Global Environment Facility
Grant Agreement

(Huai River Basin Marine Pollution Reduction 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 April 6, 2012
GEF GRANT NUMBER TF012022

GLOBAL ENVIRONMENT FACILITY GRANT AGREEMENT

AGREEMENT dated April 6, 2012, 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 31, 2010 ("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 objective of the project described
in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall
cause the Project to be carried out by Shandong Province ("Project Implementing
Entity") 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 the Project is 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 Dollars ($5,000,000) ("Grant") to assist in financing the Project.
3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the above-mentioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

**Article IV
Additional Remedies**

4.01. The Additional Events of Suspension referred to in Section 4.02(k) 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) IBRD or IDA has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by IBRD or IDA, or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA (including as administrator of funds provided by another financier), as a result of: (i) a determination by IBRD or IDA that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.

(d) 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.

(e) 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 this Agreement on behalf of the Recipient and the Project Agreement on behalf of the Project Implementing Entity have been duly authorized or ratified by all necessary governmental action.

5.02. As part of the evidence to be furnished pursuant to Section 5.01(a), 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 Recipient, showing the following matters:

(a) on behalf of the Recipient, that this 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; and

(b) 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 (“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. 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 the 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: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391
AGREED at Beijing, People’s Republic of China, as of the day and year first above written.

PEOPLE’S REPUBLIC OF CHINA

By

Authorized Representative

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

By

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to demonstrate innovative and cost-effective water pollution control practices in the Guangli river catchment area of the Dongying Municipality, contributing to pollution reduction in the Bohai Sea.

The Project consists of the following parts:

**Part A. Wetland Construction and Sluice Gate Operation Optimization:**

(a) Construction of wetlands at Dongbalu consisting of free-surface flow wetlands, an ecological retention pool, an entrance gate, a gated overflow weir and a pumping station, and provision of related equipment.

(b) Upgrading the automatic gate control system covering three sluice gates on the Guangli River, and the gates at the entrance and exit of the Dongbalu wetlands.

(c) Provision of cash transfers to Affected Persons of the wetlands construction.

**Part B. Agricultural Pollution Control and Rural Waste Management**

(a) Wastewater, human and livestock waste collection and treatment in Participating Villages.

(b) (i) Introduction of agricultural pollution reduction technologies and management practices in Participating Villages through comprehensive and balanced fertilizer applications, provision and use of insect luring lamps, and construction of eco-trenches and buffer strips in crop fields; and

(ii) monitoring of the results of implementation of these technologies and practices.

(c) Establishment, equipping and operation of FEPAs in Participating Villages.
Part C. Capacity Building and Policy Studies

(a) Establishment and operation of an environmental protection education and training centre to be located in Dongying Municipality for training and dissemination of technologies and good practices in environmental protection, nutrient management and pollution reduction.

(b) Capacity building activities to provide technical and Project management training for staff involved in Project implementation and monitoring.

(c) (i) Evaluation study of the effectiveness of constructed wetlands in the treatment of polluted water based on the analysis of the Project monitoring results;

(ii) development of an agricultural pollution reduction and rural waste management strategy and plan for the watershed of the Guangli River in the Dongying Municipality, including an evaluation study of the effectiveness of the pollution reduction and waste management activities of the Project; and

(iii) development of a Huai River Basin-wide replication strategy for cost-effective water pollution control, including dissemination and training and workshops as required for the purpose.

Part D. Project Management and Implementation Support

(a) Provision of technical assistance for the review of technical designs and tendering documents, construction quality of Project facilities, and for Project reporting.

(b) Project monitoring and evaluation.

(c) Support for Project management by the PMOs and PIUs.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. The Recipient shall make the proceeds of the Grant available to the Project Implementing Entity, under arrangements satisfactory to the World Bank.

2. The Recipient shall ensure that the Huai River Basin Commission participates and advises in the preparation and dissemination of the replication strategy referred to in Part C (c)(ii) of the Project.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”).

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient shall monitor and evaluate the progress 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 the Annex to the Project Agreement. Each Project Report shall cover the period of one (1) calendar semester and shall be furnished to the World Bank not later than March 31 and September 30 of each year, commencing on September 30, 2012.

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 the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five days (45) after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such 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. Goods and Works. All goods and works required for 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 Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants' Services. All consultants' services required for 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 Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. 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 Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Recipient).

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.
## Procurement Methods

(a) National Competitive Bidding. In addition, the procedures to be followed for National Competitive Bidding shall be those set forth in the Law on Tendering and Bidding of the People’s Republic of China promulgated by Order No.21 of the President of the People’s Republic of China on August 30, 1999, with the following clarifications required for compliance with the Procurement Guidelines:

(i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in the Recipient's country, except for civil works contracts that are estimated cost less than $2,000,000 equivalent each and for goods contracts that are estimated to cost less than $300,000 equivalent each, which may be advertised in a provincial daily newspaper. Such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.

(ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.

(iii) All bidders that meet the qualification criteria set out in the pre-qualification document shall be allowed to bid and there shall be no limit on the number of pre-qualified bidders.

(iv) All bidders shall be required to provide security in an amount sufficient to protect the Recipient or the Project Implementing Entity, as the case may be, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.

(v) Bidders will be allowed to submit bids by mail or by hand. The time for opening of all bids shall be the same as the deadline for receipt of such bids.
(vi) All bids shall be opened in public; all bidders shall be offered an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.

(vii) All bid evaluation criteria shall be disclosed in the bidding documents and quantified in monetary terms or expressed in the form of pass/fail requirements.

(viii) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Recipient or the Project Implementing Entity, as the case may be.

(ix) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined: (A) to be substantially responsive to the bidding documents; and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.

(x) Each contract financed with the proceeds of the Grant shall provide that the suppliers and contractors shall permit the World Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the World Bank.

(xi) Government owned enterprises in the Recipient’s country may be permitted to bid or submit a proposal of goods and works if they can establish that they: (A) are legally and financially autonomous; (B) operate under commercial law; and (C) are not a dependent agency of the agency conducting the procurement.

(xii) All bids should not be rejected solely because the number of bids is less than three (3), and rejection of all bids or rebidding shall not take place without the World Bank’s prior written concurrence.

(xiii) The results of bid evaluation and contract award shall be published in the national press or provincial press (as provided under sub-paragraph (i) above) or official gazette or a free and
open access website and shall identify the name and offered price of the winning bidder, as well as the duration and summary scope of the awarded contract.

(xiv) The Project Implementing Entity shall have in place provisions for bidders to protest.

(b) Shopping

(c) Community Participation in Procurement, following procedures acceptable to the World Bank, for the construction of eco-trenches and buffer strips in crop fields under Part B(b)(i) of the Project

C. 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 table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-based Selection</td>
</tr>
<tr>
<td>(b) Selection based on Consultants' Qualifications</td>
</tr>
<tr>
<td>(c) Single-source Selection</td>
</tr>
<tr>
<td>(d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(e) Sole Source Selection</td>
</tr>
</tbody>
</table>

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. 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 (USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works for Part A(a) of the Project</td>
<td>1,843,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Works, goods, Training, and consultant services for Part B(a), (b) and (c) of the Project</td>
<td>1,211,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Subsidy Payments</td>
<td>489,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) FEPA Operating Costs</td>
<td>139,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Training and consultant services for Part C(b) and (c) of the Project</td>
<td>1,011,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Consultants services for Part D (a) and (b) of the Project</td>
<td>257,000</td>
<td>100%</td>
</tr>
<tr>
<td>(7) Incremental Operating Costs for Part D(c) of the Project</td>
<td>50,000</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 $500,000 equivalent may be made for payments made prior to this date but on or after August 1, 2011, for Eligible Expenditures.

2. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is December 31, 2015.
APPENDIX

Section I. Definitions

1. "Affected Person" means persons or enterprises who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons or enterprises must move to another location; and a “Affected Person” means any of such Affected Persons.


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “Dongying Municipality” means the Recipient’s Dongying Municipality in Shandong or any successor thereto.

6. “EMP” means the Environmental Impact Assessment Report and Environmental Management Plan dated August 15, 2011, which set out, with respect to the Project, specific actions, measures and policies designed to maximize the benefit of the Project and the protection of the environment (including natural habitats and their functions), and eliminate, offset or mitigate any adverse environmental impacts, or reduce such impacts to acceptable levels, as well as administrative and monitoring arrangements to ensure the implementation of said actions, measures and policies, as said report and plan may be revised from time to time with the prior written agreement of the World Bank, and such term includes all schedules and annexes to said report and plan.

7. “Farmer Environmental Protection Association” or “FEPA’ means any farmer community association for village level environmental protection established in the Participating Villages.

8. “FEPA Agreement” means any of the agreements referred to in Section I.E of the Schedule to the Project Agreement.

9. “FEPA Development Plan” means the development plan included in the Project Implementation Plan prepared by Shandong and dated January 6, 2012, as such
plan may be revised from time to time with the prior agreement of the World Bank.

10. **FEPA Operating Costs** means the reasonable cost of operation of a FEPA, as agreed by the World Bank, and including the cost of registration fees, participation in training and workshops, office renovation materials and information dissemination materials.

11. “Huai River Basin” or “Basin” means the water catchment area of the Huai River within the jurisdiction of the Recipient’s Shandong, Jiangsu, Anhui and Henan provinces.

12. “Huai River Basin Commission” means the river basin commission established within the Recipient’s Ministry of Water Resources and any successor thereto.

13. “Incremental Operating Costs” means the reasonable costs of incremental expenditures incurred by the Recipient in the implementation of the Project (excluding FEPA), which expenditures would not have been incurred absent the Project, including staff per diem field allowances, travel expenses, costs for vehicle operation and maintenance, office consumables (except office equipment), communication expenses, and printing expenses, but excluding salaries and salary supplements of civil servants, all as agreed with the World Bank.

14. “Participating Village” means a village within the Dongying Municipality which has agreed to support the establishment of FEPAs within its respective jurisdiction and which meets criteria satisfactory to the World Bank for participation in Part B of the Project.

15. “Pest Management Plan” or “PMP” means the plan dated August 12, 2011 with specific good practices for pest management to be implemented under Part B(b)(i) of the Project as said plan may be revised from time to time with the prior written agreement of the World Bank, and such term includes all schedules and annexes to said plan.

16. “PIU” means any of the units referred to in Section I.A paragraph (e) of the Schedule to the Project Agreement.

17. “PMO” means any of the Project management offices referred to in Section I. A paragraphs (b) and (d) of the Schedule to the Project Agreement.

18. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
19. "Procurement Plan" means the Recipient’s procurement plan for the Project, dated January 6, 2012, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

20. “Project Implementing Entity” or “Shandong” means the Recipient’s Shandong Province or any successor thereto.

21. “RAP” means the resettlement action plan dated June 27, 2011, which sets out the principles and procedures governing the acquisition of land and other assets, and the resettlement, compensation and rehabilitation of Affected Persons on account of the execution of the Project, as well as monitoring and reporting arrangements to ensure compliance with said plans, as the same may be revised from time to time with the prior written agreement of the World Bank.

22. “Subsidy Payments” means payments to finance up to 30% of the Unit Costs of fertilizer under Part B(b)(i) of the Project which has met the requirements for such financing in accordance with Section F of the Schedule to the Project Agreement.

23. “Training” means the reasonable cost of travel, lodging and per diem for trainees (other than for FEPAs members) attending training and workshops and study tours and the cost of delivering training such as rental of training space and training equipment and other logistical costs, and trainers fees, all as agreed with the World Bank.

24. “Unit Cost” means each of the unit costs (kilogram per hectare) of fertilizer for each of the selected crops, acceptable to the World Bank and set forth in the additional instructions referred to in Section IV A. 1 of Schedule 2 to the Grant Agreement, as such costs may be modified from time to time with the prior written agreement of the World Bank.