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LOAN NUMBER 2573-PRC

PROJECT AGREEMENT

(Guiyang Integrated Water Resources Management [Sector] Project)

between

ASIAN DEVELOPMENT BANK

and

GUIZHOU PROVINCIAL GOVERNMENT

GUIYANG MUNICIPAL GOVERNMENT

DATED 17 JUNE 2010

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PAL:PRC 38594

## **PROJECT AGREEMENT**

PROJECT AGREEMENT dated 17 June 2010 between ASIAN DEVELOPMENT BANK (hereinafter called ADB) of the one part and GUIZHOU PROVINCIAL GOVERNMENT (hereinafter called GPG) and GUIYANG MUNICIPAL GOVERNMENT (hereinafter called GMG) of the other part.

### **WHEREAS**

(A) by a Loan Agreement of even date herewith between People's Republic of China (hereinafter called the Borrower) and ADB, ADB has agreed to make to the Borrower a loan of one hundred fifty million Dollars (\$150,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the Loan be made available to GMG through GPG and that GPG and GMG agree to undertake certain obligations towards ADB as hereinafter set forth; and

(B) GPG and GMG, in consideration of ADB entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

## **ARTICLE I**

### **Definitions**

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

(b) In addition to the terms referred to in paragraph (a) of this Section, the expression "GPG shall" or "GMG shall" means that in the context relating to any Subproject GPG or GMG shall cause each IA to undertake the required responsibilities or perform the specified obligations in this Project Agreement.

## **ARTICLE II**

### **Particular Covenants**

Section 2.01. (a) GPG and GMG shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and water resources management practices.

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

Section 2.02. GPG and GMG shall make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

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

(b) Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

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

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

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

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

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

(b) GMG shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement, or the accomplishment of the purposes of the Loan.

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

Section 2.08. (a) GMG shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the Goods, Works and consulting services financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of GMG; and (v) any other matters relating to the purposes of the Loan.

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

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

Section 2.09. (a) GPG, GMG and each IA shall (i) maintain separate accounts for the Project; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. GPG, GMG and each IA shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) GPG or GMG shall enable ADB, upon ADB's request, to discuss GPG's or GMG's financial statements and its financial affairs from time to time with the auditors appointed pursuant to Section 2.09(a) hereinabove, provided that any such discussion shall be conducted only in the presence of an authorized officer of GPG or GMG unless GPG or GMG shall otherwise agree.

Section 2.10. GMG shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan and any relevant records and documents.

Section 2.11. GMG shall cause IAs to at all times operate and maintain their plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, water resources management, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, GMG shall ensure that the IAs not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of their obligations for implementation of the Project under this Project Agreement.

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

### **ARTICLE III**

#### **Effective Date; Termination**

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

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

### **ARTICLE IV**

#### **Miscellaneous**

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Facsimile Numbers:

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

For GPG

Guizhou Provincial Finance Department  
#7 Building, Guizhou Provincial Government Compound  
Zhonghua Beilu  
Guiyang City, Guizhou Province  
People's Republic of China

Facsimile Number:

0086 851 6892179  
0086 851 6838474

For GMG

Guiyang Water Resources Bureau  
36 Shinan Road  
Guiyang City, Guizhou Province  
People's Republic of China

Facsimile Number:

0086 851 5506823.

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

(b) GMG shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

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

ASIAN DEVELOPMENT BANK

By   
KLAUS GERHÆUSSER  
Director General  
East Asia Department

GUIZHOU PROVINCIAL GOVERNMENT

By   
JIANCHAO LIU  
Authorized Representative

GUIYANG MUNICIPAL GOVERNMENT

By   
JIANCHAO LIU  
Authorized Representative

## SCHEDULE

### Execution of Project and Other Matters

#### Project Implementation

1. The GMG shall be the EA responsible for overall project planning, management, and implementation. The PLG, headed by a vice mayor, has been established to oversee the preparation and implementation of the Project. The PLG comprises representatives from the Financial Bureau, Development and Reform Commission, Construction Bureau, WRB, Environmental Protection Bureau, and other relevant agencies of GMG.
2. The Guiyang PMO set up under the PLG shall coordinate Project implementation work through various design institutes, and IAs shall be responsible for day-to-day implementation arrangements. The Guiyang PMO shall be also responsible for directing project preparation activities, monitoring resettlement, managing environmental impacts, monitoring project progress and project impacts, and assisting participating districts and counties in implementing their subprojects. The Guiyang PMO shall be staffed primarily from Guiyang Municipal WRB, but also with representatives of the Guiyang Finance Bureau, Development and Reform Commission, Resettlement Office, and other line agencies of the GMG. The Guiyang PMO shall also recruit project implementation consultants, a dam construction advisory panel, and other institutions and experts to assist the Guiyang PMO in Project implementation, monitoring, and evaluation.
3. County or city WRBs shall be the IAs for the Subprojects. The local PLGs and local PMOs set up in the local county and district governments involved in the Project shall coordinate Subproject preparation and implementation within its jurisdictions.

#### Integrated Water Resources Management

4. GMG shall ensure that the principles of IWRM under the Master Plan and developed under the ADB TA for Strengthening Water Resources Management in Guiyang are carried out under the Project. In particular, GMG shall ensure that the IWRM Strategic Action Plan agreed between GMG and ADB is implemented in a timely manner. Key activities to be implemented shall include: (a) establishment of an effective water sector management structure; (b) shift from the current supply management to demand management; (c) greater public participation in water resources management; (d) improvement in information management and sharing among relevant agencies; and (e) capacity building in water management in GMG.

#### Subproject Selection Criteria and Implementation Procedures

5. GMG shall ensure that the following Subproject selection criteria and implementation procedures (including prior ADB approval requirements) agreed upon with ADB are followed, including environmental and social safeguard requirements under the EARF, EMP, RF, and EMDF.

6. The participating local governments and IAs shall, with the assistance of local design institutes and consultants, prepare a feasibility study for each of the non-core Subprojects and submit the completed study to PMO. The FSR shall include an environmental assessment (in a form stipulated by the EARF); RP (if required); EMDP if required; rationale; scope and activities; technical description and analysis; cost estimates and financing plan; implementation arrangements; and financial, economic, and institutional analysis, including financial management assessment and social dimensions.

7. Based on the completed FSR and in consultation with the Guiyang Development and Reform Commission, the PMO shall appraise the subprojects in accordance with the criteria agreed upon by GMG and ADB:

I. Subprojects for urban water supply, rural water supply and irrigation

(a) General

- (i) The Subproject is included within the Master Plan and is consistent with the principles of integrated water resources management.
- (ii) Evidence of community mobilization/empowerment to ensure effective design, implementation and O&M of the Subproject

(b) Institutional

- (i) Demonstrated commitment to establish WUAs
- (ii) WPA with WSC for urban supplies
- (iii) Agriculture extension support arrangement put in place

(c) Economic viability

The Subproject is shown to be economically viable using standard ADB economic methodology. This includes being shown to be a least cost solution and that the Subproject economic internal rate of return is greater than 10%.

(d) Tariffs and user charges

- (i) Charges for water use cover system O&M costs in all cases and agreement is reached with local government to provide subsidy in cases where the tariff cannot be increased to cover costs.
- (ii) Charges for urban water use meet full cost recovery and agreement is reached with local government to provide subsidy in cases where the tariff cannot be increased to cover costs; and tariff concessions given for urban poor.

- (e) Financial
  - (i) Financial management capacity of IA and local finance bureau is established.
  - (ii) Urban WSC is financially sustainable.
- (f) Technical
  - (i) Domestic feasibility study is prepared and approved.
  - (ii) Detailed design is to be in accordance with relevant MWR design standards and guidelines.
  - (iii) Construction supervision is in accordance with MWR standards and guidelines.
- (g) Social Development and Social Safeguards
  - (i) IA commits to follow the Gender Action Plan in implementing the Subproject.
  - (ii) Participatory approaches and consultations are part of Subproject design, implementation and O&M.
  - (iii) EMDP prepared and approved by local government is based on the EMDF where this is required.
- (h) Resettlement
 

RP prepared and approved where this is required is based on ADB Involuntary Resettlement Policy & RF guidelines.
- (i) Environment
  - (i) EIA and IEE prepared and approved are in accordance with both ADB and PRC requirements as well as requirements specified in EARP.
  - (ii) SEIA and SIEE prepared and submitted to ADB are in accordance with both ADB and PRC requirements as well as the requirements specified in EARP.

## II. Subprojects for irrigation system rehabilitation

- (a) General
  - (i) The Subproject is included within the master plan and is consistent with the principles of integrated water resources management.
  - (ii) Evidence of community mobilization/empowerment is to ensure effective design, implementation and O&M of the Subproject.

## (b) Institutional

- (i) Demonstrated commitment to establish WUA(s).
- (ii) Agriculture extension support arrangement is put in place.

## (c) Economic viability

The Subproject is shown to be economically viable using standard ADB economic methodology. This includes being shown to be a least cost solution and that the Subproject economic internal rate of return is greater than 10%.

## (d) Tariffs and user charges

Charges for water use cover system O&M costs in all cases and agreement is reached with local government to provide subsidy in cases where the tariff cannot be increased to cover costs.

## (e) Financial

- (i) Financial management capacity of IA and local finance bureau is established.
- (ii) IA and/or Township government commit to fully fund O&M.
- (iii) IA commits to fund WUA and agriculture extension support for five (5) years.

## (f) Technical

- (i) Domestic feasibility study is prepared and approved.
- (ii) Detailed design is to be in accordance with relevant MWR design standards and guidelines.
- (iii) Construction supervision is in accordance with MWR standards and guidelines.

## (g) Social Development and Social Safeguards

- (i) IA commits to follow the Gender Action Plan in implementing the Subproject.
- (ii) Participatory approaches and consultations are part of Subproject design, implementation and O&M.
- (iii) EMDP prepared and approved by local government is based on the EMDF where this is required.

## (h) Resettlement

RP prepared and approved where this is required is based on ADB Involuntary Resettlement Policy and RF guidelines.

- (i) Environment
  - (i) EIA and IEE prepared and approved are in accordance with both ADB and PRC requirements as well as requirements specified in EARP.
  - (ii) SEIA and SIEE prepared and submitted to ADB are in accordance with both ADB and PRC requirements as well as the requirements specified in EARP.

### III. Subprojects for Soil and Water Conservation

- (a) General
  - (i) The Subproject is included within the master plan and is consistent with the principles of integrated water resources management.
  - (ii) Evidence of community mobilization/empowerment is to ensure effective design, implementation and O&M of the Subproject.
- (b) Institutional
  - (i) Local Government gives assurance on future O&M.
  - (ii) Agriculture support arrangement is put in place where needed.
- (c) Economic viability
 

The Subproject is shown to be economically viable using standard ADB economic methodology. This includes being shown to be a least cost solution and that the Subproject economic internal rate of return is greater than 10%.
- (d) Financial
  - (i) Financial management capacity of IA and local finance bureau is established.
  - (ii) IA commits to fund WUA and Agriculture extension support for five (5) years.
- (e) Technical
  - (i) Domestic feasibility study is prepared and approved.
  - (ii) Detailed design is to be in accordance with relevant MWR design standards and guidelines.
  - (iii) Construction supervision is in accordance with MWR standards and guidelines.

- (f) Social Development and Social Safeguards
  - (i) IA commits to follow the Gender Action Plan in implementing the Subproject.
  - (ii) Participatory approaches and consultations are part of Subproject design, implementation and O&M.
  - (iii) EMDP prepared and approved by local government is based on the EMDF where this is required.
- (g) Resettlement
 

RP prepared and approved where this is required is based on ADB Involuntary Resettlement Policy & RF guidelines.
- (h) Environment
  - (i) EIA and IEE prepared and approved is in accordance with both ADB and PRC requirements as well as requirements specified in EARP.
  - (ii) SEIA and SIEE prepared and submitted to ADB are in accordance with both ADB and PRC requirements as well as the requirements specified in EARP.

#### IV. Subprojects for Small Water Storage Structures

- (a) General
  - (i) The Subproject is included within the master plan and is consistent with the principles of integrated water resources management.
  - (ii) Evidence of community mobilization/empowerment is to ensure effective design, implementation and O&M of the Subproject.
- (b) Institutional
 

Beneficiaries commit to provide cash or in-kind contributions (except where social exclusion support provisions apply).
- (c) Financial
 

IA commits to fund cost of social exclusion (see below).
- (d) Technical
 

Design and construction is in accordance with local best practice.
- (e) Social Development and Social Safeguards

- (i) IA commits to follow the Gender Action Plan in implementing the Subproject.
- (ii) Participatory approaches and consultations are part of Subproject design, implementation and O&M.
- (iii) Implementation arrangements are in accordance with Subproject FSR and framework documents. Village committee signs assurance that no socially disadvantaged household shall be excluded.

8. The result of the appraisal shall be summarized in a FAR, following the format of the FARs prepared for the core Subprojects. For the non-core Subprojects listed below, including (i) the first Subproject in each type of intervention except for small water storage structures; and (ii) the following specified Subprojects: (a) Gejiazhai reservoir, (b) Liangchahe reservoir, (c) Xiguan reservoir, (d) Xiuwen irrigation system rehabilitation, and (e) Wudang soil and water conservation Subproject, the FARs shall be submitted to ADB for prior approval. Except for the non-core Subprojects listed above, no FARs for other non-core Subprojects needs to be submitted to ADB for prior approval and the FARs shall be sent to ADB for information.

#### Operations and Maintenance

9. GMG shall ensure and cause local governments under its jurisdiction to ensure that O&M of all Subprojects reliant on government financial support through subsidies are fully funded.

#### Independent Dam Safety Panel

10. Within 3 months of the Effectiveness Date, GMG shall appoint a dam safety panel of eminent national engineers, which will review the detailed design of proposed subprojects involving the construction of dams, oversee dam construction and confirm to ADB that the design and construction of the dams meet international safety standards.

#### Water and Wastewater Tariffs

11. GMG shall cause the finance and price bureaus of each local county participating in the Project, to undertake annual reviews of water tariffs, and to establish tariffs based on financial and economic objectives (including the financial sustainability of water services, and the use of price as a water demand management tool where appropriate), subject to compliance with laws and regulations in the PRC. In the event the tariff is not set at a level allowing for financial viability and sustainability of a Subproject, GMG shall ensure that the local county government provides the necessary subsidy. For urban water supply, tariffs shall be established and, if necessary, adjusted to ensure full repayment of O&M, interest charges, the greater of depreciation or debt repayment, and a reasonable profit margin.

12. GMG shall ensure that each local county government (through its poverty bureau) reviews the impact of increased water and wastewater tariffs on the poor, and in urban areas, maintains the provision of water tariff waiver under the minimum living standard scheme to protect the basic living standard of the poor.

Water Users Associations

13. GMG shall ensure that WUAs are established in a timely manner for all reservoir and irrigation core and non-core Subprojects.

Involuntary Resettlement

14. GMG, through the relevant local governments and IAs, shall ensure that: (a) all land and rights-of-way required by the Project are made available in a timely manner; (b) the RF and RPs are implemented promptly in accordance with their terms, all applicable laws and regulations of the Borrower, and ADB's *Involuntary Resettlement Policy*; (c) all APs are given adequate opportunity to participate in resettlement planning and implementation; (d) counterpart funds are provided on a timely basis for land acquisition and resettlement activities; (e) any financial obligations in excess of the RP budget estimates are met; and (f) compensation and resettlement assistance are given to the APs prior to dispossession and displacement to ensure that those affected will be at least as well off as they would have been in the absence of the Project.

15. GMG through the local level PMOs shall ensure that: (a) the RPs prepared for the core Subprojects are updated based on detailed designs, disclosed to the APs and resubmitted to ADB for concurrence prior to commencement of civil works; (b) RPs prepared for the non-core Subprojects are done so in accordance with the RF, are based on detailed design, are disclosed to APs, and are submitted to ADB for approval prior to commencement of civil works; and (c) ADB is advised of any significant material changes in Project scope or other causes and this is reflected in an updated RP to be submitted to ADB for its approval. With respect to any updated RPs, GMG shall disclose such updated RPs to APs prior to ADB approval.

16. GMG, through the Guiyang PMO, shall ensure that: (a) adequate staff and resources are committed to resettlement monitoring and supervision, and ADB is provided with quarterly reports on implementation, and a resettlement completion report for all the reservoir Subprojects; (b) an independent agency acceptable to ADB is engaged to monitor and report progress semiannually, and to evaluate results through annual survey updates and reports for 2 years after completion of resettlement; (c) external monitoring reports are submitted to ADB and the Guiyang PMO for review and comments; and (d) a summary of the final resettlement audit for the Yudongxia reservoir Subproject is provided to ADB.

17. GMG, through the Guiyang and other local PMOs, shall: (a) ensure that civil works contractor specifications include requirements to comply with the RPs and entitlements for permanent and temporary impacts to APs; and (b) supervise contractors to ensure compliance with requirements of the RPs, applicable laws and regulations, and ADB's *Involuntary Resettlement Policy*.

Gender Action Plan

18. GMG shall ensure that the GAP is implemented in a timely manner over the entire project period, and that adequate resources are allocated for this purpose. Implementation of the GAP will be closely monitored, and progress will be reported in the quarterly progress reports submitted to ADB.

Ethnic Minority Development Plans

19. GMG shall ensure that EMDPs are prepared and fully implemented with sufficient resources and in a timely manner for Subprojects involving ethnic minorities.

Environment Management

20. For those water supply dam Subprojects, particularly the Yudongxia dam, GMG shall ensure an appropriate classification of EPZ and determine and stipulate related regulations for preserving water quality of the respective reservoir. Such regulations may include land use zoning and control of chemical fertilizers/pesticides use, wastewater discharge and aquaculture development in the EPZ area. To ensure the preservation of the income and livelihood of local communities that may be affected by such regulations, GMG shall ensure that a PES mechanism to maintain the agreed level of water quality by providing sufficient compensation to upstream government and affected communities is established and implemented.

21. GMG shall cause each local government and the IAs to construct, operate, maintain, and monitor the Project facilities in strict conformity with: (a) all applicable laws and regulations, including national and local regulations and standards for environmental protection, health, labor, and occupational safety; and (b) ADB's *Environment Policy* and the environmental mitigation and monitoring measures detailed in the approved EIAs, IEEs, SEIA, SIEE, and EMP for the Project.

22. GMG, through the local level PMOs, shall ensure that the IAs: (a) provide monthly environmental progress reports to the Guiyang PMO, which will prepare and submit to ADB semi-annual environmental reports in a format acceptable to ADB until loan closing. The semi-annual reports will address, among other issues, cumulative impacts of the Project; (b) where required, make an SEIA or SIEE available to the general public at least 120 days before each Subproject is approved; and (c) for each Subproject, carry out public consultations during the early stages of the EIA field work and when the draft EIA is available.

Training

23. PMO, in consultation with the IAs, shall prepare and submit to ADB, for review and concurrence, a training plan for informing (e.g., on IWRM principles such as water sharing) and empowering local communities to be implemented under the Project. Such plan shall provide a broad range of social development skills, including GAD, community-driven development, and participatory planning and management for IWRM. Priority shall be given to ethnic minority communities, resettled communities and communities characterized by high incidence of rural poor women and female heads of households.

Financial Management

24. GMG shall ensure that proper financial management systems are established and implemented by the IAs in accordance with domestic regulations, ADB's *Guidelines for the Financial Governance and Management of Investment Projects Financed by the ADB*

(November 2003) and the customized financial management manual prepared for the Project and incorporating domestic regulations and ADB policies and requirements.

Organizational Structure

25. GMG shall, in consultation with ADB, ensure that an appropriate organizational structure and proper financial management and other systems, including for budgeting, payroll, internal controls, and asset management, are established and implemented at Guiyang Zhushui Water Resources Development Company.