

CONFORMED COPY

LOAN NUMBER 4027 CHA

Project Agreement

(Second Henan Provincial Highway Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

HENAN PROVINCE

Dated September 13, 1996

LOAN NUMBER 4027 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 13 1996, between INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT (the Bank) and HENAN PROVINCE (Henan).

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 make available to the
Borrower an amount equal to two hundred and ten million dollars (\$210,000,000), on the
terms and conditions set forth in the Loan Agreement, but only on condition that Henan
agree to undertake such obligations toward the Bank as are set forth in this
Agreement;

WHEREAS Henan, 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 the General Conditions (as so defined) have the respective
meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Henan 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 and engineering 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 Henan shall otherwise agree, Henan 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) Henan 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, respectively) in respect of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, Henan 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 Henan, a plan for the future operation of the Project; and

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

Section 2.04. (a) Henan 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) Henan 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 Henan of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Henan 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 Henan responsible for carrying out the Project or any part thereof.

(b) Henan 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 Henan thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Henan thereof.

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 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 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 Henan:

People's Government of Henan Province
No. 10 Weierlu
Zhengzhou, Henan
People's Republic of China

Telex:

46034 HFEA CN

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Henan may be taken or executed by the Governor or Vice Governor of Henan or such other person or persons as said Governor or Vice Governor shall designate in writing, and Henan 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/ Russell Cheetham

Regional Vice President
East Asia and Pacific

HENAN PROVINCE

By /s/ Zhou Wenzhong

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

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.

(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 2.42 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. International Shopping

Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$2,200,000 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.

2. National Competitive Bidding

Except as provided in paragraph 3 of this Part C, works for Parts A, B and C of the Project estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$74,800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. Procurement of Small Works and Force Account

(a) Except as provided in sub-paragraph (b) hereunder, works for Part B of the Project estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$27,000,000 equivalent, may be procured under contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

(b) For RIPA Sub-projects located in mountainous or remote areas, works under Part B of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and estimated to cost up to an aggregate amount not to exceed \$18,000,000 equivalent, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

4. Direct Contracting

Works related to the installation of electric power to be used along the Luoyang-Sanmenxia Expressway and the Yangjia-Baijiashai Connection Road, undertaken by the local electricity companies and costing \$4,000,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 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.

2. Prior Review

With respect to each contract for:

(a) works estimated to cost \$2,000,000 equivalent or more; and

(b) goods estimated to cost \$250,000 equivalent 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section II, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to:

(a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or

(b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each.

However, said exceptions to prior Bank review shall not apply to (i) the terms of reference for such contracts; (ii) single-source selection of consulting firms; (iii) assignments of a critical nature, as reasonably determined by the Bank; (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 2

Implementation Program

A. Parts A and B of the Project: Environment, Land Acquisition and Resettlement

1. In respect of Part A of the Project, Henan shall:

(a) carry out each Expressway EAP and each Expressway RAP in a manner satisfactory to the Bank; and

(b) furnish any proposed revision of the plans referred to in paragraph (a) above to the Bank for its prior approval.

2. In respect of Part B of the Project,

(a) Henan shall: (i) prior to commencing construction on a RIPA Sub-project, furnish to the Bank an environmental action plan and resettlement action plan for such RIPA Sub-project satisfactory to the Bank, prepared in accordance with the basic policies, planning principles and institutional arrangements applied in the First Year RIPA EAPs and the First Year RIPA RAP; and (ii) thereafter, carry out such environmental action plan and resettlement action plan in a manner satisfactory to the Bank; and

(b) For any RIPA Sub-project which involves new road construction, substantial widening, or land acquisition or special areas such as national parks, natural reserves and areas of significant cultural heritage, Henan shall furnish to the Bank an environmental impact assessment satisfactory to the Bank in addition to the environmental action plan referred to in paragraph (a) above.

3. Henan 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 carrying out of the Expressway EAPs and RAPs, and the environmental action plans and resettlement action plans in respect of the RIPA Sub-projects; and

(b) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank: (i) an annual environmental monitoring report during the construction phase of the Expressways under Part A of the Project and for each of the first three (3) years following completion of construction; (ii) by March 31 and September 30 of each year starting September 30, 1996, internal monitoring reports prepared by appropriate agencies of Henan, and by June 30 and December 31 of each year starting December 31, 1996, external monitoring reports prepared by an independent agency acceptable to the Bank, regarding the implementation and impact of the resettlement activities during the previous six months.

B. Part A of the Project

Henan shall, in carrying out Part A (3) of the Project, coordinate closely with Shaanxi Provincial Transport Department regarding: (a) completion of the construction of the Yangjia-Baijiazhai Connection Road by no later than December 31, 1999, simultaneously with the completion of the construction of the Weinan-Tongguan Expressway in Shaanxi; (b) the location, design and construction of the toll station on the Yangjia-Baijiazhai Connection Road at the border between Henan and Shaanxi; and (c) transition from the four-lane cross-section on the Weinan-Tongguan Expressway in Shaanxi to the two-lane cross-section on the Yangjia-Baijiazhai Connection Road.

C. Part B of the Project: RIPA Sub-projects

1. Henan shall select each RIPA Sub-project on the basis of technical and socioeconomic criteria acceptable to the Bank.

2. Henan shall prepare and submit to the Bank for its approval, by October 31 of each year, an annual work plan and budget for the following year, such annual work plan to include, inter alia: (a) all RIPA Sub-projects proposed for the year; (b) an economic and social benefit analysis using indicators acceptable to the Bank; (c) an implementation and supervision schedule; (d) a maintenance plan; and (e) the resettlement action plan, the environmental action plan and, as the case may be, the environmental impact assessment required in respect of each proposed RIPA Sub-project pursuant to the provisions of Section 2 of Part A of this Schedule, all in form and substance satisfactory to the Bank.

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

1. Henan shall: (a) carry out the training under Part C (1) 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 1997, a rolling two-year training implementation schedule.

2. Henan shall furnish to the Bank for its review and comments, by April 30 of each year from 1997 until 2003, an annual highway maintenance report which shall: (a) indicate the length and condition of each class of road; (b) establish targets for the following year including an estimate of the required physical works and the costs thereof; and (c) measure the results and the actual expenditures of the past year against the targets and the budgeted funds therefor.

3. Henan shall: (a) by November 30, 1996 establish a Leading Group with composition acceptable to the Bank, to guide the study on the organization, management and maintenance of high-grade highways under Part C (2) of the Project and provide comments on the results and recommendations of said study; (b) by September 30, 1998 complete said study in accordance with terms of reference satisfactory to the Bank and furnish the study together with the comments of said Leading Group to the Bank for review; and (c) take appropriate steps to implement the recommendations of said study, taking into consideration the comments thereon of said Leading Group and the Bank.

4. Henan shall, by March 31, 2000 furnish to the Bank for its review and comments, an analysis and recommendation of the structure of toll-rates on the Luoyang-Sanmenxia Expressway, taking into consideration the results of studies on toll-rate structures conducted under other Bank-financed highway projects in China and the experience with

toll-rates on major roads in Henan and other parts of China.

E. Part D of the Project: Road Safety Program

1. Henan shall maintain: (a) a Leading Group, which shall include representatives from HPCD and from the provincial agency responsible for traffic safety, for traffic safety coordination, policy-making and planning, with functions and responsibilities acceptable to the Bank; (b) a Traffic Safety Secretariat to prepare work for said Leading Group; and (c) a Road Safety Unit within HPCD, with functions and responsibilities acceptable to the Bank, to (i) carry out the pilot black spot improvement program described in paragraph 2 (b) below, and (ii) establish safety audit procedures and checks under terms of reference acceptable to the Bank.

2. Henan shall, pursuant to terms of reference acceptable to the Bank: (a) by December 31, 1998, complete a study of the factors contributing to traffic accidents; (b) by December 31, 2000, complete a black spot identification and improvement program; and (c) by December 31, 2001, have an expert acceptable to the Bank prepare an evaluation of its Road Safety Program according to indicators acceptable to the Bank.

F. Reporting and Monitoring

Without limitation on the provision of Section 9.07 of the General Conditions:

1. Henan shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof.

2. Henan shall prepare under terms of reference satisfactory to the Bank and furnish to the Bank a monthly report of the progress of works under Part A of the Project.

3. Henan shall:

(a) prepare under terms of reference satisfactory to the Bank, and furnish to the Bank: (i) a quarterly report, and (ii) by March 31 of each year commencing in 1997 and ending three (3) years after completion of the Project, an annual report, integrating the results of the monitoring and evaluation activities performed pursuant to Section 1 of this Part F, on the progress achieved in the carrying out of 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 paragraph (a) of this Section 3, 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.

