

CONFORMED COPY

LOAN NUMBER 4356-CHA

Project Agreement

(Tri-Provincial Highway Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

INNER MONGOLIA AUTONOMOUS REGION

GANSU PROVINCE

NINGXIA HUI AUTONOMOUS REGION

Dated December 18, 1998

LOAN NUMBER 4356-CHA

PROJECT AGREEMENT

AGREEMENT, dated December 18, 1998, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and INNER MONGOLIA AUTONOMOUS REGION (Inner Mongolia), GANSU PROVINCE (Gansu) and NINGXIA HUI AUTONOMOUS REGION (Ningxia), (Inner Mongolia, Gansu and Ningxia hereinafter collectively referred to as the Project Provinces, and individually as a Project Province).

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 in various currencies equivalent to two hundred thirty million Dollars (\$230,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Project Provinces agree to undertake such obligations toward the Bank as are set forth in this Agreement;

WHEREAS the Project Provinces, 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) Each Project Province 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 its Respective Part of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental 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 the concerned Project Province shall otherwise agree, each Project Province shall carry out its Respective Part of 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) Each Project Province 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 Agreement.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, each Project Province 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 said Project Province, a plan for the future operation of its Respective Part of the Project; and

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

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

(b) Each Project Province 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 Loan, or the performance by said Project Province of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) Each Project Province shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) Each Project Province shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related

statements) for each fiscal year
auditing principles consistently
acceptable to the Bank;

audited, in accordance with appropriate
applied, by independent auditors

(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: (A) certified
copies of said financial statements for such year as so audited; and
(B) 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, accounts and financial statements as well as 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 each Project
Province thereunder shall terminate on the date on which the Loan Agreement shall
terminate in accordance with its terms, and the Bank shall promptly notify each
Project Province 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, NW
Washington, DC 20433
United States of America

Cable Address:

Telex:

INTBAFRAD 248423 (MCI) or
Washington, D.C. 64145 (MCI)

For Inner Mongolia Autonomous Region:

The People's Government of Inner Mongolia Autonomous Region
No.1 Xinhua Street, Huhhot
Inner Mongolia
People's Republic of China

For Gansu Province:

Gansu Provincial Government
No.1, Zhongyangguanchang, Lanzhou
Gansu Province
People's Republic of China

For Ningxia Hui Autonomous Region:

The People's Government of Ningxia Hui Autonomous Region
Jie Fang Road, Yinchuan City 750001
Ningxia Hui Autonomous Region
People's Republic of China

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 a Project Province, may be taken or executed by the Vice Governor of said Project Province or such other person or persons as said Vice Governor shall designate in writing, and said Project Province 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

/s/ Jean-Michel Severino

Regional Vice President
East Asia and Pacific

INNER MONGOLIA AUTONOMOUS REGION
GANSU PROVINCE
NINGXIA HUI AUTONOMOUS REGION

/s/ Li Zhaoxing

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 September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

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 (other than goods manufactured in the Hong Kong Special Administrative Region of the Borrower and works carried out by contractors from said region).

(c) 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. National Competitive Bidding

Except as provided in paragraph 3 of this Part C, works estimated to cost less than \$3,500,000 equivalent per contract, as well as works for the construction of the 1.3 km Tianshuilu linking road to the Liugouhe-Zhonghe Expressway under Part B.2(b) of the Project, up to an aggregate amount not to exceed \$34,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

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

3. Direct Contracting

Works related to the installation of electric power to be used along the Baotou-Dongsheng Highway, the Guyaozi-Wangqualiang Highway and the Liugouhe-Zhonghe Expressway, undertaken by the local electricity companies and costing \$2,400,000 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 1.

2. Prior Review

With respect to each contract for: (a) works estimated to cost \$2,000,000 equivalent or more; (b) goods estimated to cost \$250,000 equivalent or more; and (c) supply and installation of electronic, electric and mechanical equipment required for tolling, telecommunications, and traffic monitoring systems, regardless of cost, 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

Except as otherwise provided in Part C of this Section, 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 Procedures for the Selection of Consultants

1. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract may, with the Bank's prior agreement, be procured under contracts awarded in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services related to road safety under Parts A.4, B.4 and C.4 of the Project and, with the Bank's prior agreement, other tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may 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 estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (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 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

Part A: Environment, Land Acquisition and Resettlement

1. Each Project Province shall:

(a) implement its Respective EAP and its Respective 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 Parts A.2, B.2 and C.2 of the Project:

(a) each Project Province shall, prior to commencing construction on a RIPA Sub-project:

(i) in the event that such RIPA Sub-project shall involve the involuntary resettlement of persons, ensure that all such persons shall be resettled in accordance with a resettlement action plan for such RIPA Sub-project approved by the Bank, which shall have been designed on the basis of the policies, planning principles, institutional arrangements and design criteria acceptable to the Bank and set out in its Respective RAP, so as to improve the living standards and production levels of such persons;

(ii) furnish to the Bank an environmental action plan for such RIPA Sub-project satisfactory to the Bank, prepared in accordance with basic policies, planning principles and institutional arrangements acceptable to the Bank; and thereafter, carry out such environmental action plan in a manner satisfactory to the Bank; and

(b) for any RIPA Sub-project which involves new road construction, or substantial widening, or land acquisition, or special areas such as national parks, natural reserves and areas of significant cultural heritage, each Project Province 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)(ii) above.

3. Each Project Province 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 its Respective EAP and its Respective RAP, 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) not later than February 28 of each year starting 2000 and ending 2007, an annual environmental monitoring report for the previous calendar year, integrating the results of the monitoring and evaluation activities performed in accordance with paragraph (a) of this Section 3; and

(ii) within two months of each December 31 and June 30, starting December 31, 1998 and until completion of all land acquisition and resettlement under the Project, internal monitoring reports prepared by appropriate agencies of the relevant Project Province,

and within four months of each December 31 and June 30, starting December 31, 1998 and until completion of all land acquisition and resettlement under the Project, external monitoring reports prepared by an independent agency acceptable to the Bank, regarding the implementation and impact of the resettlement activities during the six month period ending on said December 31 or June 30.

Part B: RIPA Sub-projects

1. Each Project Province shall select RIPA Sub-projects on the basis of technical and socioeconomic criteria acceptable to the Bank.
2. Each Project Province shall prepare and submit to the Bank for its approval, by June 30 of each year starting 1999, an annual work plan and budget for the RIPA Sub-projects proposed to be implemented during 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.

Part C: Main Highways

1. Gansu shall take all necessary steps to ensure that design and construction of the 1.8 kilometer extension to the south of the Tianshuilu linking road to the Liugouhe-Zhonghe Expressway designed to connect with the existing street network of the city of Lanzhou is carried out in a fashion satisfactory to the Bank and completed no later than November 1, 2002, simultaneously with completion of construction of the Liugouhe-Zhonghe Expressway.
2. Each Project Province shall:
 - (a) by February 1, 2001 in the case of Inner Mongolia and Ningxia, and by February 1, 2002 in the case of Gansu, complete, in accordance with terms of reference satisfactory to the Bank and taking account of the results of studies on highway operation and maintenance conducted under other Bank-financed highway projects in China and of experience in the relevant Project Province and other parts of China, a study on the operation and maintenance of high-grade highways and furnish said study to the Bank for review; and
 - (b) thereafter take appropriate steps to implement the recommendations of said study, taking into consideration the comments thereon of the Bank.
3. Each Project Province shall furnish to the Bank for its review and comments, by the dates set out below, an analysis and recommendation of the structure of toll-rates, 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 the relevant Project Province and other parts of China:
 - (a) in the case of Inner Mongolia, not later than February 1, 2001 for the Baiyinchagan-Fengzhen Highway, and not later than February 1, 2002 for the Baotou-Dongsheng Highway;
 - (b) in the case of Gansu, not later than February 1, 2002 for the Liugouhe-Zhonghe Expressway and the Xujiamao-Jiepaicun Highway; and
 - (c) in the case of Ningxia, not later than February 1, 2001 for the

Guyaozi-Wangquanliang Highway.

Part D: Maintenance of Highway Network

1. Each Project Province shall furnish to the Bank for its review and comments, by April 30 of each year from 1999 until 2006, an annual highway maintenance report, which shall:

(a) indicate the length and condition of each class of road;

(b) establish realistic targets for the following year including an estimate of the required physical works by class thereof 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.

Part E: Institutional Strengthening and Training

1. Each Project Province shall:

(a) carry out the training under its Respective Part 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 May 31 of each year commencing in 1999, a training implementation schedule for the next two years.

Part F: Road Safety Program

1. Each Project Province shall maintain:

(a) a Leading Group, which shall include representatives from the relevant provincial communications department and from the provincial traffic police responsible for traffic safety coordination, policy-making and planning, and which shall be assisted by a Traffic Safety Secretariat; and

(b) a Road Safety Unit within the relevant provincial communications department, with functions and responsibilities acceptable to the Bank, to:

(i) carry out the pilot black spot improvement program described in paragraph 2 (c) below; and

(ii) in the case of Gansu, develop improved safety audit procedures.

2. Each Project Province shall, pursuant to terms of reference acceptable to the Bank:

(a) by March 15, 2000, complete a study of the factors contributing to traffic accidents;

(b) by December 31, 2001, complete the preparation of its respective section of a traffic safety manual (of which the highway design manual component shall be prepared by Inner Mongolia, the highway maintenance safety manual component shall be prepared by Gansu and the highway construction safety manual component shall be prepared by Ningxia);

(c) by December 31, 2002, complete a black spot identification and improvement program; and

(d) by September 30, 2003, have an expert, whose qualifications and experience shall be acceptable to the Bank, prepare an evaluation of its Road Safety Program according to indicators acceptable to the Bank.

3. Inner Mongolia shall:

(a) not later than September 30, 2000, complete and furnish to the Bank a study, prepared in accordance with terms of reference acceptable to the Bank, of the

effect of highway design features on highway safety; and

(b) take appropriate steps to implement the recommendations of said study, taking into consideration the comments thereon of the Bank.

4. Gansu shall:

(a) not later than December 31, 2002, complete and furnish to the Bank a report, prepared in accordance with terms of reference acceptable to the Bank, on traffic safety audit procedures; and

(b) take appropriate steps to implement the recommendations of said study, taking into consideration the comments thereon of the Bank.

Part G: Reporting and Monitoring

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

1. Each Project Province 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. Each Project Province shall:

(a) prepare under terms of reference satisfactory to the Bank, and furnish to the Bank:

(i) within one month of the end of each calendar quarter, commencing in the first quarter of 1999, a quarterly report; and

(ii) by March 31 of each year commencing in 2000, an annual report, integrating the results of the monitoring and evaluation activities performed pursuant to Section 1 of Part G of this Schedule, on the progress achieved in the carrying out of its Respective Part 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 its Respective Part of the Project and the achievement of the objectives thereof during the period following such dates; and

(b) review with the Bank, not later than May 31 of each year, the reports referred to in paragraph (a)(ii) of this Section 2, and, thereafter, take all measures required to ensure the efficient completion of its Respective Part 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.

