



Periodic Financing Request Report

Project Number: 50050-004
MFF Number: 0096
March 2018

People's Republic of China: Guangxi Regional Cooperation and Integration Promotion Investment Program (Tranche 2)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 28 February 2018)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1583
\$1.00	=	CNY6.3159

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
BEZ	–	border economic zones
BOCOM	–	Bank of Communications
EMP	–	environmental management plan
ESMS	–	environmental and social management system
FIL	–	financial intermediation loan
GMS	–	Greater Mekong Subregion
GPMP	–	Guangxi Foreign Loans Project Management Office
GZAR	–	Guangxi Zhuang Autonomous Region
ICT	–	information and communications technology
IEE	–	initial environmental examination
MFF	–	multitranches financing facility
MIS	–	management information system
PAM	–	project administration manual
PIE	–	project implementing entity
PMO	–	project management office
PMU	–	project management unit
PRC	–	People's Republic of China
SME	–	small and medium-sized enterprises

NOTE

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

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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 50050-004	
Project Name	Guangxi Regional Cooperation and Integration Promotion Investment Program - Tranche 2	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		ADB Financing (\$ million)	
✓ Industry and trade	Industry and trade sector development		80.00
Finance	Small and medium enterprise finance and leasing		20.00
Transport	Road transport (non-urban) Urban public transport		40.00 40.00
		Total	180.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	6.01
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Mitigation (\$ million)	5.60
Regional integration (RCI)	Pillar 1: Cross-border infrastructure Pillar 2: Trade and investment Pillar 3: Money and finance	CO ₂ reduction (tons per annum)	25,000
		Climate Change impact on the Project	Medium
4. Drivers of Change		Gender Equity and Mainstreaming	
Private sector development (PSD)	Conducive policy and institutional environment	Some gender elements (SGE)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
6. Risk Categorization:		Low	
7. Safeguard Categorization Environment: B Involuntary Resettlement: B Indigenous Peoples: C			
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		180.00	
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources		180.00	
Cofinancing		0.00	
None		0.00	
Counterpart		260.00	
Government		260.00	
Total		440.00	

TRANCHE AT A GLANCE

Date of Receipt by ADB of PFR: 11 January 2018

Tranche Number: 2

9. Country Operations Business Plan

CPS

PRC Country Partnership Strategy (CPS) 2016-2020
<https://www.adb.org/documents/peoples-republic-china-country-partnership-strategy-2016-2020>

COBP

PRC Country Operations Business Plan (COBP) 2017-2019
<https://www.adb.org/documents/peoples-republic-china-country-operations-business-plan-2017-2019>

10. Tranche Summary

The second tranche of the multitranche financing facility (MFF) will cover major investments of the MFF, including investments in border-connectivity and border economic zones (BEZ). In line with the framework financing agreement, those investments strongly support Guangxi Zhuang Autonomous Region's (GZAR) Strategy and Action Plan for participation in the Greater Mekong Subregion (GMS) Program, aiming to deepen economic cooperation and integration with ASEAN member countries.

Impact: Economic growth potential for border areas in the PRC and Viet Nam realized.

Economic integration between GZAR and rest of the GMS further strengthened.

Efficient transport and trade operations along GMS North South Economic Corridor achieved.

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

Outputs: (i) Development of small and medium-sized enterprises (SME) enhanced, (ii) Cross-border e-commerce platforms developed, (iii) Key infrastructure and services in BEZs provided, and (iv) Physical and people-connectivity for regional cooperation and integration (RCI) 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 draft feasibility study reports of tranche 2 were approved by Guangxi Development and Reform Commission on 10 August 2017. The provincial project management office (PMO) under tranche 1 will continue for tranche 2, and it has been adequately staffed for tranche 2's implementation. As advance actions, two counterpart-financing packages have commenced the implementation after confirming the compliance with safeguards covenants. In addition, three packages of ADB financing are preparing advance contracting.

11. Significant Developments in the MFF and Previous Tranches

The MFF purpose, outcomes, outputs, remain the same as described in the Report and Recommendation of the President, and the investments under tranche 2 were designed accordingly.

ADB has approved the initial environmental examination and environment management plan for tranche 1 and were disclosed in the ADB website on 16 October 2016. An environmental assessment and review framework was prepared as a guidance document on environmental safeguards for the executing agency for subsequent tranches. Under the financial intermediation loan (FIL) of tranche 1, the environment and social management system (ESMS) has been completed, and the provincial PMO and the Bank of Communication have confirmed the eligibility criteria provided for the selection of SMEs. The disbursement in the amount of \$25 million was made for SMEs under the FIL on 13 February 2018, to enable eligible SMEs to gain access to competitively priced, medium to long-term debt to fund their value addition proposals and increase profitability of their business and productivity.

12. Milestones

Estimated Approval
30 March 2018

Estimated Completion^a
30 November 2023

13. Linked Documents

	Required Document	Disclosure Date
MFF	Report and Recommendation of the President	
Weblink:	https://www.adb.org/projects/documents/prc-guangxi-rcpip-rrp	02-DEC-2016
Tranche	Draft Periodic Financing Request Report	
Weblink:	http://www.adb.org/Documents/LinkedDocs/?id=50050-004-DraftPFRR	The Final PFR Report is disclosed upon approval
(i) Environment	IEE - Initial Environment Examination	
Weblink:	https://www.adb.org/projects/documents/prc-50050-004-iee	17-JUL-2017
(ii) Involuntary resettlement	RP - Resettlement Plan	
Weblink:	https://www.adb.org/projects/documents/prc-50050-004-rp-0	17-JUL-2017
	RP - Resettlement Plan	
	https://www.adb.org/projects/documents/prc-50050-004-rp-1	17-JUL-2017
	RP - Resettlement Plan	

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	https://www.adb.org/projects/documents/prc-50050-004-rp	17-JUL-2017
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^a For Tranches, this refers to the financial closing date.

I. BACKGROUND

1. The Asian Development Bank (ADB) and the People's Republic of China (PRC) signed a framework financing agreement for the Guangxi Regional Cooperation and Integration Promotion Investment Program on 15 October 2016. On 12 December 2016, ADB approved the provision of a multitranche financing facility (MFF) comprising three tranches with an aggregate facility amount of \$450 million to the PRC.¹ The MFF implementation period is from 2017 to 2024. The MFF intends to help the Guangxi Zhuang Autonomous Region (GZAR) implement its strategies and action plans for regional cooperation and integration (RCI) with countries of the Association of Southeast Asian Nations (ASEAN), focusing on developing the North-South Economic Corridor under the Greater Mekong Subregion (GMS) Cooperation Program. This is in line with the national development strategies of the PRC to promote connectivity and strengthen regional economic partnerships, as highlighted in the Thirteenth Five-Year Plan for National Economic and Social Development for 2016–2020. This is also relevant to ADB's RCI strategy, particularly the Operational Plan for Regional Cooperation and Integration.²

2. The GZAR has mainstreamed RCI into its own development strategies. GZAR's international trade has increased significantly from \$23.3 billion in 2011 to \$45.9 billion in 2016. Viet Nam is a key trade partner for GZAR, accounting for 50.1% of its foreign trade in 2016. Major exports from GZAR to Viet Nam are electrical machinery and textiles, while major imports from Viet Nam are agricultural products and minerals. Cross-border trading is a key driver for enhancing RCI between GZAR and Viet Nam.

3. The Government of PRC submitted to ADB the periodic financing request for tranche 2 in the amount of \$180.0 million. The government proposes counterpart financing of \$260 million. The investments under tranche 2 are consistent with the outcomes, outputs, and approval schedule of the MFF tranches. Also, the proposed tranche 2 was prepared based on the salient features of the MFF such as (i) providing opportunities during implementation to accommodate new cooperation initiatives, and (ii) allowing phased funding to match project readiness and level of consultation and consensus-building with the Viet Nam counterparts.

4. The Government of GZAR has promoted and supported RCI initiatives with Viet Nam, including cross-border small and medium-sized enterprises (SME) trade based on the "Notice on Guangxi SME Special Fund Application" issued on 27 October 2016. Also, the Guangxi E-commerce Summit, held in June 2017, promoted cross-border SME trade.

5. Viet Nam is doing its part to expand trade with the PRC by taking the necessary steps in developing needed infrastructure, particularly auxiliary border crossings, to improve physical and economic connectivity. ADB in 2017 provided a \$150 million loan to improve the basic infrastructure in four provinces in Viet Nam that have extensive borders with the PRC.³ The area is adjacent to the Greater Mekong Subregion North–South Economic Corridor. The Second Greater Mekong Subregion Corridor Towns Development Project, approved in 2015, supports

¹ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the People's Republic of China for Guangxi Regional Cooperation and Integration Promotion Investment Program*. Manila.

² ADB. 2016. *Operational Plan for Regional Cooperation and Integration (2016-2020)*. Manila. The plan was approved in September 2016 and supports two operational directions: strengthening connectivity between economies and raising competitiveness in connected markets.

³ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan Socialist Republic of Viet Nam: Basic Infrastructure for Inclusive Growth in the Northeastern Provinces Sector Project*. Manila.

urban infrastructure development in Mong Cai, a major cross-border and transshipment hub between Viet Nam and PRC.⁴ There are ongoing efforts to improve transparency of customs procedures and compliance with international standards. The PRC and Viet Nam signed in January 2017 the Five-year Economic and Trade Cooperation Program, and Viet Nam completed the draft Joint Master Planning of Border Economic Zones (BEZ) in April 2017—both initiatives provided a more solid foundation to BEZ development in GZAR.

6. These developments underpin tranche 2's preparation. In addition, the timeline and formulation of tranche 2 are well coordinated with that of tranche 1 to effectively achieve the MFF outcome. Advisory services established under tranche 1 will support three subprojects of tranche 2 to (i) ensure the quality of e-commerce functions, (ii) improve the regulatory framework of sanitary and phytosanitary related standards, and (iii) strengthen the capacity of SME training. Tranche 2 will be implemented in parallel with GZAR's initiatives on RCI. GZAR's rapid RCI development with neighboring countries requires ADB's support under tranche 2 to be prepared in a timely manner.

II. ASSESSMENT OF IMPLEMENTATION

7. Tranche 1 was approved on 12 December 2016 and became effective on 21 August 2017, with an implementation period from August 2017 to December 2021. Tranche 1 of the MFF, in the amount of \$130 million, finances (i) the construction of training facilities in Fangchenggang City Polytech Vocational School; (ii) the construction of a PRC–Viet Nam cross-border labor cooperation park; (iii) the improvement of training programs for Vietnamese and Chinese workers and local SMEs in the border prefectures of Baise, Chongzuo, and Fangchenggang; (iv) establishment of a partnership with a financial intermediary to provide access to finance to SMEs in Guangxi using the financial intermediation loan (FIL) modality; (v) the development of a cross-border trade logistics and information service in Longbang BEZ; (vi) the expansion of Pingxiang border trade service center; (vii) the provision of project advisory support on public–private partnership options in subsequent tranches; (viii) the provision of project advisory support on improving cross-border financial services and guarantees for noncommercial risks; (ix) the provision of advisory support on strengthening business development services; and (x) the provision of project management and capacity building.

8. The executing and implementing agencies for tranche 1 have reviewed the loan covenants set forth in the loan agreement to ensure compliance with the covenants. The provincial project management office (PMO) has been established under the Government of GZAR and all municipal level PMOs have been set up. All preliminary design works have been completed under the investment loan of tranche 1. One of the three subprojects also completed the detailed design works, and remaining detailed design works have been accelerated. Two packages in the amount of \$21.89 million are expected to be disbursed by July 2018.

9. ADB approved the initial environmental examination (IEE) and the environmental management plan (EMP) for tranche 1. The IEE and EMP were disclosed on the ADB website on 16 October 2016 and information was shared with stakeholders. An environmental assessment and review framework was prepared as a guidance document on environmental safeguard for the executing agency for subsequent tranches. The environmental and social management system (ESMS) of the FIL of tranche 1 has been completed, and the Bank of Communications (BOCOM),

⁴ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kingdom of Cambodia for the Second Greater Mekong Subregion Corridor Towns Development Project*. Manila.

the financial intermediary and the project implementation unit, has already set up its environment and social unit to implement the ESMS.

10. Guangxi Foreign Loans Project Management Office (GPMO) and BOCOM have reviewed the eligibility criteria provided by ADB and the ESMS for the selection of SMEs. BOCOM completed the preparation of the credit assessment tool to select the eligible SMEs, and the first batch of SMEs have been selected. Under the FIL, the first disbursement in the amount of \$25 million was made on 13 February 2018. Further, the second batch of FIL with the amount of \$17 million, is expected to be disbursed in June 2018. In total, the amount of \$63.89 million (49.1% of total ADB financing) under tranche 1, including FIL and the investment loan, is expected to be disbursed by July 2018.

III. PERIODIC FINANCING REQUEST

A. Impact 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 North-South Economic Corridor achieved, and economic integration between GZAR and rest of the GMS further strengthened. The outcome will be benefits of regional cooperation and integration in border areas of Guangxi and northern Viet Nam captured.

B. Outputs

12. Tranche 2 will include the following outputs:

- (i) **Development of small and medium-sized enterprises enhanced.** This includes the construction of a business development service information center for SME, ASEAN vocational training facilities, and other related facilities in the Guilin University of Aerospace Technology, which provides SME-related training and courses for both Chinese and ASEAN students.⁵ An advisory service established under tranche 1 of the program will support the Guilin University of Aerospace Technology to improve the design and contents of business management courses targeting SME managers and owners.
- (ii) **Cross-border e-commerce platforms developed.** This includes the construction of e-commerce facilities, including an electronic business data center, a cross-border trade exhibition center, and related facilities in the Qinzhou Cross-Border Trade E-commerce Industrial Park. An advisory service under tranche 1 will help identify an appropriate management information system (MIS) and information and communications technology (ICT) system. It will also support the procurement and installation of the MIS and ICT system to ensure a fully functional e-commerce platform that supports the Qinzhou Bonded Port cross border trade.
- (iii) **Key infrastructure and services for border economic zones improved.** (a) The construction of cold storage, inspection and detention facilities, surveillance facilities, and other related facilities in the Qinzhou Free Trade Port Area. These facilities will play a key role in managing cold-chain logistics for trade between the PRC and ASEAN countries.⁶ An advisory service under tranche 1 will help analyze existing

⁵ The Guilin University of Aerospace Technology has significant experiences in providing SME related courses and training and has cooperation agreements with more than thirty related institutions of ASEAN countries.

⁶ Major trade goods are meat, fruit, vegetables, fishery products, and processed food.

gaps in meeting sanitary and phytosanitary related international standards and recommend measures to fill in the gaps; and (b) the construction and rehabilitation of six roads, totaling 20.15 kilometers (km), a wastewater treatment plant with 10,000 cubic meters per day treatment capacity, and 21.91 km of wastewater collection pipelines in Chongzuo Sino–Viet Nam BEZ to improve key infrastructure, particularly in the areas of Xinhe Town and Jiangzhou District in Chongzuo City of GZAR.

- (iv) **Physical and people’s connectivity for regional cooperation and integration improved.** (a) The construction of the eastern section of Changhu road totaling 3.7 km in Dongxing City to improve physical connectivity with the border of Viet Nam, particularly the area of Mong Cai; (b) the construction of educational, training and laboratory facilities, and other related facilities in Youjiang Medical College for Nationalities to meet the growing demand for health and medical human resources in the regions and enhance the secured connectivity of people and goods between GZAR and ASEAN countries; (c) the construction of a road totaling 2.668 km leading to the cross-border point of Nonghuai in Pingxiang, which is designated as the import port for fruits, nuts, aquatic products, and grains.
- (v) **Technical and institutional support provided.** Technical and institutional support will be provided to the executing agency, implementing agencies, and project implementing entities for efficient project management and implementation.

C. Investment and Financing Plans

13. Tranche 2 is estimated to cost \$440.0 million (Table 1). Detailed cost estimates by expenditure category and detailed cost estimates by financier are included in the project administration manual (PAM).

Table 1: Tranche 2 Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1 SME development	83.2
2 Cross-border e-commerce	18.3
3 BEZ development	80.1
4 Cross-border connectivity	155.6
5 Technical and institutional support	3.1
Subtotal (A)	340.2
B. Taxes and Duties	42.3
C. Contingencies^c	45.2
D. Financing Charges During Implementation^d	12.3
Total (A+B+C)	440.0

BEZ = border economic zone, SME = small and medium-sized enterprise.

Note: Numbers may not sum precisely due to rounding.

^a In mid-2017 prices.

^b Includes taxes and duties of about \$42 million to be financed from government resources.

^c Physical contingencies calculated at 5% to 10% for civil works and for all other costs. Price contingencies calculated at 1.5% on foreign exchange costs from 2018 to 2020, and 1.6% from 2021 and thereafter, and 2.5% on local currency costs in 2018 and thereafter; 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 calculated at the London interbank offered rate-based (LIBOR) 5-year US dollar fixed swap rate plus an effective annual 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.

14. The Government of the PRC has requested a loan of \$180.0 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; an annual interest rate determined in accordance with ADB's London interbank offered rate-based lending facility (LIBOR); a commitment charge of 0.15% per year; the interest and other charges 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 the straight-line method, the average maturity is 15.25 years, and the maturity premium payable to ADB is 0.10% per year.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	180.0	40.9
OCR loan from country allocation	90.0	
OCR loan from regional set aside	90.0	
Government	260.0	59.1
Total	440.0	100.0

Source: Asian Development Bank estimates.

D. Implementation Arrangements

15. Tranche 2 will be implemented from May 2018 to May 2023. The Government of GZAR through the GPMO will be the executing agency. Implementing agencies and PIEs will be set up for each subproject. PMOs will be set up under each of the implementing agencies, and PMUs will be set up under each PIE. PIEs and PMUs will carry out the implementation of their respective subprojects.⁷ The implementation arrangements are summarized in Table 3 and described in detail in the PAM.

16. A procurement plan is included in the PAM. Goods, works, and consulting services procured under the ADB loan will follow ADB's Procurement Guidelines (2015, as amended from time to time), and ADB Guidelines on the Use of Consultants (2013, as amended from time to time). The Government of GZAR requested ADB to approve advance contracting for the procurement of goods, services, and civil works, including the preparation of bid documents, inviting and receiving bids for project contracts, and retroactive financing under the project. Retroactive financing will be allowed for eligible expenditures incurred prior to loan effectiveness, but not earlier than 12 months before the loan agreement is signed. The government and GPMO were advised that ADB's approval of advance contracting and retroactive financing does not commit ADB to finance any part of the project.

Table 3: Implementation Arrangements

Aspects	Arrangements
Implementation period	May 2018–May 2023
Estimated completion date	30 November 2023
Management	
(i) Steering committee	Leading Group for Utilization of Foreign Loans of Guangxi Zhuang Autonomous Region

⁷ Integrity due diligence was conducted on each of the PIEs (Chongzuo City Xinghe Investment Development Ltd. Co, Dongxing Development Investment Ltd. Co, Guangxi Qinzhou Free Trade Port Area Investment Group, Ltd, Guilin University of Aerospace Technology, Pingxiang City Construction Investment Co. Ltd, and Youjiang Medical College for Nationalities), in accordance with ADB's Staff Instruction on Integrity Due Diligence for Sovereign Operations and Cofinancing (2015). No significant or potentially significant integrity risks were identified. (ADB. 2015. Integrity Due Diligence for Sovereign Operations and Cofinancing. *Staff Instructions*. Manila.).

(ii) Executing agency	Government of Guangxi Zhuang Autonomous Region through Guangxi Foreign Loans Project Management Office		
(iii) Key implementing agencies	(i) Guilin University of Aerospace Technology, (ii) Youjiang Medical College for Nationalities, (iii) Qinzhou Municipal Government (the Management Committee of Qinzhou Free Trade Port Area), (iv) Chongzuo Municipal Government, and (v) Fangchenggang Municipal Government.		
(iv) Project implementing entities	PIEs include: - Two educational institutions: Guilin University of Aerospace Technology and Youjiang Medical College for Nationalities. - Four state-owned enterprises: Chongzuo City Xinghe Investment Development Co. Ltd., Dongxing Development Investment Limited Liability Company, Guangxi Qinzhou Free Trade Port Area Investment Group, Ltd., and Pingxiang Urban Construction Investment Co. Ltd.		
Procurement	National competitive bidding	13 contracts	\$ 285.13
	Shopping	To be used as needed	
Consulting services	QCBS	191 person-months	\$ 1.5 million
	ICS (external monitor)	88 person-months	\$ 0.57 million
	ICS (start-up)	76 person-months	\$ 0.54 million
	ICS (project preparation)	30 person-months	\$ 0.43 million
Retroactive financing and advance contracting	Advance contracting and retroactive financing will be undertaken for the procurement of goods, works, and consulting services. Retroactive financing will be allowed for up to 20% of the loan amount for eligible expenditures prior to loan effectiveness, no earlier than 12 months before the signing of the loan agreement.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, ICS = individual consultant selection, QCBS = quality and cost-based selection.
Source: Asian Development Bank.

E. Project Readiness

17. The draft feasibility study reports were submitted to the Guangxi Development and Reform Commission (GDRC) and ADB, and subsequently finalized and approved by GDRC on 10 August 2017. The GPMD was established and is adequately staffed for tranche 2 implementation. Categorization for the environment (B), involuntary resettlement (B), and indigenous peoples' impact (C) have been confirmed. As advance action, three packages of ADB financing are preparing advance contracting, and the amounts of \$100.9 million and \$22.4 million are expected to be disbursed by August and November 2018 respectively.

IV. DUE DILIGENCE

A. Technical

18. The subprojects of tranche 2 include (i) the construction of buildings and facilities to be built in Guilin City and Baise City for a university and a college, respectively, and at Qinzhou Free Trade Port for cold-chain related logistic facilities and an e-commerce center; and (ii) the construction and upgrading of roads in BEZs for connectivity in Dongxing, Pingxiang, and Xinhe (Chongzuo City). The building designs will follow the standard PRC guidelines and design codes, including architecture, water supply and sewage, firefighting, electric power supply, lighting, and communication systems. Road designs will comply with the PRC standards and urban road classification. Cost estimates have been prepared in accordance with PRC regulations on cost estimation. Design considerations include energy savings, environmental protection, road safety, and climate risk mitigation.

B. Economic and Financial

19. The standard cost-benefit analysis was applied to each subproject of tranche 2, where possible, using with- and without-project alternatives in accordance with ADB's Guidelines for the

Economic Analysis of Projects.⁸ The economic internal rate of return ranges from 13.0% to 27.1%, higher than the economic opportunity cost of capital estimated at 9.0%. The overall return is 22.2% and sensitivity tests show that tranche 2 of the investment program remains economically viable even in adverse situations, including a 10% cost overrun, a 10% reduction in benefits, a combination of the two negative changes, and a 1-year delay in implementation start-up.

20. The financial analysis was done to determine the sustainability of the subprojects. The analysis shows that total project incremental costs will have a negligible impact on the budget of the Government of GZAR, which has an average annual revenue of about CNY64 billion with an average annual surplus of CNY6 billion. The maximum impact of all subprojects will be less than 0.8% of the government's annual surplus. The financial analysis also examined the four revenue-generating subprojects and assessed their projected incremental financials over a life cycle period in real terms.⁹ The financial internal rates of return of the four subprojects range from 2.0% to 6.0% for the base scenario, higher than their respective weighted average cost of capital. The two subprojects of educational institutions are sensitive to adverse changes in costs and revenues. The project aims to usher in self-sustainability where possible at the subproject level and proposes a financial sustainability action plan to support implementing agencies and PIEs develop and implement sustainable business models with ADB's support.

C. Governance

21. A standard financial management assessment was carried out for the executing agency under tranche 1. Its financial management risk was assessed as low, which remains valid. The executing agency is implementing two ADB-financed projects and has sufficient knowledge of and experience in ADB policies and procedures. Three of the five implementing agencies also have experience in implementing ADB projects and have sufficient knowledge of ADB policies and procedures. The executing agency and three implementing agencies are government entities, and the other two implementing agencies are public educational institutions. Four of the six PIEs are state-owned enterprises, and the remaining two PIEs are public educational institutions. The PIEs in tranche 2 have no experience in implementing ADB projects. A standard financial management assessment for the PIEs has been carried out. The financial management risk has been assessed as moderate due to their inexperience in managing ADB projects. To mitigate the risk, the borrower and the executing agency agreed to implement an action plan as a key measure to address identified deficiencies.¹⁰ Project management and capacity development services will also provide assistance for PIEs on ADB policies and procedures, including disbursement, accounting, financial reporting, and procurement.

22. The procurement risk was assessed as medium under tranche 1. The executing agency has sufficient knowledge of and experience in ADB policies and procedures. The PIEs of tranche 2 have no prior experience of working on ADB projects; two PIEs were established less than 4 years ago. None of the PIEs has a procurement team with the required skills in English and procurement under ADB policies and procedures. Procurement agents will be engaged as common practice in PRC projects. Potential risks in the procurement arrangement will be (i) recruitment of unqualified procurement agents, and (ii) lack of decision-making authority. The major mitigating measures are (i) the recruitment and contracting of procurement agents are

⁸ ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila.

⁹ The four subprojects with projected revenues include: (i) Qinzhou Bonded Cross-Border Trade E-commerce Industrial Park, (ii) Qinzhou International Cold Chain Logistics Demonstration Project, (iii) China-ASEAN Small and Medium Enterprises (SMEs) Synergy Innovative Development Project, and (iv) China-ASEAN Educational Medicare Cooperation Project.

¹⁰ Details of the action plan is in Table 15 of the PAM.

conducted by the provincial-level PMO, (ii) procurement agents will report directly to the provincial-level PMO on progress and any difficulties encountered in performing their duties, and (iii) close coordination of procurement agents with the relevant implementing agencies and PIEs. Following mitigation, the risk rating assessment is medium. Anticorruption Policy (1998, as amended to date) was explained to and discussed with the GPMO. The specific policy requirements and supplementary measures are described in the PAM (Appendix 4).

D. Poverty, Social, and Gender Dimensions

23. The poverty rate is comparatively low in the areas impacted by the project. The main causes of poverty in the subproject areas include (i) the lack of sufficient cultivable land to distribute among farmers, (ii) the scarcity of agricultural labor to work on cultivated land, and (iii) the lack of non-agricultural resources such as capital and improved technology that are required for income diversification and improvement. The subprojects located in the free trade zones and industrial parks, and the subproject located close to the ports and the PRC–Viet Nam border have advantages when compared to other locations in the province. These subprojects have better employment opportunities and access to cross-border trade and tertiary industries. The proposed subprojects will benefit the poor by (i) creating more business opportunities in cross-border trade through the improvement of industrial parks and roads, (ii) providing more job opportunities through the development of industrial zones, (iii) offering training on working skills and knowledge, and (iv) increasing the potential for developing new businesses.

24. No gender-related adverse impacts of the proposed subprojects have been identified. To maximize the positive impacts of the proposed projects on women, two outputs are expected during the implementation of the subprojects, namely (i) women, particularly those who lost land to subprojects and lack sufficient education, will get priority for employment in industrial parks or economic zones; and (ii) skills training will be provided for the local people, particularly the land-lost farmers and women, so that they can find new employment in the project areas and outside. A social development and gender specialist will closely monitor these programs and will collect sex-disaggregated data of such employed and trained women and men. The specialist will also ensure the implementation of the social development and gender action plan. The project is categorized as ‘some gender elements’.

E. Safeguards

25. **Environment.** Tranche 2 was classified category B for environment based on the environmental assessment carried out for the subprojects, i.e., there are no significant impacts that are irreversible, diverse, or unprecedented. An IEE report and an EMP were prepared for the seven subprojects involving infrastructure. Potential environmental impacts include air quality, noise, water quality, solid waste management, and occupational and community health and safety during the construction, as well as air quality, noise, water quality and solid waste management during the operational stage. These can be mitigated to acceptable levels with the implementation of the EMP. The construction and operation will cause no loss of valuable ecology or physical cultural resources. The environmental assessment and review framework under tranche 1 was updated for screening, categorization, assessment, preparation, and implementation of safeguard plans for subprojects of subsequent tranches. These documents comply with the PRC’s regulatory requirements and ADB’s Safeguard Policy Statement (2009) and were disclosed on the ADB website in July 2017. Public consultations and information disclosure were carried out during the project design and will continue during project implementation. Environmental management training will be provided to build capacity. Environmental complaints will be handled through a grievance redress mechanism. A wildlife trafficking study was carried out to assess the

risks and mitigation measures that will be implemented through capacity building of border control officials and law enforcement by a national wildlife trafficking specialist under the tranche 1 project management consultancy component.

26. **Climate change.** A climate risk and vulnerability assessment found that all seven subprojects under tranche 2 would have a medium risk to climate change impact. The implementing agencies and PIEs will ensure that the detailed project designs by the design institutes incorporate the adjustments to engineering designs derived from assessment results, as proactive adaptation measures. Energy saving techniques such as solar energy generation and solar water heating systems are planned to be included in the design of the university buildings, which will contribute to climate change mitigation. Road development will also help to reduce the carbon dioxide emission due to the increase in traffic efficiency and saving of petrol.

27. **Involuntary resettlement.** The land acquisition and resettlement (LAR) impacts of all seven subprojects of tranche 2 are limited and are categorized as B. The key LAR impacts are the permanent acquisition of cultivated land of households and temporary disturbances to the livelihoods of project-affected households during the construction phase of subprojects. Four subprojects will not acquire land from individuals and households. They will be constructed on state-owned land acquired prior to planning of tranche 2, or on new land recently reclaimed from the sea. The other three subprojects will acquire 114.8 hectares of rural collective land or state-owned farmland and will demolish rural residential and nonresidential houses of 26,890.3 square meters. About 4,946 persons in 1,680 households will be affected by LAR. The losses of income and sources of livelihoods of individuals and households are offset by their access to nonagricultural income sources and cross-border trade. Resettlement plans were formulated to address the LAR issues of the three projects and four resettlement plans and resettlement due diligence reports (RDDR) were prepared on the four subprojects. The affected persons have agreed with the PIEs on the structure and organization of a grievance redress mechanism that will be established during project implementation. Public information booklets on the project's LAR impacts and remedies will be distributed to affected persons prior to project implementation. RDDR of the subprojects have been formulated in accordance with the resettlement framework of the program that meets the requirements of the PRC's regulatory framework and the Safeguard Policy Statement (2009) of ADB. Draft resettlement plans and RDDR have been uploaded onto the websites of the executing agency and ADB. The PMO will conduct internal monitoring of the implementation of involuntary resettlement safeguards. An external safeguard monitoring agency will conduct an independent safeguards review of the subprojects.

28. **Indigenous peoples or ethnic minorities.** The subprojects of tranche 2 will have minimal impact on ethnic minorities. Therefore, such impacts are categorized as C. Han and Zhuang ethnic communities comprise the majority of the population in the seven subproject areas, constituting more than 98% of the population. Less than 1% of people in the project areas belong to the Jing ethnic community. They are mostly Vietnamese migrant workers whose family and property ties are with Viet Nam across the border. They are well integrated into the Han or Zhuang ethnic communities. No ethnic community holds any ancestral or sacred land in the subproject areas. As such, they do not have any special attachment to the land where they live. The subprojects will have no adverse impacts on local religions or cultures. The subprojects will benefit the local populations regardless of their ethnic group identities.

F. Risks and Mitigating Measures

29. The overall benefits and impacts are expected to outweigh the costs and risks involved. Major risks and mitigating measures are summarized in Table 4 and described in detail in the

updated risk assessment and risk management plan (Appendix 11). The overall risk is rated medium.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Weak coordination between the governments of the PRC and Viet Nam on border area development	<ul style="list-style-type: none"> - Institutionalize consultation mechanisms between the government of GZAR and the neighboring border provinces in Viet Nam, supported by the ongoing ADB regional technical assistance. - 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 of the PIEs to implement subprojects, including procurement and financial management	<ul style="list-style-type: none"> - Recruit qualified staff and consultants to support the implementing agencies and PIEs and ensure smooth and timely implementation of each subproject. - Provide training to PIEs on ADB procedures, including procurement, financial management, and safeguards.
Risk of compensation payment delays for cultivated land acquired	A firm commitment from the EA to allocate the full amount of land compensation to each subproject prior to land acquisition. No physical activity to be started until compensation is paid fully to affected persons.
Risk of overlooking men and women of poor and vulnerable project-affected households in the selection for skills training programs	Prioritize selection of candidates from poor and vulnerable households for skills training and publicizing the list of candidates well in advance of the training programs.
Unqualified procurement agents and low experience levels of the PIEs in procurement	<ul style="list-style-type: none"> - Procurement agents will be recruited by the provincial-level PMO; agents will report directly to the PMO. - Procurement agents will coordinate well with IAs and PIEs.

ADB = Asian Development Bank, EA = executing agency, GMS = Greater Mekong Subregion, GZAR = Guangxi Zhuang Autonomous Region, IA = implementing agency, PIE = project implementing entity, PRC = People's Republic of China, PMO = project management office, RP = resettlement plan, TA = technical assistance.

Source: Asian Development Bank.

G. Risk Categorization

30. The proposed tranche 2 is categorized as low risk as it satisfies the following features: (i) a loan amount not exceeding \$200 million, (ii) a sound record of ADB's previous experience in the sector in the concerned country, (iii) reasonable executing agency capacity in terms of externally financed project administration, and (iv) safeguard categorization other than A.

V. ASSURANCES

31. The Government of the PRC and the Government of GZAR have assured ADB that implementation of tranche 2 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 PAM and loan documents.

32. The governments have agreed with ADB on certain covenants for the project, which will be set forth in the loan agreement and project agreement.

VI. RECOMMENDATION

33. On the basis of the approval by ADB's Board of Directors for the provision of loans under the multitranchise financing facility in an aggregate principal amount not exceeding \$450,000,000 to the People's Republic of China for the Guangxi Regional Cooperation and Integration Promotion Investment Program, it is recommended that the President approve the proposed tranche as described in para. 12 and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements for the proposed tranche.