enable ADB, upon ADB's request, to discuss the financial statements for the Project and its financial affairs where they relate to the Project with the auditors appointed by HPG and ZCG pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of HPG and ZCG, unless HPG and ZCG shall otherwise agree.

Section 2.10. ZCG shall, and shall cause ZIFC to, enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.

Section 2.11. HPG and ZCG shall, and shall cause ZIFC to, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.

Section 2.12. Except as ADB may otherwise agree, ZCG shall not, and cause ZIFC not to, sell, lease or otherwise dispose of any of its assets which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, ZCG shall apply, and shall cause ZIFC to apply, the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement comes into force and effect. ADB shall promptly notify HPG and ZCG of such date.

Section 3.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE IV

Miscellaneous

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project 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, mail or facsimile to the

party to which it is required or permitted to be given or made at its 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 ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2534.

For HPG

Department of Finance
No. 1 Chengnanxilu, Changsha
Hunan Province, Peoples Republic of China

Facsimile Number:

+86-731-8516 5184.

For ZCG

Project Management Office
No. 153 Jinning Road, Tangdong Street,
Zixing City, Hunan Province, Peoples Republic of China

Facsimile Number:

+86- 735-767 1116.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement (i) by or on behalf of HPG may be taken or executed by its Governor and (ii) by or on behalf of ZCG may be taken or executed by its Mayor, or by such other person or persons as he or she shall so designate in writing notified to ADB.

(b) HPG and ZCG shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or

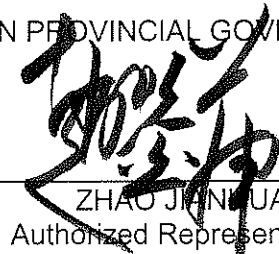
an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names as of the day and year first above written, and to be delivered at the principal office of ADB.

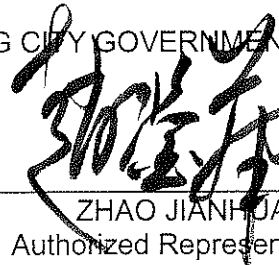
ASIAN DEVELOPMENT BANK

By  _____
AYUMI KONISHI
Director General
East Asia Department

HUNAN PROVINCIAL GOVERNMENT

By  _____
ZHAO JIANHUA
Authorized Representative

ZIXING CITY GOVERNMENT

By  _____
ZHAO JIANHUA
Authorized Representative

SCHEDULE

Execution of Project; Environmental, Social, Financial and Other Matters

General Implementation Arrangements

1. HPG and ZCG shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by HPG, ZCG and ADB. In the event of any discrepancy between the PAM and this Project Agreement, the provisions of this Project Agreement shall prevail.
2. HPG and ZCG shall, and shall cause ZIFC to, ensure that the agencies and entities responsible for the operation and maintenance of the Project facilities will be fully involved in the Project implementation, and shall cause such agencies and entities to participate in the Project design, preparation of bidding documents, procurement and contract management.

Environmental

3. ZCG shall ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the EIA, the EMP, and any corrective or preventative actions (i) set forth in a Safeguards Monitoring Report, or (ii) which are reasonably requested by ADB to ensure safeguards policy compliance.
4. ZCG shall ensure that Project construction and operation shall not result in any changes to the availability or allocation of freshwater to downstream communities, which might negatively impact their water security or livelihood.
5. ZCG shall ensure that minimum ecological flows will be incorporated into the official management of the site for the Chukou weir used for Chukou Water Supply Plant.
6. ZCG shall ensure that all Project activities requiring the use of plants, including the Project embankments, constructed wetlands, landscaping, planting of green belts at wastewater treatment plants, and post-construction rehabilitation, will only use native plant species from Zixing City and its surrounding areas and which are locally sourced to strengthen the rehabilitation of natural habitats and avoid the introduction of non-native invasive weeds. If the use of fast-growing non-native species (e.g. grasses) is required for stabilizing bare construction surfaces, only sterilized seedlings (i.e. which cannot propagate) shall be used.
7. For dredging planned in the Project rivers, the ZCG shall ensure that prior to any dredging to: (a) clarify technical justifications, including analysis of flood risks; (b) conduct a second round of sediment sampling to clarify the extent of heavy metals; and (c) take appropriate remedial measures to minimize the impacts.

8. ZCG shall ensure that the village committees set up the villagers' councils to appoint several cleaners to be responsible for collecting garbage for each village, cleaning public areas and roads, wastes recycling and other works assigned. Such cleaners shall conduct secondary classification of the recyclable, non-recyclable, and hazardous wastes in the process of collecting garbage, ensuring recyclable wastes transporting to the recyclable company for sales while non-recyclable waste to the detachable type dustbins (collection points) or garbage tank, and hazardous waste are disposed according to provincial regulations by certified agencies.

9. ZCG shall develop a plan to establish a Dongjiang Lake Eco-compensation Fund and define the scope and beneficiaries who protect the ecosystem and environment. ZCG shall further develop a management plan for the proposed Dongjiang Lake Eco-compensation Fund.

Resettlement

10. ZCG shall ensure that all land and all rights-of-way required for the Project are made available to the Works contractor in a manner and within timeframes compliant with the related RP and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP, and any corrective or preventative actions (i) set forth in any Safeguards Monitoring Report, or (ii) subsequently agreed between ADB and ZCG.

11. Without limiting the application of the Involuntary Resettlement Safeguards or the RP, ZCG shall ensure or cause ZIFC to ensure that no physical or economic displacement takes place in connection with the Project until:

- (a) compensation and other entitlements have been provided to the displaced persons under the Involuntary Resettlement Safeguards as described in and in accordance with the related RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the related RP.

Indigenous Peoples

12. ZCG shall ensure, and shall cause ZIFC to ensure, that the preparation, design, construction, implementation and operation of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to ethnic minorities; (b) the Indigenous Peoples Safeguards; and (c) all measures and requirements set forth in the EMDP, and any corrective or preventative actions (i) set forth in any Safeguards Monitoring Report, or (ii) subsequently agreed between ADB and ZCG.

Human and Financial Resources to Implement Safeguards Requirements

13. ZCG shall make available necessary budgetary and human resources to fully implement the EMP, the RP and the EMDP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

14. ZCG shall, and shall cause ZIFC to, ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the EIA, the EMP, the RP and the EMDP (to the extent they concern impacts on the respective affected people under the Environmental Safeguards, the Involuntary Resettlement Safeguards and Indigenous Peoples Safeguards during construction), and any corrective or preventative actions set forth in (i) a Safeguards Monitoring Report, or (ii) subsequently agreed between ADB and ZCG;
- (b) make available a budget for all such environmental and social measures;
- (c) provide ZCG and ZIFC with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the EIA, the EMP, the RP or the EMDP;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition as early as possible but no later than the completion of construction.

Safeguards Monitoring and Reporting

15. ZCG shall:

- (a) submit Safeguards Monitoring Reports to ADB
 - (i) in respect of implementation of and compliance with Environmental Safeguards and the EMP, semi-annually during construction and the implementation of the Project and the EMP, and thereafter annually during operation, until the issuance of ADB's Project completion report unless a longer period is agreed in the EMP; and
 - (ii) in respect of implementation of and compliance with Involuntary Resettlement Safeguards and Indigenous Peoples Safeguards,

the RP and the EMDP, semi-annually during the implementation of the Project and the RPs until the issuance of ADB's Project completion report unless a longer period is agreed in the RP and EMDP,

and disclose relevant information from such reports to the respective affected people under the Environmental Safeguards, the Involuntary Resettlement Safeguards and Indigenous Peoples Safeguards promptly upon submission;

- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the EIA, the EMP, the RP and the EMDP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan;
- (c) no later than the commencement of land acquisition and resettlement activities, engage an independent monitor under a selection process and terms of reference acceptable to ADB, to monitor and evaluate resettlement progress, and facilitate the carrying out of any verification activities by such external experts, and forward semi-annual external resettlement monitoring and evaluation reports to ADB; and
- (d) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP, the RP or the EMDP promptly after becoming aware of the breach.

Prohibited List of Investments

16. ZCG shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Works Contract

17. ZCG shall ensure that the Works contractors shall (a) comply with all applicable labor laws of the Borrower on the prohibition of child and forced labor; (b) give equal pay for equal work regardless of gender, ethnicity or social group; (c) give priority to women in the employment and training opportunities generated in the Project's construction and operation phases; (d) maximize the employment of local people who meet the job and efficiency requirements for Project construction, operation and maintenance in accordance with GAP and SDAP; and (f) provide such workers with adequate on-the-job and safety training.

18. ZCG shall further ensure that the Works contractors (a) disseminate information on sexually transmitted diseases (including HIV/AIDS) and human trafficking to sub-contractors/employees and local communities surrounding the project construction sites; (b) implement HIV/AIDS awareness and prevention training for sub-contractors/employees in collaboration with the Center for Disease Control; (c) implement human trafficking awareness activities; (d) provide necessary measures to ensure the safety and health of its sub-

contractors/employees; and (e) observe local customs concerning acceptable behavior towards the local population.

Dongjiang Lake Basin Water Environmental Protection Regulation

19. ZCG shall ensure that within 2 years of the Effective Date it shall submit the draft Dongjiang Lake Basin Water Environmental Protection Regulation, in a form and substance acceptable to ADB, to its appropriate approving authority. Such regulation shall, among other things, take due consideration to the recommendation given by ADB during the project preparatory technical assistance for the Project.

Water and Wastewater Tariffs

20. ZCG shall (a) ensure that the cost recovery performance of water supply and wastewater operations is evaluated each year; (b) undertake an annual review of water and wastewater tariffs including a comparison of existing tariffs with tariffs required to cover basic operating costs, debt service and capital replacement costs; (c) commit to a progressive increase of water and wastewater tariffs to achieve full cost recovery in accordance with national water and wastewater tariff policies and regulations; and (d) provide subsidies to fully cover funding shortfalls in water and wastewater operation and maintenance.

21. ZCG shall (a) undertake an annual assessment of the impact of existing water and wastewater tariffs on the poor; and (b) take necessary measures to ensure service provision to the poor.

Counterpart and O&M Funds

22. ZCG shall provide counterpart funding in a timely manner, including any additional counterpart funding required for any shortfall of funds or cost overruns. ZCG shall ensure that operation and maintenance of all Project facilities is fully funded.

23. ZCG shall cause ZIFC to (a) prepare annual budgets for O&M of the Project facilities, and (b) ensure that all Works are inspected, operated and maintained in accordance with prescribed standards, specifications and regulations and sound practices.

Financial Management

24. ZCG shall ensure that ZIFC will establish and maintain sound financial management systems in accordance with ADB's Financial Management and Analysis of Projects, including the establishment of separate project accounts and the maintenance of minimum balances to ensure smooth cash flow and the timely settlement of project construction liabilities and future debt servicing.

Gender and Other Social Matters

25. ZCG shall ensure, and shall cause ZIFC to ensure, that (a) all Project activities are designed and implemented in accordance with the ADB's Policy on Gender and Development (1998); (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the SDAP and the GAP; and (d) the SDAP and GAP are fully implemented including in accordance with its terms, but not limited

to, ensuring (i) women's participation during consultations with the general public in public hearings, in decision-making processes, and in any local decision-making bodies and structures; (ii) the prioritization of job opportunities for women during and after Project implementation, and providing appropriate training; (iii) women are included as participating members in Project-related seminars, workshops, and meetings; (iv) the collection of sex disaggregated data where appropriate; and (v) focus on women's involvement in the public awareness campaigns on water conservation, sanitation and environmental protection of Dongjiang Lake; (e) adequate budget is allocated and suitable staff is assigned to work on implementation of the SDAP and GAP; (f) the assigned staff is trained on social and gender impacts; and (g) the Project's progress and impacts of GAP and SDAP implementation are monitored and reported in semiannually.

Grievance Redress Mechanism

26. ZCG shall ensure that within 6 months of the Effective Date, a grievance redress mechanism acceptable to ADB is established for non-safeguards complaints. In each case, such mechanism shall function to (a) review and document eligible complaints of Project stakeholders; (b) proactively address grievances; (c) provide the complainants with notice of the chosen mechanism and/or action; and (d) prepare and make available to ADB upon request periodic reports to summarize (i) the number of complaints received and resolved, (ii) chosen actions, and (iii) final outcomes of the grievances and make these reports available to ADB upon request. Eligible non-safeguards complaints include those related to the Project, any of the service providers, any person responsible for carrying out the Project, complaints on misuse of funds and other irregularities as well as gender issues.

27. ZCG shall ensure that within 6 months of the Effective Date, a safeguards grievance redress mechanism acceptable to ADB are established in accordance with the provisions of the EIA, EMP, RP and EMDP at the project management office, within the timeframes specified in the relevant EIA, EMP, EMDP and RP, to consider safeguards complaints.

Public Awareness

28. ZCG shall undertake, and shall cause ZIFC to undertake, public awareness campaigns through information disclosure, education and consultation on the project and its benefits, including but not limited to information related to the EMP, RP, EMDP, GAP and SDAP.

Governance and Anticorruption

29. HPG and ZCG (a) acknowledge ADB's right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project; and (b) agree to cooperate, and shall cause the Project Implementing Agencies and all other government offices, organizations and entities involved in implementing the Project to cooperate, fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation. In particular, HPG and ZCG shall ensure, and cause ZIFC to ensure, that (a) periodic inspections of the Project contractors' activities related to fund withdrawals and settlements are carried out; (b) relevant provisions of ADB's Anticorruption Policy (1998, as amended to date) are included in all bidding documents for

the Project; and (c) contracts, financed under the Project, include provisions specifying the right of ADB to audit and examine the records and accounts of HPG, ZCG, ZIFC, PMO, contractors, suppliers, consultants, and other service providers as they relate to the Project.

30. ZCG shall maintain relevant websites that describe the Project in order to provide the public with information on the Project and Project progress.