

CONFORMED COPY

LOAN NUMBER 4327 CHA

Project Agreement

(Third National Highway Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

HUBEI PROVINCE

Dated June 26, 1998

LOAN NUMBER 4327 CHA

PROJECT AGREEMENT

AGREEMENT, dated June 26, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HUBEI PROVINCE (Hubei).

WHEREAS by the Loan Agreement of even date herewith between People's Republic of China (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount of two hundred fifty million Dollars (\$250,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Hubei agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS Hubei in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and in the General Conditions (as so defined) have the

respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Hubei declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and Hubei shall otherwise agree, Hubei shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Hubei shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, Hubei shall:

(i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and Hubei, a plan for the future operation of the Project; and

(ii) afford the Bank a reasonable opportunity to exchange views with Hubei on said plan.

Section 2.04. (a) Hubei shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Loan.

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

ARTICLE III

Financial Covenants

Section 3.01. (a) Hubei shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of Hubei responsible for carrying out the Project or any part thereof.

(b) Hubei shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of

such audit by said auditors of such scope and in such detail as
the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records
and accounts and the audit thereof, as the Bank shall from time
to time reasonably request.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon
which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of Hubei
thereunder shall terminate on the date on which the Loan Agreement shall terminate in
accordance with its terms, and the Bank shall promptly notify Hubei of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force
and effect notwithstanding any cancellation or suspension under the General
Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made
under this Agreement and any agreement between the parties contemplated by this
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 or radiogram to the party to which it is required or permitted to be given or
made at such party's address hereinafter specified or at such other addresses as such
party shall have designated by notice to the party giving such notice or making such
request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Hubei Province:

Hubei Provincial
People's Government
1 Beihuan Road
Wuhan, Hubei 430071
People's Republic of China

Section 5.02. Any action required or permitted to be taken, and any documents
required or permitted to be executed, under this Agreement on behalf of Hubei may be
taken or executed by a Vice Governor of Hubei or by such other person or persons as
said Vice Governor shall designate in writing, and Hubei shall furnish to the Bank
sufficient evidence of the authority and the authenticated specimen signature of each
such person.

Section 5.03. This Agreement may be executed in several counterparts, each of
which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Jean-Michel Severino

Regional Vice President
East Asia and Pacific

HUBEI PROVINCE

By /s/ Liu Xiaoming

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and in September 1997 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for all contracts for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors, excluding goods manufactured in and works carried out by contractors from Hong Kong Special Administrative Region.

(c) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(d) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed \$48,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$2,600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for: (i) works estimated to cost the equivalent of \$2,000,000 or more, and (ii) goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedure for the Selection of Consultants

Individual Consultants Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

A. Environment, Land Acquisition and Resettlement

1. Hubei shall:

(a) implement the Project in accordance with the Highway EAP and the RAP (the Plans), in a manner satisfactory to the Bank; and

(b) furnish any proposed revision to the Plans to the Bank for its prior approval.

2. Hubei shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the implementation of the Plans; and

(b) prepare, under terms of reference acceptable to the Bank and, by December 31 of each year commencing in 1998, furnish to the Bank:

(i) an annual environmental monitoring report during the construction phase of the Project, and for each of the first three (3) years following

completion of construction; and

(ii) internal monitoring reports prepared by appropriate agencies of Hubei, and external monitoring reports prepared by an independent agency acceptable to the Bank regarding the implementation and impact of resettlement activities in Hubei during the previous twelve (12) months.

B. Part A of the Project

1. Hubei shall employ and maintain during the implementation of Part A of the Project, construction supervision teams with qualified staff in adequate numbers to ensure that all works are carried out in accordance with technical specifications and that strict quality controls are exercised on all sites.

2. In connection with Part A.1 (b) of the Project, Hubei shall:

(a) furnish to the Bank for its confidential use in making its evaluation and comments, the technical specifications, construction time-table, financing plan and procurement procedures in regard to the Yangtze bridge at Junshan; and

(b) coordinate closely the construction of the two sections of the Jingzhu Expressway with the construction of said bridge.

C. Part B of the Project: Institutional Strengthening and Training

1. Hubei shall: (a) carry out the training under Part B.3 of the Project in accordance with a training program acceptable to the Bank; and (b) to that end, furnish to the Bank for its prior approval, by June 30 of each year commencing in 1999, a rolling two-year training program.

2. Hubei shall, by December 31, 2001, carry out an analysis of the structure of toll-rates on the Jingzhu and Hurong Expressways, in accordance with terms of reference acceptable to the Bank, and furnish to the Bank for its review and comments, the findings of said analysis and recommendations regarding the structure of said toll-rates.

3. Hubei shall: (a) by June 30, 2000, carry out the study on the management of highway maintenance referred to under Part B.1 of the Project in accordance with terms of reference acceptable to the Bank and furnish to the Bank for review and comments the findings and draft recommendations thereof; (b) finalize and furnish to the Bank not later than December 31, 2000 said recommendations taking into account comments made by the Bank on said draft recommendations; and (c) thereafter, take all appropriate steps to implement said finalized recommendations.

4. Hubei shall prepare under terms of reference acceptable to the Bank and furnish to the Bank for its review and comments, by March 31 of each year from 1999 until 2003, an annual highway maintenance report for the previous calendar year which shall: (a) indicate the condition of each class of highway in Hubei as of December 31 of the preceding year; and (b) measure the physical results and the actual expenditures of the past year against the targets and the funds budgeted therefor; and (c) establish targets for the following year, including new construction, upgrading/improvement, rehabilitation, periodic maintenance and routine maintenance, both in terms of planned works and budgeted expenditures.

5. Hubei shall: (a) by December 31, 2000, carry out the study on the commercialization of expressways referred to under Part B.2 of the Project in accordance with terms of reference acceptable to the Bank and furnish the findings and draft recommendations thereof to the Bank for review and comments; (b) finalize and furnish to the Bank not later than June 30, 2001 said recommendations taking into account comments made by the Bank on said draft recommendations; and (c) thereafter, take all appropriate steps to implement said finalized recommendations.

6. With a view to increase the awareness of the importance of road safety issues, Hubei shall:

(a) cause the Hubei Traffic Engineering Society to:

(i) incorporate road safety issues into the agenda of its annual meetings as of 1999; and

(ii) organize an annual road safety seminar in Hubei starting in 2000; and

(b) (i) prepare a safety audit schedule, carry out a black spot analysis and, based on said analysis, develop, and furnish to the Bank for review by not later than June 30, 2000 a black-spot improvement plan in accordance with terms of reference acceptable to the Bank; and

(ii) thereafter, take all appropriate steps to implement the said plan in accordance with its terms, whilst taking into account the Bank's comments thereon.

D. Monitoring and Reporting

Without limitation upon the provisions of Section 9.07 of the General Conditions:

1. Hubei shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 3 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof.

2. Hubei shall:

(a) prepare under terms of reference acceptable to the Bank and furnish to the Bank (i) a quarterly report starting with the first calendar quarter of 1999; and (ii) by June 30 of each year commencing in 1999 and ending three (3) years after completion of the Project, an annual report, in a format acceptable to the Bank, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Part D, on the progress achieved in the carrying out the Project during the period preceding the dates of such reports and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such dates; and

(b) review with the Bank by such subsequent dates as the Bank shall request, the reports referred to in sub-paragraph (a) of this paragraph 2 and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

SCHEDULE 3

Monitoring Indicators

Table 1: Development Indicators

(PLEASE SEE ORIGINAL DOCUMENT FOR MONITORING INDICATORS TABLE,
FORMAT WILL NOT FIT INTO AGREEMENT)

