



Report and Recommendation of the President to the Board of Directors

Project Number: 50050-002
November 2016

Proposed Multitranche Financing Facility People's Republic of China: Guangxi Regional Cooperation and Integration Promotion Investment Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 19 October 2016)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.148
\$1.00	=	CNY6.73

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
BEZ	–	border economic zone
BOCOM	–	Bank of Communications
ESMS	–	environmental and social management system
FAM	–	facility administration manual
FIL	–	financial intermediation loan
GMS	–	Greater Mekong Subregion
GPMP	–	Guangxi Foreign Loans Project Management Office
GZAR	–	Guangxi Zhuang Autonomous Region
LIBOR	–	London interbank offered rate
MFF	–	multitranches financing facility
NSEC	–	North–South Economic Corridor
PIE	–	project implementing entity
PRC	–	People’s Republic of China
RCI	–	regional cooperation and integration
SME	–	small and medium-sized enterprise

NOTE

In this report, “\$” refers to US dollars.

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INVESTMENT PROGRAM^a AT A GLANCE

1. Basic Data		Project Number: 50050-002		
Project Name	Guangxi Regional Cooperation and Integration Promotion Investment Program	Department /Division	EARD/EAPF	
Country Borrower	China, People's Republic of People's Republic of China	Executing Agency	Government of Guangxi Zhuang Autonomous Region, through Guangxi Foreign Loans Project Management Office	
2. Sector	Subsector(s)	ADB Financing (\$ million)		
✓ Industry and trade	Trade and services		136.00	
Finance	Small and medium enterprise finance and leasing		64.00	
Information and communication technology	ICT industries and ICT-enabled services		94.00	
Transport	Road transport (non-urban)		20.00	
Water and other urban infrastructure and services	Other urban services		106.00	
	Urban sewerage		10.00	
	Urban water supply		20.00	
Total			450.00	
3. Strategic Agenda	Subcomponents	Climate Change Information		
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Adaptation (\$ million)	6.00	
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	High	
Regional integration (RCI)	Pillar 1: Cross-border infrastructure			
4. Drivers of Change	Components	Gender Equity and Mainstreaming		
Private sector development (PSD)	Promotion of private sector investment Public sector goods and services essential for private sector development	Some gender elements (SGE)	✓	
5. Poverty and SDG Targeting		Location Impact		
Geographic Targeting	Yes	Regional	High	
Household Targeting	No			
SDG Targeting	Yes			
SDG Goals	SDG6, SDG9			
6. Risk Categorization:	Complex			
7. Safeguards Categorization [Tranche 1]	Environment: B Involuntary Resettlement: C Indigenous Peoples: B			
8. Financing				
Modality and Sources	Indicative Tranches (\$million)			Amount (\$million)
	I	II	III	
ADB				450.00
Sovereign MFF-Tranche (Loan): Ordinary capital resources	130.00	200.00	120.00	450.00
Cofinancing				0.00
None				
Counterpart				730.00
Government	150.00	290.00	290.00	730.00
Total	280.00	490.00	410.00	1,180.00
9. Effective Development Cooperation				
Use of country procurement systems		Yes		
Use of country public financial management systems		Yes		

INVESTMENT PROGRAM^a AT A GLANCE

10. Country Operations Business Plan

CPS

[PRC Country Partnership Strategy \(CPS\) 2016–2020](#)

COBP

[PRC Country Operations Business Plan 2015–2017](#)

11. Investment Program Summary

The proposed Guangxi Regional Cooperation and Integration Promotion Investment Program will help the Guangxi Zhuang Autonomous Region (GZAR) of the People's Republic of China (PRC) implement its strategies and action plans for regional cooperation and integration (RCI) with countries of the Association of Southeast Asian Nations (ASEAN), with a focus on developing the North-South Economic Corridor (NSEC) under the Greater Mekong Subregion (GMS) Cooperation Program.

Impact: (i) Economic growth potential for border areas in the PRC and Viet Nam realized, (ii) Efficient transport and trade operations along GMS North-South Economic Corridor achieved, and (iii) Economic integration between GZAR and rest of the GMS further strengthened.

Outcome: Benefits of regional cooperation and integration in border areas of Guangxi and northern Viet Nam captured.

Outputs: (i) Support for SMEs in border areas expanded, (ii) Cross-border financial transactions and investments increased, (iii) Integrated and interoperable cross-border e-commerce platforms for the PRC and Viet Nam developed, (iv) Key infrastructure and trade-related services in BEZs provided, and (v) Physical and informational connectivity and policy coordination improved.

Implementation Arrangements: Government of Guangxi Zhuang Autonomous Region, through Guangxi Foreign Loans Project Management Office will be the executing agency.

Project Readiness: Project readiness is high. The executing agency and implementing agencies have conducted detailed feasibility studies and prepared all required reports for the subprojects under the first tranche. Advance contracting will be requested for procurement of goods, works and project management consulting services for early launch of project implementation.

12. Milestones

Modality	Estimated Approval	Estimated Completion ^b
Multitranche financing facility	1 December 2016	31 December 2024
Tranche I	9 December 2016	30 June 2022
Tranche II	29 September 2017	30 December 2022
Tranche III	28 June 2019	31 December 2024

13. Project Data Sheet (PDS)

PDS^c

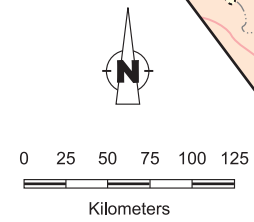
<http://www.adb.org/projects/50050-002/main>

^a Multitranche Financing Facility (MFF).

^b For MFF, this refers to the end of the availability period; for tranches, this refers to the tranche closing date.

^c Safeguard documents can be viewed by clicking the Document's hyperlink in the Project Data Sheet (PDS) page.

GUANGXI REGIONAL COOPERATION AND INTEGRATION PROMOTION INVESTMENT PROGRAM IN THE PEOPLE'S REPUBLIC OF CHINA



- Project City/Town
 - Border-Crossing Points
 - Key Roads
 - National Capital
 - Provincial Capital
 - City/Town
 - Road Network
 - Provincial Boundary
 - International Boundary
- Boundaries are not necessarily authoritative.

This map was produced by the cartography unit of the Asian Development Bank. The boundaries, colors, denominations, and any other information shown on this map do not imply, on the part of the Asian Development Bank, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries, colors, denominations, or information.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed multitranche financing facility (MFF) to the People's Republic of China (PRC) for the Guangxi Regional Cooperation and Integration Promotion Investment Program.¹

2. The investment program will help the Guangxi Zhuang Autonomous Region (GZAR) of the PRC implement its strategies and action plans for regional cooperation and integration (RCI) with countries of the Association of Southeast Asian Nations (ASEAN), with a focus on developing the North–South Economic Corridor (NSEC) under the Greater Mekong Subregion (GMS) Cooperation Program.²

II. THE INVESTMENT PROGRAM

A. Rationale

3. **Guangxi Zhuang Autonomous Region's international trade.** GZAR's international trade has increased rapidly, from \$17.7 billion in 2010 to \$51.3 billion in 2015, with Viet Nam as its biggest trade partner accounting for 48% of this trade. GZAR's border trade with Viet Nam, which occurs mainly through the key border crossing points of Dongxing, Longbang, and Pingxiang, has increased particularly fast, from \$3.3 billion in 2010 to \$16.3 billion in 2015. Key imports from Viet Nam consist of agricultural products (including fresh and dry fruits, vegetables, grains, live animals and animal products, starch, and aquatic products) and minerals, while GZAR's main exports to Viet Nam are electrical, machinery, textile, and petroleum products. International trade conducted by the private sector, mostly small and medium-sized enterprises (SMEs), accounted for 52% of GZAR's total trade in 2015.

4. **Key constraints in economic corridor and border area development.** The border areas of GZAR and Viet Nam are key areas for development of RCI through trade. However, opportunities, especially in terms of growing cross-border trade and investment, have not been fully tapped due to inefficient transport and trade operations along the NSEC. Constraints include (i) the low level of development of SMEs due to limited access to bank credit, lack of reliable market information, challenges in hiring and retaining skilled staff and labor, and rising costs (especially labor); (ii) costly, risky, and time-consuming cross-border financial transactions and the perceived noncommercial risks for cross-border investment such as foreign exchange restrictions, possible nationalization of industries, and breach of contractual obligations; (iii) difficulties faced by local traders in adopting e-commerce to access external markets due to lack of common platforms and inadequate trade facilitation measures for cross-border e-commerce; (iv) inadequate infrastructure and services in border economic zones (BEZs); and (v) poor infrastructure for connectivity, especially at key border crossing points. Addressing these constraints will require a strategic, holistic, multisector approach combining physical infrastructure improvement and trade and investment facilitation measures to promote cross-border economic activities.

¹ The design and monitoring framework is in Appendix 1. The Asian Development Bank (ADB) provided project preparatory technical assistance for Guangxi Regional Cooperation and Integration Promotion Investment Program (TA 9120-PRC).

² Specifically, the investment program will finance subprojects in Guangxi Zhuang Autonomous Region (GZAR), including (i) Baise Municipality, including the border towns of Longbang and Yuexu; (ii) Chongzuo Municipality, including Daxin County and Pingxiang City; (iii) Fangchenggang Municipality, including Dongxing City; and (iv) Qinzhou Municipality.

5. **Strategic context.** RCI is one of five strategic priorities of Asian Development Bank's (ADB) country partnership strategy for the PRC, 2016–2020.³ It is also a priority in the PRC's 13th Five-Year Plan for 2016–2020.⁴ In 2015, the PRC announced the Silk Road Economic Belt and 21st Century Maritime Silk Road Initiative, which aims to promote connectivity and strengthen economic partnerships in the spirit of open regionalism.⁵ GZAR has mainstreamed RCI into its provincial 13th plan, with emphasis on (i) strengthening cooperation with ASEAN, particularly the GMS, countries; (ii) participating in major international economic corridors linking GZAR and ASEAN; and (iii) serving as the gateway for PRC's southwest region.

6. **Road map.** GZAR has a strategy and action plan for participation in the GMS Economic Cooperation Program.⁶ The plan defines five priorities: (i) improving cross-border connectivity, with a focus on transport in border areas, border-crossing points, and information connectivity with ASEAN countries; (ii) accelerating the development of economic corridors, particularly the NSEC; (iii) enhancing participation in global value chains by deepening cooperation with other GMS countries in energy, agriculture, manufacturing, and tourism; (iv) strengthening cooperation in human resources development, including cross-border technical and vocational training; and (v) strengthening environment cooperation. The strategy and action plan also highlights the importance of a win-win approach to cross-border cooperation to benefit Viet Nam and other GMS countries.

7. **Policy framework.** The strategy and action plan also specifies policies conducive to the successful implementation of the MFF. Key policies include: (i) improving trade facilitation by introducing pilot tests for coordinated border management and joint customs control with Viet Nam at selected border-crossing points by 2018; (ii) promoting development of BEZs;⁷ (iii) further reducing nontariff barriers to trade, including broadening of the list of goods and commodities for trade between border residents of GZAR and Viet Nam with pilot implementation by 2018; (iv) reforming public investment policy for border services by introducing public–private partnership, which will be pilot tested at selected border crossing points by 2018; and (v) further improving the consultation mechanism between GZAR and Vietnamese border provinces to coordinate policies and actions for border area development.

8. **Investment program.** GZAR's GMS strategy and action plan includes a priority investment program for 2015–2020, covering five priority areas (para. 6) with a total investment of \$45 billion. Special attention is given to investment in the border areas, including Baise, Chongzuo, Fangchenggang, and Qinzhou municipalities. The priority investment program is intended for financing by various sources, including the central PRC and GZAR governments, multilateral development banks, and the private sector. The Government of the PRC has requested ADB to provide a \$450 million MFF to fund a group of high-priority projects in the four border municipalities, with a total cost of \$1.18 billion.

9. The investment program will have high positive RCI spillovers, also benefiting Viet Nam, particularly its northern provinces of Cao Bang, Ha Giang, Lang Son, and Quang Ninh. Some

³ ADB. 2016. *Transforming Partnership: People's Republic of China and Asian Development Bank, 2016–2020*. Manila.

⁴ Government of the PRC. 2015. *Outline of the Thirteenth Five-Year Plan for National Economic and Social Development of the People's Republic of China*. Beijing (adopted in 2016).

⁵ Government of the PRC. 2015. *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*. Beijing.

⁶ Government of the GZAR. 2014. *Strategy and Action Plan for Participation in the Greater Mekong Subregion Economic Cooperation Program, 2014–2022*. Nanning.

⁷ The governments of the PRC and Viet Nam signed a memorandum of understanding on 13 October 2013 on joint development of BEZs.

subprojects were included in the investment program in response to requests from the Viet Nam local governments in those provinces. The benefits for Viet Nam will be achieved mainly through (i) improved connectivity and trade facilitation which will provide better access for northern Viet Nam to markets in GZAR and other parts of the PRC; (ii) expansion of trade, especially Viet Nam's export of agricultural products, which will help increase income of the local farmers and border area residents; and (iii) training of Vietnamese workers which will help them find higher-income jobs in GZAR.

10. **Justification for choosing multitranche financing facility.** Given the nature of RCI as described above, the traditional single sector lending and one project at a time approach will not be appropriate. The MFF is a suitable modality since it will (i) allow ADB to develop a long-term partnership with Guangxi for promoting RCI; (ii) provide GZAR and the PRC with high predictability of financing for RCI which, in turn, will help improve the efficiency of country programming; (iii) allow phased funding to match project readiness and level of consultation and consensus-building with the Viet Nam counterparts; (iv) provide opportunities during implementation to accommodate new cooperation initiatives;⁸ (v) facilitate policy and operational dialogue on various cross-border issues, in addition to physical investment; and (vi) systematically enhance Guangxi's capacity for implementing RCI strategies and action plans. The nature of subprojects across tranches is similar, and the executing agency has a proven track record in implementing ADB projects.

B. Impacts and Outcome

11. The impacts will be economic growth potential realized for border areas in the PRC and Viet Nam, efficient transport and trade operations along the GMS NSEC achieved, and economic integration between GZAR and rest of the GMS further strengthened. The outcome will be benefits of RCI in border areas of Guangxi and northern Viet Nam captured.

C. Outputs

12. To address the identified constraints, the MFF will deliver five major outputs:

(i) **Support for small and medium-sized enterprises in border areas expanded.** The investment program will (a) provide credit to SMEs in the four border municipalities (including the Vietnamese SMEs operating in GZAR) using the financial intermediation loan (FIL) modality;⁹ (b) strengthen GZAR's business development services system to provide better services to SMEs, including business networking and outreach support, market and technology information, and financial and human resources management; and (c) support GZAR's pilot projects on cross-border labor cooperation by improving training facilities and providing well-designed training programs for local and Vietnamese workers.

⁸ The governments of the PRC and Viet Nam concluded in September 2016 negotiations on the amended Border Trade Agreement and the PRC–Viet Nam Five-Year Program for Economic and Trade Cooperation. Implementation of these agreements is expected to start in 2017.

⁹ In the first tranche, the Guangxi Branch of the Bank of Communications (BOCOM) was selected as the financial intermediary against four criteria: financial creditworthiness, institutional capabilities to manage the SME financing scheme, the extent of reach to SME markets, and the ability to fulfill ADB's reporting and safeguard standards. The targeted SMEs are those engaged in cross-border trade and logistics, agribusiness, manufacturing, and cross-border tourism. The ADB loan proceeds will be onlent through the financial intermediary to SMEs at market interest rates. Following initial implementation, opportunities will be explored to include other eligible local financial institutions. Integrity due diligence has been conducted on BOCOM, and further integrity due diligence will be undertaken for future financial intermediaries.

- (ii) **Cross-border financial transactions and investments increased.** The investment program will (a) support the development of cross-border financial service centers in Dongxing and Pingxiang BEZs to provide one-stop services for currency swaps, payments, and settlements; and (b) explore measures to mitigate the noncommercial risks faced by investors.
- (iii) **Integrated and interoperable cross-border e-commerce platforms for the People's Republic of China and Viet Nam developed.** The investment program will (a) develop demonstration e-commerce incubation parks in Fangchenggang, Longbang, and Pingxiang to provide common infrastructure for e-commerce (including networks, data centers, and platforms), and provide ready-to-use facilities and services for local and Vietnamese e-commerce enterprises; and (b) help implement measures to improve customs and sanitary and phytosanitary services .
- (iv) **Key infrastructure and trade-related services in border economic zones provided.** The investment program will (a) improve infrastructure in Dongxing, Longbang, Pingxiang, and Yuexu BEZs (including roads, water supply and sewage treatment, and logistics facilities); and (b) improve trade centers in the BEZs to facilitate trade among border area residents and provide better services to domestic and international tourists.
- (v) **Physical and informational connectivity and policy coordination improved.** The investment program will (a) improve border roads in Chongzuo's Daxin County, which will serve the PRC–Viet Nam cross-border tourism cooperation zone at Detian and Ban Gioc waterfalls; (b) develop the Fangchenggang big data center and Qinzhou cloud computing center to provide network infrastructure, platforms and services (such as data storage and data security), which will help implement the PRC–ASEAN Information Harbor Initiative and enhance informational connectivity with ASEAN; and (c) upgrade Chongzuo's Shulong border-crossing point from Class B to Class A by improving infrastructure and services.¹⁰ The investment program will also promote cross-border policy and operational dialogue to coordinate cross-border transport and logistics planning, finalize the joint master plan for BEZ development, and simplify and harmonize customs and sanitary and phytosanitary procedures.

13. For the first tranche of the MFF, the government has requested \$130.0 million for the following subprojects:¹¹

- (i) **Small and medium-sized enterprise development:** (a) \$63.58 million FIL to the Guangxi Branch of the Bank of Communications (BOCOM); (b) \$10.00 million for the construction of the Fangchenggang training center; (c) \$5.20 million for the development of the Pingxiang cross-border labor cooperation demonstration park, including construction of training and dormitory buildings and purchase of equipment for training of local and Vietnamese workers; and (d) \$7.59 million for the improvement of training for PRC and Vietnamese workers and local SMEs, including review and improvement of existing SME training curriculum in GZAR, training of trainers, short-term training courses on business management and job skill improvement, and special courses for Vietnamese workers on basic Chinese language, cultural sensitivity and legal rights and obligations of foreign labor.

¹⁰ Class A border crossing points are open to people, goods and vehicles of any country, while Class B border crossing points are only open to people, goods and vehicles of the PRC and the adjacent country concerned.

¹¹ Indicative Pipeline of Projects for Tranches 2 and 3 of the Investment Program is accessible from the list of linked documents in Appendix 2. The implementation framework and selection criteria of subprojects are in Schedules 2 and 3 of the framework financing agreement (accessible from the list of linked documents in Appendix 2).

- (ii) **Cross-border e-commerce platforms:** \$27.30 million for the development of smart port for Longbang BEZ to build a cross-border e-commerce and logistics service platform with real-time electronic exchange of trade logistics data and business process reengineering.
- (iii) **Border economic zone infrastructure and service improvement:** \$6.90 million for the expansion of the Pingxiang border trade service center—including expansion of the border trade market, cold storage facility, warehouses, and customs and sanitary and phytosanitary inspection space and facilities.
- (iv) **Technical and institutional support:** \$9.43 million for (a) project advisory support to conduct studies and prepare subprojects for future tranches related to strengthening the business development services system, improving cross-border financial services and guarantees for noncommercial risks, and developing public–private partnership for border services; and (b) project management and capacity building for the executing and implementing agencies.

D. Investment and Financing Plans

14. The investment program is estimated to cost \$1,180.0 million (Table 1).

Table 1: Investment Program
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Small and medium-sized enterprises development	271.0
2. Cross-border financial services	35.0
3. Cross-border e-commerce	180.0
4. Border economic zone development	462.0
5. Cross-border connectivity	140.0
6. Technical and institutional support	12.0
Subtotal (A)	1,100.0
B. Contingencies^c	40.0
C. Financing Charges During Implementation^d	40.0
Total (A+B+C)	1,180.0

^a Includes taxes and duties of about \$20 million to be financed from government resources in the form of tax exemption. ADB financing may also cover taxes and duties for the project. The amount of taxes and duties to be financed by ADB: (i) are within the reasonable threshold identified during the country partnership strategy preparation process, (ii) do not represent an excessive share of the investment plan, (iii) apply only to ADB-financed expenditures, and (iv) the financing of taxes and duties is considered material and relevant to the success of the project.

^b In mid-2016 prices.

^c Physical contingencies computed at 5% for base investment costs. Price contingencies computed on average at 1.5% on foreign exchange costs and 2.0% on local currency costs. Includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during implementation for the ADB loan has been computed at the London interbank offered rate (LIBOR)-based 5-year US dollar fixed swap rate corresponding to the implementation period plus an effective contractual spread of 0.5%. Commitment charges for the ADB loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

15. The Government of the PRC has requested an MFF in an amount up to \$450 million from ADB's ordinary capital resources, including the PRC country allocation and regional set-aside. The MFF will consist of three tranches, subject to the government's submission of related periodic financing requests, execution of the related loan and project agreements for each tranche, and fulfillment of terms and conditions and undertakings set forth in the framework financing agreement. The first tranche will comprise two loans for a total of \$130.0 million: (i) a loan (loan 1) amounting to \$66.42 million with a 25-year term, including a grace period of 5

years, interest and other charges during construction to be capitalized; and (ii) a second loan (loan 2) using the FIL modality amounting to \$63.58 million with a 15-year term including a grace period of 12 years, interest and other charges during construction capitalized for the first 5 years. Both loans will have (i) a straight-line repayment method, (ii) an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, (iii) a commitment charge of 0.15% per year, and (iv) such other terms and conditions set forth in the draft loan and project agreements. The financing plan of the MFF is in Table 2, and ADB financing for the investment program is in Table 3.

Table 2: Financing Plan

Source	Tranche 1 (\$ million)	Tranche 2 (\$ million)	Tranche 3 (\$ million)	Total (\$ million)	Share of Total (%)
Asian Development Bank ^a					
OCR loan from country allocation	85.0	135.0	80.0	300.0	25.4
OCR loan from regional set-aside	45.0	65.0	40.0	150.0	12.7
Government	150.0	290.0	290.0	730.0	61.9
Total	280.0	490.0	410.0	1,180.0	100.0

^a Includes \$63.58 million loan to be provided to small and medium-sized enterprise subprojects through the Guangxi Branch of the Bank of Communications using the Asian Development Bank's financial intermediation loan modality. Source: Asian Development Bank estimates.

Table 3: ADB Financing for the Investment Program
(\$ million)

Item	Tranche 1	Tranche 2	Tranche 3	Total
Small and medium-sized enterprises development ^a	86.4	40.0	0.0	126.5
Cross-border financial services	0.0	6.5	14.0	20.5
Cross-border e-commerce	27.3	32.0	0.0	59.6
Border economic zone development	6.9	70.0	56.5	133.2
Cross-border connectivity	0.0	50.0	48.0	98.0
Technical and institutional support	9.4	1.5	1.5	12.2
Total	130.0	200.0	120.0	450.0

^a Includes \$63.58 million loan to be provided to small and medium-sized enterprise subprojects through the Guangxi Branch of the Bank of Communications using the Asian Development Bank's financial intermediation loan modality. Source: Asian Development Bank estimates.

E. Implementation Arrangements

16. The implementation arrangements are summarized in Table 4 and described in detail in the Facility Administration Manual (FAM).¹²

Table 4: Implementation Arrangements

Aspects	Arrangements
Implementation period	Investment program: April 2017–December 2024 Tranche 1: April 2017–December 2021
Estimated completion date	Investment program: December 2024 Tranche 1: 30 June 2022 (closing date)
Management	
(i) Steering committee	Leading Group for Utilization of Foreign Loans of Guangxi Zhuang Autonomous Region
(ii) Executing agency	Government of Guangxi Zhuang Autonomous Region, through the Guangxi Foreign Loans Project Management Office ^a
(iii) Implementing agencies	(i) Municipal governments of Baise, Chongzuo, Fangchenggang, and Qinzhou, with their respective municipal project management offices to supervise project implementation; and (ii) BOCOM and other eligible financial intermediaries for the financial intermediation loans.

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

(iv) Implementing entities	The state-owned entities or enterprises designated by the respective municipal government. Tranche 1 PIEs include (i) Fangchenggang Poly Tech Vocational School, (ii) Pingxiang Urban Construction and Investment Company, and (iii) Baise Baidong Investment Company. Each PIE will establish a project management unit, and BOCOM will establish a project implementation unit.		
Procurement	National competitive bidding	9 contracts	\$54.58 million
Consulting services	Quality- and cost-based selection (80:20)	1,179 person-months	\$15.91 million
	Individual consultant selection	50 person-months	\$0.50 million
Advance contracting and retroactive financing	Advance contracting will be undertaken for procurement of goods, works and consulting services for project management and all project advisory support. Retroactive financing, which applies only to loan 1, will be available for expenditures incurred before loan effectiveness, but not more than 12 months before loan signing, up to 20% of the loan amount.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, BOCOM = Guangxi Branch of the Bank of Communications, PIE = project implementing entity.

^a The Guangxi Foreign Loans Project Management Office will also be responsible for implementing the small and medium-sized enterprise training subproject and the project advisory support activities, in addition to project management. The organizational structure and fund flow diagrams are in the Facility Administration Manual (accessible from the list of linked documents in Appendix 2).

Sources: Government of Guangxi Zhuang Autonomous Region and Asian Development Bank.

III. DUE DILIGENCE

A. Technical

17. Tranche 1 subprojects include 15 buildings to be built in Fangchenggang Poly Tech Vocational School and Pingxiang BEZ to be used as training facilities, offices, trade centers, and warehouses. The building designs follow standard PRC guidelines and design codes, including architecture, water supply and sewage, firefighting, electric power supply, and lighting and communication systems. Design consideration includes energy savings, environmental protection, and climate risk mitigation. Integrated information systems will be established to support e-commerce and enhance logistics services in Longbang BEZ of Baise Municipality.

B. Economic and Financial

18. Standard cost-benefit analysis was applied to individual subprojects of the first tranche where possible, using with- and without-project alternatives in accordance with ADB's Guidelines for the Economic Analysis of Projects.¹³ The economic internal rate of return is computed at 22.4% for the first tranche, higher than the economic opportunity cost of capital estimated at 12.0%. The analysis shows that the first tranche of the investment program remains economically viable in the face of downside risks, including a 10.0% cost overrun, a 10.0% benefits reduction, a 1-year delay in implementation start-up, and a combination of all the three negative changes.¹⁴

19. A standard financial analysis showed that the project incremental costs will have a negligible impact on the budget of the Government of GZAR which has an average revenue of about \$64 billion annually and a projected budget surplus, and that the maximum impact will be less than 0.5% of GZAR's annual budget surplus. The financial analysis also examined the

¹³ ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila.

¹⁴ Details are in Economic Analysis (accessible from the list of linked documents in Appendix 2).

three subprojects (Pingxiang cross-border labor cooperation park, Pingxiang border trade service center, and Longbang smart port) likely to have revenues, and assessed projected incremental financials over a life cycle period in real terms. The financial internal rate of return of the three subprojects was computed at 1.0%, 6.0%, and 7.8% respectively, higher than their respective weighted average cost of capital of 0.6%, 0.5%, and 0.6%. This is also assured in the subproject expansion of SME financing in GZAR, with sustainability as a fundamental requirement for subloan selection by the financial intermediary. In both analyses, the investment program overall is considered to be viable and sustainable.

C. Governance

20. A standard financial management assessment was carried out for the executing agency and project implementing entities (PIEs). The executing agency is implementing two ADB-financed projects and has sufficient knowledge and experience in ADB policies and procedures. The executing and implementing agencies and one of the PIEs are government entities, and the other two PIEs are state-owned enterprises. The government has a controlling interest in the financial intermediary, BOCOM. No major country-level financial management issues are apparent. The financial management risk is rated *low*. Pre-mitigation and strengthening measures have been included for improving the financial systems. The overall inherent risk and control risk have been assessed *low*. Capacity for internal auditing in the PIEs was, however, assessed *medium* risk, and mitigation measures are proposed.

21. A procurement capacity assessment confirmed that the Guangxi Foreign Loans Project Management Office (GPMO) and the PIEs, acting through a procurement agency and with the assistance of ADB and project management consultants, will have adequate capacity to facilitate full compliance with ADB's Procurement Guidelines (2015, as amended from time to time) and Guidelines on the Use of Consultants (2013, as amended from time to time). Procurement risk is considered *medium*, and action plans will be prepared to mitigate potential risks. Procurement under the SME financing subcomponent will be done in accordance with commercial practices acceptable to ADB, and a procurement manual will be prepared to serve as a guide for the SME subborrowers. ADB's Anticorruption Policy (1998, as amended to date) was explained to, and discussed with, the Government of the PRC and GPMO. The specific policy requirements and supplementary measures are described in the FAM.

D. Poverty and Social

22. A social and poverty analysis was conducted in accordance with ADB guidelines. The poverty rates are 16.5% in Baise, 13.7% in Chongzuo, 3.6% in Fangchenggang, and 4.2% in Qinzhou in 2015 against the provincial average of 8.2%.¹⁵ The investment program will contribute to economic growth in border areas and beyond in the PRC and Viet Nam. The improved cross-border connectivity and increased trade and investment will facilitate growth, create employment opportunities for local communities during the construction and operation phases, and raise the income of local residents. Local and Vietnamese unskilled workers, over one-third of whom are women, will be trained for better employment. All construction workers will be covered by the awareness campaigns and training on HIV/AIDS, sexually transmitted infections, and human trafficking. A social development and gender action plan has been prepared and will be implemented to strengthen the investment program impact. The project will collect and include gender-disaggregated data as part of the social and poverty analysis.

¹⁵ Targeted Poverty Incidence Survey issued by the Guangxi Poverty Reduction Office, January 2016.

E. Safeguards

23. **Environment.** Tranche 1 (other than the SME financing component) has been classified *category B* for environment. A consolidated initial environmental examination and environmental management plan has been prepared for the three subprojects involving infrastructure. The environmental management plan identifies appropriate design, construction, and operational mitigation and monitoring measures to reduce the potential impacts to acceptable levels. An environmental assessment and review framework was prepared for screening, categorization, assessment, preparation and implementation of safeguard plans, if required, for components, projects, and subprojects to be prepared after MFF approval. These documents comply with the PRC's regulatory requirements and ADB's Safeguard Policy Statement (2009), and have been disclosed on the ADB website. Public consultation and information disclosure were carried out during the project design and will continue during project implementation. Environmental training will be provided to build capacity. Environmental complaints will be handled through a grievance redress mechanism. A wildlife trafficking study has been carried out to assess the risks, and mitigation measures will be implemented in tranche 1 and subsequent tranches.

24. **Climate change risk.** A climate risk and vulnerability assessment indicated that the project area, characterized by complex geology, is at high risk from climate change impacts, such as extreme rainfall, flooding, landslides, and heatwaves. It is recommended that an 8%–10% increase in design standard be adopted for the drainage systems and a higher design standard be considered for slope stabilization to increase resilience to future flood and landslide risks. Recommendations were also made to reduce the risk of heatwave impacts. An assurance requiring consideration of climate change recommendations is included in the project agreement.

25. **Involuntary resettlement.** Tranche 1 of the investment program is classified *category C* for involuntary resettlement. Due diligence reports for the three subprojects involving infrastructure have been prepared, confirming that all land acquisition is in compliance with ADB's Safeguard Policy Statement, the PRC's Land Law (1999) and other related regulations without any pending land acquisition and resettlement issues. No additional land acquisition and house demolition will be required for tranche 1. A resettlement framework was prepared to guide the preparation of resettlement plans for the subsequent tranches, if required.

26. **Indigenous peoples or ethnic minorities.** Tranche 1 is classified *category B* for indigenous peoples. The Zhuang people constitute the dominant population in the project areas and there is no concentrated settlement of any other ethnic group. Based on due diligence in accordance with ADB's Safeguard Policy Statement, tranche 1 will not incur any adverse impacts on ethnic minorities. Indigenous peoples plan elements were included in the project design following ADB's Safeguard Policy Statement. An indigenous peoples planning framework was prepared to guide the preparation of any indigenous peoples plan for further tranches. Each subsequent tranche of the MFF will be screened, classified, and assessed in accordance with the indigenous peoples planning framework.

27. **Environmental and social management system for financial intermediary.** The SME financing subcomponent is categorized as *financial intermediary*. An environmental and social management system (ESMS) has been developed by BOCOM, covering environmental and social policies; the safeguards screening, categorization, and review process; institutional arrangements; and monitoring and reporting procedures for subprojects under the FIL.¹⁶ The

¹⁶ Other eligible financial intermediaries participating in financial intermediation loans in future tranches will also be requested to develop an ESMS satisfactory to ADB.

ESMS will exclude subprojects that will trigger *category A* for environment and *category A or B* for social safeguards, and that are in the prohibited investment list according to ADB's Safeguard Policy Statement. Subprojects classified as *category B* or *C* for environment will be subject to requirements set out in the ESMS. The ESMS will ensure that SME subborrowers are not engaged in commercial development of the cultural resources of indigenous peoples without their consent. Each subproject will undergo due diligence based on the criteria in the ESMS. The GPMD will be required to submit an annual ESMS performance report.

F. Risks and Mitigating Measures

28. Major risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.¹⁷ The integrated project benefits and impacts are expected to outweigh the costs.

Table 5: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Weak coordination between the governments of the PRC and Viet Nam on border area development	(i) Institutionalize consultation mechanism between GZAR and the neighboring Vietnamese border provinces, supported by the ongoing and new ADB regional technical assistance. (ii) Strengthen the bilateral policy and operational coordination under the GMS framework including the relevant sector working groups, Economic Corridor Forum, and Governors Forum.
Weak institutional and staff capacities to implement the project, particularly for procurement	(i) Recruit qualified staff and consultants to support the executing agency, implementing agencies, and PIEs. (ii) Provide training on project implementation, including procurement, financial management, and safeguards.
Weak capacity of executing agency and financial intermediary in implementing financial intermediation loan	(i) Carefully select the financial intermediaries based on ADB's <i>Operations Manual</i> , ^a and the government's prudential requirements. (ii) Follow best practices for small and medium-sized enterprise lending operations and management. (iii) Allocate special funding to support capacity building for the financial intermediary and hire consultants to support implementation.
Weak capacity of PIEs for internal auditing	(i) The Guangxi Foreign Loans Project Management Office will share its experience with the PIEs on ADB procedures. (ii) Engage accounting firms to carry out internal audit of PIEs.
Weak financial sustainability of PUCIC	(i) PUCIC to prepare a financial management road map. (ii) GGZAR to provide adequate support to ensure that the requirements of the road map will be satisfied.

ADB = Asian Development Bank, GGZAR = Government of Guangxi Zhuang Autonomous Region, GMS = Greater Mekong Subregion, PIE = project implementing entity, PRC = People's Republic of China, PUCIC = Pingxiang Urban Construction and Investment Company.

^a ADB. 2013. Financial Intermediation Loans. *Operations Manual*. OM D6/BP and D6/OP. Manila.

Source: Asian Development Bank.

IV. ASSURANCES

29. The Government of the PRC and the Government of GZAR have 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 FAM and loan and project documents.

30. The Government of the PRC and the Government of GZAR have given ADB certain undertakings for the MFF, which are set forth in the framework financing agreement. Specific covenants agreed by the Government of the PRC and the Government of GZAR with respect to

¹⁷ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

individual tranches under the MFF are set forth in the loan and project agreements for the respective tranches.

V. RECOMMENDATION

31. I am satisfied that the proposed multitranche financing facility 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 multitranche financing facility to the People's Republic of China for the Guangxi Regional Cooperation and Integration Promotion Investment Program in an aggregate principal amount not exceeding the equivalent of \$450,000,000, which comprises the provision of loans from ADB's ordinary capital resources, with interest and other terms to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, and is subject to such other terms and conditions as are substantially in accordance with those set forth in the framework financing agreement presented to the Board.

10 November 2016

Stephen P. Groff
Vice-President

DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Impacts the Investment Program is Aligned With			
Economic growth potential for border areas in the PRC and Viet Nam realized (Strategy and Action Plan for Participation in the Greater Mekong Subregion Economic Cooperation Program) ^a			
Efficient transport and trade operations along GMS North–South Economic Corridor achieved (GMS North–South Economic Corridor Strategy and Action Plan) ^b			
Economic integration between GZAR and rest of the GMS further strengthened (Strategy and Action Plan for Participation in the Greater Mekong Subregion Economic Cooperation Program) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources or Reporting Mechanisms	Risks
Outcome Benefits of regional cooperation and integration in border areas of Guangxi and northern Viet Nam captured	By 2025 a. Cross-border trade between GZAR and Viet Nam doubled (2015 baseline: \$16.3 billion) b. Annual cross-border investment between GZAR and Viet Nam tripled (2015 baseline: \$77 million, including \$27 million of GZAR investment in Viet Nam, and \$ 50 million of Viet Nam’s investment in GZAR)	a–b. Periodic reports to the GMS Economic Corridor Forum a–b. BEZ task force reports to GMS Governors Forum	Weak coordination between the governments of the PRC and Viet Nam on border area development.
Outputs 1. Support for SMEs in border areas expanded	1a. By 2022, the ratio of PRC and Vietnamese SMEs serviced by SME financing platforms in Baise, Chongzuo, Fangchenggang, and Qinzhou border prefectures doubled (2015 baseline: 10%) 1b. By 2022, business development services platform established to benefit both PRC and Vietnamese SMEs (2015 baseline: Not applicable) 1c. By 2022, the number of SME workers trained by local institutions in Baise, Chongzuo, Fangchenggang, and Qinzhou tripled—with share of Vietnamese reaching 20% and female reaching 33% of total workers (2015 baseline: 9,000)	1a–1c. Quarterly progress reports from executing and implementing agencies	Weak institutional and staff capacities to implement the project, particularly for procurement. Weak capacity of executing agency and financial intermediary in implementing financial intermediation loan. Weak capacity of PIEs for internal auditing. Weak financial sustainability of PUCIC.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources or Reporting Mechanisms	Risks
2. Cross-border financial transactions and investments increased	<p>2a. By 2024, cross-border trade settlement in local currencies in GZAR doubled (2015 baseline: \$26 billion equivalent)</p> <p>2b. By 2021, policy recommendations for mitigating non-commercial risks for cross-border investment between GZAR and Viet Nam adopted (2015 baseline: Not applicable)</p>	2a–2b. Quarterly progress reports from executing and implementing agencies	
3. Integrated and interoperable cross-border e-commerce platforms for the PRC and Viet Nam developed	<p>3a. By 2022, ratio of cross-border trade conducted through e-commerce reaches 25% (2015 baseline: 10%)</p> <p>3b. By 2022, 70% of SMEs in border areas have access to e-commerce platforms</p>	3a–3b. Quarterly progress reports from executing and implementing agencies	
4. Key infrastructure and trade-related services in BEZs provided	<p>4a. By 2024, 70% of investments in GZAR BEZs under the PRC–Viet Nam Joint Master Plan for Border Economic Zone Development realized (2015 baseline: Not applicable)</p> <p>4b. By 2024, road networks in Dongxing, Longbang, and Pingxiang BEZs and Shulong border crossing point fully completed (2015 baseline: Not applicable)</p> <p>4c. By 2024, water supply and sewage treatment facilities in Chongzuo and Yuexu industrial parks completed and operational (2015 baseline: Not applicable)</p> <p>4d. By 2018, coordinated border management conducted in at least one border-crossing point (2015 baseline: 0)</p>	<p>4a. Quarterly progress reports from executing and implementing agencies</p> <p>4b. Quarterly progress reports from executing and implementing agencies</p> <p>4c. Quarterly progress reports from executing and implementing agencies</p> <p>4d. Updates from BEZ task force to GMS Governors Forum</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources or Reporting Mechanisms	Risks
5. Physical and informational connectivity and policy coordination improved	5a. By 2024, number of class A border-crossing points increased to five (2015 baseline: 3) 5b. By 2018, regular (quarterly) consultations between GZAR and Viet Nam northern border provinces on BEZ and border area development conducted (2015 baseline: Ad hoc consultations)	5a–5b. Quarterly progress reports from executing and implementing agencies	
<p>Key Activities with Milestones</p> <p>1. Support for SMEs in border areas expanded 1.1 Complete tranche 1 implementation by Q4 2021 1.2 Complete tranche 2 implementation by Q4 2022</p> <p>2. Cross-border financial transactions and investments increased 2.1 Complete tranche 2 implementation by Q4 2022 2.2 Complete tranche 3 implementation by Q4 2024</p> <p>3. Integrated and interoperable cross-border e-commerce platforms for the PRC and Viet Nam developed 3.1 Complete tranche 1 implementation by Q4 2021 3.2 Complete tranche 2 implementation by Q4 2022 3.3 Complete tranche 3 implementation by Q4 2024</p> <p>4. Key infrastructure and trade-related services in BEZs provided 4.1 Complete tranche 1 implementation by Q4 2021 4.2 Complete tranche 2 implementation by Q4 2022 4.3 Complete tranche 3 implementation by Q4 2024</p> <p>5. Physical and informational connectivity and policy coordination improved 5.1 Complete tranche 2 implementation by Q4 2022 5.2 Complete tranche 3 implementation by Q4 2024</p>			
<p>Project Management Activities</p> <p>Prepare and manage implementation and procurement plans (Q2 2017–Q4 2024) Prepare and update monitoring and evaluation system and ensure timely delivery of outputs (Q2 2017–Q4 2024)</p>			
<p>Inputs</p> <p>Asian Development Bank: \$450,000,000 Government of the PRC: \$730,000,000</p>			
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>			

BEZ = border economic zone, GMS = Greater Mekong Subregion, GZAR = Guangxi Zhuang Autonomous Region, PIE = project implementing entity, PRC = People's Republic of China, PUCIC = Pingxiang Urban Construction and Investment Company, Q = quarter, SMEs = small and medium-sized enterprises.

^a Government of Guangxi Zhuang Autonomous Region. 2014. *Strategy and Action Plan for Participation in the Greater Mekong Subregion Economic Cooperation Program, 2014–2022*. Nanning.

^b ADB. 2010. *Strategy and Action Plan for the Greater Mekong Subregion North–South Economic Corridor*. Manila.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=50050-002-3>

1. Framework Financing Agreement
2. Periodic Financing Request
3. Sector Assessment (Summary): Industry and Trade
4. Facility 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. Initial Environmental Examination
12. Environmental Assessment and Review Framework
13. Resettlement Framework
14. Indigenous Peoples Planning Framework: Ethnic Minorities Development Framework
15. Financial Intermediary: Environmental and Social Management System Arrangement
16. Risk Assessment and Risk Management Plan

Supplementary Documents

17. Project Climate Risk Assessment and Management
18. Indicative Pipeline of Projects for Tranches 2 and 3 of the Investment Program
19. Procurement Capacity Assessment
20. Summary of Financial Management Assessment
21. Comparison of Multitranche Financing Facility and Project Loan Financing Modalities
22. Small and Medium-Sized Enterprise Sector Analysis
23. Due Diligence Report: Guangxi Branch of Bank of Communications