



Report and Recommendation of the President to the Board of Directors

Project Number: 46062
November 2014

Proposed Loan People's Republic of China: Gansu Baiyin Integrated Urban Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 November 2014)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1634
\$1.00	=	CNY6.121

ABBREVIATIONS

ADB	–	Asian Development Bank
BMG	–	Baiyin municipal government
EMP	–	environmental management plan
EMS	–	environmental management system
IEE	–	initial environmental examination
ITS	–	intelligent transport system
JCG	–	Jingyuan county government
km	–	kilometer
LIP	–	Liuchuan Industrial Park
LMC	–	Liuchuan Industrial Park Management Committee
<i>mu</i>	–	a Chinese unit of measurement (1 <i>mu</i> = 666.7 square meters)
O&M	–	operation and maintenance
PRC	–	People's Republic of China
TVET	–	technical and vocational education and training

NOTE

In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46062-002	
Project Name	Gansu Baiyin Integrated Urban Development Project	Department /Division	EARD/EASS
Country Borrower	China, People's Republic of China, People's Republic of	Executing Agency	Baiyin Municipal Government
2. Sector		ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban sewerage		23.43
	Urban water supply		47.61
Education	Technical and vocational education and training		2.59
Transport	Urban public transport		1.34
	Urban roads and traffic management		25.03
		Total	100.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Eco-efficiency Urban environmental improvement		
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Organizational development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Rural Urban	Low High
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: A Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign Project loan: Ordinary capital resources		100.00	
Cofinancing		0.00	
None		0.00	
Counterpart		112.70	
Others		32.80	
Government		79.90	
Total		212.70	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the People's Republic of China (PRC) for the Gansu Baiyin Integrated Urban Development Project.¹

2. The project will support inclusive and environmentally sound transformation of a resource-exhausted city in the western inland region of the PRC. The project will (i) construct centralized water supply and wastewater treatment systems, and a road for a new industrial park; (ii) upgrade skill training courses on technical and vocational education and training (TVET) and a labor market database to support industrial transformation; (iii) install intelligent transport systems (ITSs) for road safety and public bus services to improve livability of the city; and (iv) enhance environmental management of the industrial park.²

II. THE PROJECT

A. Rationale

3. The PRC is rapidly becoming urbanized. During 1992–2012, the urban population grew from 322 million to 712 million, representing a rise from 27% to 53% of the total population.³ About two-thirds of the urban population growth came from rural–urban migration. Until the 1980s, many provinces and autonomous regions in the west had the advantage of serving as national mineral-based resource centers. A number of mining and resource-intensive heavy industries were deployed in the region. In the 1990s, the national opening-up policy and coordinated development strategy focused on the eastern region, which led to large flows of foreign capital into the coastal cities. Meanwhile, reduced production and depletion of mineral resources slowed socioeconomic development of some western inland provinces. The National Strategy for Development of the West launched in 1999 directly supported the western region to reduce the consequential regional imbalance. However, slow development of cities in the western region, continuous outflow of migrant workers to cities in the eastern coastal region, and urban–rural income disparities continue to be urban development challenges in the PRC.⁴

4. Gansu province is one of the poor provinces targeted under the National Strategy for Development of the West. Its per capita gross domestic product in 2013 was CNY24,438, the second lowest in the PRC after Guizhou province. Gansu also suffers from high poverty incidence: 8.4% for urban households and 68.6% for rural households, much higher than the national averages of 2.8% for urban households and 13.1% for rural households. Gansu's mineral resources production has gradually declined, and its economic transition from primary and secondary industries to high value-adding manufacturing and service-based tertiary industries has been slow. Baiyin, a medium-sized city close to the provincial capital of Lanzhou, is a typical case. In the 1950s, the city was originally established as a national copper mining base. The city's development was fueled by strong growth of mining and metallurgical industries. However, since 1985, its socioeconomic development has suffered major setbacks after continuous copper exploitation and depletion, and associated environmental degradation.

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance: ADB. 2013. *Technical Assistance to the People's Republic of China for Preparing the Gansu Baiyin Urban Development II Project*. Manila (TA 8381-PRC).

³ National Bureau of Statistics. 2013. *China Statistical Yearbook 2013*. Beijing: Government of the PRC.

⁴ In 2012, average gross domestic product per capita of the 12 western inland municipality, provinces, and autonomous regions was 75% of the national average, and only 58% of that of the eastern coastal region.

In 2008, Baiyin was officially listed as one of the first resource-exhausted cities in transition and became a recipient of special funding support from the Government of the PRC.⁵ Baiyin was also designated as a resource-exhausted city transformation demonstration area in 2011. Further, Gansu launched the Lanzhou–Baiyin Economic Zone in 2011 to boost its regional economic development by integrating cities and industrial bases.⁶

5. Although Baiyin's industrial output grew by 13.5% annually in 2008–2013, its per capita gross domestic product is only 64% of the national average. The city continues to struggle to diversify its economy and transform its industrial base. In 2012, Baiyin still relied on nonferrous metal, chemical, and coal-based energy industries, similar to the situation in 1985.⁷ Baiyin also has difficulty attracting more people. The total population increased by 0.1% per annum during 2000–2012, while the urban population grew by 2.4%. Urban unemployment rates remained high at about 20%. For Baiyin to accelerate its transformation from a resource-exhausted mining city into an inclusive and green city, the city needs to (i) accelerate its industrial transformation and build a resilient foundation for economic development, (ii) reverse the trend of layoffs and stop talent outflow by strengthening the provision of human resource development for local and emerging industries, (iii) demonstrate its commitment to environmentally sound and green industrial city development, and (iv) raise the city's livability and quality of life to attract people from surrounding areas to support its industrial transformation.

6. Project preparation identified that the transformation cannot be achieved through infrastructure development alone. The value addition of the Asian Development Bank (ADB) is its comprehensive approach covering infrastructure, human resources, and environmental capacity development. As a model city, Baiyin's successful transformation approach can be replicated by other resource-exhausted cities. The project also incorporates lessons from a previous ADB project in Baiyin and other urban, education, and transport sector projects in the PRC.⁸ These include (i) setting aspirational but realistic targets with measurable performance indicators, (ii) comprehensive due diligence on land acquisition and resettlement including past resettlement activities, (iii) strong start-up procurement support by an experienced tendering agency, and (iv) advance engagement of key consulting services and preparation of equipment contracts for early disbursement. The project is in line with ADB's country partnership strategy, 2011–2015 for the PRC for inclusive and environmentally sustainable growth.⁹ The project is aligned with ADB's urban operational plan as it demonstrates competitive, inclusive, and environmentally sustainable city transformation in a poor region.¹⁰ The project also supports the PRC's Twelfth Five-Year Plan, 2011–2015 by supporting the rebalancing of its regional development, which is expected to continue during the Thirteenth Five-Year Plan period.

B. Impact and Outcome

7. The impact will be inclusive and environmentally sustainable development in Baiyin. The outcome will be accelerated industrial transformation and economic diversification of Baiyin.

⁵ In 2008, Baiyin was listed as one of 18 national resource-exhausted cities which received special support for economic transformation under the Eleventh Five-Year Plan.

⁶ In 2012, the zone has 21% of the provincial population and produces 35% of provincial gross regional product.

⁷ The composition of sector industries has been unchanged in 2000–2012: primary 11%–16%, secondary 52%–57%, and tertiary 31%–33%. Output shares of different industries in the secondary sector remain almost the same, except for a slight decline in the nonferrous metal industry and some increases in the coal-based energy industry and chemical industry during 1985–2012.

⁸ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for the Gansu Baiyin Urban Development Project*. Manila.

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

¹⁰ ADB. 2012. *Urban Operational Plan, 2012–2020*. Manila.

C. Outputs

8. **Output 1: Liuchuan Industrial Park infrastructure development.** Liuchuan Industrial Park (LIP) is one of three important national and provincial industrial parks expected to lead Baiyin's industrial transformation and economic diversification. In June 2014, 41% of the total area of 23 square kilometers was committed for industries. Based on its access to rare-earth materials, the LIP offers unique opportunities for high value-adding manufacturing industries such as batteries for renewable energy equipment and green vehicles, computer appliances and light-emitting diode products. The project will assist the LIP itself to be developed as a green industrial park. For the first time in Baiyin, the project will finance both water and wastewater systems dedicated for an industrial park and its residential areas. To optimize water use efficiency, the treated wastewater will be reused for landscape irrigation and industrial processes. The water supply system includes a plant with a supply capacity of 60,000 cubic meters per day, a 14.4 kilometer (km) water transmission pipeline, and a 14.0 km water distribution pipeline network and other related facilities. The project-financed wastewater system, including a plant with treatment capacity of 35,000 cubic meters per day, sludge treatment facilities, and a 46.0 km wastewater collection pipeline network, will enable the LIP to meet the highest effluent standard in the PRC. A project-financed 6.0 km main artery road will have energy-saving streetlights installed. The output will demonstrate green industrial development to support the city's economy and social welfare for providing job opportunities.

9. **Output 2: Technical and vocational education and training enhancement.** As a result of prolonged economic recession and closure of traditional mining industries, Baiyin became a source of nonskilled migrant workers for cities outside of Baiyin and further in the eastern coastal region. The existing TVET provision only gives people general skills. Labor information is not collected and managed efficiently to match the demand and supply for workers. The output will provide holistic TVET support to secondary and adult skill education and employment services, ensuring inclusive industrial transformation. For Baiyin's TVET system to actively support the city's transformation, the project will introduce the first competency-based curriculum for 3-year long-term courses and short-term courses in the Jingyuan County Secondary Vocational School and public employment training centers. The courses will be designed to respond to existing and changing skills demands of LIP industries. The project-financed teacher training will enhance the institutional capacity of TVET service providers and ensure skilled workers are locally available. Under the project, public training center and school facilities will be upgraded, and training equipment will be purchased for LIP industries and supporting service industries including electronics, mechanical machine operation, business accounting, and restaurant services. Project support will also be provided for labor employment in Baiyin by strengthening a labor market information system including information and communication technology equipment, computer software, and staff training for public employment services.

10. **Output 3: Intelligent transport systems installation.** The output will promote green city development and enhance city livability in Baiyin, thereby attracting more people to support its industrial transformation. Although Baiyin central district had sufficient road capacity to accommodate the number of registered vehicles in 2012, a gradual increase in the urban population and registered vehicles started to cause traffic congestion in the central area at peak times. Moreover, violation of traffic rules and road accidents are increasing sharply. The public bus service is expected to offer an alternative and preferred choice of mobility for people, but the obsolete bus control and monitoring system only achieved a 60% punctuality rate in 2012 and therefore the service failed to increase its modal share. The project will finance two ITSs by installing (i) a traffic police ITS with a traffic operation center, signal control equipment, video

monitoring, violation recording and traffic guidance equipment, and operational software; and (ii) a public transport ITS with a bus operation center, bus onboard equipment, stop and depot equipment, and operational software.

11. **Output 4: Enhanced environmental management and capacity development.** The output will develop an environmental management system (EMS) for the LIP. This ensures that Baiyin's industrial transformation will not be at the expense of the environment. A team of experts will help the Liuchuan Industrial Park Management Committee (LMC), one of the implementing agencies, to establish an ISO 14001-certified EMS for the LIP and pursue accreditation of an eco-industrial park under the PRC national standard by 2025.¹¹ Through this, the project aims for the LIP to be the first accredited eco-industrial park in Gansu and the western inland region of the PRC. The output will also strengthen institutional capacities for project management and operation by providing expert support on project management, and design and implementation of the TVET subproject. The consulting services will support public awareness activities on road safety and provide capacity development activities on public financial management. Training on innovative infrastructure financing will emphasize public-private partnership so as to create an enabling environment in Baiyin to encourage participation of the private sector in the city's industrial transformation.

D. Investment and Financing Plans

12. The project is estimated to cost \$212.7 million (Table 1), of which 69% of the base cost will finance civil works, 16% for mechanical and equipment, and 1% for consultants.

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Liuchuan Industrial Park infrastructure development	157.6
2. Technical and vocational education and training enhancement	2.5
3. Intelligent transport systems installation	5.6
4. Enhanced environmental management and capacity development	1.8
Subtotal (A)	167.5
B. Contingencies^c	36.3
C. Financing Charges During Implementation^d	8.8
Total (A+B+C)	212.7

Note: Numbers may not sum precisely because of rounding.

^a Includes taxes and duties of \$10.0 million to be financed by the government and Asian Development Bank (ADB) loan resources. The following principles were followed in determining the amount of taxes and duties to be financed by ADB: (i) the amount is within reasonable country thresholds, (ii) the amount does not represent an excessive share of the project investment plan, (iii) taxes and duties apply only to ADB-financed expenditures, and (iv) the financing of the taxes and duties is relevant to the success of the project.

^b In March 2014 prices.

^c Physical contingencies are computed at 10% for works and goods. Price contingencies are computed using domestic inflation rates: 2.7% in 2014 and 3.0% in 2015 onwards; and foreign inflation rates: 2.3% in 2014, 1.0% in 2015, and 1.4% in 2016 onwards.

^d Includes interest and commitment charges. Interest during construction for the ADB loan has been computed at the 5-year US dollar fixed swap rate plus a spread of 0.5% and a maturity premium of 0.1%. Commitment charge for the ADB loan is 0.15% per year to be charged on the undisbursed loan amount. Interest during construction for the domestic bank loan from the Industrial and Commercial Bank of China is computed at 7.2% per year and for the Bank of Gansu at 6.7% per year.

Source: Asian Development Bank estimates.

¹¹ ISO 14001 is a standard for environmental management established by the International Organization for Standardization. The certification is required for accreditation of an eco-industrial park under the PRC Standard.

13. The government has requested a loan of \$100.0 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years; a straight-line repayment option; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; the interest during construction to be capitalized in the loan; and such other terms and conditions set forth in the draft loan and project agreements. Based on this, the average loan maturity is 15.3 years and the maturity premium payable to ADB is 0.1% per annum. The ADB loan will also finance taxes and duties for eligible ADB-financed expenditures and transportation and insurance costs included in the base cost for ensuring smooth project implementation. The loan will finance 47.0% of the project cost. The government will finance \$112.7 million, including \$79.9 million from the Baiyin municipal government (BMG) and \$32.8 million through borrowing from local banks (Table 2).

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (loan)	100.0	47.0
Baiyin municipal government	79.9	37.6
Others (domestic banks)	32.8	15.4
Total	212.7	100.0

Source: Asian Development Bank estimates.

14. The PRC is the borrower of the loan and will make the loan available through the Gansu provincial government to the BMG on the same terms and conditions as those of the ADB loan. The BMG will assume the foreign exchange and interest variation risks of the ADB loan. The government has assured ADB that counterpart funding will be provided in a timely manner, including any additional counterpart funding required because of any shortfall of funds, delay in borrowing domestic bank loans, or cost overruns. The indicative flow of funds and the lending arrangements are in the project administration manual.¹²

E. Implementation Arrangements

15. Implementation arrangements are summarized in Table 3.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2015–December 2019		
Estimated completion date	31 December 2019 (estimated loan closing date: 30 June 2020)		
Management			
(i) Oversight body	Baiyin municipal government (BMG) project leading group		
(ii) Executing agency	BMG will take overall responsibility for project implementation. The project management office, established under its development and reform commission, will handle overall project coordination and management.		
(iii) Key implementing agencies	Liuchuan Industrial Park Management Committee, Jingyuan County Bureau of Human Resources and Social Security, Baiyin Municipal Public Security Bureau Traffic Police Detachment, and Baiyin Public Transportation Company will take overall responsibility to implement subprojects and carry out day-to-day activities including engineering supervision and procurement of goods and civil works.		
Procurement	International competitive bidding	8 contracts	\$87.92 million
	National competitive bidding	11 contracts	\$45.74 million

¹² Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements		
	Shopping	22 contracts	\$0.99 million
	Domestic financing	2 contracts	\$8.03 million
Consulting services	Individual consultant selection	6 person-months	\$0.04 million
	Quality- and cost-based selection	90 person-months	\$1.34 million
	Consultants' qualifications selection	45 person-months	\$0.63 million
	Domestic financing	10 person-months	\$0.25 million
Retroactive financing and/or advance contracting	Advance contracting and retroactive financing will be used for one civil works, two equipment, and two consulting service packages. Retroactive financing will finance up to 20% of eligible expenditure of the Asian Development Bank (ADB) loan that is incurred prior to loan effectiveness but not earlier than 12 months before the loan agreement is signed.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

Source: Asian Development Bank estimates.

III. DUE DILIGENCE

A. Technical

16. The project is technically feasible as a result of detailed examinations of compatibility with the PRC's engineering guidelines, projections of traffic demand, water supply demand and wastewater generation, required treated effluent quality, industrial skills development needs, and needs of traffic safety and public transportation management. Development of other infrastructure in the LIP is ongoing and everything needed by industries to move to the LIP will be completed before project completion. Analysis of alternative technical options confirmed operational feasibility of the water and wastewater treatment systems, and ensured road cross-section design considering road safety for operation of heavy industrial vehicles. The project will provide capacity development training to ensure sustainable operation and maintenance (O&M) of project facilities. Vocational skills training, enhanced course contents, information technology equipment, and teacher training will overcome the weaknesses of limited (i) TVET service provision and quality, (ii) partnerships between TVET providers and industries, and (iii) capacity to handle labor market information. The BMG and LMC committed under a loan assurance to lead the coordination between LIP industries and local TVET providers. ITS designs considered traffic projection for the next 5–10 years and identified the most appropriate scale of investment.

B. Economic and Financial

17. **Economic analysis.** The economic analysis evaluated technical options and confirmed that the project adopted least-cost ways to support Baiyin's transformation. Economic internal rates of return were computed at 14.9% for the overall project, 14.2% for the LIP infrastructure development subproject, 20.0% for the TVET subproject, and 19.9% for the ITS subproject. All exceeded the economic opportunity cost of capital of 12.0%. The project's quantifiable economic benefits include (i) time saving by construction of the LIP's main artery road, (ii) willingness to pay for improved water supply and sanitation services, (iii) increased wages after skills training at secondary level and adult education, (iv) avoided road accidents and associated loss, and (v) time saving from more punctual public bus operation. The economic costs comprise capital costs, including physical contingencies, and O&M costs.¹³

¹³ Economic Analysis (accessible from the list of linked documents in Appendix 2).

18. **Financial analysis.** A financial evaluation was conducted of the water supply and wastewater treatment systems, which have a cost-recovery objective. A single operator is envisaged and, therefore, the analysis combined cost and revenue for water and wastewater treatment services. The analysis indicated that the financial internal rate of return is 3.4%, which exceeds the weighted average cost of capital of 2.5%. Sensitivity analysis indicates that the project is most sensitive to decreases in revenue by 10%, where the financial internal rate of return is marginally lower than the weighted average cost of capital at 2.0%. Water and wastewater treatment tariffs are expected to increase by 10% every 3 years, which is considered realistic because users of water and wastewater services are primarily industries, and the current level of tariffs are lower than in the other two national and provincial industrial parks in Baiyin.

19. Financial impact assessment was carried out to ensure fiscal sustainability during project implementation and operation. Financial capacities of the BMG, Jingyuan county government (JCG), and LMC were assessed against annual counterpart funds required for capital expenditures (BMG), local bank loans debt service (JCG and LMC), and debt service for the ADB loan (BMG). The assessment also concluded that the BMG, JCG, LMC, and Baiyin Public Transportation Company have sufficient financial capacities to finance O&M during operation. Annual counterpart funds and interest during construction will be 0.5% of projected fiscal revenues of the BMG, and ADB debt service during operation will be 0.1%. The combined financial impact of debt service and O&M on the LMC were projected to be high because the LIP will not be in full operation until 2020. Since the LMC's fiscal revenue relies solely on the JCG, additional due diligence analysis was conducted against the JCG on debt service and O&M cost. The fiscal impact of domestic bank debt service and O&M cost on the JCG's fiscal budget were estimated at 0.2%–1.5% in 2015–2019 and less than 0.1% from 2020 onwards, indicating that the JCG has enough financial capacity. The fiscal risk of the LMC is mitigated by a loan assurance providing comprehensive fiscal support from the JCG to ensure smooth start-up of the LIP development. O&M costs of other subprojects will range from less than 0.1% to 1.3% of projected revenues of operational entities in the first year of operation.¹⁴

C. Governance

20. The BMG handled the first ADB urban sector project in Gansu. Procurement and financial management capacity assessments concluded that the BMG has strong capacity to conduct procurement activities and financial management in accordance with ADB guidelines. The project financial management arrangements are adequate. Though new to handling projects financed by international financial institutions, all implementing agencies are experienced in managing construction and/or procuring goods for similar domestic projects. Moreover, the agencies are gaining adequate capacity for both procurement and financial management in accordance with ADB policies and procedures and the PRC's national procurement laws and regulations. ADB's Anticorruption Policy (1998, as amended to date) and Accountability Mechanism Policy (2012) were explained to and discussed with the BMG and the four implementing agencies. The BMG and its project management office are transferring knowledge and experience on procurement, public financial management, and governance issues to the four implementing agencies through daily operations. A project management and procurement specialist will be mobilized through advance contracting. An international tendering agency will be engaged before any advance procurement action. The project implementation consulting service includes a contract management and procurement engineer and a financial specialist to support the implementation.

¹⁴ Financial Analysis (accessible from the list of linked documents in Appendix 2).

D. Poverty and Social

21. **Gender benefits.** The project is categorized as effective gender mainstreaming. A survey and focus group discussions revealed that female respondents support the project as it will generate job opportunities locally for them and for family members who are currently migrant workers. Focus group discussions also found that women are interested in gaining skills through training that will provide them with better nonfarming employment opportunities, and they considered improvements in traffic safety and access to better public transport service as important benefits that will enhance their quality of life. A gender action plan includes specific targets for women in employment, vocational training, and participation that have been assured by the government. Women will be provided with (i) job opportunities during and after project implementation; (ii) at least one dedicated TVET short-term training course; (iii) training or education on labor law, labor protection, and labor security program; and (iv) opportunities to participate in community management and decision-making processes.¹⁵

22. The enterprises attracted to the LIP will generate about 77,000 job opportunities and 8,300 jobs will be created in the services sector; 30% of these jobs will be made available to the poor.¹⁶ The LIP infrastructure development subproject will directly benefit people who will live and work in the LIP. About 87,000 rural people and 6,000 urban people of Jingyuan county are expected to benefit from the TVET subproject through increased access to training and employment opportunities in various sectors. The TVET subproject will also improve livelihoods of communities impacted by resettlement and land acquisition as a result of the LIP development. In addition, the ITS subproject will directly benefit 276,500 people who live in the area covered by the system by providing safe and better public transport services. A social development action plan was prepared and will be implemented in collaboration with key stakeholders during project implementation. A resettlement and social development specialist under the project management consulting service will monitor and report the progress of the social development action plan and gender action plan, and results will be verified by the external monitor.¹⁷

E. Safeguards

23. **Environment (category B).** An initial environmental examination (IEE), including environmental management plan (EMP), was prepared based on three domestic environmental impact assessments prepared for the infrastructure components, and a planning environmental impact assessment prepared for the LIP. The IEE complies with ADB's Safeguard Policy Statement (2009) and was disclosed on the ADB website.¹⁸ It confirms that construction-phase impacts will be localized and short term and can be effectively mitigated through application of good construction practices and implementation of health and safety risk management plans defined in the EMP. Significant earthworks, which will disturb surface soils and could affect surface water in the project area, can be mitigated by adherence to the measures defined in the water and soil conservation plan. Dust and noise control will address the concerns of nearby residents during project implementation and operational phases. The sustainability of water extraction from regional water resources was confirmed through regional water balance analysis of the Yellow River and its water allocation plan. The effluent from the wastewater treatment

¹⁵ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

¹⁶ As of June 2013, seven industries had moved into the LIP. The LMC had also signed with four additional industries.

¹⁷ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2). The social development action plan is included in the project administration manual.

¹⁸ Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

plant will be reused for landscape irrigation and industrial processes, contributing to increased resilience to climate variability and future climate change. The ISO 14001-certified EMS will ensure the environmental management and emergency response capacity of the LIP and minimize environmental risks within the LIP during the operational phase. The BMG will be responsible for the overall implementation and compliance with the EMP, including inspection, monitoring, reporting, and corrective actions or measures. Environmental management is supported by loan assurances and capacity development and institutional strengthening activities under the project. The BMG conducted meaningful consultation with potentially affected people and project beneficiaries. Environmental complaints will be handled in accordance with the grievance redress mechanism developed for the project. The project's outstanding environmental feature is the development of the EMS for the LIP, which is attached to the IEE. It will ensure a sustainable environmental path for LIP development.

24. **Involuntary resettlement (category A).** The project will occupy 1,158.3 *mu* of state-owned land, acquire 397.7 *mu* of collectively owned land, and demolish houses of 35 households with 156 people.¹⁹ Sixty-seven rural households and 337 people will be significantly affected by the land acquisition and house relocation. Temporary land occupation of 155 *mu* will affect 46 rural households and 243 people. A resettlement plan was prepared in line with ADB's Safeguard Policy Statement, approved by ADB, disclosed to the affected people, and uploaded to the ADB website on 16 June 2014. The resettlement plan will be finalized in line with detailed engineering design and detailed measurement survey, disclosed to affected people, and submitted to ADB for approval. Compensation for lost assets and resettlement allowances will be paid to affected people, and livelihood rehabilitation will be arranged in accordance with the resettlement plan. A due diligence report, prepared as an appendix of the resettlement plan, reviewed the collective land acquisition for the project completed in August 2012 and November 2013. Implementation of the resettlement plan will be monitored and evaluated internally and externally. Reflecting the first ADB project experience, the BMG will have, and cause the LMC to have, full-time staff members responsible for land acquisition and resettlement who will ensure compliance with ADB safeguards requirements and regularly report implementation progress through periodic progress reports to ADB. The external monitor will review the progress and general welfare of affected people to assess whether they have fully regained their standard of living. Monitoring and evaluation reports will be prepared semiannually during implementation and annually for 2 years after resettlement has been completed. They will be submitted to ADB and publicly disclosed. The project has also established a transparent grievance redress mechanism that will provide meaningful consultation and trigger remedial action.

25. **Indigenous peoples (category C).** The project has no negative effect on the ethnic minority as there is no concentrated area of ethnic minorities in the project area. Ethnic minorities are scattered in all residential quarters and 1.8% of the total municipal population is ethnic minorities, primarily Hui minority. They will enjoy the benefits created by the project the same way as the Han people.

F. Risks and Mitigating Measures

26. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁰ The integrated benefits and impacts are expected to outweigh the costs.

¹⁹ A *mu* is a Chinese unit of measurement (1 *mu* = 666.7 square meters).

²⁰ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Late appropriation of domestic bank loan may delay project implementation	The BMG caused the JCG and LMC to agree with their banks to issue commitment letters of the domestic bank loan for counterpart funds. The domestic bank loan will not be allocated for resettlement and land acquisition costs to avoid any start-up delay of the project. The PMC will conduct financial management training for the BMG and JCG.
Four implementing agencies lack experience in civil works and in goods procurement in ADB-funded projects	The BMG will engage a start-up project management and procurement specialist. The PMC and tendering agency will provide continuous assistance to the four implementing agencies. The BMG and four implementing agencies will engage experienced engineering design institutes for bidding documents preparation. The PMC will provide training on ADB procurement procedures and the BMG and four implementing agencies will attend training organized by ADB.
Political interference, conflicts of interest, and nepotism could affect procurement and implementation, leading to poor-quality projects	The BMG assured it will undertake anticorruption actions: (i) involve full-time officials from the government discipline investigation bureau in the bidding process and awarding of contracts, (ii) include anticorruption clauses in the bidding documents and contracts, and (iii) remind implementing agencies during day-to-day operation and communication of loan covenants against corruption.
O&M of infrastructure created by the project are not sustainable because of lack of capacity or budget	A separate consultant team and ADB experts provide support to engage a private operator for project-financed water and wastewater facilities. The BMG will ensure sustainability of project facilities by organizing training and study tours under PMC support. The BMG, LMC, BPT, and JCG have assured adequate human and financial resources for O&M of project facilities.

ADB = Asian Development Bank, BMG = Baiyin municipal government, BPT = Baiyin Public Transportation Company, JCG = Jingyuan county government, LMC = Liuchuan Industrial Park Management Committee, O&M = operation and maintenance, PMC = project management consulting service.

Source: Asian Development Bank.

IV. ASSURANCES

27. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the project administration manual and loan documents. The government has also agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

V. RECOMMENDATION

28. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the loan of \$100,000,000 to the People's Republic of China for the Gansu Baiyin Integrated Urban Development Project, from ADB's ordinary capital resources, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Bindu N. Lohani
Ranking Vice-President

5 November 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Inclusive and environmentally sustainable development in Baiyin</p>	<p>By 2022 (2013 baseline) Ratio of incomes of urban to rural residents reduced from 3.6 to 3.0 in Baiyin municipality Unemployment rate in urban area reduced from 22.3% to 10.0% in Baiyin municipality Average per capita net income of rural households increased by 7% per annum from CNY5,772 in Jingyuan county LIP certified as a PRC Eco-Industrial Park by 2025</p>	<p>Baiyin Statistical Yearbook Baiyin Statistical Yearbook Baiyin Statistical Yearbook Annual report of LMC</p>	<p>Assumptions Development of the Lanzhou–Baiyin Economic Zone remains a national priority of the Government of the PRC Socioeconomic development of Gansu province and Baiyin municipality is steady and in accordance with the 12th and 13th five-year plans</p>
<p>Outcome Accelerated industrial transformation and economic diversification of Baiyin</p>	<p>By 2019 (2013 baseline) Committed land area for industry increased from 24.0% to 75.0% in the LIP Industries operating in the LIP increased from 6 firms in 6 sectors to 15 firms in 8 sectors 1,000 trainees, of which 40% are women, enrolled with 80% of participants successfully completing existing and newly developed training courses supported by the project Modal share of public transport in Baiyin district increased from 36.8% to 40.0% Number of major road accident (death and permanent injury) per 10,000 vehicles reduced from 4.0 to 3.5 and number of traffic violations per vehicle reduced from 0.64 to 0.50 206 skilled and 181 unskilled jobs provided during construction and operation, of which 30% are for women and 30% for the poor LIP certified under ISO 14001</p>	<p>Annual report of LMC Annual report of LMC Jingyuan County Statistical Yearbook and annual reports of JSVS and PETC Annual report of Baiyin Public Transportation Company Baiyin Statistical Yearbook and data obtained by the ITS Project completion and periodic progress reports Annual report of LMC</p>	<p>Assumptions Other urban infrastructure in Baiyin are constructed on time and are operational Project facilities are properly operating and maintained TVET long- and short-term courses serve direct needs of industries in the LIP and Baiyin Risks Actual economic growth and population are far from estimates Baiyin and the LIP become less competitive in industrial relocation from the eastern coastal region to the western inland region</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Outputs 1. LIP infrastructure developed and operational	By 2020 (2013 baseline) A new water supply facility of 60,000 m ³ /day, about 14.4 km of water transmission pipeline, and about 14.0 km of water supply pipeline network are operational A new wastewater treatment facility of 35,000 m ³ /day, about 46.0 km of wastewater pipeline network, effluent reuse and discharge systems, and sludge treatment facilities are operational A new 6.0 km artery road is opened to traffic	Project completion report Project completion report Project completion report	Assumptions Project counterpart fund provided on time Other domestically financed projects are completed on time Risk Delays in land acquisition approvals and implementation
2. TVET enhanced and labor market database developed and operational	Two new long-term and 3 short-term courses developed and 6 existing short-term courses upgraded in JSVS and PETCs with at least one course targeted to women More than 60 teachers and instructors in 14 vocational school and agencies in Jingyuan county are trained successfully, with at least 40% women Labor market database developed and operational	Project completion report Project completion report Project completion report	Assumption Government agencies and training institutions are committed to improve quality and relevance of training courses in collaboration with industries and enterprises Risk Industries and enterprises are unwilling to collaborate in training course development
3. Baiyin district ITS installed and operational	Traffic safety and security system is installed and operational Public transport management and information system is installed and operational Road safety training conducted successfully with 50% women participation (public)	Project completion report Project completion report Project completion report	Assumption All government agencies associated with transportation management collaborate closely
4. Environmental management enhanced and institutional capacity of the executing and implementing agencies strengthened	EMS developed and working for the LIP Staff are trained and systems are in place for effective functioning of executing agency and implementing agencies, with 30% women participation	Project completion report Project completion report	Assumption Project financing is provided on time Risk Recruitment of the consulting services is delayed

Activities with Milestones	Inputs
<p>1. Liuchuan Industrial Park infrastructure development</p> <p>1.1 Complete detailed design and updated resettlement plan by Q1 2015</p> <p>1.2 Complete land acquisition and resettlement by Q4 2016</p> <p>1.3 Complete bidding and contract award by Q4 2017</p> <p>1.4 Complete water supply facilities and pipelines by Q4 2019</p> <p>1.5 Complete wastewater treatment facilities and pipelines by Q4 2016</p> <p>1.6 Complete road and bridge by Q3 2018</p> <p>2. Technical and vocational education and training enhancement</p> <p>2.1 Develop curricula for a long-term course by Q4 2016</p> <p>2.2 Complete bidding and contract award by Q4 2018</p> <p>2.3 Develop curricula for short-term courses by Q4 2018</p> <p>2.4 Develop a labor market information database system by Q4 2019</p> <p>2.5 Conduct training and workshops by Q4 2019</p> <p>3. Intelligent transport systems installation</p> <p>3.1 Complete detailed design by Q4 2014</p> <p>3.2 Complete bidding and contract award by Q2 2015</p> <p>3.3 Install traffic security and control system by Q4 2015</p> <p>3.4 Install public transport monitoring control system by Q4 2015</p> <p>4. Enhanced environmental management and capacity development</p> <p>4.1 Engage and mobilize start-up consultant from Q4 2014 to Q2 2015</p> <p>4.2 Set up organizational arrangement by Q4 2015</p> <p>4.3 Engage and mobilize project management consulting service from Q3 2015 to Q4 2019</p> <p>4.4 Engage and mobilize TVET consultant from Q1 2016 to Q4 2019</p> <p>4.5 Engage and mobilize EMS consultant from Q1 2016 to Q4 2019</p> <p>4.6 Monitor and complete implementation of environmental management plan, gender action plan, resettlement plan, and social development action plan from Q3 2014 to Q4 2019</p> <p>4.7 Conduct capacity development training from Q1 2015 to Q4 2019</p> <p>4.8 Obtain ISO 14001 certification for the LIP by Q4 2019</p>	<p>ADB: \$100.0 million</p> <p>Baiyin municipal government: \$79.9 million</p> <p>Others (domestic banks): \$32.8 million</p>

ADB = Asian Development Bank, EMS = environmental management system, ISO = International Organization for Standardization, ITS = intelligent transport system, JSVS = Jingyuan County Secondary Vocational School, km = kilometer, LIP = Liuchuan Industrial Park, LMC = Liuchuan Industrial Park Management Committee, m³ = cubic meter, PETC = public employment training centers, PRC = People's Republic of China, Q = quarter, TVET = technical and vocational education and training.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46062-002-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Multisector (Education, Road Transport, Water Supply and Sanitation)
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Initial Environmental Examination
13. Resettlement Plan
14. Risk Assessment and Risk Management Plan