

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7676-CN

Project Agreement

(Hubei Yiba Highway Project)

between

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

and

HUBEI PROVINCE

Dated August 31, 2009

PROJECT AGREEMENT

AGREEMENT dated August 31, 2009, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and HUBEI PROVINCE (“Hubei” or “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank. The Bank and Hubei hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. Hubei declares its commitment to the objectives of the Project. To this end, Hubei shall carry out the Project through HPCD with the assistance of HYEMD and the Project Office for Parts A and B of the Project respectively, in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Hubei shall otherwise agree, Hubei shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

- 3.01. Hubei’s Representative is the Governor or Vice Governor or such other person or persons as the Governor or Vice Governor shall designate in writing.
- 3.02. The Bank’s Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. Hubei's Address is:

Jianshe Avenue 428
Wuhan, Hubei 430030
People's Republic of China

Facsimile:

0086-27-83460754

AGREED at Beijing, People's Republic of China, as of the day and year first
above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hsiao-Yun Elaine Sun
Authorized Representative

HUBEI PROVINCE

By /s/ Duan Lunyi
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Hubei shall maintain at all times during the implementation of the Project, HPCD, HPYECH, HYEMD, the Project Office and HERO, with terms of reference, powers, functions, and resources satisfactory to the Bank, and competent staff in adequate numbers, for the purpose of assisting in implementing the Project.

B. Anti-Corruption

1. Hubei shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. Hubei shall in the carrying out of the Project implement the RAP and the EMP, all in a manner and substance satisfactory to the Bank. Without limitation to the foregoing Hubei shall:
 - (a) take, all necessary actions to minimize to the extent possible the acquisition of land or assets of people, any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently, and the displacement of said people in the carrying out the Project or any Part thereof;
 - (b) where the acquisition of land or assets or the displacement of people is unavoidable make available, to such people compensation in accordance with the RAP and before the carrying out of the works which would result in such acquisition or displacement, all in a manner satisfactory to the Bank; and
 - (c) implement the RAP and the EMP in a manner satisfactory to the Bank and designed to ensure that the Project is implemented in accordance with sound social and environmental practices and standards acceptable to the Bank.
2. Hubei shall not amend, suspend, fail to enforce or waive the RAP or the EMP or any provision thereof, without the prior concurrence of the Bank.

3. Hubei shall monitor, on a semi-annual basis, through independent consultants or other agencies satisfactory to the Bank, under terms of reference satisfactory to the Bank, compliance with the implementation of the RAP and the EMP as well as the resettlement action plan and the environmental management plan in respect of the interconnecting roads under Part A.1(b) of the Project as referred to in paragraph 1 of Section IV of this Schedule, and provide to the Bank written reports of findings and recommendations within thirty (30) days of each semi-annual review detailing the measures, if any, to be taken to improve compliance or any changes to be made to any such plan. Hubei shall implement said measures, as may be approved by the Bank, in a manner satisfactory to the Bank.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. Hubei shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in the Annex to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Borrower not later than thirty (30) days after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
2. Hubei shall provide to the Borrower not later than three (3) months after the Closing Date, for incorporation in the report referred to in Section 5.08(c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports and Audits

1. Hubei shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, in a manner adequate to reflect the operations, resources and expenditures related to the Project.
2. Without limitation on the provisions of Part A.1 of this Section, Hubei shall prepare and furnish to the Borrower as part of the Project Report interim un-audited financial reports for the Project covering the calendar semester period of each Project Report, in form and substance satisfactory to the Bank. Each such un-audited financial report shall be furnished to the Borrower not later than thirty (30) days after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank as part of the overall Project Report.
3. Hubei shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently

applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of Hubei. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

4. Hubei shall carry out the Project in accordance with the provisions of the Financial Management Manual. Hubei shall implement the said Manual in a manner satisfactory to the Bank and shall not amend, abrogate, repeal, waive or fail to enforce any provision of said Manual.

Section III. Procurement

All works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

Section IV. Other Undertakings

1. Hubei shall, prior to carrying out any construction of the interconnecting roads referred to in Part A.1(b) of the Project, prepare a resettlement action plan pursuant to the RPF, an environment impact assessment, and an environmental management plan (collectively, the “Plans”) satisfactory to the Bank, and shall implement said Plans in a manner satisfactory to the Bank.
2. Hubei shall carry out monitoring, supervision and evaluation of the implementation of Part A of the Project through HPCD and HPYECH under arrangements satisfactory to the Bank, which shall include procedures for supervision of the civil works activities and supervision of compliance with the EMP by separate supervision consultants to be mobilized prior to the start of construction activities.
3. Hubei shall: (a) establish and implement measures, satisfactory to the Bank, for securing and monitoring compliance with the requirements of the EMP, the RAP, as well as the environmental management plan and the resettlement action plan in respect of the interconnecting roads referred to in Part A.1(b) of the Project; and (b) include appropriate and adequate provisions in the contracts entered into for implementing the Project to ensure the fulfillment of the requirements set out in the EMP together with the specification of sanctions to be imposed for failure to carry out said requirements.
4. Hubei shall operate and maintain the facilities constructed under Part A of the Project, after the Yiba Expressway is opened for traffic, through HYEMD under arrangements satisfactory to the Bank.

**Performance Monitoring Indicators
Results Framework**

PDO	Project Outcome Indicators	Use of Project Outcome Information
To improve passenger and freight flows in the Yichang-Badong corridor by construction of an expressway with enhanced environmental management practices.	<p>Freight rate for a shipment by road from Yichang to Badong for a sample of products.</p> <p>Travel time savings on Yiba Expressway over existing road corridor.</p> <p>Accident rates on expressway reduced compared to road corridor.</p> <p>No major EMP non-compliance incidents</p>	<p>Assess the overall impact of improvements to transport flows along the corridor as a proxy for transport integration.</p> <p>Assess improved efficiency of travel in corridor.</p> <p>Assess improved safety of travel in corridor.</p> <p>Confirm the effectiveness of the environmental management innovations being tested on the project.</p>
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
Improved road infrastructure in the Yiba Expressway corridor.	<p>Average daily traffic on the Yiba Expressway.</p> <p>Average daily traffic on existing roads.</p>	Assess the effectiveness of the investments in increasing the overall capacity along the corridor.
Strengthened institutional capacity	<p>Completion and adoption of guides for improved environmental management during construction.</p> <p>Adoption of improved safety practices for construction and operation of long tunnels.</p> <p>Completion of an effective training program.</p>	<p>Assess progress of Hubei in improving its environmental management.</p> <p>Verification of commitment to improved safety in long tunnels.</p> <p>Improved management capacity for HPCD staff</p>

Arrangements for results monitoring

Project Outcome Indicators	Units	Baseline	Target Values					Data Collection and Reporting ¹			
			YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
Reduction in cost for a shipment by road from Yichang to Badong for a sample of products. ² <ul style="list-style-type: none"> • Ore • Agricultural Products • Bus 	%	0						-25%	Survey upon opening of expressway	Survey of freight and passenger services	HPCD
Travel time savings on expressway over existing road corridor.	hours	0	0	0	0	0	0	2.5	Survey upon opening of expressway.	Travel time survey	HPCD
Accident rates on expressway over existing road corridor. <ul style="list-style-type: none"> • Yiba Expressway • Existing corridor 	accidents/yr (fatalities/yr)	0/(0) 425/34	0/(0) 400/32	0/(0) 380/30	0/(0) 360/28	0/(0) 340/26	100(8) 200/18	Annual survey	Public Security Bureau accident database	HPCD	
Major EMP requirement non-compliance incidents by contractors. ³	Number/year	N/A	0	0	0	0	0	0	Annual Survey	Independent Environment Consultant	HPCD
Intermediate Outcome Indicators											
Average daily traffic <ul style="list-style-type: none"> • Yiba Expressway • Existing corridor 	PCU/day	N/A 5,700	N/A 6,300	N/A 7,000	N/A 7,800	N/A 8,600	7,050 3,500	Annual survey	HPCD	HPCD	

Completion and adoption for Yiba Expressway of guides for environmental management during construction.	% Complete	0	100%					Annual survey	HPCD	HPCD
Adoption of improved safety practices for construction and operation of long tunnels. ^{/4}	% Complete	0	50%				100%	Annual survey	HPCD	HPCD
Training and study programs	# Trained % Satisfied ^{/5}	0 N/A	518 70%	349 70%	24 70%	8 70%	70%	Each training or study tour	Survey form	HPCD

- Notes: /1 The surveys for the environmentally and socially responsible procurement and HIV/AIDS activities will be undertaken as part of the contractual and reporting responsibilities of the respective consultants undertaking those activities.
- /2 Based on the traffic studies, these commodities were selected as two main ones expected to transit the corridor. Ore represents 20% of the commodities expected to be transported; agricultural products 11.8%. All other commodities are less than 8%. The surveyed base rates were 0.50 and 0.55 RMB/tonne for the ore and agricultural products respectively; 0.20 RMP/passenger-km for bus passengers. These were forecast to increase to 0.65, 0.70 and 0.26 respectively in year 5. The trip cost was calculated based on the distances before (269.5 km) and after (173.6 km), loads (35 tonne, 20 tonne, and 30 passengers) and tolls to obtain the total costs for the trip. The reduction reflects the difference in these rates.
- /3 A major non-compliance incident is one which causes irreversible damage to the environment and/or which cannot be addressed under the remedy options of the compliance framework and so results in a financial penalty to the contractor. The EMP and the TOR for the Client's Environmental Supervision Consultant contain further details on what constitutes major non-compliance incidents.
- /4 Adoption is the formal agreement by the HPCD to implement since some implementations may extend beyond the life of the project.
- /5 The percent satisfied will be determined based on forms to be filled out upon completion of the training or study tour.
- /6 N/A = Not applicable. Since the works have not started there is no baseline data

