
LOAN NUMBER 2550-PRC

PROJECT AGREEMENT

(Liaoning Small Cities and Towns Development Demonstration Sector Project)

between

ASIAN DEVELOPMENT BANK

and

LIAONING PROVINCIAL GOVERNMENT

DATED _____

PAL: PRC 42382

PROJECT AGREEMENT

PROJECT AGREEMENT dated _____ between ASIAN DEVELOPMENT BANK (hereinafter called ADB) and LIAONING PROVINCIAL GOVERNMENT (hereinafter called LPG).

WHEREAS

(A) by a Loan Agreement of even date herewith between the People's Republic of China (hereinafter called the Borrower) and ADB, ADB has agreed to make to the Borrower a loan of one hundred million dollars (\$100,000,000) 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 LPG, and through LPG to the concerned Local Governments, and that LPG agrees to, and cause the concerned Local Governments to undertake certain obligations towards ADB as hereinafter set forth; and

(B) LPG, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. 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, except that for purposes of this Project Agreement, the term "the Project", when applied to a Subproject or a number of Subprojects, means the Subproject or Subprojects, as described in Schedule 1 to the Loan Agreement.

ARTICLE II

Particular Covenants

Section 2.01. (a) LPG acting through the Provincial PMO shall, and shall cause the concerned Local Governments and IAs to, perform the obligations and undertakings as required in this Project Agreement.

(b) LPG and each IA shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental, urban (urban road, river improvement or area upgrading) and social development, and public facility (wastewater, water supply, gas supply, heating, and solid waste management) practices.

(c) In the carrying out of the Project and operation of the Project facilities, LPG shall cause all obligations set forth in the Loan Agreement to the extent that they are applicable to LPG and the concerned IA, all obligations set forth in the Schedule to this Project Agreement and, where applicable, in the Onlending Agreement, to be performed.

Section 2.02. LPG and the concerned IA 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, each IA 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 consistent with ADB's policies and guidelines.

Section 2.04. Each IA shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods

acceptable to ADB. Each IA shall submit to Provincial PMO and Provincial PMO 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) Each concerned Local Government or each IA shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facility 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, the concerned IA 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. Each IA shall maintain, or cause to be maintained, records and accounts adequate to identify the Goods, Works and consulting services and other items of expenditure 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 LPG shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) LPG through the Provincial PMO shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its or any IA's obligations under this Project Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and LPG 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, LPG and the Loan.

Section 2.08. (a) LPG through the Provincial PMO 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 and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition to the extent relevant to the Project; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, LPG through the Provincial PMO shall furnish to ADB semi-annual 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 six months under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following six months.

(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, LPG through the Provincial PMO 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 LPG of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) LPG through the Provincial PMO 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 (6) months after the close of the fiscal year to which they relate, certified copies of such audited Project 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. LPG through the Provincial PMO 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) LPG and each IA shall enable ADB, upon ADB's request, to discuss the Project's and the IA's financial statements and their financial affairs from time to time with the duly appointed auditors pursuant to Section 2.09(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the concerned Provincial authority and the IA unless such authority and the IA shall otherwise agree.

Section 2.10. Each IA shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan, all other plants, sites, properties and equipment of the concerned IAs and any relevant records and documents.

Section 2.11. (a) Each IA shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) Each IA shall at all times conduct its business in accordance with sound administrative, financial, environmental, and where applicable, urban (urban road, river improvement or area upgrading) and social development, and public facility (wastewater, water supply, gas supply, heating, and solid waste management) practices, and under the supervision of competent and experienced management and personnel.

(c) Each IA shall at all times operate and maintain its 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, maintenance and operational practices, and where applicable, urban (urban

road, river improvement or area upgrading) and social development, and public facility (wastewater, water supply, gas supply, heating, and solid waste management) practices.

Section 2.12. Except as ADB may otherwise agree, the IAs shall not sell, lease or otherwise dispose of any of their 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 its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, each IA 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.

Section 2.14. In case there is an Onlending Agreement to which an IA is a party, except as ADB may otherwise agree, the IA shall duly perform all its obligations under the Onlending Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Onlending Agreement.

Section 2.15. In case the concerned IA is a corporate entity, the IA shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its Charter and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

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 LPG of such date.

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any Loan 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) 636-2407.

For LPG

Liaoning Urban Construction and Renewal Project Office
No. 19 Caita Street
Shenyang
The People's Republic of China

Facsimile Number:

(86-24) 23932290.

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 LPG may be taken or executed by its Governor or by such other person or persons as the Governor shall so designate in writing notified to ADB.

(b) LPG 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 _____

LIAONING PROVINCIAL GOVERNMENT

By _____
Authorized Representative

SCHEDULE

Execution of Project

A. IMPLEMENTATION ARRANGEMENTS

1. LPG through the Provincial PCG and the Provincial PMO shall be the EA for the Project. The Provincial PCG comprising Liaoning Finance Bureau, Development and Reform Commission, Construction Bureau, Land Resources Bureau, Audit Bureau, Price Bureau, and Environmental Protection Bureau shall provide overall guidance, supervision, and support to project preparation and implementation. A Provincial PMO, which has been established, shall undertake and manage the day-to-day activities of the Project, including selection and appraisal of Subsequent Subprojects.

2. In each Subproject City, or County or Town, a City, or County or Town PMO shall be set up to liaise with the Provincial PMO and the concerned departments and bureaus of SPG and the concerned Local Governments and to oversee and manage (i) the work undertaken by the IA, (ii) overall project finance, and (iii) Project implementation.

3. The IAs for the Subprojects shall be the following:

(A) in case of the Selected Subprojects,

- (i) Donggang City ADB-Financed Project Management Office for the Donggang City Subproject;
- (ii) Kazuo County ADB-Financed Urban Construction Project Office for the Kazuo Mongolian Autonomous County Subproject; and
- (iii) Linghai City ADB-Financed Urban Infrastructure Facility Upgrading Office for the Linghai City Subproject; or

(B) in case of the Subsequent Subprojects, the agency(ies) appointed by the EA of the Project for the Subsequent Subproject(s).

B. COUNTERPART FUNDING

4. The concerned Local Governments and the IAs shall ensure that all counterpart funding be provided in a timely manner for the concerned Subprojects, including any additional counterpart funding required for any shortfall of funds or cost overruns.

5. The concerned Local Governments and the IAs shall ensure that adequate funding be allocated in each fiscal year for the operation and maintenance of the Project facilities, which shall be operated and maintained in accordance with the best engineering practices.

C. ENGINEERING AND TECHNICAL**1. River Improvement, Riverway Treatment, and Flood Control**

6. The concerned Local Governments shall ensure that wastewater be treated before being discharged into the rivers to be improved or treated as a part of the river improvement and flood control Subprojects. Implementation shall be in accordance with the local planning for river improvement and flood control and therefore ensure that wastewater treatment plants and sewage pipelines shall be constructed or improved at the Subproject locations during the implementation of the river improvement and flood control Subprojects.

7. The concerned Local Governments shall ensure that direct discharge of untreated and noncompliant wastewater and disposal of any solid wastes into the rivers be prohibited after the Subproject is completed. The concerned Local Governments shall ensure that domestic solid waste collection and treatment systems be constructed in a timely manner in accordance with the urban planning.

8. Each concerned Local Government shall ensure that construction of riverside buildings be regulated and excavation, illegal construction and any other activities that might damage the embankment structure be prohibited to ensure that the river improvement and area upgrading works of the Project be sustainable.

9. Each concerned Local Government shall ensure that a flood monitoring and control system be gradually established at the Project areas and integrated into the provincial/municipal flood monitoring and control systems. Each concerned Local Government shall ensure that a water quality monitoring system be gradually established to ensure the water quality of the rivers and maintain the sustainability of the management and operation of the river improvement Subprojects.

10. The concerned Local Government shall ensure that the IAs have an adequate financial budget to cover the routine maintenance and management of the Project management facilities (in offices and pump houses) and equipment (such as pump stations and rubber dams) of the relevant river improvement component.

2. Roads and Associated Municipal Services

11. Each concerned Local Government shall ensure that the roads and associated municipal services to be implemented under the urban roads Subprojects comply with the overall planning and specific planning of the respective Subproject cities, counties or towns and that each concerned IA engage an experienced road and bridge engineer to review the road design to ensure compliance with the requirements of the "Code for Design of Urban Roads" and the relevant design codes of the Borrower prior to commencing construction of the subproject of roads and associated municipal services. Each concerned IA shall ensure, where applicable, that an experienced road and bridge engineer be engaged in the construction supervision team to supervise the engineering quality of the construction activities.

12. Each concerned IA shall implement a program for the provision of adequate road safety signs and marks, signal lamps, median separators, traffic control and other necessary traffic safety facilities and take necessary measures, in close co-operation with the Traffic

Police, to ensure traffic safety on the newly constructed roads under the Subproject for its implementation.

13. The concerned Local Government(s) shall ensure that traffic safety education activities be conducted by means of radio, television and traffic safety booklets to enhance the traffic safety awareness of the local people.

14. Each concerned IA shall have adequate financial budget to cover the routine maintenance and management of the new roads. Each year such IA shall develop a budget for the maintenance of the roads under its management in the coming year and submit such budget to the concerned Local Government authority for approval.

3. Water Supply and Wastewater Treatment

15. The concerned Local Government(s) shall ensure that the water supply and wastewater treatment works and the wastewater collection networks be of adequate capacity, the associated works of the water supply or wastewater Subprojects be constructed in time in accordance with, as applicable, the master urban plan, the master water supply plan, or the wastewater treatment plan to serve the daily living requirements of the residents and the economic development needs of the Project area.

16. The concerned Local Government shall cause the IA of Kazuo Mongolian Autonomous County Subproject to ensure that wastewater collection networks and a wastewater treatment plant be constructed and in operation in phases, to collect and treat the wastewater generated from the water supply component once it has been constructed and in operation.

17. The concerned Local Government(s) shall ensure that the treated wastewater comply with the environmental standard prior to discharge.

4. Heat and Gas Supply

18. The concerned Local Government(s) shall ensure that the heat and gas supply works comply with the master urban plan and the specific planning, the heat and gas supply works include equipment and networks of adequate capacity to meet the needs of development of the Project in a timely manner, and the associated works of the heat supply Subprojects be constructed in time in accordance with the master urban plan and/or the master heat supply plan to serve the daily living requirements of the residents and the economic development needs of the Project area.

19. The concerned Local Government(s) shall ensure that the design of the heat supply or the gas supply Subprojects be reviewed prior to the implementation of the Project and a safety engineer be engaged for each such Subproject to review the safety design of the special equipment to ensure that the Project design be reasonable.

20. The concerned Local Government(s) shall ensure that a safety engineer be engaged during the implementation of each heat or each gas supply Subproject to supervise the quality of the construction and installation of the special equipment, and that the heat or gas supply Subprojects be constructed safely according to the relevant national codes and specifications.

5. Solid Waste Treatment

21. The concerned Local Governments shall ensure that (i) the solid waste treatment facilities and the solid waste collection networks be of adequate capacity and be financed and constructed in time in accordance with the master urban plan, (ii) operation and Maintenance (O&M) budgets be adequate for the facilities and networks, so as to serve the requirements of the daily living of the residents and the economic development, and (iii) the solid waste treatment comply with the Borrower's, Provincial and loan governments' environmental standard.

D. CONSTRUCTION QUALITY AND MANAGEMENT

22. Each IA shall ensure that all works under the Project be designed and constructed in accordance with national standards and specifications, and that the construction supervision, quality control, contract management, and completion inspection and acceptance follow applicable national laws and regulations.

23. The concerned Local Government(s) shall ensure that under each Subproject an engineer be engaged to review the engineering design of the important engineering components and a supervision engineer be engaged to supervise and manage the construction quality and review, supervise and manage the progress, payment and variations under the contract.

E. IMPLEMENTATION AND INSTITUTIONAL ARRANGEMENTS

24. The Provincial PMO and the concerned Local Government(s) shall ensure that the Subproject implementation procedures be consistent with the ADB requirements, including those in terms of environmental protection and social security.

25. The Provincial PMO shall notify ADB of any proposed changes in the agreed implementation arrangements, and seek ADB's concurrence to the changes before they are implemented.

26. The Provincial PMO and the concerned Local Government(s) shall ensure that no changes to any approved financial arrangements, Project assets and IAs, nor transfer of assets be conducted without the prior approval and consent of the concerned Local Government(s), LPG and ADB. If such changes to the financial arrangement, ownership of the Project assets and the IAs would affect the ability of debt service of the respective agencies and utilities, such changes shall not be implemented until the approvals are obtained from LPG and ADB.

27. The IAs shall actively explore opportunities for attracting private sector participation, provided, however, the introduction of such private sector participation shall be acceptable to and agreed by ADB prior to implementation.

28. The IAs of the heat supply and gas supply Subprojects shall ensure that the heat supply and gas supply systems operate safely after the Subprojects are completed and that corresponding regulations on operation management, such as regulations on safe operation

of boilers, monitoring and patrol and safety inspections, job responsibility and maintenance and servicing, be established, and the respective personnel be trained and certified before being assigned to the respective operational posts.

F. TRAINING

29. The Provincial PMO shall, in consultation with the concerned IAs, prepare and submit a training plan to be implemented under the Project to ADB for review and concurrence, and shall ensure that training institutes for such purpose be selected in accordance with procedures acceptable to ADB. Following each training event, the concerned IAs shall submit a training completion report to the Provincial PMO for consolidation and transmission to ADB.

G. TARIFF AND COST RECOVERY

30. The concerned Local Government(s) shall ensure that (a) water supply and wastewater tariffs be progressively set at the levels, and the heat supply and gas supply tariffs be progressively set in accordance with the requirements of the concerned Local Government(s), to achieve full cost recovery of O&M, depreciation and debt service obligations and reasonable profit margin for operations; (b) annual reviews of tariffs and fees be undertaken by the local Price Bureau or the concerned IA(s); and (c) regular reviews on the impact of the increased heat supply, gas supply, water supply and wastewater tariffs on the poor be carried out by the concerned Local Government agency. The concerned Local Government(s) shall consider providing lifeline heat supply, gas supply and water supply and wastewater tariffs to the poor.

31. The concerned Local Government(s) shall ensure that in the setting of new tariffs for heat supply, gas supply, water supply and wastewater treatment the local Price Bureau (a) take into consideration: (i) calculation of minimum cost recovery tariffs based on actual project costs, (ii) affordability and willingness-to-pay data including the results of surveys; and (iii) price escalation; and (b) conduct a public pricing hearing.

32. To ensure financial sustainability of the Project's facilities, the concerned IAs shall undertake operational improvements such as measuring, reporting, and reducing non-revenue water and undertaking bulk metering during the Project implementation.

H. FINANCIAL MANAGEMENT

33. Each IA shall have a relatively independent financial management system. The concerned Local Governments shall ensure that for the revenue generating Subprojects, including water supply, wastewater, heat and gas Subprojects, (i) the concerned IA or operating entity be entitled to receive all the collected tariffs; (ii) no agency may withhold any of the collected tariffs; and (iii) appropriate budgetary appropriation be made to meet any shortfalls in operations and maintenance prior to achieving full cost recovery. The concerned Local Governments shall ensure that for non-revenue generating Subprojects, including river improvement, and roads Subprojects, necessary financial budget be prepared each year to cover the needs of the normal O&M of the Project facilities.

34. Each IA shall establish and maintain a sound financial management system in accordance with ADB's *Financial Management and Analysis of Projects*, including the

establishment of a separate bank account for the Subproject, and the maintenance of minimum balance to ensure smooth cash flow and the timely settlement of Project construction liabilities and future debt servicing. The financial management system shall comprise: (i) financial planning, budgeting and budgetary control; (ii) accounting consistent with applicable standards of the Borrower; (iii) internal control; (iv) data processing, and (v) financial reports. The Provincial PMO shall report implementation of the financial management system to ADB in the semi-annual progress reports.

I. FINANCIAL PERFORMANCE

35. The IAs shall develop consolidated financial accounts for the operation and management of the Subprojects. These financial accounts shall include statements of profit and loss, cash flow (or sources and uses of funds) and a balance sheet representing the operational activities of the Subprojects, reflecting the current account of the agencies related to the operation and management of the Subprojects.

J. CHANGE IN OWNERSHIP

36. The Provincial PMO, the concerned Local Government and the concerned IA shall ensure that in the event that any change in ownership or rights of operation of Project facilities of any Subproject or any sale, transfer, or assignment thereof is anticipated, LPG, the concerned Local Government and the concerned IA shall consult ADB prior to the implementation of such change. The Provincial PMO, the Local Government and the IA shall ensure that such changes be carried out in a lawful and transparent manner.

K. GOVERNANCE AND ANTICORRUPTION

37. LPG, the concerned Local Governments and the IAs shall comply with ADB's *Anticorruption Policy* (1998, as amended from time to time). LPG, the concerned Local Governments and the IAs agree (a) that ADB reserves the right to investigate any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project; and (b) to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation.

38. The concerned Local Governments and the IAs shall (a) conduct periodic inspections on the contractors activities related to fund withdrawals and settlements; and (b) ensure that all contracts financed by ADB in connection with the Project include relevant provisions of ADB's *Anticorruption Policy* in all bidding documents for the Project specifying the right of ADB to audit and examine the records and accounts of concerned IAs and all the contractors, supplies, consultants, and other service providers as they relate to the Project.

39. The concerned Local Governments and the IAs shall undertake the following anticorruption actions: (i) involvement of the local discipline investigation bureaus in bidding and construction to enhance construction quality control and supervise effective work; (ii) introduction of a dual-signing system in which each construction contract winner also signs an anticorruption contract with the concerned IAs; (iii) periodical inspection of the contractors' activities related to fund withdrawals and settlements; and (iv) engagement of the loan implementation consultant to support the concerned City or County PMOs, the concerned

Local Governments and the concerned IAs to ensure good governance, accountability, and transparency in Project operations.

40. LPG shall ensure that external auditors acceptable to ADB undertake Project audits, and prompt actions be taken to comply with any of the audit observations.

L. CONSTRUCTION CONTRACTORS

41. The Provincial PMO, the concerned Local Governments and the IAs shall ensure that the contractors (i) comply with the applicable labor laws and regulations, including stipulations related to employment, health, safety, welfare and the workers' rights; (ii) do not force the labor to work; and (iii) do not employ child labor. The City and County PMOs shall ensure that the contractors maintain records of labor employment and submit a copy of such records to the City and County PMOs. Such records shall include the name, age, gender, working time, and payment of wages and shall be included into the PPMS.

42. The Provincial PMO and each IA shall ensure that the contractors (i) be responsible for providing their employees healthy and safe working conditions; (ii) together with the local health bureaus, disseminate information on the risks, hazards, impacts and prevention know-how on HIV/AIDS among the staff, workers on the construction sites and the local community by means of information disclosure, education and consultation; and (iii) observe local protocols concerning acceptable behavior toward the local population.

M. GENDER

43. The IAs shall take all reasonable and necessary steps to encourage women living in the Project areas to participate in the planning and implementation of the Project, including causing the contractors to maximize employment of women in connection with the Project; and monitor the Project's impacts on women during project implementation and report them in the PPMS.

N. PUBLIC AWARENESS AND EDUCATION

44. The IAs shall conduct, in association with a consulting service provider agreed by the concerned Local Government authorities or ADB, public awareness and education programs on public health, hygiene and solid waste and wastewater management, traffic safety in Project areas by means of information disclosure, education and consultation.

O. POVERTY AND SOCIAL DEVELOPMENT STRATEGY

45. The concerned Local Governments shall conduct prior review of the impact of increased water supply, gas supply, wastewater and heating tariffs on the poor and gradually establish or implement a pricing policy favorable to the poor households and ensure that no tariff adjustment affect the minimum living standard of the poor. Impacts on the poor households by the Project during and after implementation shall be monitored and included in the PPMS report.

46. The concerned Local Governments and the IAs shall ensure that all civil works contractors engaged under the Project provide (i) timely payment of wages; and (ii) necessary safety protection measures to all workers (with such measures being included in

civil works contract and monitored by construction supervision consultants). The IAs shall set employment targets for the poor, ethnic minorities and women who meet the job requirements for all construction and maintenance activities and ensure that the contractors provide the workers with adequate on-the-job training, use local unskilled labor, not differentiate wages based on gender, and monitor the Project impact on poverty in accordance with guidelines set forth in the PPMS.

P. LAND ACQUISITION AND RESETTLEMENT

47. The Provincial PMO, the concerned Local Governments and the IAs shall ensure that: (i) prior to the commencement of construction work, all land and rights-of-way required by the Project be made available in a timely manner in accordance with PRC laws and regulations, including land use approvals and agreements with APs; (ii) the RPs be implemented promptly and efficiently in accordance with their terms; and the provisions of the RPs be implemented in accordance with all applicable laws and regulations of the Borrower, and ADB's Policy on Involuntary Resettlement; (iii) all APs be given adequate opportunity to participate in resettlement planning and implementation; (iv) the APs be at least as well off as they would have been in the absence of the Project; (v) counterpart funds be provided in time for land acquisition and resettlement activities; and (vi) any amounts in excess of the RP budget estimates be provided.

48. The IAs shall ensure that each RP be updated according to the final design, including detailed measurement surveys, for the respective subcomponent of the Project, and updated RPs be submitted to ADB for its concurrence prior to award of civil works contracts, and disclosed to APs in accordance with ADB's applicable information disclosure requirements for resettlement.

49. The IAs shall ensure that: (i) adequate staff and resources be committed to supervision and internal monitoring of the implementation of each subcomponent RP and provide ADB with semi-annual monitoring reports during resettlement implementation and a resettlement completion report for each subcomponent; (ii) an independent agency acceptable to ADB be contracted to carry out monitoring and evaluation, including data disaggregated by gender where applicable, and forward reports to ADB semi-annually; (iii) ADB be promptly advised of any substantial changes in the resettlement impacts and, if necessary, a revised RP be submitted to ADB for its approval; (iv) construction contract specifications include requirements to comply with the RPs and ensure prompt payment and delivery of entitlements to compensate APs for any permanent and temporary Project impacts to APs; and (v) the construction and demolition contractors be supervised to ensure compliance with requirements of the RPs, applicable laws and ADB's *Policy on Involuntary Resettlement*.

Q. ETHNIC MINORITIES

50. In case that any ethnic minorities in the Project areas would be affected by any Subproject, the concerned Local Governments and the concerned IA(s) shall ensure that (i) an EMDP be prepared according to the requirements of the EMDF; (ii) benefits target ethnic minorities in the Project areas in accordance with ADB's *Policy on Indigenous Peoples*; (iii) works contract specifications include requirements to comply with EMDF and as a priority provide employment to ethnic minorities; and (iv) adequate staff and resources be committed to supervising and monitoring the implementation of EMDF and progress, if any, be reported

to ADB on a semi-annual basis; (v) the EA engage an external independent monitoring agency acceptable to ADB to monitor the implementation of the EMDP semi-annually and submit the monitoring report to ADB; (vi) the statistics of the monitoring data be conducted by gender and the monitoring report and the monitoring data include analysis on social impacts by gender.

R. ENVIRONMENT

51. Each IA shall construct, operate, maintain and monitor the Project facilities in strict conformity with (i) all applicable laws and regulations including national, regional and local regulations and standards on environmental protection, health, labor, and occupational safety and ADB's *Environment Policy* (2003); and (ii) all environmental mitigation and monitoring measures detailed in EIAs, SEIA and EMP for the Project under guidance of the Liaoning Provincial Environmental Protection Department (LPEPD) or other environmental monitoring centers. LPEPD, the Environmental Protection Bureaus of the concerned Local Governments and the IAs shall review any changes to the project design that may have a potential for causing negative environmental impacts, and adjust environmental monitoring and mitigation measures accordingly in consultation with ADB.

52. The Provincial PMO and each Subsequent Subproject IA shall follow the environmental assessment and management framework in assessing the environmental assessment of the Subsequent Subprojects and prepare an EIA and EMP in line with the Borrower's laws and regulations and ADB's *Environment Policy* (2003).

53. The concerned Local Governments shall ensure that an adequate number of full-time personnel and sufficient resources be provided to monitor the implementation of the EMP under guidance of LPEPD, the Environmental Protection Bureaus of the concerned Local Governments, or other environmental monitoring centers. The IAs shall provide monthly environmental monitoring reports during the construction period to the Provincial PMO, who shall prepare and submit to ADB semiannual environmental reports in a format acceptable to ADB until Loan closure.

S. SELECTION, EVALUATION AND APPROVAL OF SUBSEQUENT SUBPROJECTS

54. Except as ADB may otherwise require, the Subsequent Subprojects shall be identified, selected, prepared, appraised, and approved in accordance with the criteria set forth hereunder.

55. **Subproject Identification and Selection.** The Subsequent Subprojects shall be selected in accordance with the following basic criteria: (i) confirmation by the concerned Local Government on its ability and willingness to arrange counterpart financing; (ii) confirmation by the concerned Local Government on its willingness to comply with ADB safeguard policies and other requirements; (iii) the implementation period of the Subsequent Subproject being in 2009 – 2015; (iv) eligibility of the components, which means that sectors of a Subsequent Subproject shall be included in the list of eligible infrastructure and municipal services and comply with the master development plan submitted for review of ADB and specific development plan of the city; (v) anticipated positive impact on the urban environment; (vi) anticipated positive impact on employment generation; and (vii) anticipated positive impact on the coverage or service level of infrastructure and municipal services.

Schedule

56. **Subproject Preparation.** The concerned Local Government and IA shall, with the assistance of the Provincial PMO, prepare a feasibility study for each of the components of the proposed Subproject, which shall include Subproject rationale, scope and components, technical description and analysis, cost estimates and financing plan, implementation arrangements, and financial, economic, and institutional analysis including financial management assessment and social dimensions. The concerned Local Government shall also prepare an EIA and a RP (if required). The concerned Local Governments shall ensure

that the consultants to be engaged under the Project and responsible staff of the City or County PMO review the report, before submitting it to the Provincial PMO for appraisal.

57. **Subproject Appraisal and Approval.** The Provincial PMO shall be responsible for the appraisal of the Subsequent Subprojects. For each Subsequent Subproject the concerned Local Government shall prepare a SAR for consideration by the Provincial PMO. The SAR shall follow the format of the SARs template in the Project Preparatory Technical Assistance (TA No.4959–PRC: Preparing the Small Cities and Towns Development Demonstration Sector Projects) report. LPG shall appraise the Subsequent Subprojects in accordance with the criteria agreed upon by the Borrower and ADB.

58. The Provincial PMO shall ensure that the Subsequent Subprojects receive the same extent of environmental safeguard scrutiny, modeled on the EIAs for the Selected Subprojects and the SEIA. The Provincial PMO shall submit the EIAs for the Subsequent Subprojects for ADB's review and comment, and having incorporated ADB's comments, the Provincial PMO shall submit the revised EIAs for ADB for posting on the ADB website to meet the 120-day disclosure requirement.

59. For each Subsequent Subproject, the Provincial PMO and the concerned Local Governments shall ensure that a draft RP be prepared following the guidance of the resettlement framework having been approved by ADB, and such RP be upgraded using the representative Subproject RPs as models. The Provincial PMO and the concerned Local Governments shall ensure that poverty and social assessments also be conducted for the Subsequent Subprojects.