DFID Trust Fund
Grant Agreement

(Western Provinces Rural Water Supply,
Sanitation and Hygiene Promotion Project)

between

PEOPLE’S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
acting as administrator of Grant Funds
provided by the Government of the United Kingdom of Great Britain and Northern Ireland through the Department for International Development

Dated September 29, 2007
AGREEMENT dated September 29, 2007, entered into between PEOPLE’S REPUBLIC OF CHINA ("Recipient") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank"), acting as administrator of grant funds provided by the Government of the United Kingdom of Great Britain and Northern Ireland through the Department for International Development ("DFID").

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"), with the following modification, constitute an integral part of this Agreement, namely, that Section 2.09(c) of the Standard Conditions is hereby modified to read as follows:

“(c) enable the World Bank’s and DFID’s representatives: (i) to visit any facilities and sites included in the Project; and (ii) to examine the goods financed out of the proceeds of the Grant, and any documents relevant to the performance of its obligations under the Grant 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, in this Agreement or in the Appendix to 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 to be carried out by Shaanxi Province and Sichuan Province (individually, “Project Implementing Entity” and collectively “Project Implementing Entities”) 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 Entities, 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 Thirteen million five hundred forty-two thousand and four hundred and twenty-nine British Pounds Sterling (£13,542,429) (“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.

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 either of the Project Implementing Entities of its obligations under the Project Agreement.

(b) Either of the Project Implementing Entities has failed to perform any obligation under the Project Agreement.

(c) (i) Subject to sub-paragraph (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, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

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

(ii) Sub-paragraph (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.
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 each of the Project Implementing Entities has been duly authorized or ratified by all necessary governmental action.

(b) The Loan Agreement dated the same date as this Agreement, between the Recipient and the World Bank, providing a loan in support of the Project (“Loan Agreement”), has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (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 each of the Project Implementing Entities, 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. 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: INTBAFRAD
Telex: 248423(MCI) or 1-202-477-6391
Facsimile: 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 administrator of Grant Funds provided by the Government of the United Kingdom of Great Britain and Northern Ireland through the Department for International Development)

By /s/ David Dollar
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to assist Shaanxi Province and Sichuan Province in increasing access of poor communities to sustainable and equitable water supply, sanitation and hygiene promotion services using an integrated and a participatory approach.

The Project consists of the following parts to be carried out in the territory of the Respective Project Participants, subject to the modifications thereof as the Recipient and the World Bank may agree upon from time to time to achieve such objective:

Part A: Safe Drinking Water Supply

Carrying out a program to improve access to safe drinking water, including investment subprojects for the construction of multi-village and single-village piped water supply systems, rainwater collection systems, and wells with hand or electric pumps.

Part B: Environmental Sanitation

Carrying out a program to improve access to sanitation services, including investment subprojects for the construction of household, public, and school latrines, associated handwashing facilities and garbage drop-off sites.

Part C: Hygiene Promotion

Carrying out a program to promote good hygiene behavior and practices, including investment subprojects promoting construction of hygienic latrines and improvement in stool disposal and handwashing with soap, all through: (1) existing government programs channels; (2) mass and multi-media interventions; and (3) establishment of promotion teams consisting of hygiene experts and relevant government personnel.

Part D: Institutional strengthening

Carrying out a program to build the capacity of relevant provincial, county and local government agencies and of community organizations to implement and manage the Project, including development of a management information system and monitoring and evaluation tools.
Part E: Resettlement

Carrying out resettlement and rehabilitation of Displaced Persons in connection with the implementation of Parts A and B of the Project.
SCHEDULE 2

Project Execution

Section I. Financing Arrangements

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Grant available to the Project Implementing Entities on a grant basis.

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 indicators set forth in the Annex to the Schedule 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 forty-five (45) days 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 the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar semester, covering the calendar 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. Procurement and Consultant Guidelines. All goods, works and non-consulting 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:

(a) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 (“Procurement Guidelines”) in the case of goods, works and non-consulting services, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services; 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 the Project in accordance with paragraph 1.16 of the Procurement Guidelines and 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 Procurement Guidelines, or Consultant Guidelines, as the case may be.


1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the 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, Works and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods and works for those contracts specified in the Procurement Plan: (a) Shopping; (b) Community Participation procedures described in paragraph 12(b) of the Schedule to the Project Agreement; (c) Direct Contracting; and (d) National Competitive Bidding, subject to the following
additional provisions: 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 Loan shall provide that the suppliers and contractors shall permit the 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 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 are: (i) legally and financially autonomous; (ii) operate under commercial law; and (iii) not a dependent agency of the agency conducting the procurement.

(xii) Re-bidding should not be allowed solely because the number of bids is less than three (3).

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 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: (a) Quality-based Selection; (b) Selection based on Consultants’ Qualifications; (c) Single-source Selection; (d) Selection of Individual Consultants; and (e) 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 goods estimated to cost the equivalent of $300,000 or more;

   (b) each contract for works estimated to cost the equivalent of $1,000,000 or more;

   (c) the first civil works contract procured by each Project Implementing Entity using National Competitive Bidding;

   (d) each contract for non-consulting services procured using Direct Contracting;

   (e) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; and

   (f) all contracts procured using Single-Source selection.

In addition, the following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of $50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the World Bank for its prior review and approval; (ii) the contract shall be awarded only after the World Bank’s approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract. The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the World Bank for its prior review and approval; (ii) the contract shall be awarded only after the World Bank’s approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract. 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 Pounds Sterling)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) With respect Shaanxi Province:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Goods, works and consultants’ services under Part A of the Project</td>
<td>4,045,124</td>
<td>36%</td>
</tr>
<tr>
<td>(b) Goods, works and consultants’ services under Part B of the Project (excluding Household Subsidies)</td>
<td>206,657</td>
<td>35%</td>
</tr>
<tr>
<td>(c) Household Subsidies under Part B of the Project</td>
<td>1,494,001</td>
<td>50% of Household Subsidies paid</td>
</tr>
<tr>
<td>(d) Goods, works, non-consulting services, consultants’ services, workshops and training under Part C of the Project</td>
<td>507,841</td>
<td>50%</td>
</tr>
<tr>
<td>(e) Goods and consultants’ services under Part D of the Project</td>
<td>312,559</td>
<td>50%</td>
</tr>
<tr>
<td>(f) Workshops and training under Part D of the Project</td>
<td>205,033</td>
<td>50%</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Grant Allocated (expressed in Pounds Sterling)</td>
<td>Percentage of Expenditures to be financed (inclusive of Taxes)</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(2) With respect Sichuan Province:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Goods, works and consultants’ services under Part A of the Project</td>
<td>3,836,841</td>
<td>36%</td>
</tr>
<tr>
<td>(b) Goods, works and consultants’ services under Part B of the Project (excluding Household Subsidies)</td>
<td>186,073</td>
<td>35%</td>
</tr>
<tr>
<td>(c) Household Subsidies under Part B of the Project</td>
<td>1,756,995</td>
<td>50% of Household Subsidies paid</td>
</tr>
<tr>
<td>(d) Goods, works, non-consulting services, consultants’ services, workshops and training under Part C of the Project</td>
<td>519,758</td>
<td>50%</td>
</tr>
<tr>
<td>(e) Goods and consultants’ services under Part D of the Project</td>
<td>236,992</td>
<td>50%</td>
</tr>
<tr>
<td>(f) Workshops and training under Part D of the Project</td>
<td>234,555</td>
<td>50%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>13,542,429</strong></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.

2. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is September 30, 2012.
APPENDIX

Definitions

1. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) 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 must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a “Displaced Person” means any of such Displaced Persons.

2. “Household Subsidy” means the flat-rate subsidy equivalent to 600 Renminbi per latrine or such other amount agreed by the Bank to be paid to a household beneficiary under a Household Agreement to be signed between a Project Implementing Entity and such beneficiary pursuant to paragraph 12(b) of the Schedule to the Project Agreement, which subsidy is payable to the household beneficiary upon completion of latrine physical and installation works, satisfactory to the Bank; and “Household Subsidies” means, collectively, all such subsidy; and means, collectively, all such Household Subsidy.

3. “Respective Project Participants” means in respect of:
   (a) Shaanxi Province: (i) its Respective First-year Subproject Project Participants; (ii) Lingwei, Baota and Yuyang Districts and Qianyang, Fufeng, Changwu, Wugong, Heyang, Chengchen, Zhichang and Suide Counties; and (iii) any other district and/or county selected by agreement among the Recipient, Shaanxi Province and the World Bank; and
   (b) Sichuan Province: (i) its Respective First-year Subproject Project Participants; (ii) Guangan District and Yanting, Cangxi, Anju, Daxian and Mingshan Counties; and (iii) any other district and/or county selected by agreement among the Recipient, Sichuan Province and the World Bank.

4. “Respective First-year Subproject Project Participants” means in respect of:
   (a) Shaanxi Province: Yintai and Yaozhou Districts and Binxian and Zhidan Counties; and
   (b) Sichuan Province: Jialing District and Renshou, Pingchang and Lezhi Counties.