

CONFORMED COPY

LOAN NUMBER 4493 CHA

Project Agreement

(Fourth National Highway Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

HUBEI PROVINCE and HUNAN PROVINCE

Dated September 17, 1999

LOAN NUMBER 4493 CHA

PROJECT AGREEMENT

AGREEMENT, dated September 17, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HUBEI PROVINCE (Hubei) and HUNAN PROVINCE (Hunan) (Hubei and Hunan hereinafter 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 equal to three hundred fifty million Dollars (\$350,000,000), 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; and

WHEREAS the Project Provinces, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have 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, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth wherever used herein.

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 economic practices, and safety and environmental standards acceptable to the Bank, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Project Province concerned 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 and its Respective Part of the Project.

(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 its Respective Part 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, 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 its Respective Part of the Project of the departments or agencies of such Project Province responsible for carrying out its Respective Part of the Project or any part thereof.

(b) Each Project Province 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 (6) 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 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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Hubei Province:

The People's Government of Hubei Province
1 Beihuan Road Wuchang Wuhan 430071
Hubei Province
People's Republic of China

Facsimile:

027-87811731

For Hunan:

The People's Government of Hunan Province
69 Wuyi Road
Changsha
Hunan Province
People's Republic of China

Facsimile:

0731-4421029

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 each Project Province may be taken or executed by the Governor or any Vice Governor of said Project Province or such other person or persons as such Governor or Vice Governor shall designate in writing, and such 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 Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

HUBEI PROVINCE

By /s/ Zhu Guangyao

Authorized Representative

HUNAN PROVINCE

By /s/ Zhu Guangyao

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, September 1997 and January 1999 (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 civil works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Two-stage bidding procedure

The bidding procedure for the provision and installation of electrical, electronic and mechanical equipment under Parts A.1(d) and B.1(d) shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Guidelines.

(c) Preference for domestically manufactured goods

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, excluding goods manufactured in the Borrower's Hong Kong Special Administrative Region.

(d) 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.

(e) 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, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Works under Parts A.1 (b) and (c) and Part A.2 in respect of Hubei and under Parts B.1 (b) and (c) in respect of Hunan, estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$59,100,000 equivalent in respect of Hubei's Respective Part of the Project, and \$34,000,000 equivalent in respect of Hunan's Respective Part of the Project, 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 \$2,500,000 equivalent for each of Parts A and B of the Project, 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 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. 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 Procedure for the Selection of Consultants

1. 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.

Implementation Program

A. Environment. Land Acquisition and Resettlement

1. In respect of its Respective Part of the Project, each Project Province shall:

(a) carry out its respective EAP and RAP in a manner satisfactory to the Bank;

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

(c) 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 said plans; and

(d) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank: (i) on January 31 of each year, starting in 2000 through 2007, an annual environmental monitoring report; and (ii) on January 31, 2000, July 31, 2000 and thereafter on each January 31 during the period of Project implementation, an internal resettlement report prepared by the appropriate agencies of said Project Province, and an external resettlement report prepared by an independent entity acceptable to the Bank, on the implementation and impact of the resettlement activities during the immediately preceding six month or one year period, as the case may be.

B. Implementation of the Project

1. During the implementation of Parts A.1, A.2 and B.1 of the Project, respectively, the Project Provinces shall:

(a) employ and maintain construction supervision teams with qualified staff in adequate number to ensure that all works are carried out in accordance with technical specifications and that strict quality controls are exercised on all sites; and

(b) prepare, under terms of reference satisfactory to the Bank, and provide to the Bank a monthly progress report on the works on the Zhengdian-Tucheng Expressway and the Tucheng-Changsha Expressway, respectively.

2. In respect of the Zhengdian-Tucheng Expressway and the Tucheng-Changsha Expressway, respectively, the Project Provinces shall, by March 31, 2002, complete and furnish to the Bank for its review and comments, an analysis and recommendations on the structure of toll-rates on said Expressways, taking into consideration the results of studies on toll-rate structure under Bank-financed highway projects in China the experience with toll rates on major roads in China.

3. Each Project Province shall: (i) carry out the training under Parts A.4 and B.3 of the Project, respectively, in accordance with training programs acceptable to the Bank; and to that end (ii) by June 30 of each year, commencing in June 30, 2000, furnish to the Bank for its prior approval a rolling two-year training program.

4. For purposes of Parts A.5 and B.4 of the Project, respectively, each Project Province shall:

(a) (i) by October 1, 2000, prepare, and thereafter update annually, an institutional development and reform plan for the next 6 years for its respective highway sector, such plan to cover the areas of, inter alia, competition in road maintenance and road safety, and to include organizational development and strengthening, training needs, equipment needs and management systems development; and (ii) furnish said plan to the Bank for its review and comments; and

(b) on the basis of the institutional development and reform plan referred to in sub-paragraph (a) above, (i) by October 1 of each year, commencing on October 1, 2000, prepare and provide to the Bank for its review and comments an annual program of implementation; and thereafter (ii) take all appropriate actions to implement said annual program, taking into consideration the Bank's view thereon.

5. For purposes of Parts A.5 and B.4 of the Project, respectively:

(a) Each Project Province shall: (i) by December 31, 2001, complete a highway maintenance cost and fund allocation study under terms of reference acceptable to the Bank; (ii) furnish said study to the Bank for its review and comments; and thereafter (iii) implement the recommendations of said study, taking into consideration the Bank's views thereon.

(b) The Project Provinces shall: (i) by December 31, 2002, complete a joint study on Hubei-Hunan transportation and trade integration, under terms of reference acceptable to the Bank; (ii) furnish said study to the Bank for its review and comments; and thereafter (iii) implement the recommendations of said study taking into consideration the Bank's views thereon.

(c) Each Project Province shall: (i) by December 31, 2003, complete a study on safety measures regarding maintenance works, under terms of reference acceptable to the Bank; (ii) furnish said study to the Bank for its review and comments; and thereafter (iii) implement the recommendations of said study, taking into consideration the Bank's views thereon.

(d) Each Project Province shall, by March 31, 2004: (i) complete the development of a road information system, a quality control system and an accident analysis system, under terms of reference satisfactory to the Bank; and (ii) put into effect said management systems, taking into consideration the Bank's views thereon.

(e) Each Project Province shall: (i) by March 31, 2002, prepare under terms of reference acceptable to the Bank and furnish to the Bank for its review and comments, a safety audit schedule and a schedule of black spot identification and improvement; and thereafter (ii) implement said schedules, taking into consideration the Bank's views thereon.

(f) Each Project Province shall, by March 31 of each year commencing in 2000 through 2005, furnish to the Bank a report of annual highway expenditures for the preceding calendar year, said report to indicate: (a) the length of each class of highways classified in accordance to their condition as of December 31 of such calendar year; (b) the completed physical works and actual expenditures during such year with respect to new construction, upgrading, improvement or rehabilitation, periodic and routine maintenance, against the planned physical targets and budgeted funds; and (c) the targets of the highway program for the succeeding calendar year in respect of new construction, upgrading, improvement or rehabilitation, periodic and routine maintenance.

C. Monitoring, Evaluation and Reporting

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 acceptable to the Bank the carrying out of its Respective Part of the Project and the achievement of the objectives thereof.

2. Each Project Province shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank the following reports:

(a) semi-annual reports, not later than January 31 and July 31 in each calendar year during Project implementation, commencing calendar year 2000, said reports to: (i) integrate the results of said monitoring and evaluation activities on the progress achieved in the carrying out of its Respective Part of the Project during the preceding calendar semester; (ii) set forth physical and financial progress in Project implementation, both cumulatively, and in respect of said preceding calendar semester; and (iii) set out any additional measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the immediately succeeding calendar semester; and

(b) an annual report on January 31 of each year, commencing in 2001 through 2006, which (i) integrates the results of said monitoring and evaluation in respect of the impact of its Respective Part of the Project; and (ii) sets out any additional measures recommended to ensure the efficient carrying out of its Respective Part of the Project and the achievement of the objectives thereof during the immediately succeeding year.

3. After furnishing each report referred to in paragraph 2 of this Part, each Project Province shall exchange views with the Bank on said report, and thereafter, take all measures required to ensure the continued efficient implementation of its Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

4. By December 31 of each year, or such other date as the Bank shall request, each Project Province shall hold a workshop together with representatives of the Bank to evaluate the progress in the implementation of its respective program of institutional and policy development and reform, and more specifically in regard to increase in competition in road maintenance, road safety, development of management systems, and road maintenance and fund allocation.

