Global Environment Facility
Grant Agreement

(Second Liaoning Medium Cities Infrastructure Project)

between

PEOPLE’S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
acting as an Implementing Agency of the Global Environment Facility

Dated September 19, 2007
AGREEMENT dated September 19, 2007, entered into between:

PEOPLE’S REPUBLIC OF CHINA ("Recipient"); and INTERNATIONAL
BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank"), acting as an
implementing agency of the Global Environment Facility ("GEF").

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various
Funds, dated July 20, 2006 ("Standard Conditions") constitute an integral part of this
Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this
Agreement have the meanings ascribed to them in the Standard Conditions or in this
Agreement.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the project described
in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall cause the
Project Implementing Entity to carry out Parts D.2, D.3 and D.4 of the Project, in
accordance with the provisions of Article II of the Standard Conditions and the
agreement dated the same date as this Agreement between the World Bank and the
Project Implementing Entity, as such agreement may be amended from time to time
("Project Agreement").

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and
except as the Recipient and the World Bank shall otherwise agree, the Recipient shall
ensure that Parts D.2, D.3 and D.4 of the Project are carried out in accordance with the
provisions of Schedule 2 to this Agreement.

Article III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions
set forth or referred to in this Agreement, a grant in an amount equal to five million
United States Dollars ($5,000,000) (“Grant”) to assist in financing Parts D.2, D.3, and D.4 of the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

### Article IV
#### Additional Remedies

4.01. The Additional Events of Suspension referred to in Section 4.02(i) of the Standard Conditions consist of the following:

(a) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by the Project Implementing Entity of its obligations under the Project Agreement.

(b) The Project Implementing Entity has failed to perform any obligation under the Project Agreement.

(c) As a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that the Project Implementing Entity will be able to perform its obligations under the Project Agreement.

(d) (i) Subject to subparagraph (ii) of this paragraph:

   (A) the right of the Recipient to withdraw the proceeds of any loan made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; or

   (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the World Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(e) **Event prior to Effectiveness.** The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement, that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World
Bank to suspend the Recipient’s right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

(a) The execution and delivery of the Project Agreement on behalf of the Project Implementing Entity has been duly authorized or ratified by all necessary governmental and corporate action.

(b) The Loan Agreement dated the same date as this Agreement, between the Recipient and IBRD, providing a loan in support of the Project (“Loan Agreement”) has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.

5.02. As part of the evidence to be furnished pursuant to Section 5.01(a) of this Agreement, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing, on behalf of the Project Implementing Entity, that the Project Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.

5.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 of this Agreement (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. *Termination for Failure to Become Effective.* This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.
Article VI
Recipient’s Representative; Addresses

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Recipient’s Minister of Finance.

6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

        Ministry of Finance
        Sanlihe
        Beijing 100820
        People’s Republic of China

        Facsimile:

        (86-10) 6855-1125

6.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

        International Bank for Reconstruction and Development
        1818 H Street, N.W.
        Washington, D.C. 20433
        United States of America

        Cable address:       Telex:       Facsimile:

        INTBAFRAD            248423(MCI) or 1-202-477-6391
        Washington, D.C.    64145(MCI)
AGREED at Beijing, People’s Republic of China, as of the day and year first above written.

PEOPLE’S REPUBLIC OF CHINA

By /s/ Yang Shaolin
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
(acting as an Implementing Agency of the
Global Environment Facility)

By /s/ David Dollar
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to assist Liaoning Province in improving the performance and sustainability of the wastewater, water supply, and solid waste services through: (i) construction of infrastructure in the Project Cities; and (ii) improving utility management and regulatory practices in Liaoning Province.

The Project consists of the following parts:

Part A: Wastewater Management

Improving the infrastructure for, and the management of, wastewater, stormwater, and flood control services in the Project Cities through: (i) constructing and/or expanding drainage collection systems, treatment plants, sludge disposal facilities, river bank improvements, and other associated works; and (ii) strengthening wastewater management practices in industrial pollution control, sludge management, and wastewater fee collection to improve operational efficiency and help achieve financial sustainability.

Part B: Water Supply Management

Improving the infrastructure and management of water supply services in the Project Cities through: (i) constructing and/or expanding raw water supply sources, raw water conveyance facilities, treatment plants, distribution systems, and other associated works; and (ii) strengthening water supply management practices.

Part C: Solid Waste Management

Improving the infrastructure and management of solid waste services in the Project Cities through: (i) constructing and/or expanding solid waste collection and transfer systems, sanitary landfills with leachate control and treatment, closure of open dumps, and other associated works; and (ii) strengthening solid waste management practices, including: developing integrated and city-wide solid waste management programs, dedicated cost accounting systems, and management information systems; and improving cost recovery through user fees.

Part D: Institutional Development

1. Project Management and Asset Management: Providing technical assistance to the Project Cities with respect to: (i) engineering design review, procurement support, and construction supervision for the Project; (ii) asset management planning for water and wastewater networks; and (iii) Project management and reporting.
2. **Public Utility Management**: Providing technical assistance to the Project Implementing Entity, the Project Cities, and the Project Companies, with respect to: (i) a provincial-wide public utility performance benchmarking program; (ii) public-private partnerships; (iii) utility business planning and management; and (iv) public utility regulation.

3. **Solid Waste Master Planning**: Providing technical assistance to Fushun, Yingkou, and Panjin for solid waste management planning and its implementation with respect to: (i) development of solid waste master plans; (ii) institutional development; (iii) landfill site assessment and engineering design; (iv) procurement assistance; (v) landfill construction supervision; and (vi) training of personnel for effective operation of solid waste management systems.

4. **Water Pollution Control Management**: Providing technical assistance to Huludao, Fushun, and Gaizhou for water pollution control management, including: (i) institutional development and financial sustainability; (ii) wastewater master planning; (iii) industrial water pollution control; and (iv) sludge management.
SCHEDULE 2

Project Execution

Section I. Financing and Implementation Arrangements

1. To facilitate the carrying out of Parts D.2, D.3, and D.4 of the Project, the Recipient shall make the proceeds of the Grant available to the Project Implementing Entity on a grant basis.

2. During the implementation of Parts D.2, D.3, and D.4 of the Project, the Recipient shall cause the Project Implementing Entity to, by December 31 of each calendar year, starting December 31, 2007, furnish an annual training plan, prepared under terms of reference acceptable to the World Bank, for its review and concurrence.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report.

1. The Recipient shall monitor and evaluate the progress of Parts D.2, D.3, and D.4 of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth in Annex B of the Schedule to the Project Agreement. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than two (2) months after the end of the period covered by such report.

2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

B. Financial Management; Financial Reports; Audits.

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall ensure that interim unaudited financial reports for Parts D.2, D.3, and D.4 of the Project are prepared and furnished to the World Bank as part of the Project Report not later than two (2) months after the end of each calendar semester, in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements for Parts D.2, D.3, and D.4 of the Project audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.
Section III. Procurement

A. General.

1. Consultant Guidelines. All consultants services required for Parts D.2, D.3, and D.4 of the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

   (a) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the World Bank in May 2004 (“Consultant Guidelines”); and

   (b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for Parts D.2, D.3, and D.4 of the Project in accordance with paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

2. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Consultant Guidelines.

B. Particular Methods of Procurement of Consultants’ Services.

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Selection based on Consultants’ Qualifications; (d) Single-source Selection; (e) Selection of Individual Consultants; and (f) Sole Source Procedures for the Selection of Individual Consultants.


1. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $200,000 or more; (b) each contract for consultants’ services provided by an individual estimated to cost the equivalent of $50,000 or more; and (c) each contract for consultants’ services provided by a firm to be procured using Single-source Selection procedure, and each contract for consultants’
services provided by an individual to be procured using Sole Source Selection procedure, regardless of its contract value. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of Grant Proceeds

A. General.

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants services, training, workshops, and study tours under Parts D.2, D.3, D.4 of the Project</td>
<td>5,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>5,000,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $50,000 equivalent may be made for payments made prior to this date but on or after May 1, 2007 for Eligible Expenditures under Category 1.

2. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is December 31, 2013.