



Report and Recommendation of the President to the Board of Directors

Project Number: 49066-001
September 2015

Proposed Loan Beijing Capital Co., Ltd. Western Counties Water and Wastewater Management Project (People's Republic of China)

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CURRENCY EQUIVALENTS

(as of 16 September 2015)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1570
\$1.00	=	CNY6.3691

ABBREVIATIONS

ADB	–	Asian Development Bank
CAP	–	corrective action plan
CGEP	–	Capital Greinworth Environmental Protection Technology Co., Ltd.
ESMS	–	environmental and social management system
NSO	–	nonsovereign operation
PPP	–	public–private partnership
PRC	–	People’s Republic of China

NOTES

- (i) The fiscal year of Beijing Capital Co., Ltd. ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 49066-001	
Project Name	Western Counties Water and Wastewater Management Project	Department /Division	PSOD/PSIF2
Country	China, People's Republic of		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban sewerage	59.30	
	Urban water supply	61.70	
Agriculture, natural resources and rural development	Rural sanitation	29.00	
		Total	150.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	
Environmentally sustainable growth (ESG)	Urban environmental improvement	Low	
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Partnerships (PAR)	Commercial cofinancing Private Sector	No gender elements (NGE)	
Private sector development (PSD)	Promotion of private sector investment	✓	
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural	High
		Urban	Medium
6. Nonsovereign Operation Risk Rating			
Obligor Name	Obligor Risk Rating Local Currency	Obligor Risk Rating Foreign Currency	Facility Risk Rating
Beijing Capital Co., Ltd.	NSO5	NSO5	NSO6
7. Safeguard Categorization	Environment: B	Involuntary Resettlement: B	Indigenous Peoples: C
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.00	
Nonsovereign Dual Currency Loan: Ordinary capital resources		150.00	
B-Loans		150.00	
Dual Currency Complementary Loan from Commercial Banks		150.00	
Official Cofinancing^a		0.00	
None		0.00	
Others^b		150.00	
Total		450.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		No	

^a Concessional financing from external sources.

^b Derived by deducting ADB financing, B Loans and Official Cofinancing from Project Total Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan of up to \$300 million equivalent in US dollars and yuan comprising (i) an A loan of up to \$150 million equivalent in US dollars and yuan, and (ii) a complementary loan of up to \$150 million equivalent in US dollars and yuan to Beijing Capital Co., Ltd. (Beijing Capital) for the Western Counties Water and Wastewater Management Project in the People's Republic of China (PRC).¹

II. THE PROJECT

A. Project Identification and Description

1. Project Identification

2. Regional imbalances and a severe infrastructure divide between urban and rural areas are critical development challenges for the PRC. Less-developed regions of the country suffer from inadequate public infrastructure and access to basic services. For water in particular, remote and rural areas face large and growing needs for improved water supply and wastewater management services to meet higher environmental standards. Funds provided through local government financing vehicles, historically the main channels to finance infrastructure, are insufficient for the magnitude of investments required.

3. The scale of unmet needs in the water supply and wastewater management sector, increased pollution pressures, the associated risks of waterborne diseases, and increased attention to efficiency have become urgent priorities of the central government.² They are also, as in other sectors, encouraging new approaches to infrastructure concessions in the form of public-private partnerships (PPPs). Traditionally, local governments in the PRC have undertaken public environmental service concessions by planning, tendering, and implementing projects on a staggered or stand-alone basis. However, technical experts are coming to the view that an integrated economic approach to infrastructure management is required to foster strong, sustainable, and balanced growth.³ Infrastructure investment strategies need to take into account that infrastructure assets are interdependent and constitute a wider system; therefore, the conventional project-centric approach adopted by many local governments may not deliver the efficiencies crucial for their long-term sustainability. This awareness is reflected in the PRC's new PPP guidelines and concession measures, in which multiple interlocking infrastructure services can be tendered out, presenting an opportunity to raise the efficiency of infrastructure

¹ The design and monitoring framework is in Appendix 1.

² The central government is taking on this challenge by establishing a comprehensive regulatory framework and development plan for water and sanitation. In January 2011, the State Council's No. 1 Document set water resource management as the country's top priority that year. In 2013, the government's Resolution Concerning Major Issues in Comprehensively Deepening Reform called for integrated urban and rural development, including a comprehensive plan for urban and rural infrastructure construction and the equalization of basic public services in urban and rural areas. The Ministry of Environmental Protection has also published its Guideline on Project Construction and Investment for Rural Sewage Treatment to encourage development in less-developed areas. Targets under the Twelfth Five-Year Plan (2011–2015) for National Urban Wastewater Treatment and Reuse Infrastructure Construction aim to increase the rate of wastewater treatment in smaller towns from 2010 levels of less than 20% to at least 30% by 2015. In 2015, the Action Plan for Water Pollution Control was announced, including a list of 10 measures to tackle water pollution, with the aim of improving the country's water environment quality and restoring the system function of water ecology by 2030.

³ McKinsey Global Institute. 2013. *Infrastructure Productivity*. New York; and Global Economic Forum. 2014. *Strategic Infrastructure Steps to Operate and Maintain Infrastructure Efficiently and Effectively*. Geneva.

design, construction, operation, and maintenance through an optimized portfolio approach.⁴ Examples of such synergies include (i) the sizing of wastewater treatment capacity in step with tap water supply, (ii) cost efficiencies from coordinated operations, (iii) monitoring water quantity throughout the value chain to detect any illegal wastewater discharge, and (iv) facilitating the reuse of treated wastewater as water supply for industrial users.

4. Through continuous screening and discussion with stakeholders in the water and sanitation sectors, the team identified Beijing Capital as a strong candidate for Asian Development Bank (ADB) support. Beijing Capital has adopted a new strategic focus on expanding into less-developed markets, including counties in western regions of the PRC where infrastructure for water treatment, distribution, wastewater collection and treatment systems remain severely underdeveloped.⁵ Beijing Capital acknowledged ADB's strong sector experience in sovereign and nonsovereign operations and requested ADB to lead the arrangement of a US dollar–yuan dual-currency financing package.

2. Project Design

5. The project is designed to optimize water and wastewater infrastructure portfolio in the western counties and townships in the PRC. The project involves the construction or acquisition, upgrade and/or expansion of water and wastewater infrastructure and associated facilities during 2016–2018, and operation and maintenance thereafter on a concession basis.

6. Unit costs of delivering small-scale environmental infrastructure are significantly higher than large-scale urban infrastructure. The project aims to minimize overall costs by adopting (i) a comprehensive multisector approach, and (ii) cost-competitive technologies:

- (i) **Multisector approach to select an efficient combination of subprojects.** There are significant potential synergies in the planning, design, construction, and operation of water and wastewater management facilities. By supporting multisector concessions where available, the project will improve resource efficiencies.
- (ii) **Cost-competitive technologies.** Beijing Capital will use cost-competitive solutions and adapt optimally to local conditions. In townships large enough for sewer pipe networks, the company will implement centralized collection and wastewater treatment systems. For small towns and villages without sewage network coverage, the company will implement distributed technology, such as on-site modular units at capacities as small as 0.5 tons per day.

7. Beijing Capital will be responsible for identifying, selecting, negotiating, implementing, and operating the subprojects.

[CONFIDENTIAL INFORMATION DELETED]

⁴ Regulations were revised in April 2015 to replace the previous concession templates (sector-specific documents tailored for water, wastewater, gas, district heating, and city transport) with a unified template applicable to all sectors. National Development and Reform Commission, Ministry of Finance, People's Bank of China, Ministry of Water Resources, Ministry of Housing and Urban-Rural Development, and Ministry of Transport. 2015. *Administrative Measures on Concession for Infrastructures and Public Utilities*. Beijing.

⁵ The designation of "western" includes provinces and provincial-level areas of Chongqing, Gansu, Guizhou, Hubei, Hunan, Ningxia, Qinghai, Shaanxi, Sichuan, and Yunnan.

3. The Sponsor and the Borrower

8. The project sponsor and borrower, Beijing Capital, is a leading environmental infrastructure provider in the PRC. It is listed on the Shanghai Stock Exchange, with 54.6% of its shares owned by Beijing Capital Group Co., Ltd., which is in turn wholly owned by the Beijing municipal government.⁶

9. Beijing Capital's core business involves the investment and operation of water supply, wastewater treatment, solid waste management, and other environmental services. At end of 2014, Beijing Capital had aggregate water supply capacity of 9.3 million tons/day, wastewater treatment capacity of 6.3 million tons/day, and solid waste treatment capacity of 5,065 tons/day. Its water and solid waste treatment projects were spread over 49 cities of 17 provinces and serve a population of over 35 million. Beijing Capital differentiates itself from its peers by providing, where applicable, one-stop integrated solutions across multiple infrastructure sectors. By leveraging expertise in water supply and distribution, urban–rural wastewater treatment, sewage network management, and solid waste management, Beijing Capital aims to improve infrastructure efficiency.

10. Western counties and townships, areas where adequate water supply and wastewater management services are lacking, are a new strategic focus of the company. Like its industry peers, Beijing Capital has historically focused on build-operate-transfer opportunities in large cities. Beijing Capital is undertaking a strategic shift to pursue business potential in less-developed towns and rural communities. The company has developed investment targets and training for this new growth area, and has signed strategic cooperation agreements with the local governments. To expand the scope of its service offerings to rural communities, Beijing Capital in 2014 acquired a majority stake in Capital Greinworth Environmental Protection Technology Co., Ltd. (CGEP), a leading manufacturer of modular, small-scale units for on-site wastewater treatment.⁷ CGEP's units are used in 3,400 villages across 22 provinces, providing a strong platform for growth.

11. Beijing Capital has demonstrated steady financial performance. In 2014, it reported total assets of CNY25.2 billion, revenue of CNY5.6 billion, and net profit of CNY688.1 million.

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B. Development Impact, Outcome, and Output

12. **Impact.** The impact will be the improved access to and efficiency of water and wastewater management services in the western counties of the PRC.

13. **Outcome.** The outcome will be the expansion and improvement in the provision of water supply and wastewater management services in western counties of the PRC.

⁶ As Beijing Capital is a managerially independent, commercially oriented company engaged in market competition, procurement will follow ADB's policies for nonsovereign operations.

⁷ CGEP's technologies are based on Japan's Jokaso system and enhanced with (i) flexibility to adapt to small rural communities by having a product lineup ranging from 0.5 tons/day to 2,000 tons/day; (ii) remote monitoring system that can oversee operations of hundreds of small-scale wastewater treatment stations on a real-time basis and be accessible through an internet browser or app; and (iii) automated operation that requires minimum on-site staff. The technologies were awarded 37 patents by the State Intellectual Property Office.

14. **Output.** The output will be the newly constructed and rehabilitated water supply and wastewater treatment facilities and associated infrastructure in target provinces of the PRC. By 2019, 19 subprojects with a total water supply capacity of 500,000 tons/day and wastewater treatment capacity of 540,000 tons/day will be developed.

C. Alignment with ADB Strategy and Operations

15. **Consistency with ADB strategy.** The project is consistent with ADB's Midterm Review of Strategy 2020, which identifies infrastructure and environment as two of four strategic priorities.⁸ On infrastructure, the project is in line with the strategy's focus on water supply and sanitation, as well as with its emphasis on PPP. On the environment, the project mitigates water pollution and health threats, and promotes environmentally sustainable growth.

16. **Consistency with country partnership strategy.** By supporting inclusive growth and environmental sustainability, the project addresses two of the three development goals of ADB's country partnership strategy for the PRC and aligns with its sector focus on environment protection, water management, and pollution control.⁹ It strongly complements ADB's ongoing initiatives in wastewater treatment and water pollution control in urban areas, past policy advisory support for tariff reform,¹⁰ and recent advisory work on the sanitation needs of smaller cities and towns.¹¹

17. **Consistency with water and urban operational plans.** The project aligns with ADB's Water Policy, which recognizes the crucial importance of water to the rural poor, the critical impacts of water scarcity, pollution, and degradation of watersheds, and the importance of efficient and sustainable water utility operation.¹² ADB's Water Operational Plan, 2011–2020 commits to investments of \$2.0 billion–\$2.5 billion per year to 2020, and targets an additional \$500 million per year for private sector lending.¹³ Integrated water and wastewater planning is consistent with the operational plan's prioritization of efficiency gains as the central design feature for ADB interventions.

D. Project Cost and Financing Plan

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E. Implementation Arrangements

18. Table 2 summarizes the implementation arrangements.¹⁴

⁸ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁹ ADB. 2012. *Country Partnership Strategy: People's Republic of China, 2011–2015*. Manila.

¹⁰ ADB. 1997/1999. *Technical Assistance to the People's Republic of China for the Water Supply Tariff Study I/II*. Manila; and ADB. 2001. *Technical Assistance to the People's Republic of China for Preparing the National Guidelines for Urban Wastewater Tariffs and Management Study*. Manila.

¹¹ As of August 2014, ADB had funded 51 urban sector projects totaling \$5.9 billion in the PRC, covering areas such as water supply and sanitation, waste management, and transport and energy services. Particularly relevant experience is represented by ADB. 2007. *Technical Assistance Report to the People's Republic of China for the Urban Wastewater and Solid Waste Management for Small Cities and Towns*. Manila.

¹² ADB. 2003. *Water for All*. Manila.

¹³ ADB. 2011. *Water Operational Plan, 2011–2020*. Manila.

¹⁴ Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).

Table 2: Summary of Implementation Arrangements

Aspects	Arrangements
Regulatory framework	Each subproject company will enter into concession agreements with municipal or county governments under build-operate-transfer or transfer-operate-transfer arrangements. Each subproject will be implemented in accordance with granted approvals, and during construction and operation will be subject to government inspections on environment, social, and safety aspects. Influent and effluent will be metered with minimum offtake quantities in wastewater subprojects.
Management	Beijing Capital will centralize subproject development, procurement, and financing arrangements across its operations. Beijing Capital will second experienced general managers and chief financial officers to each subproject company. Cash will be centrally managed through its cash management system.
Tariffs	Each subproject will receive tariffs based on national guidelines for cost recovery and reasonable returns. ¹⁵
Implementation period	January 2016–December 2018
Construction arrangement	Each subproject company will enter into engineering, procurement, and construction contracts with subcontractors. The small-scale distributed wastewater treatment application will be sourced by Capital Greinworth Environmental Protection Technology Co., Ltd. Other goods and services will be procured from Asian Development Bank member countries in a transparent manner through competitive bidding procedures.
Operation arrangements	
Revenue structure	Each plant will be paid water and wastewater treatment fees by end-users through local governments based on volume. [CONFIDENTIAL INFORMATION DELETED]
Major cost structure	Major costs comprise electricity, chemicals, labor, and administrative and maintenance expenses.
Operation and maintenance	Operation and maintenance will be handled by each subproject company's staff, who may be transferred from Beijing Capital, its existing projects, and/or recruited externally. Beijing Capital has experienced teams to recruit, train, and manage new staff.
Performance monitoring	Beijing Capital will report on key performance indicators, including the output and outcome indicators identified in the design and monitoring framework (Appendix 1).

Sources: Asian Development Bank and Beijing Capital Co., Ltd.

F. Projected Financial and Economic Performance

19. The project is financially viable because each of Beijing Capital's subprojects is undertaken with a minimum financial internal rate of return threshold higher than the weighted average cost of capital. The project is economically sustainable as the economic return on invested capital is higher than the social discount rate of 12%.

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III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

20. ADB's proposed assistance to Beijing Capital consists of (i) an A loan of up to \$150 million equivalent in US dollars and yuan, and (ii) a complementary loan of up to \$150 million equivalent in US dollars and yuan. ADB will fund the A loan from its ordinary capital resources and the complementary loan from participating banks with ADB acting as lender of record. The A loan will have a maturity of up to 10 years from the date of the first disbursement.

¹⁵ The tariff framework benefitted from ADB policy advisory on economically sustainable tariff design and implementation. ADB. 1997/1999. *Technical Assistance to the People's Republic of China for the Water Supply Tariff Study I/II*. Manila; and ADB. 2001. *Technical Assistance to the People's Republic of China for Preparing the National Guidelines for Urban Wastewater Tariffs and Management Study*. Manila.

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B. Value Added by ADB Assistance

21. Justification for ADB involvement in the project is based on the following:

- (i) Compared with more developed regions, the PRC's western counties and townships are disadvantaged in attracting private capital to municipal service concessions such as water supply and wastewater treatment services. ADB support will increase private investment and commercial bank lending to regions that are lagging behind.
- (ii) ADB assistance is crucial to demonstrate the commercial viability and efficiency of multisector service concessions with facilities across a range of sizes—a new model emerging in the PRC. ADB support is expected to highlight this untapped potential and build confidence in private sector participation for new forms of PPPs.
- (iii) ADB assistance will encourage Beijing Capital to improve environmental conditions in rural areas with small-sized, modular, high-standard wastewater treatment facilities. In so doing, the project will improve living standards in rural areas, and contribute to a more balanced urban and rural development.
- (iv) ADB assistance will lower transaction costs by bundling multiple infrastructure subprojects, which are often too small and time-consuming for international commercial banks to finance on a stand-alone basis. ADB will link the cluster of subprojects with the international financing community by arranging syndication and providing in-depth technical and safeguard due diligence.

C. Risks

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22. **Regulatory risk.** The PRC's policies governing water and wastewater treatment are supportive. The government has also set clear goals to improve water quality and reduce pollution. However, the PRC's regulatory framework is evolving with risks of delays in the approval of tariff increases.

23. **Offtake counterparty risk.** In the case of water supply, fees are reliably collected from end-users since national policies require each end-use customer to be metered, and allow curtailment of supply in the event of nonpayment. In the case of wastewater treatment, fees are publicly announced, largely sourced through treatment fees collected from end-users together with tap water fees, and further backstopped by host governments under concession obligations.

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24. **Completion and operation risk.** Beijing Capital has a proven track record in construction, operation, and maintenance across a wide range of facility types. Completion and operations risk are mitigated by the standardized, homogeneous nature of the subprojects. The capacity of Beijing Capital's technical and operational teams was confirmed by ADB's technical advisor during due diligence.

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IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

25. In compliance with ADB's Safeguard Policy Statement (2009), the project is classified as category B for environment, category B for involuntary resettlement, and category C for indigenous peoples. The potential environmental and social impacts of the project have been identified and effective measures to avoid, minimize, mitigate, and compensate for the adverse impacts are incorporated in the safeguard reports and plans. Beijing Capital has committed to enhance its institutional capacity to adequately manage the project's social and environmental impacts. ADB's due diligence involved an audit of Beijing Capital's existing environmental and social management system (ESMS) and its past and current performance against the PRC's laws and regulations and ADB's Safeguard Policy Statement. The institutional capacity and commitment of Beijing Capital to meet the PRC's social and environmental safeguard requirements are deemed adequate. Beijing Capital will update its ESMS to include an environmental impact assessment implementation system to meet ADB's safeguard requirements prior to the first disbursement. The updated ESMS will ensure Beijing Capital's capacity to conduct future subprojects in line with ADB's Safeguard Policy Statement and include detailed subproject selection procedure and criteria.¹⁶ The management of Beijing Capital has committed to allocate sufficient human resources and budget to implement the updated ESMS.

26. The potential environmental impacts will be reversible and are not unprecedented.¹⁷ The impacts associated with the construction of sewage and water supply network are mainly noise and vibration during excavation works. Traffic congestions and nuisance to communities from road works are manageable as the subprojects are located in small towns. Potential impacts during operation for wastewater treatment include effluent quality, sludge management, noise, odor, and possible generation of toxic gases. Potential impacts during operation for water supply facility include over extraction of water resources, delivery of unsafe water caused by raw water pollution, and adverse impacts associated with the use of chlorine and other chemicals. Subprojects with impacts associated with raw water supply and sludge management will be avoided in the subproject selection process. Other impacts can be mitigated through the adoption of good engineering practices.

27. Subprojects will be screened and categorized according to ADB's Safeguard Policy Statement. The updated ESMS will include detailed screening procedures and criteria. ADB will not finance any category A subprojects. Initial environmental examinations including environment management plans will be prepared for ADB-funded category B subprojects. Beijing Capital will carry out audits for existing facilities that will be acquired with funding from ADB; a corrective action plan (CAP) will be developed before the start of operations. The initial environmental examinations and audit reports with CAP will be disclosed according to ADB's safeguard requirements.¹⁸ The ESMS will cover Beijing Capital's other activities such as the manufacturing and installation of decentralized wastewater treatment modules for communities.

¹⁶ The selection criteria include ADB's prohibited investment activities list.

¹⁷ Beijing Capital will exclude potential category A subprojects with significant environmental adverse impacts.

¹⁸ Each subproject company will implement environmental management plans and CAPs.

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28. The audit finds that land acquisition is expected to be in the vicinity of urban and nonresidential areas, which will avoid any physical displacement in the buffer zone around water and wastewater treatment plants. Land acquisition, compensation, resettlement, and rehabilitation are not expected to be significant and, if needed, are normally carried out by local government agencies. Beijing Capital's updated ESMS will include resettlement principles and procedures to ensure that ADB-funded subprojects are rigorously examined with regard to land acquisition and resettlement impacts. Should subprojects have involuntary resettlement impacts entailing physical and economic displacement, resettlement plans will be prepared and implemented by local governments prior to any construction activities in accordance with PRC laws and regulations and ADB's Safeguard Policy Statement. The audit also finds that the project is not expected to have any impacts on ethnic minorities. The ESMS will include social safeguard screening procedures to ensure there are no adverse impacts on ethnic minorities.

29. **Other social dimensions.** The project is categorized as no gender elements, however Beijing Capital will undertake gender analysis as part of the environmental and social impact assessment for each subproject; and involve women in consultation, awareness campaigns and hiring. Beijing Capital upholds gender equality and provides equal benefits and training opportunities for both men and women. Priorities are provided to women for positions in the financial and human resource department, and in laboratories. Beijing Capital is committed to undertake measures to (i) support engagement of women in construction activities by its contractors; and (ii) regularly ascertain concerns of residents, including women, through the consultations with resident welfare associations. Beijing Capital will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with the internationally recognized core labor standards.¹⁹ The borrower will report regularly to ADB on (i) its (and its contractors') compliance with such laws, and (ii) the measures taken. Information disclosure and consultation with affected people will be conducted in accordance with ADB requirements.²⁰

B. Anticorruption Policy

30. Beijing Capital was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

31. The proposed direct loan is within the medium-term, country, industry, group, and single-project exposure limits for nonsovereign investments.

¹⁹ ADB. 2003. *Social Protection*. Manila (adopted in 2001).

²⁰ Summary Poverty Reduction and Social Strategy; Safeguards and Social Dimensions Summary (accessible from the list of linked documents in Appendix 2).

D. Assurances

32. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),²¹ ADB will proceed with the proposed assistance upon establishing that the Government of the PRC has no objection to the proposed assistance to Beijing Capital. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

V. RECOMMENDATION

33. I am satisfied that the proposed loan facility would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of up to \$300,000,000 equivalent in US dollars and yuan, comprising (i) an A loan of up to \$150,000,000 equivalent in US dollars and yuan from ADB's ordinary capital resources; and (ii) a complementary loan of up to \$150,000,000 equivalent in US dollars and yuan to Beijing Capital Co., Ltd. for the Western Counties Water and Wastewater Management Project in the People's Republic of China, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

14 September 2015

²¹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Access to and efficiency of water and wastewater management services in the western counties of the PRC improved ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Provision of water supply and wastewater management services in western counties of the PRC expanded and improved	(2015 baseline: Not applicable) a. 91 million tons of water, and 126 million tons of wastewater treated annually to national standard by 2021 b. Additional 886 local workers employed during operation by 2021 c. Goods and services purchased locally during operations amount to CNY405 million during 2019–2021 d. Contribution to government revenues amount to CNY21 million during 2019–2021	a.–d. Annual project monitoring and development effectiveness monitoring reports by Beijing Capital	Associated infrastructure, such as tap water distribution network and sewage pipelines, is delayed
Output Water supply and wastewater treatment facilities and associated infrastructure in target provinces of the PRC constructed and rehabilitated	(2015 baseline: Not applicable) a. Five water treatment subprojects with a total 500,000 tons/day capacity constructed by 2019 ^b b. 10 municipal wastewater subprojects with a total capacity of 480,000 tons/day constructed by 2019 ^b c. Four rural wastewater treatment subprojects with a total capacity of 60,000 tons/day constructed by 2019 ^b d. 50 kilometers of sewage pipeline networks constructed by 2019 e. Goods and services purchased locally during construction amount to CNY2,235 million by 2019 f. Additional 432 local workers employed during construction	a.–f. Annual project monitoring and development effectiveness monitoring reports by Beijing Capital	Delay by host governments in granting concession rights to private sector due to unforeseen regulation changes

<p>Key Activities with Milestones</p> <p>1.1 Signing of loan agreement by Q4 2015</p> <p>1.2 Corporate environmental and social management system operational by Q4 2015 prior to financial closure</p> <p>1.3 Financial closure by Q4 2015</p> <p>1.4 Clearance of all loan drawdown conditions by Q4 2015</p> <p>1.5 Construction work in progress, as scheduled</p> <p>1.6 Full commissioning of subproject plants by 2019</p>
<p>Inputs</p> <p>ADB A loan: Up to \$150 million equivalent in US dollars and yuan</p> <p>ADB complementary loan: Up to \$150 million equivalent in US dollars and yuan</p> <p>[CONFIDENTIAL INFORMATION DELETED]</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable.</p>

ADB = Asian Development Bank, PRC = People's Republic of China, Q = quarter.

Note: The designation of "western" refers to provinces and provincial-level areas of Chongqing, Gansu, Guizhou, Hubei, Hunan, Ningxia, Qinghai, Shaanxi, Sichuan, and Yunnan.

^a State Council. 2014. *National New-Type Urbanization Plan, 2014–2020*. Beijing.

^b The water and wastewater treatment plants will meet the national standards issued by the Ministry of Environmental Protection, the Ministry of Health, and the Ministry of Housing and Urban–Rural Development.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49066-001-3>

1. Sector Overview
2. Details of Implementation Arrangements
3. Contribution to the ADB Results Framework
4. Financial Analysis
5. Economic Analysis
6. Country Economic Indicators
7. Summary Poverty Reduction and Social Strategy
8. Safeguards and Social Dimensions Summary
9. Findings of the Corporate Safeguards Audit and Environmental and Social Management System Arrangement

Supplementary Document

10. Financial Projections