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LOAN NUMBER 8424-CN

# Project Agreement

(Zhejiang Rural Water Supply and Sanitation Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

and

**ZHEJIANG PROVINCE**

Dated *November 25*, 2014

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LOAN NUMBER 8424-CN

## PROJECT AGREEMENT

AGREEMENT dated November 25, 2014, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and ZHEJIANG PROVINCE ("Zhejiang" or "Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") of the same date between PEOPLE'S REPUBLIC OF CHINA ("Borrower") and the Bank. The Bank and Zhejiang hereby agree as follows:

### ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

### ARTICLE II – PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall: (a) carry out, and cause the Project Participants and Project Companies to carry out, the Project in accordance with the provisions of Article V of the General Conditions; and (b) provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out, and shall cause to be carried 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 its Governor or a Vice Governor 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, 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:

Room B207, Zhejiang Economy and Information Center  
No. 33 Huancheng West Road  
Xiacheng District, Hangzhou City  
Zhejiang Province, 310006  
People's Republic of China

Facsimile:

0571-87051427

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT



By

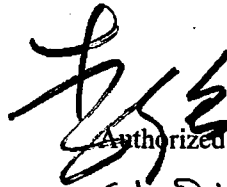
Authorized Representative

Name: Bert Hofman

Title: Country Director, China

✓ ZHEJIANG PROVINCE

By



Authorized Representative

Name: Li Qiang

Title: Governor

## SCHEDULE

### Execution of the Project

#### Section I. Implementation Arrangements

##### A. Project Management

1. The Project Implementing Entity shall maintain, and cause to be maintained, for purposes of carrying out the Project, the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:
  - (a) The Provincial Leading Group, responsible for: (i) providing support and guidance to the PPMO; (ii) providing overall policy guidance for Project implementation; (iii) coordinating among various Project implementing agencies and resolving jurisdiction issues; and (iv) coordinating the provision of counterpart funds for the Project.
  - (b) The Provincial Project Management Office, established within Zhejiang's Development and Reform Commission, which office is responsible for: (i) liaising with the Bank; (ii) providing overall guidance on Project implementation to the CPMOs; (iii) reviewing Project budget and final accounts, and propose the allocation of Project funds; (iv) monitoring and evaluating Project implementation and coordinating the preparation of Project Reports; and (v) directing, coordinating and monitoring procurement under the Project.
  - (c) The County Project Management Offices, established by each Project Participant, which offices are responsible for the following activities related to Project implementation within each Project Participant's jurisdiction: (i) coordinating and managing implementation by the Respective Project Company of said company's Respective Parts of the Project; (ii) organizing and supervising procurement; (iii) carrying out implementation monitoring and assessment; and (iv) providing coordination among implementing agencies.
2. Throughout the implementation of the Project, the Project Implementing Entity shall apply, and cause the Project Participants and Project Companies to apply, the Operations Manual in a timely and efficient manner satisfactory to the Bank. The Project Implementing Entity shall not, and shall cause the Project Participants and the Project Companies not to amend, suspend, or waive said Operations Manual or any provision or schedule thereof, without the prior written concurrence of the Bank. In the event of any inconsistency between the terms of

the Operations Manual and those of this Agreement or the Loan Agreement, the provisions of this Agreement and the Loan Agreement shall prevail.

**B. Anti-Corruption**

The Project Implementing Entity shall carry out, and cause the Project Participants and Project Companies to carry out, the Project in accordance with the provisions of the Anti-Corruption Guidelines.

**C. Safeguards**

1. The Project Implementing Entity shall, and shall cause the Project Participants and the Project Companies to:
  - (a) 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, and the displacement of said people in the carrying out of the Project or any part thereof;
  - (b) where the acquisition of land or assets or the displacement of people is unavoidable, before initiating the implementation of any works which would result in such acquisition or displacement, make available to such people compensation and, as applicable, relocate and rehabilitate the Displaced Persons in accordance with the relevant RAP and in a manner satisfactory to the Bank; and
  - (c) whenever required in terms of the RPF, proceed to have an additional RAP or RAPs: (i) prepared in form and substance satisfactory to the Bank; (ii) except as otherwise agreed with the Bank, submitted to the Bank for review and approval; (iii) thereafter, adopted and publicly disclosed; and (iv) thereafter, to implement, or cause to be implemented, such additional RAP or RAPs in accordance with their terms and in a manner acceptable to the Bank.
2. The Project Implementing Entity shall, and shall cause the Project Participants and Project Companies to, implement the Safeguards Instruments in a manner and substance satisfactory to the Bank. Without limitation on the foregoing, the Project Implementing Entity shall, and shall cause the Project Participants and Project Companies to, ensure that each contract for works financed with the proceeds of the Loan shall include the obligations of the work contractors and any sub-contractor to comply with the relevant provisions of the EMP.
3. The Project Implementing Entity shall not, and shall cause the Project Participants and Project Companies not to, amend, suspend, fail to implement or

waive the Safeguards Instruments, or any provision thereof, without the prior written concurrence of the Bank.

4. The Project Implementing Entity shall, and shall cause the Project Participants and Project Companies to, maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the Safeguards Instruments.
5. Without limitation to the provisions of paragraphs C.1 through C.4 of this Section I or the provisions of paragraph A.1 of Section II below, the Project Implementing Entity, shall, and shall cause each of the Project Participants and Project Companies to, take all measures necessary on their part to regularly collect, compile, and submit to the Bank, as part of the Project Reports, information on the status of compliance with the Safeguards Instruments, giving details of:
  - (a) measures taken in furtherance thereof;
  - (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation thereof; and
  - (c) remedial measures taken or required to be taken to address such conditions.
6. In the event of any inconsistency between the provisions of the Safeguards Instruments and the provisions of this Agreement or the Loan Agreement, the provisions of this Agreement and the Loan Agreement shall prevail.

**D. Financial Arrangements**

1. The Project Implementing Entity shall allocate to each Project Participant a portion 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 Participant, 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 the Project (in whole or part) to be implemented within the jurisdiction of the Project Participant.
  - (b) The Project Implementing Entity shall recover such principal amount so made available (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of twenty five (25) years, inclusive of a grace period of six (6) 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 2.04 of the Loan Agreement.

**E. Subsidiary Loan Agreements**

- 1. The Project Implementing Entity shall cause each Project Participant to relend a portion of the proceeds of the Loan, which was allocated to it pursuant to Section I.D.1 of this Schedule, to its Respective Project Company for purposes of carrying out said Project Company's Respective Part of the Project, under a subsidiary loan agreement ("Subsidiary Loan Agreement") to be entered into between the Project Participant and its Respective Project Company: (i) on the principal terms set forth in paragraphs 1 through 3 of Annex A to this Schedule; and (ii) under conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in paragraphs 4 through 9 of Annex A to this Schedule.
- 2. The Project Implementing Entity shall ensure that each Project Participant:
  - (a) Causes each of its Respective Project Company to: (i) perform, in accordance with the provisions of the Subsidiary Loan Agreement to which said Project Company is a party, all of the obligations of said Project Company therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable said Project Company to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance.
  - (b) Exercises its rights under each Subsidiary Loan Agreement to which said Project Participant is a party in such manner as to protect the interests of the Borrower, the Bank, Zhejiang and said Project Participant, and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Subsidiary Loan Agreement to which said Project Participant is a party or any provision thereof.

**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 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 the Operations Manual. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank no later than sixty (60) days after the end of the period covered by such report.

2. The Project Implementing Entity shall, no later than three months after the Closing Date, provide to the Borrower, 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, both in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. Without limitation to the provisions of Section II.A hereof, the Project Implementing Entity shall prepare, and shall cause the Project Participants and Project Companies to prepare, and furnish to the Bank, not later than sixty (60) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Project Implementing Entity shall have, and shall cause the Project Participants and Project Companies to have, its financial statements referred to above audited by independent auditors, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

**Section III. Procurement**

All goods, works and services required for the Project 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.

**Section IV. Other Undertakings**

**A. Financial and Operational Sustainability**

1. Except as the Bank shall otherwise agree, the Project Implementing Entity, through the respective Project Participant, shall ensure that the Project

Companies produce, for each of the Fiscal Years starting 2015, total revenues equivalent to not less than their total operating expenses, excluding depreciation.

2.
  - (a) The Project Implementing Entity, through the respective Project Participant shall, before February 15 in each of the Borrower's fiscal years starting 2015, conduct a review on the basis of the Project Participant's forecasts satisfactory to the Bank, on whether the Project Company in question would meet the requirements set forth in Section IV.A.1 above in respect of such year and the next following fiscal year, and furnish to the Bank the results of such review upon its completion.
  - (b) If any of the reviews referred to in the preceding paragraph shows that the Project Company in question would not meet the requirements of Section IV.A.1 above for the Fiscal Years covered by such review, the Project Implementing Entity, through the respective Project Participant, shall promptly take, and cause the Project Company to take, all necessary measures in order to meet such requirements.
3. For the purposes of this Section IV.A:
  - (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 "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 (a) above.
  - (d) The term "total operating expenses, excluding depreciation" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes.

**ANNEX A  
to  
SCHEDULE**

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

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

**Terms of Availability**

1. The principal amount of each subsidiary loan made by a Project Participant to 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 Project Company's Respective Parts of the Project.
2. Each Respective Project Company shall repay such principal amount (including the fee paid pursuant to Section 2.03 of the Loan Agreement) over a period of not more than twenty five (25) years, inclusive of a grace period of six (6) years.
3. Each Respective Project Company shall pay interest on the principal amount thereof withdrawn and outstanding from time to time at a rate not less than the rate of interest applicable from time to time to the Loan pursuant to Section 2.04 of the Loan Agreement.

**Conditions**

The Subsidiary Loan Agreements shall include the following principal conditions:

4. Each Project Company shall undertake to: (a) carry out its Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Bank (including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower) and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (b) without limitation on the foregoing, take all measures necessary to ensure that its Respective Parts of the Project shall be implemented in accordance with the Safeguards Instruments.

5. Each Project Company shall undertake to procure the goods, works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of its Respective Parts of the Project.
6. Each Project Company shall undertake to enable the Bank, the Borrower, Zhejiang and the Project Participant concerned to inspect such goods and the sites and works included in the Respective Parts of the Project, the operation thereof, and any relevant records and documents.
7. Each Project Company shall undertake: (a) 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; and (b) to properly operate and maintain all facilities relevant to its Respective Parts of the Project and, when needed, promptly make repairs and renewals of such facilities.
8. Each Project Company shall undertake:
  - (a) To maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.
  - (b) To 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) To furnish to the Bank as soon as available but in any case not later than six (6) months after the end of each Fiscal Year: (i) certified copies of said financial statements or records, as the case may be, for such year as so audited pursuant to sub-paragraph (b) of this paragraph; and (ii) an opinion on such statements by said auditors in such scope and detail as the Bank shall have reasonably requested.
  - (d) To prepare and furnish to the Bank, Zhejiang, and the Project Participant concerned all such other information concerning said records and financial statements, as well as the audit thereof, as the Bank, Zhejiang, and the Project Participant concerned shall reasonably request.
  - (e)
    - (i) To maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with

indicators set forth in the Operations Manual, the carrying out of its Respective Parts of the Project and the achievement of the objectives hereof; and

- (ii) to prepare, under terms of reference satisfactory to the Bank, and furnish to Zhejiang for its review, consolidation in the Project Reports and submission to the Bank, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (e) on the progress achieved in the carrying out of its Respective Parts of the Project during the period preceding the date of each such report.
9. Each Project Participant 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 any of its obligations under said agreement.