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Report No: PAD617

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$150 MILLION

TO THE

PEOPLE'S REPUBLIC OF CHINA

FOR A

YUNNAN HONGHE PREFECTURE DIANNAN CENTER URBAN TRANSPORT PROJECT

April 14, 2014

China and Mongolia Sustainable Development Unit
Sustainable Development Department
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective September 1, 2013)

Currency Unit = RMB
RMB 6.1 = US\$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ATC	Area Traffic Control	ICB	International Competitive Bidding
BP	Bank Procedure	ICM	Integrated Corridor Management
CCTV	Closed-Circuit Television	IPF	Investment Project Financing
CNAO	China National Audit Office	ITS	Intelligent Transport System
CPS	Country Partnership Strategy	LIBOR	London Interbank Offered Rate
CQS	Selection Based on Consultants' Qualifications	M&E	Monitoring and Evaluation
DA	Designated Account	MOF	Ministry of Finance
EA	Environmental Assessment	NCB	National Competitive Bidding
EIRR	Economic Internal Rate of Return	NMT	Non-Motorized Transport
EMP	Environmental Management Plan	NPV	Net Present Value
FM	Financial Management	O&M	Operation and Maintenance
FMM	Financial Management Manual	OP	Operational Policy
FYP	Five-Year Plan	PEO	Project Execution Office
GDP	Gross Domestic Product	PDO	Project Development Objective
GoC	Government of China	PMO	Project Management Office
GPS	Global Positioning System	PCR	Physical Cultural Resources
HAP	Honghe Hani and Yi Autonomous Prefecture	PSC	Project Steering Committee
HURDB	Housing and Urban-Rural Development Bureau	QBS	Quality Based Selection
IBRD	International Bank for Reconstruction and Development	QCBS	Quality and Cost Based Selection
		RAP	Resettlement Action Plan
		WRD	Western Region Development
		YPAO	Yunnan Provincial Audit Office
		YPFB	Yunnan Provincial Finance Bureau

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Country Director:	Klaus Rohland, EACCF
Sector Director:	John A. Roome, EASSD
Sector Manager:	Abhas K. Jha, EASIN
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PEOPLE’S REPUBLIC OF CHINA
Yunnan Honghe Prefecture Diannan Center Urban Transport Project

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PAD DATA SHEET*China**China: Yunnan Honghe Prefecture Diannan Center Urban Transport (P101525)***PROJECT APPRAISAL DOCUMENT***EAST ASIA AND PACIFIC**EASCS*

Report No.: PAD617

Basic Information			
Project ID P101525	EA Category B - Partial Assessment	Team Leader Fei Deng	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 15-May-2014	Project Implementation End Date 31-Dec-2019		
Expected Effectiveness Date 14-Oct-2014	Expected Closing Date 30-Jun-2020		
Joint IFC No			
Sector Manager Abhas K. Jha	Sector Director John A. Roome	Country Director Klaus Rohland	Regional Vice President Axel van Trotsenburg
Borrower: People's Republic of China			
Responsible Agency: Honghe Prefecture Government			
Contact: Mr. Guocai Li	Title: Deputy Director, Honghe Construction Bureau		
Telephone: 86-0873-3736573	Email: hhzxmb3730776@163.com		
Project Financing Data(in USD Million)			
[X] Loan	[] Grant	[] Guarantee	
[] Credit	[] IDA Grant	[] Other	
Total Project Cost:	348.61	Total Bank Financing:	150.00
Financing Gap:	0.00		

Financing Source							Amount		
Borrower							198.61		
International Bank for Reconstruction and Development							150.00		
Total							348.61		
Expected Disbursements (in USD Million)									
Fiscal Year	2015	2016	2017	2018	2019	2020			
Annual	5.00	10.00	40.00	60.00	25.00	10.00			
Cumulative	5.00	15.00	55.00	115.00	140.00	150.00			
Proposed Development Objective(s)									
The proposed project development objective (PDO) is to improve the safety, accessibility and efficiency of trips taken by residents in the core urban areas of Mengzi City and Jianshui County.									
Components									
Component Name							Cost (USD Millions)		
Mengzi Part									
Component M1: Road Network Re-functioning and Improvement							144.21		
Component M2: Integrated Corridor Management							46.12		
Component M3: Public Transport Priority							43.93		
Component M4: School Transport Safety Improvement							8.00		
Component M5: Institutional Strengthening							2.36		
Jianshui Part									
Component J1: Core Urban Area Integrated Transport Improvement							18.81		
Component J2: Public Transport Priority							16.10		
Component J3: Urban Road Network Improvement							64.69		
Component J4: Institutional Strengthening							1.25		
Institutional Data									
Sector Board									
Transport									
Sectors / Climate Change									
Sector (Maximum 5 and total % must equal 100)									
Major Sector			Sector		%	Adaptation Co-benefits %		Mitigation Co-benefits %	
Transportation			Urban Transport		90			30	
Transportation			General transportation		10				

	sector			
Total		100		
<input type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Urban development	City-wide Infrastructure and Service Delivery	100		
Total		100		
Compliance				
Policy				
Does the project depart from the CAS in content or in other significant respects?		Yes []	No [X]	
Does the project require any waivers of Bank policies?		Yes []	No [X]	
Have these been approved by Bank management?		Yes []	No []	
Is approval for any policy waiver sought from the Board?		Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []	
Safeguard Policies Triggered by the Project		Yes	No	
Environmental Assessment OP/BP 4.01		X		
Natural Habitats OP/BP 4.04			X	
Forests OP/BP 4.36			X	
Pest Management OP 4.09			X	
Physical Cultural Resources OP/BP 4.11		X		
Indigenous Peoples OP/BP 4.10			X	
Involuntary Resettlement OP/BP 4.12		X		
Safety of Dams OP/BP 4.37			X	
Projects on International Waterways OP/BP 7.50			X	
Projects in Disputed Areas OP/BP 7.60			X	
Legal Covenants				
Name	Recurrent	Due Date	Frequency	
Public Transport Policy Study		31-Dec-2016		

Description of Covenant

Mengzi Municipality and Jianshui County shall have undertaken a study, under terms of reference acceptable to the Bank, to review the regulation, financing, concession and subsidization arrangements of its respective public transport sector.

Team Composition			
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Bank Staff

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Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
China	Yunnan Province	Mengzi City, Jianshui County		X	

I. STRATEGIC CONTEXT

A. Country Context

1. During the past three decades, China has experienced unprecedented economic growth, accompanied by rapid urbanization. According to the National Statistics Bureau, China's urban population reached 712 million by the end of 2012, accounting for 52.6 percent of the total population. The United Nations projects that the number of Chinese urban dwellers will grow to nearly 1 billion by 2030, accounting for 20 percent of the total increase in urban population worldwide.¹

2. Economic growth and urbanization, however, have taken place disproportionately in different regions of China – for instance, per capita Gross Domestic Product (GDP) in the eastern provinces and the western provinces were RMB 53,350 (US\$ 8,746 equivalent) and RMB 27,731 (US\$ 4,546 equivalent), respectively, and the percentages of urban population were 60.8 percent and 43.0 percent, respectively, in 2011. Efforts to narrow the development gaps between the western region and the eastern region were initiated in 2000 when the central government of China launched the Western Regional Development (WRD) Program. Accordingly, from 2000 to 2009 the central government invested heavily in the western region, supporting 120 key projects at a total cost of RMB 2.2 trillion; the local governments in the western region seized the opportunity to accelerate their socioeconomic development and enhance their institutional capacity. During that period, the western region registered an average annual GDP growth of 11.9 percent, surpassing the national GDP growth rate.

3. To further promote inclusiveness and boost shared prosperity, the central government approved the 12th Five-Year Plan (FYP) of WRD. It emphasizes additional support for infrastructure development to minority-concentrated areas and border regions. The Diannan Area (Southern Yunnan Province), where the proposed project is located, is recognized to have such characteristics; and due to its unique geographical and historical position, is expected to become a regional hub of logistics, tourism, energy and trade connecting the South Asian and Southeast Asian countries. Therefore, one of the key aspects identified in the 12th FYP for infrastructure development, i.e., transport, is particularly important to the development of the project area.

B. Sectoral and Institutional Context

4. Unlike many coastal cities that have completed most of their construction programs of basic urban transport infrastructure in the past decades, small and medium cities in the western region still face the problem of inadequate transport infrastructure and services, which is a major constraint for the residents to access public services and job opportunities. Moreover, economic growth and urbanization are expected to take place faster in the western cities in the next five years under the support of the WRD strategy, resulting in an even faster growth in urban transport demand. Therefore, urban transport investment will remain on the top of the local government's agenda of the western region for the foreseeable future.

¹ World Urbanization Prospects – the 2011 Revision.

5. Past experience of the more developed Chinese cities on the eastern coast suggests that rapid motorization usually generates or worsens problems such as traffic congestion, air pollution, greenhouse gas emissions, dependence on fossil fuel, and traffic accidents. While it is to some extent unavoidable to construct new urban roads in order to accommodate rapid urban growth, constructing roads alone is not sufficient to meet people's travel demand. Although vehicle ownership is still very low in the small and medium cities in the western region, these cities are already beginning to suffer from traffic congestion and increasing road accidents and the growth trend is tremendous.

6. Drawing lessons from international and domestic cities with sustainable urban transport systems, both the national and the local governments of China recognize that a systematic approach, which prioritizes the movement of "people" and "goods" rather than "vehicles", needs to be taken in order to meet the travel demand generated from urbanization as well as to avoid the kind of urban transport problems that many Chinese cities have encountered. This approach focuses on public transport, non-motorized transport and road safety. This strategic shift in urban transport planning and development has been reflected in various policy documents promulgated at the national level. The State Council, the highest governing body of the Government of China (GoC), has issued two policy documents on urban public transport in recent years: (i) Directive 46 (October 2005) puts the improvement of urban public transport services as a national priority; and (ii) Directive 64 (December 2012) sets up objectives and specific policy guidance for promoting urban public transport. In addition, three national agencies, i.e., the Ministry of Housing and Urban-Rural Development, the National Development and Reform Commission, and the Ministry of Finance, jointly issued a guidance note on promoting pedestrian and bicycle transport in Chinese cities. Specifically, for cities with a population of less than 1 million, a non-motorized (pedestrian+bicycle) mode share of over 70% is targeted by 2015.

Introduction to Mengzi City and Jianshui County in Yunnan Honghe Prefecture

7. Honghe Hani and Yi Autonomous Prefecture (HAP) is located in the south of Yunnan Province and strategically positioned on the Kunming-Hanoi economic corridor. HAP has an area of about 33,000 km² and a population of 4.5 million, among which 48% are ethnic minorities. It consists of three cities (Mengzi, Gejiu and Kaiyuan) and ten counties. The proposed project is located in Mengzi City and Jianshui County.

8. Mengzi City is the prefectural capital of HAP. It covers a total area of 2,228 km² with a population of 422,600. The urban built-up area reached 30.1 km² in 2012 and concentrated 258,600 urban residents. Per capita GDP and disposable income of urban residents in Mengzi reached RMB 24,410 and RMB 20,504, respectively, in 2012. They are roughly 65 percent and 85 percent of the respective national average levels, indicating the relatively poor status of Mengzi City. It is expected that by 2020, the built-up area in Mengzi will expand to 62 km² with an urban population of 500,000. As a core city on the Kunming-Hanoi corridor, Mengzi is envisaged to become a critical node connecting Yunnan Province and China to South Asia and Southeast Asia, with booming economic and trade activities.

9. Jianshui County is well-known for its old town with a history of over 1200 years. The total area of 3,789 km² houses a 538,300 population. The urban built-up area reached 14.7 km² in

2012 and concentrated 220,000 urban residents. Per capita GDP and disposable income of urban residents in Jianshui reached RMB 16,699 and RMB 18,439, respectively, in 2012, or roughly 45 percent and 77 percent of the respective national averages. It is expected that by 2015, the built-up area in Jianshui will expand to 20 km² with an urban population of 250,000. In recent years, Jianshui County invested heavily in exploiting the available tourism resources and providing the supporting facilities for tourism development. Annual number of tourists and tourism revenues grew by an average of 17.7 percent and 15.4 percent, respectively, per annum during the 11th FYP period. Such growth is expected to continue with sustained efforts from the local and provincial governments to promote tourism.

10. Amid the rapid economic growth and accelerated urbanization, both Mengzi City and Jianshui County are facing severe challenges to their urban road network. In both city/county, many links are missing in the existing road network, hampering the mobility and accessibility of the entire area. Approximately half of the existing roads are primary roads, and there is a huge lack of secondary and access roads. As such, there is no clear functional road hierarchy in either Mengzi or Jianshui.

11. The expansion of the urban area in recent years has resulted in an increase in average trip length and rapid motorization in both city/county. Private car ownership increased by 32 percent in Mengzi and 24 percent in Jianshui from 2010 to 2011, reaching 25,000 and 23,000 respectively by the end of 2011. However, bus services are inadequate – there are only 97 buses in Mengzi and 72 buses in Jianshui. The operation frequency of most bus routes is very low and some urbanized areas are not covered by public transport services. Besides, bus operation speed is slow, and reliability is poor, as buses often experience serious delays both at the junctions and in the road sections. As a consequence, bus mode share in Mengzi is only 9.4% while private car is 8.0% and motorcycle 8.4%; bus mode share in Jianshui is only 8.2% while private car is 10.5% and motorcycle 8.4%.

12. In addition, HAP has registered a relatively high fatality ratio of transport-related accidents in recent years – for example, in the first half of 2010, there were 78 road traffic fatalities and 114 injuries in HAP, with 18 fatalities in Mengzi and 31 in Jianshui. Both governments of Mengzi City and Jianshui County recognized the urgent need to reverse this trend before motorization worsens the situation further.

13. Despite the two-digit annual growth rate in recent years, per capita GDP and disposable income in Mengzi City and Jianshui County are still relatively low compared to the national average (RMB 37,735 and RMB 24,168, respectively). There is also a capacity gap for both city/county to tackle the urban transport issues efficiently and cost-effectively. HAP, aware of the challenges and opportunities that it faces, has sought out the technical and financial support of the Bank for an investment project in Mengzi City and Jianshui County, with key focus on optimizing functional road hierarchy, developing public transport and improving road safety.

C. Higher Level Objectives to which the Project Contributes

14. The Bank's China Country Partnership Strategy (CPS) for FY2013-16, discussed by the Board on November 6, 2012, is aligned with China's 12th FYP, which emphasizes, among other issues, the importance of actions to address urban transport issues. In particular, the CPS

designates “supporting greener growth” as one of its two strategic themes of action, with “the promotion of low carbon urban transport” as a specific outcome to pursue. As such, the proposed Yunnan Honghe Prefecture Diannan Center Urban Transport Project contributes directly to the CPS and the 12th FYP, through the improvements in functional road hierarchy, public transport and road safety, which will help develop a greener path for Mengzi City and Jianshui County.

15. The proposed project is aligned with the twin goals of the World Bank Group. User surveys have shown that the primary users of the public transport system are lower income people; studies have also indicated that the lower income group is more vulnerable in road accidents. Therefore the project promotes shared prosperity in Mengzi City and Jianshui County through improving public transport and road safety.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

16. The Project Development Objective (PDO) is to improve the safety, accessibility and efficiency of trips taken by residents in the core urban areas of Mengzi City and Jianshui County.

B. Project Beneficiaries

17. The total number of people who will benefit directly from the project is expected to be more than 750,000 (in which about 357,000 are women) by 2020. The following table lists the beneficiaries and corresponding benefits derived from the implementation of the project.

Beneficiaries	Project benefits
Public transport users	Travel time savings; reduced accidents; more reliable and comfortable services
Pedestrians and cyclists	Safer and more efficient movement
Women	Upgraded user experience (through better design that serves women’s particular needs such as security, safety and comfort)
Residents	Better accessibility to jobs, schools and public services; enhanced safety
Bus company	Lower operation costs; increased ridership and revenue
Government agencies	Strengthened institutional capacity in urban transport management
School-aged children	Safer transport to and from school in a reliable and efficient manner

C. PDO Level Results Indicators

18. The achievement of the PDO will be measured through the following indicators:
- (a) Reduced travel time of public transport users during peak hour on the project corridors;
 - (b) Increased number of people with access to urban transport services;
 - (c) Increased annual public transport ridership; and
 - (d) Lower annual urban transport related fatalities.

III. PROJECT DESCRIPTION

A. Project Components

Mengzi Part

19. **Component M1: Road Network Re-functioning and Improvement.** This component will rehabilitate Honghe Avenue and fill some missing links in the existing road network to optimize the functional hierarchy and overall efficiency of the road network in Mengzi City. It includes (i) road re-functioning of Honghe Avenue to transform it from a fast road to an urban arterial road; (ii) extension of Jinhua Road to provide a new north-south link in the city; (iii) extension of Zhaozhong Road to fill the missing east-west link between the old and new parts of the city; and (iv) construction of a bypass to divert the through traffic on Xuefu Road which currently bisects the campus of Honghe University. The construction of new roads would include the associated facilities such as lighting, greening, and underground utilities.

20. **Component M2: Integrated Corridor Management.** This component will improve safety, accessibility as well as public transport operations through integrated corridor management (ICM) approach on the following three corridors: (i) Tianma Road; (ii) Beijing Road; and (iii) Yinhe Road. The ICM approach will comprise a package of integrated measures including civil works, Intelligent Transport System (ITS) and road safety design, education and traffic regulation interventions covering bus priority lanes, bus stops, junctions and mid-block pedestrian crossings, parking management and e-bike management.

21. **Component M3: Public Transport Priority.** This component will provide the infrastructure and equipment for Mengzi to improve its public transport services. It includes: (i) construction of bus depots and terminals; (ii) construction of bus stops and bus bays; and (iii) development of a bus locating and monitoring system and a real-time passenger information system.

22. **Component M4: School Transport Safety Improvement.** This component will develop safe school transportation demonstration programs in Mengzi, which includes: (i) “model school transport zone” that pilots transport management plan for primary schools and middle schools; (ii) “home to school transportation demonstration” that provides designated school transport services to the vulnerable population of No. 4 primary school as a pilot and equipping the existing buses with school transport safety facilities; and (iii) public campaign, trainings and technical assistance which focus on awareness raising, behavior and policy advocacy.

23. **Component M5: Institutional Strengthening.** This component will enhance the institutional capacity of Mengzi City, through carrying out: (i) urban transport related studies; (ii) consultancy for project management and technical support; (iii) trainings and study tours; and (iv) public communication and education campaigns.

Jianshui Part

24. **Component J1: Core Urban Area Integrated Transport Improvement.** This component will implement ICM improvements on the three corridors in Jianshui’s core urban

area, including: (i) Jianshui Avenue; (ii) North Chaoyang Road; and (iii) Yinhui Road; as well as the adjacent areas. The ICM approach will comprise a package of integrated measures including civil works, ITS and road safety design, education and traffic regulation interventions covering bus priority lanes, bus stops, junctions and mid-block pedestrian crossings, parking management and e-bike management.

25. **Component J2: Public Transport Priority.** This component will provide the infrastructure and equipment for Jianshui to improve its public transport services, which includes: (i) construction of bus interchanges; and (ii) development of a bus locating and monitoring system and a real-time passenger information system.

26. **Component J3: Urban Road Network Improvement.** This component will construct the South Bypass, including associated facilities such as landscaping, lighting and underground utilities, in order to alleviate through traffic from the historical downtown.

27. **Component J4: Institutional Strengthening.** This component will enhance the institutional capacity of Jianshui County, through carrying out: (i) urban transport related studies; (ii) consultancy for project management and technical support; (iii) trainings and study tours; and (iv) public communication and education campaigns.

B. Project Financing

28. **Lending Instrument.** The proposed lending instrument for this project is an Investment Project Financing (IPF). The Borrower has selected a US Dollar denominated, commitment-linked variable spread loan based on six-month LIBOR plus an additional variable spread. It has also selected all available conversion options, annuity repayment of principal, and a repayment period of 25 years, including an 8-year grace period.

29. **Project Cost and Financing.** The total project cost is estimated to be RMB 2126.54 million, equivalent to US\$ 348.61 million (at an exchange rate of US\$ 1 to RMB 6.10). It will be financed through an IBRD loan of US\$ 150 million (US\$ 100 million for Mengzi City and US\$ 50 million for Jianshui County) and counterpart funds of US\$ 198.61 million equivalent. Bank financing will not be used for land acquisition. The table below presents the distribution of project costs and financing by component.

Project Components	Project cost	IBRD Financing	% Financing
<i>Mengzi Part</i>			
M1. Road Network Re-Functioning and Improvement	144.21	32.12	22.3%
M2. Integrated Corridor Management	46.12	33.54	72.7%
M3. Public Transport Priority	43.93	24.62	56.0%
M4. School Transport Safety Improvement	8.00	5.63	70.4%
M5. Institutional Strengthening	2.36	2.00	84.6%
<i>Jianshui Part</i>			
J1. Core Area Integrated Transport Improvement	18.81	13.00	69.1%
J2. Public Transport Priority	16.10	8.48	52.7%
J3. Urban Road Network Improvement	64.69	26.48	40.9%
J4. Institutional Strengthening	1.25	1.00	80.0%

Project Components	Project cost	IBRD Financing	% Financing
Total Project Costs	345.48	146.865	42.5%
Interest During Implementation	2.76	2.76	100%
Front-End Fees	0.375	0.375	100%
Total Financing Required	348.61	150.00	43.0%

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

30. Yunnan Province will sign the Project Agreement and be the project's formal implementing agency. It will act through HAP to implement the project. The detailed implementation arrangements are described as follows:

(a) A **Project Steering Committee (PSC)**, chaired by the Vice Governor of HAP, and comprised department heads of relevant prefectural agencies, the Mayor of Mengzi City and the Governor of Jianshui County, was established to oversee the preparation of the project. The PSC will be maintained throughout the implementation period and key members will meet regularly for reviewing project progress and promptly addressing issues arising during implementation.

(b) A **Project Management Office (PMO)** was established at the HAP Housing and Urban-Rural Development Bureau (HURDB) to prepare the project. It will be responsible for overall project management and coordinating the project execution in Mengzi City and Jianshui County during implementation.

(c) Two **Project Execution Offices (PEOs)** were established at Mengzi HURDB and Jianshui HURDB to carry out their respective parts of the project. Each PEO will be responsible for procurement management, financial management, engineering design, supervision of all project activities (including safeguards) and reporting, in accordance with Bank requirements.

31. According to the experience with other World Bank projects in China, the above arrangements normally work well, particularly when the PSC is strong and active and its members can meet regularly to review project progress. However, this is the Bank's first engagement with HAP, Mengzi City and Jianshui County and they have limited experience with Bank policies and procedures. Substantial trainings on environmental and social safeguards, procurement and financial management have been provided to the PMO and PEOs during project preparation, and will be continued throughout implementation.

B. Results Monitoring and Evaluation

32. A results framework has been developed (see **Annex 1**) and will be the basis for project monitoring and evaluation (M&E). Responsibility for collecting the indicators lies with the PMO with inputs from the PEOs. Although the PMO/PEOs do not have an existing M&E system for urban transport data collection, the incremental cost of such data collection is envisaged to be minimal and will be supported through the Bank loan allocated for institutional strengthening. Further details on the methodology of data collection are provided in **Annex 3**.

C. Sustainability

33. During project preparation, HAP, Mengzi City and Jianshui County have provided full support to applying good practices of road safety improvement and public transport priority to the local context, and exhibited strong commitment to achieving the PDO. Moreover, the GoC recently promulgated several national policies on public transport priority, non-motorized transport (NMT) promotion as well as road safety improvement, which are the focus of the project. The local government of HAP is determined to follow the GoC’s policy guidance.

34. Nevertheless, sustainability of the project outcomes at a city-wide level depends on whether the improvements in the selected corridors/areas can be replicated to the whole city. The project investments are relatively small compared to the overall infrastructure development program of Mengzi and Jianshui. Therefore the project selected only a handful of corridors for ICM improvement and schools for school transport safety improvement. It is envisaged that these pilot demonstrations will generate significant impact, thus encouraging HAP to replicate the approach to other parts of the prefecture rather than returning to a “car-oriented” mentality. It is also envisaged that the local agencies will acquire knowledge and skills for urban transport planning and management through project implementation and capacity building programs under the project, and develop the capacity for implementing the ICM approach and school transport safety improvements under their own investment projects.

35. Sustainability of the public transport system will depend largely on ensuring a strong business approach and clear institutional structure between the governments and the bus companies. Technical assistance, which is expected to commence prior to loan effectiveness, will help both Mengzi and Jianshui to evaluate and strengthen the business plans and concession agreements for bus service provision.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	Rating
Stakeholder Risk	M
Implementing Agency Risk	
- Capacity	S
- Governance	M
Project Risk	
- Design	M
- Social and Environmental	M
- Program and Donor	L
- Delivery Monitoring and Sustainability	S
Overall Implementation Risk	M

Note: L (Low), M (Moderate), S (Substantial)

B. Overall Risk Rating Explanation

36. The overall risk for project implementation has been rated “Moderate” due to the following considerations:

(a) **Coordination amongst the various government agencies.** The project requires strong oversight from the prefectural government during implementation to align the activities in both city/county. It also requires close coordination amongst various public sector entities in both city/county, who have limited experience in working together with each other before. This risk will primarily be mitigated by the use of a PSC that is led by deputy governor of HAP, the mayor of Mengzi City, the governor of Jianshui County and directors of the relevant prefecture agencies.

(b) **Capacity of the public sector stakeholders and the design consultants.** Significant capacity is needed to successfully implement and sustain an urban transport project. Due to limited experience with preparing and implementing an urban transport project of this type, a lack of capacity within the PMO, PEOs and relevant local agencies poses a substantial risk to the achievement of the PDO. The local consultants to be hired by the PMO/PEOs may also be unfamiliar with the approach to address urban transport challenges in a holistic manner. The risk will be partially mitigated through mobilizing the Bank’s experts to review the design documents. In addition, institutional strengthening component will provide capacity building programs to the local officers and technical staff to ensure the long term sustainability of the project.

(c) **Compliance with the Bank’s safeguards and fiduciary requirements.** As this is HAP’s first engagement with the Bank, unfamiliarity with Bank procedures and policies on environmental and social safeguards, procurement and financial management poses a risk of delaying the project. This will be mitigated through continuous training to the PMO and PEOs on Bank policies and close supervision of project activities during implementation.

(d) **Availability of counterpart funding.** The IBRD loan will finance approximately 43 percent of the total project cost and counterpart funds from Mengzi and Jianshui will cover the remainder. Failure to secure counterpart funds, particularly for land acquisition and resettlement, on time is a potential risk, as it would prevent timely handover of construction sites and implementation. The Bank has conducted a fiscal analysis of Mengzi City and Jianshui County (see **Annex 6**) and concluded that they will have sufficient fiscal resources to support the project. In both Mengzi and Jianshui, the requirement of counterpart financing is relatively small compared to the total government disposable revenue; and the government debt level is low compared to many Chinese cities. Both local governments have also committed that the investments under the proposed project will be prioritized in their overall investment programs and that sufficient counterpart funding will be made available in a timely manner.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analyses

Economic Analysis

37. The cost-benefit analysis has been carried out for the physical investment components, whose direct economic benefits could be quantified. Project costs include the cost of construction, operation and maintenance over the assumed project life of 25 years. The analysis also takes into account the following direct economic benefits: (i) passenger travel time savings; (ii) vehicle operating cost savings; and (iii) reduction of traffic accident costs. The project is also expected to generate other direct and indirect benefits, such as reduced vehicle pollution, improved air quality, improved institutional capacity for urban transport planning, operation and management, and improved urban competitiveness and attractiveness due to better transport efficiency and accessibility. However, since these benefits are difficult to quantify monetarily, they are not included in the cost-benefit analysis.

38. The direct economic benefits are estimated using the outputs from the travel demand model, through comparing the with-project and the without-project scenarios. A 12 percent economic discount rate is used. The results produced from the cost-benefit analysis are summarized below.

	Mengzi	Jianshui
NPV (US\$ million)	92.93	15.65
EIRR	15.78%	13.77%

39. In addition, a sensitivity test has been conducted, assuming higher costs (including construction, operation, and maintenance) and lower benefits. Results of the sensitivity analysis as shown below indicate that the project is economically robust.

	+20% costs	-20% benefits
Mengzi EIRR	14.17%	13.72%
Jianshui EIRR	12.34%	11.96%

Fiscal Analysis

40. A fiscal analysis was carried out to analyze the financial requirements for this Bank financed project (see **Annex 6** for details). The assessment concludes that the expected local fiscal revenue generation during the next few years and the continuous fiscal transfers from the upper level governments as part of the GoC's WRD strategy would ensure sufficient funding support to the project in both Mengzi City and Jianshui County. The requirement for counterpart funding during construction is relatively small (2.7% of total government disposable revenue in Mengzi and 1.0% in Jianshui) and would unlikely bring in serious pressure to the government fiscal expenditure. Moreover, both Mengzi and Jianshui have committed that the investments under the proposed project will be prioritized in their overall investment programs and that sufficient fiscal budget will be allocated in a timely manner.

41. In addition, the assessment finds that the funding need for operation and maintenance (O&M) of the project assets is also relatively low. In the peak year, O&M cost would account for 7.9% in Mengzi and 5.4% in Jianshui of urban construction and maintenance fund available for that year; the total government expenditure for project asset O&M and loan repayment would account for 1.3% in Mengzi and 1.0% in Jianshui of total disposable revenue of that year.

B. Technical

42. The project design reflects Bank's recent experience in urban transport improvement which addresses the safe and efficient movement of people. Specifically, it incorporates the following three key technical highlights: functional road hierarchy rationalization, integrated corridor management, and transport safety improvement. The feasibility study of the project was prepared by a consortium of local engineering design firms, an academic consulting team with extensive knowledge in international best practices of urban transport planning and management, and a national institute specialized in transport safety.

43. **Functional Road Hierarchy Rationalization.** Both Mengzi and Jianshui have extensive programs of new road construction in line with their master plans. The key missing links, which currently not only hamper the overall efficiency of the road network but also lead to safety risks, were identified through project preparation. The project focus is to facilitate the rationalization of functional road hierarchy through the provision of the missing links with complementary traffic management measures. The designs of these new roads have been optimized to minimize negative environmental and social impacts, and to highlight the safety of NMT.

44. **Integrated Corridor Management.** The project adopts the ICM approach, which has been implemented in a number of Bank projects in China. Such approach concentrates all required interventions in one or a few selected corridors in an integrated manner, to seize on synergies of the investments and maximize their benefits. The visible impact, compared to the other corridors, facilitates the formation of support for engagement in additional corridors and the eventual improvements of urban transport in the entire city. The project design has incorporated key lessons from other projects as well as international best practices, including addressing the needs for effective coordination among different agencies involved, engaging actively the general public for consultation, and prioritizing the safety and efficiency of public transport and NMT.

45. **Transport Safety Improvement.** During preparation, ChinaRAP (road safety assessment) was engaged to conduct surveys of nearly 160 kilometers of road networks in Mengzi City and Jianshui County. The assessment revealed the safety ratings of each road for cars, cyclists and pedestrians respectively; for instance, Honghe Avenue in Mengzi as well as Jianshui Avenue and Yinghui Road in Jianshui County in particular are extremely high risk for all user groups (one or two star ratings). These results have been used to inform project design and specific countermeasures have been developed to address the risks.

46. **School Transport Safety Improvement.** This is the Bank's first project in China to systematically introduce school transport safety measures. The project seeks to develop a 'model school transport zone' in the Wenli District of Mengzi with a focus on Primary School No. 4, which has a high population of migrant worker children. This pilot initiative is in response to the

rash of school transport related crashes and fatalities during the previous two years in China. In Mengzi City specifically, there are reports of extreme overloading of ‘special school buses’ and multiple e-bike related fatalities. Using grant funding from the Global Road Safety Facility, project preparation works have concluded on a school transport benchmarking survey and action plan. This work, along with the ChinaRAP surveys, is being used to inform the design and implementation of focused pilot policy measures, improvements to infrastructure aimed at enhanced safety for school children, bus driver training, age-appropriate education and public awareness campaigns, as well as the possibility of expanding school transport service through the public bus companies. This multi-sectoral approach will continue to be studied throughout implementation with plans to expand school transport safety related activities and improvements to other parts of China.

C. Financial Management

47. A PMO was established at the HAP HURDB, which is responsible for overall project management and coordination. The project components will be implemented in Mengzi and Jianshui respectively, accordingly the HURDBs of Mengzi and Jianshui have been designated by governments as project owner to implement the project, sign contract, make payments, manage project funds, and maintain required financial records. The Bank loan proceeds, including overseeing the Designated Account, will be managed by Yunnan Provincial Finance Bureau (YPFB). A financial management capacity assessment has been conducted by the Bank and actions to strengthen project’s financial management capacity have been agreed with the relevant implementing units. The Financial Management (FM) assessment has concluded that with the implementation of these proposed actions, the financial management arrangements will satisfy the Bank’s requirements under OP/BP 10.00. **Annex 3** of the PAD provides additional information on financial management.

D. Procurement

48. **PMO and PEOs Procurement Assessment.** All three project implementing agencies, i.e. the Honghe Prefecture PMO at HAP HURDB, Jianshui PEO at Jianshui HURDB and Mengzi PEO at Mengzi HURDB, have no previous experience implementing a Bank-financed project. The key procurement risks identified are the possibility of delays and/or non compliance due to the unfamiliarity of the project implementing agencies with the Bank’s procurement policy and procedures. In order to mitigate these risks, the following actions have been discussed and agreed with the project implementing agencies: (i) The PMO to hire a procurement agent with requisite qualifications and experience and under Terms of Reference acceptable to the Bank to assist all implementing agencies with procurement management; (ii) The PMO (with the participation of the PEOs) to prepare a project Procurement Manual acceptable to the Bank to guide procurement management; (iii) The PMO to appoint qualified procurement staff; and (iv) PMO and PEO staff to receive periodic training in procurement in Bank-financed projects and contract management. The procurement agent has been hired, and the Procurement Manual acceptable to the Bank has been prepared and issued prior to project negotiations.

49. The PMO will be responsible for (i) overall project procurement management ; (ii) procurement cycle management of contracts to be implemented by PMO; (iii) providing guidance to PEOs on procurement and contract management; (iv) supervising and monitoring

procurement activities carried out by PEOs; (v) liaising with the Bank on procurement matters, reporting on the progress of procurement for the entire project and (vi) bringing up any issues which may affect project implementation to the Bank's attention in a timely manner.

50. The PEOs will be responsible for (i) daily management of procurement under their respective project component; (ii) procurement cycle management of contracts to be procured and managed by the respective PEO; and (iii) regular reporting to PMO on procurement progress and issues.

51. **Procurement Plan.** A Procurement Plan for all contracts for which procurement action is to take place in the first 18 months of project implementation has been prepared by the PMO with guidance from the Bank. The procurement plan has been finalized and agreed with the Bank prior to project negotiations and will be made available on the Bank's external website. The Procurement Plan will be updated annually or as required to reflect implementation needs and improvements in institutional capacity. Further details on procurement are provided in **Annex 3**.

E. Social (including Safeguards)

52. The Project has significant social benefits as it supports the development of sustainable urban transport system in Mengzi City and Jianshui County in HAP of Yunnan Province. About 250,000 people of 40 urban and peri-urban communities could benefit from the functional road hierarchy optimization, public transport development and road safety improvement in the urban areas in Mengzi and Jianshui.

53. At the same time, road and public transport components proposed in Mengzi and Jianshui will involve land acquisition and structure demolition. According to the impact analysis, land acquisition and resettlement will affect 944 households and 3339 people from 18 villages/communities in the two cities in total.

54. For such land acquisition and resettlement impacts, a Resettlement Action Plan (RAP) has been prepared for each city/county in accordance with relevant Chinese laws, regulations, and World Bank Operational Policy (OP) 4.12. The proposed compensation policies in the RAP have been implemented in the two cities and are generally acceptable to local villagers and residents.

55. Public consultations had been conducted during RAP preparation including social economic survey and public meetings with the project affected people. Information about the project impacts, compensation policies, rehabilitation options and grievance procedures have been provided to the affected people through distribution of resettlement information booklets to the affected villages and disclosure of the RAP in local city PMO and affected town or sub-district offices.

56. Focus group discussions and key informant interviews have been used to consult with the potentially affected people and obtain views and preferences regarding resettlement impacts, compensation policies, and rehabilitation measures. These views and preferences have been taken into account during RAP revision, and the majority of the potentially affected people agree

that the resettlement and rehabilitation measures planned under the RAP would be adequate to address and mitigate any adverse impacts.

57. The PEOs in Mengzi and Jianshui will lead the resettlement operations under the oversight of the resettlement leading groups in the two cities. They will work closely with the resettlement implementation agencies in the two cities with cooperation with the local governments at the district and town levels. An experienced external monitoring agency will be contracted by the two cities to conduct independent monitoring and evaluation over the course of project implementation. The monitoring results will be reported twice a year and, if needed, remedial actions will be designed.

58. On Indigenous Peoples policy, a social screening based on the 4 criteria under OP 4.10 was undertaken in the project areas which have both an urban and peri-urban context. Most of the affected ethnic minorities in the project affected villages are Yi, Hani, and Zhuang who do not satisfy the characteristics of self-identification, collective attachment to geographically distinct habitats or ancestral territories, with cultural, economic social or otherwise, institutions that separate them from other dominant societies, and an indigenous language different from the official language. Further, the social assessment that included a social economic survey undertaken during project preparation revealed little difference in incomes and socio-economic conditions between those of the Hani and other ethnic minorities in the project affected villages. In addition, individuals in the project affected areas do not speak different languages, have no special dress or body ornaments and decorations, housing styles or house locations, modes of production, special symbols, and world views or self-identification that distinguishes them from one another or from their local area Hani neighbors. Based on the outcome of both the screening and social assessment, a conclusion was made that OP4.10 is not triggered by the Project.

59. In addition to the social safeguard issues, a gender assessment has been conducted for the project as part of the social assessment. Based on the survey and group discussions, a set of gender sensitive assessment on current transport needs in these two cities and recommendations for improvements were collected during the assessment, which was passed to the design team. Most of such recommendations have been integrated in the project designs and summarized in a gender action plan. They include enhancement of public transport system with readjustment of bus routes, construction of new bus stops, improvement of key urban corridors for better access and walking environment, and more reliable and safer transport for primary and middle-school children. All these changes will have a positive impact on women in these two cities.

60. The RAP documents were locally disclosed in Jianshui on September 13, 2013 and in Mengzi on October 8, 2013. The RAPs for Jianshui and Mengzi in both Chinese and English were disclosed in the Bank InfoShop on October 16, 2013.

F. Environment (including Safeguards)

61. The project has triggered Environmental Assessment (OP4.01) and Physical Cultural Resources (OP4.11), and is classified as a Category B project.

62. **Environmental Assessment (OP4.01).** The project will be in the urban areas of Mengzi City and Jianshui County where land has been heavily influenced by human activities. There is

no ecological sensitive (e.g. nature habitat) site in the project influence area. The project will bring about positive impacts such as the improvement of road safety, reduction of traffic congestion and accidents, and contribution to the reduction of vehicle emission in the selected areas of Mengzi and Jianshui. The project will also cause general construction related impacts (e.g. nuisance of dust and noise, wastewater and spoil disposal, disturbance to traffic and local communities), and some adverse impacts during the operational phase: (i) disposal of waste and wastewater generated at the bus interchanges and depots, (ii) noise from the newly constructed roads; and (iii) safety issues related to the gas filling facilities at bus interchanges and depots. These potential impacts are small scale, site-specific, and can be readily mitigated with good engineering design and good construction management practice.

63. Adequate mitigation measures have been developed in the Environmental Management Plans (EMPs) for Mengzi and Jianshui. EMPs include measures for solid and wastewater management systems, source and transportation of construction materials, requirements for notification of public civil works, on-site traffic safety management, and measures to avoid disturbance to local communities and irrigation systems. These measures for the civil work contractors will be incorporated into bidding documents and civil work contracts. Mitigation measures during the operational phase include, among others, the collection and disposal of wastewater and waste generated at the bus depots and interchanges, road noise management measures, and safety measures for the gas filling facilities. The EMPs also specify institutional arrangements during construction and operation, capacity building activities, a monitoring plan, and the budget for the EMP implementation.

64. **Physical Cultural Resources (OP4.11).** The component J1 for Jianshui will implement ICM improvements, involving small scale civil works on three existing roads, two of which are in the vicinity of Jianshui Old Town. Site investigation and consultations have been conducted by Physical Cultural Resources (PCR) specialists together with the Environmental Assessment (EA) consultants. After consultation with local PCRs agency, the project, by design, will only finance the removal of street lamps, and the installation of traffic warning signs within 50 meters of two identified PCRs (i.e. Chaoyanglou, Dongjing). In Mengzi there are household graves to be relocated. The EMP concluded that project will not have any significant impacts on PCR. Taking a precautionary approach, specific measures have been proposed in the EMP, including that (i) the design and construction plan will be sent to the PCR agency for further review and comments; and (ii) construction will be designated in the area out of the PCR's protection area; and heavy machinery will be strictly restricted. In addition, compensation measures for the relocated household graves have been included in the RAP. Chance Find Procedures for PCR are included in the EMPs.

65. Public consultations were conducted during the EA process, including questionnaire surveys and public meetings with project affected people. Information about the project, potential environmental and social impacts, and planned mitigation measures were provided to the public during consultation. Their concerns have been addressed in the project design and in the EMPs.

66. Jianshui EMP was disclosed at local villages and on the website on August 28, 2013; and Mengzi EMP was disclosed at local villages in August, 2013, and at Mengzi Government's

website on September 30, 2013. The EMPs for Jianshui in Chinese and English were disclosed in the Bank Infoshop on September 13, 2013, and on October 22, 2013, respectively. The EMPs for Mengzi in Chinese and English were disclosed in the Bank Infoshop on October 22, 2013.

Annex 1: Results Framework and Monitoring

CHINA: Yunnan Honghe Prefecture Diannan Center Urban Transport Project

Project Development Objective (PDO): to improve the safety, accessibility and efficiency of trips taken by residents in the core urban areas of Mengzi City and Jianshui County.												
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				2015	2016	2017	2018	2019				
Indicator One: Reduced travel time of public transport users during the peak hour on the project corridors	<input type="checkbox"/>											
Sub-Indicator 1.1: Tianma Road (Mengzi City)	<input type="checkbox"/>	minutes	13.5					10.5	Year 5	on-site observation	Mengzi PEO	Morning peak hour from Shilipu Middle School to Renmin Bank (4.6km) by bus
Sub-Indicator 1.2: Jianshui Avenue (Jianshui County)	<input type="checkbox"/>	minutes	20					15	Year 5	on-site observation	Jianshui PEO	Morning peak hour by bus from N. Chaoyang Rd. to Yinhui Rd. (4.5km) by bus
Indicator Two: Increased number of people with access to urban transport services	<input type="checkbox"/>											
Sub-Indicator 2.1: total number of people within 300 m of public transport services in Mengzi City	<input type="checkbox"/>	persons	195,000			320,000		450,000	Year 3&5	Planning data	Mengzi PEO and planning bureau	Total
Sub-Indicator 2.2: number of people within 300 m of public transport services in Jianshui County	<input type="checkbox"/>	persons	182,000			240,000		292,000	Year 3&5	Planning data	Jianshui PEO and planning bureau	Total
Indicator 3: Increased annual public transport ridership	<input type="checkbox"/>											
Sub-Indicator 3.1: annual public transport ridership in Mengzi City	<input type="checkbox"/>	million passenger trips	9.12			20.0		33.0	Year 3&5	Bus company statistics	Mengzi PEO and bus company	
Sub-Indicator 3.2: annual public transport ridership in Jianshui County	<input type="checkbox"/>	million passenger trips	9.3			15.0		23.0	Year 3&5	Bus company statistics	Jianshui PEO and bus company	

Indicator 4: Lower annual urban transport related fatalities	<input type="checkbox"/>											
Sub-Indicator 4.1: annual urban transport related fatalities in Mengzi City	<input type="checkbox"/>	number	6					6	Year 5	Traffic accident statistics	Mengzi PEO and traffic police	Fatalities in Mengzi urban area
Sub-Indicator 4.2: annual urban transport related fatalities in Jianshui County	<input type="checkbox"/>	number	8					6	Year 5	Traffic accident statistics	Jianshui PEO and traffic police	Fatalities in Jianshui urban area
INTERMEDIATE RESULTS												
Intermediate Result (Component M1): Road Network Re-functioning and Improvement												
<i>Intermediate Result Indicator One:</i> length of roads constructed and/or re-functioned		km	0	0	0	6	12	15.4	annually	project progress report	Mengzi PEO	
Intermediate Result (Component M2): Integrated Corridor Management												
<i>Intermediate Result Indicator One:</i> length of roads improved		km	0	0	5	10	15	17.4	annually	project progress report	Mengzi PEO	
<i>Intermediate Result Indicator Two:</i> number of junctions installed with ITS		number	0	0	20	40	60	90	annually	project progress report	Mengzi PEO	
<i>Intermediate Result Indicator Three:</i> number of bus stops constructed/improved		number	0	0	20	40	60	90	annually	project progress report	Mengzi PEO	
Intermediate Result (Component M3): Public Transport Priority												
<i>Intermediate Result Indicator One:</i> number of bus infrastructure constructed		number	0	0	0	2	4	5	annually	project progress report	Mengzi PEO	
<i>Intermediate Result Indicator Two:</i> public transport user satisfaction ratio (total and women)		percentage	30.2% 30.5%					50% 50%	Year 5	public transport user survey	Mengzi PEO	
Intermediate Result (Component M4): School Transport Safety Improvement												
<i>Intermediate Result Indicator One:</i> number of schools implemented “model school transport zone” pilot		number	0	0	4	8	13	13	annually	project progress report	Mengzi PEO	
Intermediate Result (Component J1): Core Urban Area Integrated Transport Improvement												
<i>Intermediate Result Indicator One:</i> length of roads improved		km	0	0	1	5	9.7	9.7	annually	project progress	Jianshui PEO	

										report		
<i>Intermediate Result Indicator Two: number of junctions installed with ITS</i>		number	0	0	0	3	11	19	annually	project progress report	Jianshui PEO	
<i>Intermediate Result Indicator Three: number of bus stops constructed/improved</i>		number	0	0	0	20	43	43	annually	project progress report	Jianshui PEO	
Intermediate Result (Component J2): Public Transport Priority												
<i>Intermediate Result Indicator One: number of bus infrastructure constructed</i>		number	0	0	0	1	2	2	annually	project progress report	Jianshui PEO	
<i>Intermediate Result Indicator Two: public transport user satisfaction ratio (total and women)</i>		%	48.8% 49.0%					70% 70%	Year 5	public transport user survey	Jianshui PEO	
Intermediate Result (Component J3): Urban Road Network Improvement												
<i>Intermediate Result Indicator One: length of roads constructed</i>		km	0	0	0	3	6.7	6.7	annually	project progress report	Jianshui PEO	
Intermediate Result (Component M5&J4): Institutional Strengthening												
<i>Intermediate Result Indicator One: number of TAs completed</i>		number	0	2	4	8	12	15	annually	project progress report	PMO	
<i>Intermediate Result Indicator Two: number of staff trained</i>		persons	0	40	80	150	250	300	annually	project progress report	PMO	

Annex 2: Detailed Project Description

CHINA: Yunnan Honghe Prefecture Diannan Center Urban Transport Project

1. The development objective of the project is to improve the safety, accessibility and efficiency of trips taken by residents in the core urban areas of Mengzi City and Jianshui County.
2. The project consists of two parts: Mengzi City and Jianshui County. Mengzi Part of the project includes five components and Jianshui Part of the project includes four components. The total cost is US\$ 348.61 million, to be financed by an IBRD loan of US\$ 150.0 million (US\$ 100.0 million for Mengzi and US\$50.0 million for Jianshui) and counterpart funding of US\$ 198.61 million equivalent. Detailed costs of each component and financing arrangements are listed below (see **Table A2.1**).

Table A2.1 Detailed Project Costs (in US\$ million)

Project Component	Total	WB	%
MENGZI PART			
Road Network Re-functioning and Improvement	144.21	32.12	22.3%
Honghe Avenue	18.39	10.33	
Jinhua Road	66.93	5.03	
Zhaozhong Road	19.08	2.26	
Xuefu Road Bypass	39.82	14.50	
Integrated Corridor Management	46.12	33.54	72.7%
Tianma Road	8.86	5.99	
Yinhe Road	6.78	4.59	
Beijing Road	11.70	7.91	
ITS for Traffic Management	18.79	15.05	
Public Transport Priority	43.93	24.62	56.0%
Public Transport Infrastructure	33.51	17.48	
Bus Bays/Stops	7.85	5.14	
ITS for Bus Operation	2.57	2.00	
School Transport Safety Improvement	8.00	5.63	70.4%
Model School Transport Zone	3.05	1.98	
Home to School Transportation Demonstration	2.55	1.94	
Public Campaigns, Trainings and TA	2.40	1.71	
Institutional Strengthening	2.36	2.00	84.6%
Urban Transport related Studies	1.03	0.87	
Technical Trainings and Study Tours	0.67	0.57	
Project Management and Technical Support	0.28	0.24	
Public Communication and Campaigns	0.39	0.33	
Mengzi Project Costs	244.63	97.91	40.0%
Interest during Implementation	1.84	1.84	
Front-end Fee	0.25	0.25	

Financing Required in Mengzi	246.72	100.00	40.5%
JIASHUI PART			
Core Urban Area Integrated Transport Improvement	18.81	13.00	69.1%
Jianshui Avenue	5.29	3.31	
North Chaoyang Road	2.59	1.62	
Yinhui Road	1.78	1.11	
ITS	9.14	5.82	
Public Transport Priority	16.10	8.48	52.7%
Public Transport Infrastructure	14.48	7.28	
ITS for Bus Operation	1.62	1.21	
Urban Road Network Improvement	64.69	26.48	40.9%
Institutional Strengthening	1.25	1.00	80.0%
Urban Transport related Studies	0.47	0.38	
Technical Trainings and Study Tours	0.39	0.31	
Project Management & Technical Support	0.17	0.14	
Public Communication and Campaigns	0.22	0.17	
Jianshui Project Costs	100.85	48.96	48.5%
Interest during Implementation	0.92	0.92	
Front-end Fee	0.13	0.13	
Financing Required in Jianshui	101.89	50.00	49.1%
Total Project Costs			
Interest during Implementation	2.76	2.76	
Front-end Fee	0.38	0.38	
Total Financing Required	348.61	150.00	43.0%

Mengzi Part

3. **Component M1: Road Network Re-functioning and Improvement.** This component will rehabilitate Honghe Avenue and fill some missing links in the existing road network, i.e., Jinhua Road, Zhaozhong Road and Xuefu Road Bypass, to optimize the functional hierarchy and overall efficiency of the road network in Mengzi City. The construction of new roads would include the associated facilities such as lighting, greening, and underground utilities. It includes the following sub-components:

- (a) **Sub-Component M1.1: Honghe Avenue.** The 10 km long Honghe Avenue has been built as a fast road (National Road 326) with four lanes in each direction. It has now been urbanized and its physical characteristics no longer fit with its urban functions, leading to safety risks. The construction of a bypass expressway in the south will divert most of the through traffic, which provides an opportunity to transform Honghe Avenue into an urban road. This sub-component will reallocate its road space including allocating

a dedicated bus lane, and re-design the junctions, bus stops, mid-block crossings, NMT and pedestrian facilities, etc., adopting safety principles.

(b) **Sub-Component M1.2: Jinhua Road.** Between the old and new parts of the city, there is a lack of connectivity exacerbated by large compounds with no through routes. Jinhua Road, 32 meters wide going north-south, is a dead end road. This sub-component will extend the road by 1.3 km to the north, with the same right of way and characteristics, providing a new primary north-south link in the city. This new route will cater for downtown traffic which presently has to use narrow streets of the Old Town.

(c) **Sub-Component M1.3: Zhaozhong Road.** There is presently a gap of 770 meters in this east-west road linking the old and new parts of the city. Construction of Zhaozhong Road with 30 meters of right of way will fill this missing link, improve connectivity and provide more access routes in the downtown area.

(d) **Sub-Component M1.4: Xuefu Road Bypass.** Formerly National Road 326, Xuefu Road bisects the two campuses of Honghe University with truck volumes, resulting in conflicts between students and heavy traffic. This sub-component will construct a new bypass to the east and implement measures to change the function of the present Xuefu Road to integrate it into Honghe University campus. The bypass will link Honghe Avenue with Guanyin Bridge, a distance of about 4.0 km.

4. **Component M2: Integrated Corridor Management.** This component will improve safety, accessibility as well as public transport operations through ICM approach on three selected corridors. The ICM approach will comprise integrated measures including civil works, ITS (including Area Traffic Control system, Traffic Command Center equipment, traffic regulation cameras and CCTV monitoring cameras) and road safety design, education and traffic regulation interventions covering bus priority lanes, bus stops, junctions and mid-block pedestrian crossings, parking management and e-bike management.

(a) **Sub-Component M2.1: Tianma Road.** This is a 6.5 km long east-west primary road with 65m right-of-way. It is the major passenger corridor that connects the existing city center to the new development area.

(b) **Sub-Component M2.2: Beijing Road.** This is a 5.4 km long north-south primary road with 48m right-of-way. It is a core corridor in the existing city center which serves several functional zones including the prefectural and municipal administrative compounds, residential and recreational area and exhibition area.

(c) **Sub-Component M2.3: Yinhe Road.** This is a 4.5 km long north-south primary road with 65m right-of-way. It is another core corridor in the existing city center that serves the prefectural administrative compounds and the old residential area and there are many bus routes operating on this corridor currently.

(d) **Sub-Component M2.4: ITS for Traffic Management.** This will finance the intelligent traffic management systems that are implemented on the corridors, including (i) a traffic command center; (ii) an Area Traffic Control (ATC) system; and (iii) a traffic monitoring and regulation system.

5. **Component M3: Public Transport Priority.** This component will provide the infrastructure and equipment for Mengzi to improve its public transport services. It also supports the implementation of Component M1 and M4.

(a) **Sub-Component M3.1: Public Transport Infrastructure.** This sub-component will finance the construction of 3 comprehensive bus facilities at Mengzi Railway Station, Yuguopu and Beijing Road North, respectively, that integrate depot and terminal functions, as well as 2 bus terminals at Beijing Road South and the Municipal Administration Center, respectively. The comprehensive bus facilities will provide overnight parking and daily repair and maintenance for the bus fleets. The terminals will accommodate the respective bus routes that terminate in the adjacent areas.

(b) **Sub-Component M3.3: Bus Stops/Bays.** This sub-component will finance the construction of a number of bus stops/bays (in addition to those included in Component M2) in downtown area.

(c) **Sub-Component M3.2: ITS for Bus Operation.** This sub-component will support the development of a bus locating and monitoring system and a real-time passenger information system for the Transport Bureau. It includes: (i) the hardware and software of the back-end system, which are connected to the GPS devices (to be procured by the bus company) on the buses; and (ii) the electronic signs to be installed at the bus stops on the integrated corridors.

6. **Component M4: School Transport Safety Improvement.** This component will develop safe school transportation demonstration programs in Mengzi City, which will systematically address school transport safety issues in the selected demonstration areas through providing safe vehicles, safe routes and safe school environment, and enhancing institutional organization, traffic regulation and public awareness.

(a) **Sub-Component M4.1: Model School Transport Zone.** This sub-component will develop and implement transport management plan for five primary schools and four middle schools within the core urban area as well as two primary schools and two middle schools in the suburban area². Specific measures will be tailored for each model school zone, which include road signs and markings, colored pavement, speed bumps, guardrails, traffic regulation cameras, remote traffic monitoring and control system, pedestrian overpasses, etc.

(b) **Sub-Component M4.2: Home to School Transportation Demonstration.** This sub-component will provide designated school transport services to the vulnerable population (children of migrant workers) of No. 4 Primary School as a pilot and increase overall accessibility and safety to education. It includes: (i) the procurement of 15 school buses; (ii) the provision of school bus operation and management system and on-board units; (iii) the construction of school bus stops including the guardrails for queuing, shelters and seats; and (iv) the improvement of existing buses in Mengzi City through

² The model school transport zone will be implemented around the following 13 schools: No. 1 Primary School, No. 2 Primary School, No. 3 Primary School, No. 4 Primary School, No. 2 Middle School, No. 3 Middle School, Wenlan High School, Mengzi High School, Middle School for Yunnan Normal University, Caobazhen Primary School, Caobazhen Middle School, Yuguopu Primary School and Yuguopu Middle School.

equipping them with school transport safety facilities such as decoration of designated student's area, children's seat belts and first-aid kits, etc.

(c) **Sub-Component M4.3: Public Campaign, Trainings and Technical Assistance.** This sub-component will support the following activities: (i) interior decoration and equipment for the School Transport Education Center; (ii) trainings for the school bus drivers and escorting personnel; (iii) studies including school transport safety development plan, operation mechanism and subsidy policy for school buses, etc.; and (iv) monitoring and evaluation of the performance and experience dissemination of this sub-component.

7. **Component M5: Institutional Strengthening.** This component will finance the activities to strengthen the institutional capacity of Mengzi City. It will be coordinated and implemented at the prefectural level to seize on synergy and avoid duplication.

Jianshui Part

8. **Component J1: Core Urban Area Integrated Transport Improvement.** This component will implement ICM improvements on the three main corridors which forms a triangle in Jianshui's core urban area together with complementary measures in adjacent areas. The ICM approach will comprise integrated measures including civil works, Intelligent Transport System (ITS), road safety design, education and traffic regulation interventions covering bus priority lanes, bus stops, junctions and mid-block pedestrian crossings, parking management and e-bike management.

(a) **Sub-Component J1.1: Jianshui Avenue.** This is a 4.5 km long primary road with 50m right-of-way. It is a major north-south transport corridor that connects the new development area and the existing county center.

(b) **Sub-Component J1.2: Yinhui Road.** This is a 3.0 km long primary road with 30-40m right-of-way. It is a major corridor for tourists to access Chaoyang Gate, the landmark of the historical town with many commercial and retail businesses along the corridor.

(c) **Sub-Component J1.3: North Chaoyang Road.** This is a 2.2 km long primary road with 40m right-of-way. It is a major corridor that goes through the old town which serves the schools, commercial buildings and government offices along the road.

(d) **Sub-Component J1.4: ITS for Traffic Management.** This will finance the intelligent traffic management systems that are implemented on the corridors, including (i) a traffic command center; (ii) an ATC system; (iii) a traffic monitoring and regulation system; (iv) an accident data analysis platform; and (v) engineering vehicles such as road marking vehicle, aerial platform vehicle, tow trucks, etc.

9. **Component J2: Public Transport Priority.** This component will provide the infrastructure and equipment for Jianshui to improve its public transport services.

(a) **Sub-Component J2.1: Public Transport Infrastructure.** This sub-component will finance the construction of one bus depot at "Zero Distance" and one bus depot cum interchange near the new railway station.

(b) **Sub-Component J2.2: ITS for Bus Operation.** This sub-component will support the development of a bus locating and monitoring system and a real-time passenger information system for the Transport Bureau. It includes: (i) the hardware and software of the back-end system, which are connected to the GPS devices (to be procured by the bus company) on the buses; and (ii) the electronic signs to be installed at the bus stops on the integrated corridors.

10. **Component J3: Urban Road Network Improvement.** This component will support the construction of the South Bypass, including all road, bridge, tunnel, lighting and landscaping works as well as underground utilities. It will alleviate through traffic from the historical downtown area and facilitate the implementation of J1&J2. It will be 6.7 km long with 27m right-of-way.

11. **Component J4: Institutional Strengthening.** This component will finance the activities to strengthen the institutional capacity of Jianshui County. It will be coordinated and implemented at the prefectural level to seize on synergy and avoid duplication.

12. **Institutional Strengthening (Components M5&J4)** include: (i) thematic studies related to urban transport planning and management; (ii) trainings and study tours; (iii) project management and technical support; and (iv) public communication and campaigns. Specifically, it will support the consultancy services to improve the bus operation and management structure in Mengzi and Jianshui, which includes: (i) preparation of bus operational plans detailing the bus route network expansion in short- and long-term; (ii) carrying out of financial assessments on the bus companies; (iii) reviewing bus operation concession agreements between the bus companies and the governments; and (iv) enhancing regulatory capacity of the local governments on bus operation.

Annex 3: Implementation Arrangements

CHINA: Yunnan Honghe Prefecture Diannan Center Urban Transport Project

Project Institutional and Implementation Arrangements

1. Yunnan Province will sign the Project Agreement and be the project's formal implementing agency. It will act through HAP to implement the project. The detailed implementation arrangements are described as follows:

(a) A **Project Steering Committee (PSC)**, chaired by the Vice Governor of HAP, and comprised department heads of relevant prefectural agencies, the Mayor of Mengzi City and the Governor of Jianshui County, was established to oversee the preparation of the project. The PSC will be maintained through the implementation period and key members will meet regularly for reviewing project progress and promptly addressing issues arising during implementation.

(b) A **Project Management Office (PMO)** was established at the HAP Housing and Urban-Rural Development Bureau (HURDB), which is responsible for overall project management and coordinating the project implementation in Mengzi City and Jianshui County.

(c) Two **Project Execution Offices (PEOs)** were established at Mengzi HURDB and Jianshui HURDB to carry out their respective parts of the project. Each PEO will be responsible for procurement management, financial management, supervision of all project activities (including safeguards), in accordance with Bank guidelines, in Mengzi City and Jianshui County respectively.

2. In Mengzi, four working groups have been established to lead the technical preparation and implementation of Component M1, M2, M3 and M4. The urban road working group will be led by the HURDB and supported by the Land Resources Bureau. The integrated corridor working group will be led by the HURDB and supported by the Traffic Police, who will also be responsible for the management and enforcement of the corridor after completion. The public transport working group will be led by the Transport Bureau and supported by the HURDB and local bus company. The school transport safety working group will be led by the Education Bureau with support from the Finance Bureau, the HURDB, the Traffic Police, the local schools and the Health Bureau.

3. In Jianshui, three working groups have been established to lead the technical preparation and implementation of Component J1, J2 and J3. The integrated corridor working group will be led by the HURDB and supported by the Traffic Police, who will also be responsible for the management and enforcement of the corridor after completion. The public transport working group will be led by the Transport Bureau and supported by the HURDB and two local bus companies. The South Bypass working group will be led by the HURDB.

4. Component M5 and J4 will be coordinated at the prefectural level by the PMO. Similar trainings, study tours and technical assistance studies, etc., will be implemented collectively by the PMO. Unique activities for each city/county will be implemented separately by the PEOs.

5. According to the experience with other World Bank projects in China, the above arrangements normally work well, particularly when the PSC is strong and active and its members can meet regularly to review project progress. However, this is Bank's first engagement with HAP, Mengzi City and Jianshui County and they have limited experience with Bank's policies and requirements. Substantial trainings on environmental and social safeguards, procurement and financial management, etc., have been provided to the PMO and PEOs during project preparation, and will be continued throughout implementation.

6. Unlike most bus companies in Chinese cities that are owned by the local governments, the bus companies in Mengzi City and Jianshui County are private companies. There is one bus company in Mengzi, operating 17 routes with 96 buses, and two bus companies in Jianshui, operating 8 routes with 28 buses and 7 routes with 44 buses respectively. The bus companies have a 30-year franchise to operate bus services in Mengzi/Jianshui; however, the obligations were not clearly defined in the franchise agreement. As a result, bus service in either Mengzi or Jianshui is not well regulated. The public transport related assets proposed under the project will be developed and owned by Mengzi/Jianshui government. A study has been included in the institutional strengthening component to establish an effective institutional structure between the government and the bus companies.

Financial Management, Disbursements and Procurement

Financial Management

7. Overall, the residual financial management risk after mitigating measure for the project is assessed as Moderate.

8. Both HURDBs are new to World Bank's operations. To address the lack of knowledge and experience in managing Bank-financed projects, YPFB will provide related guidelines and FM/disbursement training to project financial staff, as well as assist in the preparation of World Bank withdrawal applications and the review of payment supporting documents. Service standards have been established and stated in the Financial Management Manual (FMM) to avoid delays in disbursement. The FMM has been finalized and accepted by the Bank prior to project negotiations.

9. Both HURDBs will use their existing institutional structure, system, and processes, consistent with the Bank's Use of Country Systems (UCS) policy. The FM assessment concluded that the staffs assigned are qualified and appropriate to the work they are expected to assume.

10. **Funding sources for the project include the Bank loan and counterpart funds.** The Bank loan agreement will be signed between the Bank and the People's Republic of China through its Ministry of Finance (MOF), and an on-lending agreement for the Bank loan will be signed between MOF and Yunnan Province. Then Yunnan Province will further on-lend to

Honghe Hani and Yi Autonomous Prefecture (HAP) who will finally on-lend to Mengzi City and Jianshui County. All the required counterpart funds will be mobilized by related Mengzi and Jianshui governments. The Bank loan proceeds will flow from the Bank into the project Designated Account (DA) to be set up at and managed by YPFB and then be disbursed to Mengzi and Jianshui PEOs through Honghe Prefecture Finance Bureau and related city/county finance bureaus based on the funding requests (also referred to as withdrawal applications) submitted. The funding requests will be supported by contractor and supplier invoices and other necessary documents processed.

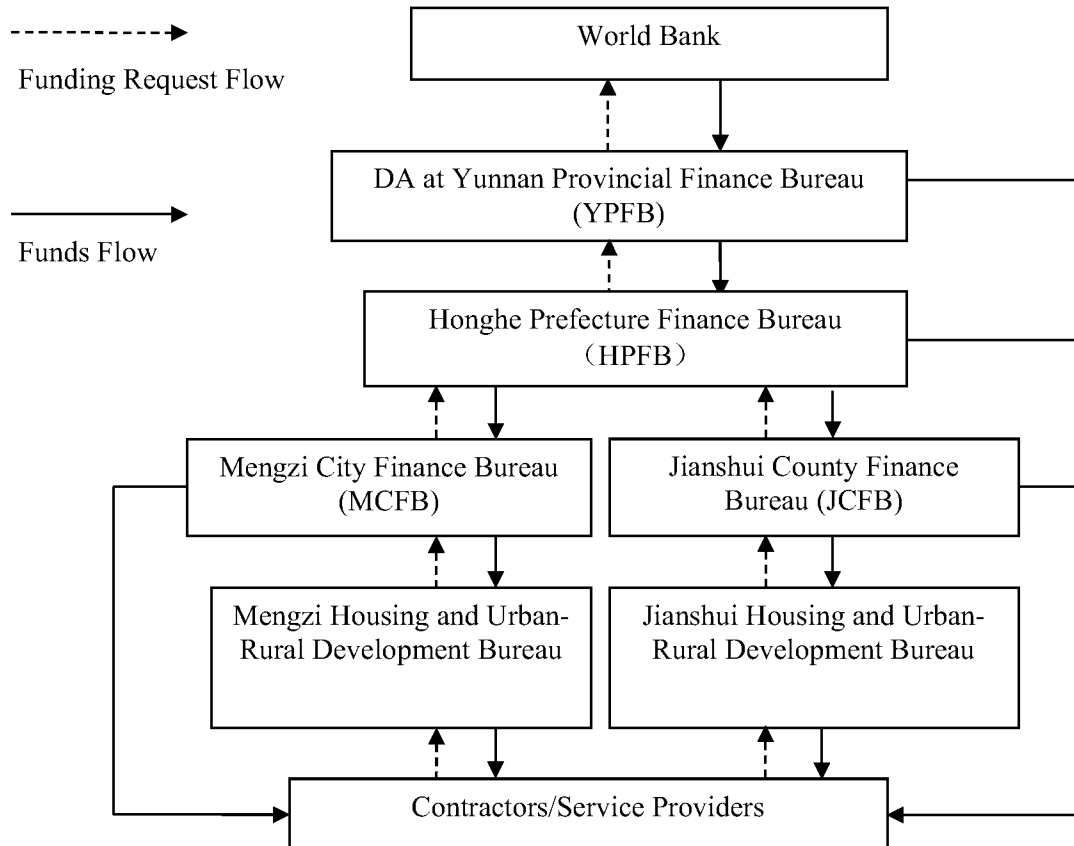
11. **Audit Arrangements** Yunnan Provincial Audit Office (YPAO) will be assigned by CNAO (China National Audit Office) as the auditor for the project. The annual audit report will be issued by YPAO. The annual audit report on the project financial statements will be due to the Bank within 6 months after the end of each calendar year. This requirement is stipulated in the loan agreement. According to the agreement reached with MOF and CNAO, the audit report and audited financial statements will be made publicly available in both World Bank and YPAO’s official websites. The responsible agency and timing is summarized as follows.

Audit Report	Submitted by	Due date
Consolidated Project financial statements	Honghe Prefecture Finance Bureau	June 30 of each calendar year

12. **Budgeting.** The annual project implementation plan including capital budget will be prepared by the HURDBs in Mengzi City and Jianshui County by consulting related government entities. The budget for counterpart funds committed by city/county governments will be reviewed and approved by its People’s Congress and be included in their sectoral budget. Based on the approved budget and implementation progress, the city/county finance bureaus will appropriate government budgetary funds or mobilize funds from other sources to provide to the project. Budget variance analysis will be conducted regularly providing information to related government entities and the Bank on project execution thus enabling timely corrective actions.

13. **Funds flow.** One segregated DA in US dollar will be opened at a commercial bank acceptable to the Bank and will be managed by YPFB. YPFB will be directly responsible for the management, maintenance and reconciliation of the DA activities of the project.

14. Contractors and suppliers will be paid by the HURDBs using counterpart funds provided by Mengzi City or Jianshui County Finance Bureaus. HURDBs will prepare SOEs/SSs and other supporting documents to request reimbursement of expenditures and submit them for approval and verification by the Mengzi/Jianshui Finance Bureaus, Honghe Prefecture Finance Bureau and YPFB. YPFB will transfer the reimbursement to the Mengzi and Jianshui Finance Bureaus through Honghe Prefecture Finance Bureau. YPFB will prepare and send withdrawal applications to the WB to replenish the DA as needed. The proposed flow of withdrawal applications/supporting documents are as follows:



15. **Accounting and Financial Reporting.** The administration, accounting and reporting of the project will be set up in accordance with Circular #13: “Accounting Regulations for World Bank-financed Projects” issued in January 2000 by MOF.

16. Both HURDB in Jianshui and Mengzi will manage, monitor and maintain project accounting records for their responsible project activities. The unaudited semi-annual project financial statements will be prepared and furnished to the Bank by Honghe Prefecture Finance Bureau as part of the Progress Report no later than 60 days following each semester.

17. **Internal Control.** The related accounting policy, procedures and regulations were issued by MOF and the FMM aligns the financial management and disbursement requirements among various implementing agencies.

Disbursements

18. **Disbursement Arrangements.** Four disbursement methods are available for the project: advance, reimbursement, direct payment and special commitment. The primary Bank disbursement method will be advances to the DA. Supporting documents required for Bank disbursement under different disbursement methods are documented in the Disbursement Letter issued by the Bank. The Bank loan would be disbursed against eligible expenditures (taxes inclusive) as in the following table:

Category	IBRD Loan	
	Allocated Amount (in US\$)	Percentage of Expenditures to be financed (inclusive of taxes)
(1) Works for Mengzi part of the Project	75,994,000	85%
(2) Goods, consultants' services, non-consulting services, training and workshops and incremental operating costs for Mengzi part of the Project	21,916,000	100%
(3) Works for Jianshui part of the Project	39,235,000	85%
(4) Goods, consultants' services, non-consulting services, training and workshops and incremental operating costs for Jianshui part of the Project	9,720,000	100%
(5) Interest during construction	2,760,000	100%
(6) Front-end fee	375,000	Amount payable pursuant to Section 2.03 of the Loan Agreement in accordance with Section 2.07 (b) of the General Conditions
(7) Interest rate cap or interest rate collar premium	0	Amount due pursuant to Section 2.07(c) of the Loan Agreement
Total	150,000,000	

19. The Bank loan will finance, at the respective percentage as defined above, all civil work and equipment contracts under the project; consultants' services, non-consulting services, trainings and workshops and incremental operating costs related to the institutional strengthening component; as well as interest during construction and front-end fee. In addition to co-financing the civil work contracts with the Bank, counterpart funding will finance all land acquisition and resettlement, contingencies and other costs related to detailed designs, construction management and supervision, environmental monitoring, etc.

Procurement

20. **Capacity Assessment.** The procurement capacity assessment identified the lack of experience with World Bank-financed projects of the procurement staff in PMO and PEOs as the principal risk which could lead to possible delays and non compliance. The agreed mitigation

measures include: (a) procurement training to be provided to PMO and PEO staff by the Bank or qualified trainers acceptable to the Bank during project preparation and periodically during implementation; (b) the PMO to prepare a Procurement Manual to standardize project procurement procedures and provide guidance to project procurement staff; (c) the PMO to hire a procurement agent with experience of World Bank project procurement procedures to assist all project implementing agencies with procurement planning and implementation. The procurement agent has been hired, and the Procurement Manual acceptable to the Bank has been prepared and issued prior to project negotiations. The other risk is the lack of coordination between PMO and the two PEOs and between the two PEOs. The agreed mitigation measures include: (a) procurement staff to be assigned at PMO level to coordinate the procurement work among three agencies; and (b) regular reporting and communication among three agencies on procurement progress and issues (reporting structure and process to be included in the Procurement Manual). The overall procurement risk is considered substantial.

21. **Applicable Guidelines.** Procurement will be carried out in accordance with the “*Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers*” dated January 2011; and “*Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers*” dated January 2011; and the provisions stipulated in the Loan Agreement. NCB shall be carried out in accordance with the *Law on Tendering and Bidding of the People’s Republic of China* promulgated by Order of the President of the People’s Republic of China on August 30, 1999 subject to the modifications stipulated in the Legal Agreement in order to ensure consistency with Bank Procurement Guidelines.

22. **Procurement of Works.** Works procured under this project will include: construction of road, bus stops, bus bays, bus facilities, south bypass, junctions, mid-block pedestrian crossings, bus priority lanes, etc. Procurement will be conducted using the Bank’s Standard Bidding Documents for all International Competitive Bidding (ICB) and National Model Bidding Documents agreed with or satisfactory to the Bank for all National Competitive Bidding (NCB).

23. **Procurement of Goods and Non-consulting Services.** Goods procured under this project will include: ITS and school bus, etc. Non-consulting services include public communication and education campaigns. Procurement will be done using the Bank’s Standard Bidding Documents for all ICB and National Model Bidding Documents agreed with or satisfactory to the Bank for all NCB.

24. **Selection of Consultants.** Consulting services will include: development of a bus monitoring system, a real-time passenger information system and some urban transport related studies, etc. Universities and research institutes may be included in shortlists as a source of consultants, provided they possess the relevant qualifications and they are not in a conflict of interest situation. In such cases, QBS or CQS (for small assignments) would be used, if the shortlist also includes consulting firms. The shortlist may comprise entirely national consultants (firms registered or incorporated in the country), if the assignment is below USD300, 000.

25. **Training and Workshops.** Plans for training and workshops will be developed by the PMO, and included in project annual work plan for Bank review. Actual expenditures incurred

in accordance with the approved plans for training and workshops will be the basis for reimbursement.

26. **Procurement Plan.** A Procurement Plan for the first 18 months of project implementation has been prepared by the PMO. It will be made available on Bank’s external website. The Procurement Plan will be updated annually or as required to reflect implementation needs and improvements in institutional capacity.

27. **Frequency of Procurement Supervision.** In addition to prior review, the Bank mission will also carry out procurement post review on annual basis with a sampling rate of one in fifteen contracts.

28. **Thresholds for Procurement Methods and Prior Review.** The procurement plan shall set forth those contracts subject to prior review. The remaining contracts will be subject to procurement post review on a sample basis. The thresholds in the following table are indicative.

Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Prior Review Threshold (US\$ thousands) ^{1/}
1. Goods and Non-Consulting Services	≥3,000	ICB	All
	<3,000	NCB	1st NCB contracts in prefecture and each city and all contracts valued ≥1,000
	<100	Shopping	1st Contract in each city, irrespective of value
2. Works and Supply and Installation of Plant and Equipment	≥25,000	ICB	All
	<25,000	NCB	1st NCB contracts in prefecture and each city and all contracts valued ≥10,000
	<200	Shopping	1st Contract in each city, irrespective of value
3. Consultants Services	≥300	QCBS/QBS	All
	<300	CQS	1 st Contract in each city, irrespective of value.
	-- -- --	Individual Consultant	Only in Exceptional Cases
		Single-Source Selection (firm)	All

		Single-Source Selection (individual)	≥20
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1/ All contracts to be financed through retroactive financing will be subject to prior review. A contract whose cost estimate was below the Bank prior review threshold is subject to prior review if the price of the lowest evaluated responsive bid (or, in the case of consulting services, the financial offer of the selected firm) exceeds such threshold at the bid/proposal evaluation stage.

29. **Advance Contracting and Retroactive Financing.** Retroactive financing of up to US\$ 15 million would be available for eligible expenditures incurred on and after January 1, 2014. Retroactive financing will be processed according to the requirements specified in the loan agreement and project agreement.

Environmental and Social (including safeguards)

Environmental

30. The project proposes to finance the construction of small scale urban roads, bus depots and bus interchanges, and the improvement of selected bus corridors. The project will be in the urban areas of Mengzi City and Jianshui County where the land has been heavily influenced by human activities. There is no ecological sensitive (e.g. nature habitat) site in the project influence area. The project triggers Environmental Assessment (OP4.01) and Physical Cultural Resources (OP4.11), and is classified as a Category B project.

31. The project will bring about positive impacts such as the improvement of road safety, reduction of traffic congestion and accidents, and contribution to the reduction of vehicle emission in the selected area of Mengzi and Jianshui. But it will also cause general construction related impacts, e.g. nuisance of dust and noise, wastewater and spoil disposal, disturbance to traffic and local communities. During operation there will be some adverse impacts: (i) disposal of waste and wastewater generated at the bus interchanges and bus depots, and safety issues related to gas filling facilities at bus interchanges and depots; and (iii) noise from the newly constructed roads. These potential impacts are small scale, site-specific, and can be readily mitigated with good engineering design and good construction management practice.

32. Mengzi PEO and Jianshui PEO have engaged EA consultants to prepare EMPs for their proposed project activities, based on the relevant IFC Environment, Health and Safety Guidelines and Chinese EA laws/regulations. The EMPs include, among others, the following mitigation measures:

- a) For new bus depots and interchanges, mitigation measures for construction contractors have been developed and will form part of bidding documents. The measures address issues such as solid and wastewater management system, source and transportation of construction materials, and disturbance to local communities.
- b) For re-allocation of road space, mitigation measures for construction contractors have been developed and will be included in bidding documents. The measures include

requirements for notification of public civil works, restoring local businesses during construction, on-site traffic safety management, and mitigation of other construction related nuisances.

c) For the construction of bypass road, mitigation measures have been developed for both general construction impacts and site-specific environmental impacts. Special considerations have been given to the connectivity of rural communities and to avoid disturbance to local communities and irrigation system.

d) Mitigation measures have been proposed for the operational phase, such as collection and disposal of wastewater and waste generated at the bus depots and interchanges, road noise management measures, and safety measures for the gas filling facilities.

33. **Physical Cultural Resources (OP4.11).** The component J1 for Jianshui will implement ICM improvements. The ICM approach will involve small scale civil works on three existing roads, of which two roads (i.e. North Chaoyang Road, and Yinghui Road) are in the vicinity of Jianshui Old Town. Site investigation and consultations have been conducted by PCR specialists together with the EA consultants. After consultation with local PCRs agency, the project, by design, will only finance the removal of street lamps, and the installation of traffic warning signs within 50 meters of two identified PCRs (i.e. Chaoyanglou, Dongjing). The EMP concluded that project will not have any significant impacts on the PCR. Taking a precautionary approach, specific measures for PCR protection have been proposed in the EMP, including that (i) the design and construction plan will be sent to the PCR agency for further review and comments; and (ii) construction will be designated in the area out of the PCR's protection area; and heavy machinery will be strictly restricted.. In Mengzi there are household graves to be relocated. Compensation measures have been included in the RAP. Chance Find Procedures for PCR are also included in the EMPs.

34. The EMPs specify institutional arrangement during construction and operation phases, capacity building activities, monitoring plan, and the budget for the EMP implementation. EMP implementation will be managed by Mengzi PEO and Jianshui PEO. An environmental management unit will be established in the PEOs with designated environmental staff. The contractors and supervision engineers will be required to assign qualified environmental staff to their team to ensure effective implementation of the EMPs.

35. In accordance with the Bank's OP4.01, public consultations were conducted during the EA process, including questionnaire surveys and public meetings with project affected people. Information about the project, potential environmental and social impacts, and planned mitigation measures were provided to the public during consultation. Their concerns have been addressed in the project design and in the EMPs. Jianshui EMP was disclosed at local villages and the website on August 28, 2013; while Mengzi EMP was disclosed at local villages in August, 2013, and at Mengzi Government's website on September 30, 2013. The EMPs for Jianshui in Chinese and English were disclosed in the Bank Infoshop on September 13, 2013, and on October 22, 2013, respectively. The EMPs for Mengzi in Chinese and English were disclosed in the Bank Infoshop on October 22, 2013.

Social

36. The Project will include construction of urban roads, bus depots, bus interchanges, and improvement of integrated urban corridors in Mengzi and Jianshui, which will bring significant social benefits to 250,000 residents in these two cities located in Honghe Yi and Hani Autonomous Prefecture of Yunnan Province.

37. At the same time, the proposed road and public transport components in Mengzi and Jianshui will involve land acquisition and structure demolition. According to the impact analysis, a total of 749 mu of land areas will be acquired permanently for the construction of four urban roads, three bus depots, two terminals and two interchanges in two cities. About 80 percent of the acquired lands are farmland affecting 622 households. Along with land acquisition, about 96,489 square meters of buildings will be demolished. About 73 percent are residential houses, causing relocation of 265 households and 54 small shops; and 27 percent as non-residential structures affecting 14 enterprises or institutions in the two cities. In total, land acquisition and resettlement will affect 944 households and 3339 people from 18 villages/communities in the two cities.

38. For such land acquisition and resettlement impacts, a RAP has been prepared for each city in accordance with relevant Chinese laws, regulations, and World Bank OP4.12. The proposed compensation for land is set at 18-21 times of AAOVs at RMB 50,000 to CNY60,000 per mu. For lost rural houses, compensation is set at RMB 1000-2000 per square meter plus replacement housing plots equipped with on-site infrastructure. For affected urban houses, the compensation rate will be based on the market value appraised at about RMB 3500-4000 per square meter, which will allow purchase same amount of urban housing in the same locations. These policies have been implemented in the two cities and are generally acceptable to local villagers and residents.

39. Public consultations had been conducted during RAP preparation including social economic survey and public meetings with the project affected people. Information about the project impacts, compensation policies, rehabilitation options and grievance procedures have been provided to the affected people through distribution of resettlement information booklets to affected villages and disclosure of the RAP in local city PMO and affected town or sub-district offices.

40. Focus group discussions and key informant interviews have been used to consult with the potentially affected persons and obtain views and preferences regarding the resettlement impacts, compensation policies, and rehabilitation measures. These views and preferences have been taken into account during RAP revision, and the majority of the potentially affected persons agree that the resettlement and rehabilitation measures planned under the RAP would be adequate to address and mitigate any adverse impacts.

41. The PEOs in Mengzi and Jianshui will lead the resettlement operations under the oversight of the resettlement leading groups in the two cities. They will work closely with the resettlement implementation agencies in the two cities with cooperation with the local

governments at the district and town levels. An experienced external monitoring agency will be contracted by the two cities to conduct independent monitoring and evaluation over the course of project implementation. The monitoring results will be regularly reported twice a year and, if needed, remedial actions will be designed.

42. On Indigenous Peoples policy, a social screening based on the 4 criteria under OP 4.10 was undertaken in the project areas which have both an urban and peri-urban context. Most of the affected ethnic minorities in the project affected villages are Yi, Hani, and Zhuang who do not satisfy the characteristics of self-identification, collective attachment to geographically distinct habitats or ancestral territories, with cultural, economic social or otherwise, institutions that separate them from other dominant societies, and an indigenous language different from the official language. Further, the social assessment that included a social economic survey undertaken during project preparation revealed little difference in incomes and socio-economic conditions between those of the Hani and other ethnic minorities in the project affected villages. In addition, individuals in the project affected areas do not speak different languages, have no special dress or body ornaments and decorations, housing styles or house locations, modes of production, special symbols, and world views or self-identification that distinguishes them from one another or from their local area Hani neighbors. Based on the outcome of both the screening and social assessment, a conclusion was made that OP4.10 is not triggered by the Project.

43. In addition to social safeguard issues, a gender assessment has been conducted for the Project as part of the social assessment. The focus on public transportation, NMT and accessibility for pedestrians by the Project will have positive impact on women as they are more likely to walk and use public transport for their daily trips. This is particularly true for middle and senior groups of women. Based on survey and group discussions, a set of gender sensitive assessment on current transport needs in these two cities and recommendations for improvements were collected during assessment, which was passed to the design team. They include opinions on bus route selection and schedules for different parts of the cities, concerns on security and comfort of pedestrians, and comments on bus inside conditions. Most of such recommendations have been integrated in the project designs and summarized in a gender action plan. They include enhancement of public transport system with readjustment of bus routes, construction of new bus stops, improvement of key urban corridors for better access and walking environment, and more reliable and safe public transport for primary and middle-school children. All these changes will have a positive impact on women in these two cities.

44. The RAP documents were locally disclosed in Jianshui on September 13, 2013 and in Mengzi on October 8, 2013. The RAP for Jianshui and Mengzi in both Chinese and English were disclosed in the Bank's Infoshop on October 16, 2013.

Monitoring & Evaluation

45. A results framework has been developed (see **Annex 1**) and will be the basis for project M&E. Responsibility for collecting the PDO level and intermediate results indicators lies with the PMO with inputs from the PEOs. The PMO/PEOs do not have an existing M&E system for urban transport data collection and their capacity to collect the data needs to be strengthened.

The incremental cost of data collection for project M&E is envisaged to be minimal and will be supported through the Bank loan allocated for institutional strengthening.

46. **Reduced travel time of public transport users during peak hour on the project corridors in Mengzi City and Jianshui County.** The feasibility study consultant has collected the baseline travel times of public transport users during morning peak hour on two selected corridors (Tianma Road in Mengzi and Jianshui Avenue in Jianshui) through on-site observation. The PEOs will be responsible to carry out the same site survey during project implementation.

47. **Increased number of people with access to urban transport services in Mengzi City and Jianshui County.** This indicator will be measured by the number of population covered within 300 meters of the public transport services. The feasibility study consultant has mapped the existing bus routes in Mengzi and Jianshui respectively and calculated the number of people who live within a 300 meter radius of these bus routes of today. The PEOs will be responsible to report the data in year 3 and year 5 of project implementation.

48. **Increased annual public transport ridership in Mengzi City and Jianshui County.** According to the statistics from the local bus companies, annual bus ridership in Mengzi is 9.12 million and in Jianshui 9.31 million. The PEOs will be responsible to collect the data from the bus companies in year 3 and year 5 of project implementation.

49. **Annual urban transport related fatalities in Mengzi City and Jianshui County.** Currently the Traffic Police in Mengzi and Jianshui are responsible for keeping the record of traffic accidents and transport related fatalities. The PEOs will be responsible to collect the data from the Traffic Police during project implementation.

Annex 4: Operational Risk Assessment Framework (ORAF)
CHINA: Yunnan Honghe Prefecture Diannan Center Urban Transport Project

Project Stakeholder Risks	Rating	Moderate	
<p>Description: Key project stakeholders include the governments of HAP, Mengzi City, and Jianshui County as well as local residents (particularly non-motorized transport users). Stakeholder risks include:</p> <p>(a) The achievement of the PDO may be adversely affected if the prefecture/municipal leadership and project owners favor road network improvements aimed at cars (allocation of road and parking space) over bus and NMT safety.</p> <p>(b) High speed e-bikes currently pose a safety risk to cyclists and pedestrians. Management or restraints on e-bikes under the project may not be supported by the e-bike users, which currently constitute 20% of the modal split.</p> <p>(c) Project implementation may be delayed if local residents, especially ethnic minorities and women, do not cooperate due to inadequate investigation of their interests and concerns. Further, the opportunity for positive social impacts may be jeopardized if considerations are not given at the design stage and ensured throughout implementation.</p>	<p>Risk Management:</p> <p>(a) International technical experts have been mobilized to ensure that safety of NMT users has been properly balanced with motorized transport efficiency by emphasizing aspects of the ‘Safe System’ approach. ChinaRAP surveys have been used to inform design on high risk areas within Mengzi and Jianshui. Capacity building will be provided to the leaders and technical staff during project implementation.</p> <p>(b) An e-bike pilot scheme with a dedicated e-bike lane will be used to study any potential safety improvements for modal users and pedestrians. The purpose of the pilot will be well communicated to the public prior to implementation and their concerns will be incorporated into detailed design.</p> <p>(c) During project preparation, a social assessment was carried out to understand the needs from the local residents, especially women and ethnic minorities. The results have been used to inform project design and their specific concerns have been addressed in the RAP. During implementation, public consultation and communications will be carried out periodically to communicate the project concept, design and progress to the local residents and make adjustments as needed.</p>		
	Resp: Bank & Client	Stage: Impl	Due Date: Recurring
Implementing Agency Risks (including fiduciary)			
Capacity	Rating:	Substantial	

<p>Description: Although the counterpart staffs are dedicated and capacity building initiatives were initiated during project preparation, gaps do remain that pose substantial risk to achieving the PDO. The most significant capacity risks include: (a) <i>Fiduciary and Safeguards</i> - Since this is the first Bank engagement with HAP, the PMO and PEOs are not familiar with Bank's procurement and financial management requirements. Multi-layer on-lending and funds flow may cause a bottleneck in Bank loan disbursement. (b) <i>Technical</i> - Implementation, operation, and maintenance of urban transport systems demand high levels of technical capacity. Currently, lack of technical capacity, including that needed for junction design, non-motorized transport safety, traffic management, and operation of bus fleets are all risks to the PDO achievement.</p>	<p>Risk Management : (a) Trainings have been provided to the PMO and PEOs during preparation and will be continued throughout project implementation. The Bank team will closely monitor fiduciary and safeguards compliance during implementation. To alleviate bottlenecks due to multi-layer disbursement process, working standards among concerned agencies have been agreed and documented. (b) Technical capacity risk mitigation measures are ongoing with international technical experts assigned to each of the major project components. In addition to providing technical reviews of the feasibility study designs, the task team's international experts will continue to review detailed designs, supervise implementation, and provide technical capacity building for the PMO, PEOs, and design teams as necessary. Capacity building activities have also been included in the Institutional Strengthening component.</p>			
Governance	Resp: Bank & Client	Stage: Impl	Due Date: Recurring	Status: Ongoing
Description:	<p>Rating: Moderate</p>			
<p>(a) The PEOs as well as the relevant lead agencies and the supporting agencies in Mengzi and Jianshui may lack ownership if the responsibilities of the prefecture and city level agencies are not clearly defined. (b) The PEOs at the HURDB in Mengzi and Jianshui will be responsible for the implementation of all project activities. They may lack ownership and governance of the public transport and traffic management components, which are usually managed by the local Transport Bureaus and Traffic Police Brigades.</p>	<p>Risk Management: (a) According to the implementation arrangement, Mengzi and Jianshui PEOs will manage most of the project activities at the city/county level, while Honghe PMO will carry out the responsibility of project coordination and oversight. (b) The PEOs will rely on the PSC and the mayor/governor in charge to ensure the close collaboration among the local agencies. Bank's previous experience in China shows that this usually works well if the PSC regularly reviews project progress and address arising issues where as necessary.</p>			
Project Risks	Resp: Client	Stage: Impl	Due Date: Recurring	Status: Ongoing
Design	<p>Rating: Moderate</p>			

<p>Description : (a) Through project feasibility study preparation, it is apparent that the concepts of road network re-functioning and integrated corridor management as well as school transport safety improvement are quite new to the PMO and PEOs. This unfamiliarity may lead to risks associated with safety, accessibility, and efficiency that could undermine the PDO. (b) Stakeholder needs and priorities have been thoroughly discussed and the client is open to adopting new technologies or strategies to ensure that the final outputs and outcomes are aligned with current international best practices. However, changes in technology or operational practices could lead to cost escalations that may result in project cost overruns if they are adopted after feasibility study cost estimates.</p>	<p>Risk Management: (a) The Bank will work closely with the PMO and mobilize international and domestic experts that have similar sectoral engagements in other parts of the country to assist the client with detailed designs and implementation. The PMO's feasibility study consultant has already made major improvements to the project design and others are currently being implemented. Further, the Bank has used a grant from the Global Road Safety Facility to conduct a school transport benchmarking survey and to develop an action plan for the 'model school transport zone'. The benchmarking survey and action plan will guide the implementation of the school transport safety component. (b) The client will retain international and/or domestic experts who can advise on operational and technological practices and advancements. Any changes recommended to the project detailed designs after approval will be measured on a cost-benefit basis. Further, procurement of ITS equipment will be thoroughly vetted based on market analysis.</p>			
Social & Environmental	Resp: Bank & Client	Stage: Impl	Due Date: Recurring	Status: Ongoing
Description :	<p>Rating: Moderate</p>			
<p>The project will involve a number of different civil works, which may entail negative social and environmental impacts. The project triggers OP/BP 4.01, OP/BP4.11 and OP/BP 4.12.</p> <p><i>Environmental:</i> (a) If the EMP is not properly followed during implementation, negative impacts on the local environment will occur regardless of the quality of the plan.</p> <p><i>Social:</i> (a) The project involves significant land acquisition and resettlement. The PEOs do not have experience with implementing Bank resettlement policies and if the RAP is not properly followed during implementation, negative impacts on the housing and livelihoods of local residents could easily occur.</p>	<p>Risk Management: <i>Environmental:</i> (a) Sufficient training has been provided to the client and adequate resources will be allocated for environmental supervision.</p> <p><i>Social:</i> (a) Land compensation, resettlement, and livelihood restoration actions outlined in the RAPs have been found acceptable by the Bank. Adequate resources will be allocated for social supervision throughout implementation. Due to the significant amount of land to be acquired and households to be resettled, the Bank task team's social/resettlement expert will conduct random field surveys of project affected people to ensure that they are being properly compensated in a timely manner and that they are receiving any agreed upon training to facilitate livelihood restoration. A grievance mechanism will be adopted by the commencement of land acquisition and resettlement so project affected people can file complaints as necessary.</p>			
Program & Donor	Resp: Bank	Stage: Impl	Due Date: Recurring	Status: Ongoing
Description :	<p>Rating: Low</p>			
<p>There are no other projects/activities or other development partners in the same program.</p>	<p>Risk Management: N/A</p>			
Delivery Monitoring & Sustainability	Resp:	Stage:	Due Date:	Status:
Delivery Monitoring & Sustainability	<p>Rating: Substantial</p>			

<p>Description :</p> <p>(a) Although they are in secure locations, the project covers a fairly large geographical area as it involves Mengzi City and Jianshui County; therefore, monitoring of implementation progress could be a challenge.</p> <p>(b) There is a risk that the ‘soft’ elements, such as public transport service improvement, traffic management, may not be implemented to a high quality, which might hamper the overall sustainability of the project.</p> <p>(c) The outcome of the project may not be sustained due to changes in Mengzi’s/Jianshui’s priority from ‘people’ to ‘vehicle’. With the continued growth in the number of private vehicles, Mengzi and Jianshui might return to their original plans of road construction to cater to motorization trends with a resulting reversal in fiscal capital allocation.</p>	<p>Risk Management:</p> <p>(a) The Bank team will require that the PMO and PEOs allocate adequate staff to monitor project implementation. Further, the client will hire a project management consultant to measure the PDO level and intermediate outcome indicators.</p> <p>(b) The Bank will work closely with the client and provide “value addition” during implementation throughout the supervision missions and technical working visits to ensure that ‘soft’ elements are not overlooked. Capacity building through workshops, training, and study tours will highlight ‘soft’ elements.</p> <p>(c) Substantial capacity building will be provided and project technical assistance will aim to assist the client with the development of a long-term strategy to deal with future urban transport issues in a sustainable manner.</p>			
	Resp: Bank & Client	Stage: Impl	Due Date: Recurring	Status: Ongoing
Overall Risk Following Review				
Implementation Risk Rating: Moderate				
<p>Comments:</p> <p>The major risks with project implementation are related to: (i) quality and sustainability of project delivery and (ii) full compliance with the Bank’s fiduciary and safeguard requirements. The Bank team will allocate adequate resources during project implementation for technical assistance on project implementation as well as fiduciary and safeguard supervision, to address the quality and compliance issues. Extensive capacity building programs will be provided to enhance local agencies’ capacity in dealing with urban transport issues so that the project outcomes and future urban transport development will be sustainable.</p>				

Annex 5: Implementation Support Plan

CHINA: Yunnan Honghe Prefecture Diannan Center Urban Transport Project

Strategy and Approach for Implementation Support

1. The strategy for implementation support plan has been developed based on the risk assessment through the ORAF process. It aims at making implementation support to the client more efficient and focuses on implementation of the risk mitigation measures defined in the ORAF. The following risk categories have been rated as “Substantial”: (i) capacity; and (ii) delivery monitoring and sustainability.

2. **Capacity.** The project will provide a comprehensive capacity building program, including: (i) training activities to the PMO by World Bank technical, procurement, financial management, and safeguard specialists; (ii) capacity building activities to the municipal agencies, especially focusing on planning and operation of a modern public transport system and modern methods for traffic management and improving road safety and school transport safety; and (iii).

3. **Governance.** The task team will review the implementation progress of the project with the PMO and the PEOs on a regular basis. In addition, the task team will meet with the PSC during the implementation support missions and ensure that key issues that arise will be resolved in a timely manner with the PSC’s support.

4. **Delivery Monitoring and Sustainability.** The Bank will closely monitor the detailed design and the implementation of the project components to ensure the quality of delivery. In addition, the capacity building activities and technical assistance offered to the bus companies, traffic police, and PMO/PEOs will be planned to facilitate quality of delivery as well as the projects long term sustainability.

Implementation Support Plan

Primary Focus of Implementation Support

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>	<i>Partner Role</i>
<i>First 18 months</i>	<ul style="list-style-type: none"> • TOR preparation • Project design • Procurement • Safeguards 	<ul style="list-style-type: none"> • Technical (public transport planning and operations, ITS, school transport safety) • Safeguards • Financial management • Procurement 	5-6 staff, two trips per staff per annum	
<i>18-60 months</i>	<ul style="list-style-type: none"> • Procurement • Project implementation • Monitoring and 	<ul style="list-style-type: none"> • Technical (public transport planning and operations, ITS, school 	5-6 staff, one trip per staff per annum	

	supervision	transport safety) <ul style="list-style-type: none"> • Safeguards • Financial management • Procurement 		
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Skills Mix Required

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
Public transport planning and operations	1x6	2	
Transport Engineering	1x6	2	
ITS	1x4	2	
School transport safety	1x3	1	
Safeguards	2x4	2	
Financial Management	1x4	2	
Procurement	1x6	2	

5. **Location of Staff Expertise.** Task team leader will be based in the Bank’s headquarters. Safeguards, financial management, and procurement contributions as well as key technical staff will be provided by the Bank’s country office-based staff. Additional technical expertise will be provided by Bank Headquarters-based staff.

Annex 6: Financial Assessment

CHINA: Yunnan Honghe Prefecture Diannan Center Urban Transport Project

Objective and Approach

1. The objective of the financial assessment is to describe the financial requirements for this World Bank financed Honghe Prefecture Urban Transport Project and to confirm that Mengzi City and Jianshui County have sufficient financial resources to afford the investments of the Project. Specifically, the city/county should have sufficient resources to (i) contribute required counterpart funds; (ii) repay the loan borrowed from the Bank; and (iii) maintain and operate the assets created under the Project.

2. In the report, general socioeconomic development of Mengzi City and Jianshui County, including their economy, fiscal status and urban infrastructure development, is reviewed and analyzed; the government debt level and its debt service ability is assessed; then, the project fund requirement and availability is estimated; at last, general assessment and conclusion on the financial issues of the Project is addressed.

Financial Assessment of Mengzi Part of the Project

A. Socioeconomic Development of Mengzi City

3. Mengzi City has experienced rapid socioeconomic development in recent years. The GDP in Mengzi has grown from RMB 3.9 billion in 2007 to RMB 10.3 billion in 2012, with an average annual growth rate of 21.3%. According to Mengzi's 12th FYP, GDP is expected to grow on an average of over 12% per annum during 2011 to 2015. Although the GDP growth rate slowed down to 16.4% in 2012, it was still higher than the 12th FYP projection and more than twice the national average of 7.5%. The table below lists the main indicators of socioeconomic development of Mengzi City in the past six years as well as general plan for the period of 2011 to 2015.

	Unit	Actual						12 th FYP
		2007	2008	2009	2010	2011	2012	
Population		345,000	351,300	403,400	417,600	420,100	422,600	6‰
Urban population		75,600	79,300	229,900	241,700	244,900	258,600	
Rural population		269,400	272,000	174,400	175,900	175,200	164,000	
Gross domestic product	RMB B	3.912	5.038	6.067	7.358	8.834	10.285	
GDP growth rate	%	-	28.8%	20.4%	21.3%	20.1%	16.4%	12%
GDP per capita	RMB	9,853	12,591	15,082	17,924	21,091	24,410	
Urban disposable income	RMB				15,074	17,388	20,504	
UDI growth rate	%	-	-	-	-	15.4%	17.9%	

Source: National Statistics Books.

B. Government Fiscal Status

4. Along with rapid economic development in Mengzi, the government fiscal revenue also increased sharply. Local fiscal revenue in Mengzi has grown from RMB 485.95 million in 2007 to RMB 1.896 billion in 2012, with an average annual growth rate of 31.4%; general budgetary revenue has grown from RMB 391.5 million in 2007 to RMB 1.064 billion in 2012, with an average annual growth rate of 22.1%. According to Mengzi's 12th FYP, it is expected that the local fiscal revenue will increase by 12% on average from 2011 to 2015. However, the actual revenue registered in 2011 and 2012 are higher than this projection.

5. In terms of the composition of fiscal revenue, fund revenue (mainly from land transfer and government issued infrastructure bonds) accounted for about 40% of local fiscal revenue from 2010 to 2012, which is comparable to many other Chinese cities of similar sizes. As part of GoC's Western Development Strategy, Mengzi received financial transfers from the national government and subsidies (through special programs) from the provincial and prefectural governments in order to meet the needs of infrastructure development and poverty alleviation. Such transfers and subsidies constituted about 40% of the local disposable revenue³ from 2007 to 2012.

6. Local fiscal expenditure has expanded significantly from RMB 809.5 million in 2007 to RMB 3.111 billion in 2012, increasing on an average of 30.9% annually. Infrastructure expenditure accounted for about 10-20% of local disposable revenue and transport expenditure accounted for about 1.5-3.1% of local disposable revenue in recent years. The table below lists the statistics of government fiscal revenue and expenditure of Mengzi City for the period of 2007 to 2012.

	Unit	Actual						12 th FYP
		2007	2008	2009	2010	2011	2012	
Total fiscal revenue	RMB M	783.97	1139.26	1223.00	1752.05	2288.99	2584.71	
Turnover to upper level	RMB M	298.95	307.96	355.20	541.59	728.62	688.03	
Local fiscal revenue	RMB M	485.02	831.30	867.80	1210.46	1560.37	1896.68	
Growth rate	%		71.4%	4.4%	39.5%	28.9%	21.6%	12%
General budgetary revenue	RMB M	391.50	488.57	581.29	723.40	905.05	1063.63	
Growth rate	%		24.8%	19.0%	24.4%	25.1%	17.5%	12%
Tax revenue	RMB M	281.87	393.73	454.41	604.13	755.47	814.51	
Non-tax revenue	RMB M	109.63	94.84	126.88	119.27	149.58	249.12	
Fund revenue	RMB M	5.96	280.46	213.32	439.34	637.59	820.07	
Land transfer	RMB M	0.00	275.81	210.03	416.34	611.05	775.63	
Non-budgetary revenue	RMB M	87.56	62.27	73.19	47.72	17.73	12.98	
Upper level transfers/subsidies	RMB M	389.24	456.48	612.65	751.38	986.78	1336.04	
Local disposable revenue	RMB M	874.26	1287.78	1480.45	1961.84	2547.15	3232.72	
Growth rate	%		47.3%	15.0%	32.5%	29.8%	26.9%	12%
Local fiscal expenditure	RMB M	809.50	1238.69	1395.81	1865.78	2450.12	3110.61	
Growth rate	%		53.0%	12.7%	33.7%	31.3%	27.0%	12%

³ Local disposable income is the source of local fiscal expenditure, which includes budgeted ordinary and fund revenue, plus transfers/subsidies from upper level governments, last year left-over, state bond, etc.

Infrastructure investment	RMB M		392.00	504.00	192.00	412.00	640.00	
Urban Construction & Maintenance Fund	RMB M	400	420	440	460	480	500	
Transport expenditure	RMB M	47.16	27.74	45.66	30.40	78.81	66.16	

7. As Mengzi has received a large amount of financial transfers and subsidies from the upper level governments, the government's debt level (accumulated government debt balance against total disposable revenue) has been kept lower than 0.3:1, which is considered very low compared to the similar size of Chinese cities.⁴ In the next few years (2010-2015), the municipal government will continue to utilize local revenue and funds from the upper governments as the major sources of funding to support urban infrastructure development. Although the 12th FYP proposes to increase the utilization of government debt (national bonds, domestic bank loan and foreign loan) for urban infrastructure development in the next few years, the plan also requests the government control new government debt and keep the debt level to a reasonable level.

C. Project Fund Requirement and Availability

8. The total construction cost of Mengzi Part of the project (excluding interest during construction and World Bank front-end fee) is estimated to be RMB 1491.0 million. Project funds will come from: (i) an IBRD loan of US\$ 100 million; and (ii) local disposable revenue of Mengzi City to finance the remaining cost. According to the feasibility study, year-by-year investment is planned to be 5%, 10%, 25%, 30%, 20% and 10% of the total construction cost from 2014 to 2019, respectively.

9. Based on the above assumption, the project fund requirement for each year is estimated and broken down by different sources. Such fund requirements were compared with the expected local disposable revenue (projected to grow at 12%) and total infrastructure investment of Mengzi from 2014 to 2019. A general observation of the analysis is that the total requirement for government fund would be relatively small, only about 2.7% of the government disposable revenue during that period. The project will be a major infrastructure investment in Mengzi from 2014 to 2019. The total project investment would account for 22.9% of total infrastructure investment during that period. At the peak year in 2017, the project investment would be two-fifths of total infrastructure investment of the year.

	Unit	Total	2014	2015	2016	2017	2018	2019
Project investment	RMB M	1491.00	74.55	149.10	372.75	447.30	298.20	149.10
IBRD loan	RMB M	610	30.50	61.00	152.50	183.00	122.00	61.00
Govt expenditure	RMB M	881.00	44.05	88.10	220.25	264.30	176.20	88.10
Local disposable revenue	RMB M	32908.10	4055.12	4541.74	5086.75	5697.16	6380.82	7146.51
Infrastructure investment	RMB M	6515.00	802.82	899.15	1007.05	1127.90	1263.25	1414.84
Project expenditure/ local disposable revenue		2.7%	1.1%	1.9%	4.3%	4.6%	2.8%	1.2%
Total project investment/ Total infrastructure investment		22.9%	9.3%	16.6%	37.0%	39.7%	23.6%	10.5%

⁴ The government debt level was reportedly over 1:1 in many Chinese cities in recent years.

10. Government expenditure for maintaining and operating the project assets as well as repaying the loan during the project cycle of 20 years after project completion is also analyzed. The general operation and maintenance (O&M) cost is compared with the expected urban construction and maintenance fund of each year; the total government expenditure (O&M cost plus loan repayment) is compared with the expected disposable revenue of each year. In the peak year, O&M cost of the project assets would account for 7.9% of urban construction and maintenance fund available for that year (Year 2029 when the first major maintenance takes place); total government expenditure would account for 1.3% of total disposable revenue of the same year.

D. Assessment and Conclusion

11. According to the available data and the analysis above, general assessment and conclusion on the financial capability for supporting the Project are listed below:

- The economic development of Mengzi City would keep robust development and provide sufficient support to the Project in various respects. The GDP growth during the 12th FYP period (2011-2015) would likely to maintain a high level, at 12% per year.
- The government fiscal revenue and disposable revenue would likely keep high increase rate in near future, about 12% per year, which would provide adequate financial support for the Project fund requirement. The requirement for counterpart financing is relative small (1.1-4.6% of total government disposable revenue) and would unlikely bring in serious pressure to the government fiscal expenditure.
- The infrastructure investments to be financed under the Project require relatively low operation and maintenance costs compared to other alternatives, and thus the Project would not create significant financial pressure to Mengzi City in the future. In the peak year, maintenance and operation of the assets acquired under this project would account for 7.9% of urban construction and maintenance fund available for that year, and the total government expenditure for project asset maintenance and loan repayment would account for 1.3% of total disposable revenue of that year.
- The government debt level is low in comparison with many other cities in China and no serious immediate risk could be seen. The repayment for the World Bank loan would be fairly affordable to the government. However, the government should pay enough attention to the level of financial dependency to the upper level governments, and start to explore other sources to raise funds for urban infrastructure development.

Financial Assessment of Jianshui Part of the Project

A. Socioeconomic Development of Jianshui County

12. Jianshui County has experienced rapid socioeconomic development in recent years. The GDP in Jianshui has grown from RMB 4.3 billion in 2007 to RMB 9.0 billion in 2012, with an average annual growth of 15.8%. According to Jianshui's 12th FYP, GDP is expected to grow on an average of over 10% per annum during 2011 to 2015. Noticeably in 2012, Jianshui registered a GDP growth rate of 19.2%, higher than the projection in the 12th FYP and more than twice the national average of 7.5%. The table below lists the main indicators of socioeconomic

development of Jianshui County in the past six years as well as general plan for the period of 2011 to 2015.

	Unit	Actual						12 th FYP
		2007	2008	2009	2010	2011	2012	
Jianshui County								
Population		523,500	526,100	529,100	531,500	535,300	538,300	5%
Urban population		151,300	161,500	180,400	194,400	197,000	220,000	
Rural population		370,000	370,000	348,700	337,100	338,300	323,600	
Gross domestic product	RMB B	4.299	5.226	5.571	6.314	7.520	8.964	
GDP growth rate	%		21.6%	6.6%	13.3%	19.1%	19.2%	15%
GDP per capita	RMB	8,235	9,353	10,559	11,919	14,097	16,699	
Urban disposable income	RMB				13,399	15,380	18,439	
UDI growth rate	%					14.8%	19.9%	

Source: National Statistics Books.

B. Government Fiscal Status

13. Along with rapid economic development in Jianshui, the government fiscal revenue also increased sharply. Local fiscal revenue in Jianshui has grown from RMB 326.72 million in 2007 to RMB 1.218 billion in 2012, with an average annual growth rate of 30.1%; general budgetary revenue has grown from RMB 269.76 million in 2007 to RMB 734.97 million in 2012, with an average annual growth rate of 22.2%. According to Jianshui's 12th FYP, it is expected that the local fiscal revenue will increase by 15% annually from 2011 to 2015. It was noticed that local fiscal revenue in Jianshui experienced a sharp downturn in 2011, which was a result of the decrease in fund revenue (mainly from land transfer). In 2012, Jianshui regained the momentum and registered a 68.7% growth rate of local fiscal revenue.

14. In terms of the composition of fiscal revenue, fund revenue (mainly from land transfer and government issued infrastructure bonds) accounted for about 40% of local fiscal revenue in recent years (except for 2011), which is comparable to many other Chinese cities. As part of GoC's Western Development Strategy, Jianshui also received financial transfers from the national government and subsidies (through special programs) from the provincial and prefectural government in order to meet the needs of infrastructure development and poverty alleviation. Such transfers and subsidies constituted about 50-60% of the local disposable income from 2007 to 2012.

15. Local fiscal expenditure has expanded significantly from RMB 880.95 million in 2007 to RMB 25.33 billion in 2012, increasing on an average of 23.5% annually. Among all expenditures, infrastructure investment increased from RMB 55.52 million in 2007 to RMB 500.17 million in 2012. Infrastructure expenditure accounted for about 20-27% of local disposable income in recent years (except for 2011). In 2011, infrastructure expenditure also experienced a sharp decrease as a result of the downturn in fund revenue. The table below lists the statistics of government fiscal revenue and expenditure of Jianshui County for the period of 2007 to 2012.

	Unit	Actual						12 th FYP
		2007	2008	2009	2010	2011	2012	
Total fiscal revenue	RMB M	540.77	760.78	954.91	1132.07	1024.60	1580.89	
Turnover to upper level	RMB M	214.05	227.65	239.84	269.14	302.31	362.13	
Local fiscal revenue	RMB M	326.72	533.13	715.07	862.93	722.29	1218.76	
Growth rate	RMB M		63.2%	34.1%	20.7%	-16.3%	68.7%	15.0%
General budgetary revenue	RMB M	269.76	331.86	378.41	476.27	600.18	734.97	
Growth rate	%		23.0%	14.0%	25.9%	26.0%	22.5%	15.0%
Tax revenue	RMB M	214.45	280.10	324.59	399.25	482.33	566.86	
Non-tax revenue	RMB M	55.31	51.76	53.82	77.02	117.85	168.11	
Fund revenue	RMB M	3.98	152.26	289.53	354.59	97.52	457.74	3%
Land transfer	RMB M	2.45	149.72	287.01	307.16	79.96	426.84	
Non-budgetary revenue	RMB M	52.98	49.01	47.13	32.07	24.59	26.05	
Upper level transfers/subsidies	RMB M	410.98	537.19	821.53	1002.97	1115.35	1357.99	
Local disposable income	RMB M	737.70	1070.32	1536.60	1865.90	1837.64	2576.75	
Growth rate	%		45.1%	43.6%	21.4%	-1.5%	40.2%	15%
Local fiscal expenditure	RMB M	880.95	1077.79	1496.94	1815.45	1801.81	2533.24	
Growth rate	%		22.3%	38.9%	21.3%	-0.8%	40.6%	10%
Infrastructure expenditure	RMB M	55.52	209.23	406.73	414.93	179.31	500.17	
Urban C&M	RMB M	42.99	16.03	73.38	142.67	144.53	371.45	
Fixed Asset	RMB M	17.67	2.86	47.03	125.17	103.73	176.56	
Maintenance	RMB M	22.92	7.18	11.70	7.47	30.47	180.46	

16. As Jianshui has received a large amount of financial transfers and subsidies from the upper level governments, the government's debt level (accumulated government debt balance against total disposable revenue) has been kept lower than 0.2:1, which is considered very low compared to other Chinese cities with similar sizes. In the next few years (2010-2015), the municipal government will continue to utilize local revenue (mainly land transfer funds) and funds from the upper governments as the major sources of funding to support urban infrastructure development. Although the 12th FYP proposes to increase the utilization of government debt (national bonds, domestic bank loan and foreign loan) for urban infrastructure development in the next few years, the plan also requests the government control new government debt and keep the debt level to a reasonable level.

E. Project Fund Requirement and Availability

17. The total construction cost of Jianshui Part of the project (excluding interest during construction and World Bank front-end fee) is estimated to be RMB 612.47 million. Project funds will come from: (i) an IBRD loan of US\$ 50 million; and (ii) local disposable revenue of Jianshui County to finance the remaining cost. According to the feasibility study, year-by-year investment is planned to be 10%, 15%, 20%, 25%, 20% and 10% of the total construction cost from 2014 to 2019, respectively.

18. Based on the above assumption, the project fund requirement for each year is estimated and broken down by different sources. Such fund requirements were compared with the expected local disposable revenue (estimated to grow at 15%) and total infrastructure investment of

Jianshui from 2014 to 2019. A general observation of the analysis is that the total requirement for government fund would be relatively small, only about 1% of the government disposable revenue during that period. The total project investment would account for 10.6% of total infrastructure investment during the same period.

	Unit	Total	2014	2015	2016	2017	2018	2019
Project investment	RMB M	612.47	30.62	61.25	153.12	183.74	122.49	61.25
IBRD loan	RMB M	305	15.25	30.50	76.25	91.50	61.00	30.50
Govt expenditure	RMBM	307.47	15.37	30.75	76.87	92.24	61.49	30.75
Local disposable revenue	RMB M	29830.57	3407.75	3918.91	4506.75	5182.76	5960.18	6854.21
Infrastructure investment	RMB M	5790.38	661.47	760.70	874.80	1006.02	1156.92	1330.46
Project expenditure/local disposable income		1.0%	0.5%	0.8%	1.7%	1.8%	1.0%	0.4%
Total project investment/Jianshui infrastructure investment		10.6%	4.6%	8.1%	17.5%	18.3%	10.6%	4.6%

19. Government expenditure for maintaining and operating the project assets as well as repaying the loan during the project cycle of 20 years after project completion is also analyzed. The general operation and maintenance (O&M) cost is compared with the expected urban construction and maintenance fund of each year; the total government expenditure (O&M cost plus loan repayment) is compared with the expected disposable revenue of each year. In the peak year, O&M cost of the project assets would account for 5.4% of urban construction and maintenance fund available for that year (Year 2029 when the first major maintenance takes place); total government expenditure would account for 1.1% of total disposable revenue of the same year.

F. Assessment and Conclusion

20. According to the available data and the analysis above, general assessment and conclusion on the financial capability for supporting the Project are listed below:

- The economic development of Jianshui County would keep robust development and provide sufficient support to the Project in various respects. The GDP growth during the 12th FYP period (2011-2015) would likely to maintain a high level, at 10% per year.
- The government fiscal revenue and disposable revenue would likely keep high increase rate in near future, about 15% per year, which would provide adequate financial support for the Project fund requirement. The requirement for counterpart financing is relative small (0.4-1.8% of total government disposable revenue) and would unlikely bring in serious pressure to the government fiscal expenditure.
- The infrastructure investments to be financed under the Project require relatively low operation and maintenance costs compared to other alternatives, and thus the Project would not create significant financial pressure to Mengzi City in the future. In the peak year, maintenance and operation of the assets acquired under this project would account for 5.4% of urban construction and maintenance fund available for that year, and the total

government expenditure for project asset maintenance and loan repayment would account for 1.1% of total disposable revenue of that year.

- The government debt level is low in comparison with many other cities in China and no serious immediate risk could be seen. The repayment for the World Bank loan would be fairly affordable to the government. However, the government should pay enough attention to the level of financial dependency to the upper level governments, and start to explore other sources to raise funds for urban infrastructure development.