

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA26734

Project Name	Urumqi Urban Transport (II) Project (P148527)
Region	EAST ASIA AND PACIFIC
Country	China
Sector(s)	Urban Transport (90%), Information technology (10%)
Theme(s)	City-wide Infrastructure and Service Delivery (70%), Climate change (20%), State-owned enterprise restructuring and privatization (10%)
Lending Instrument	Investment Project Financing
Project ID	P148527
Borrower(s)	People's Republic of China
Implementing Agency	Urumqi Urban Comprehensive Transport Project Research Center
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	19-Jun-2015
Date PID Approved/Disclosed	29-Jun-2015
Estimated Date of Appraisal Completion	15-Jul-2015
Estimated Date of Board Approval	15-Sep-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

1. General context. The proposed project is developed in the context of China's renewed focus on fostering urbanization in a sustainable manner, the reforms of municipal infrastructure financing mechanisms, and the national aim of reducing regional disparities through better infrastructure development and regional economic integration. The joint World Bank and China Development Research Center Urban China report provides the project's primary conceptual framework: China's rapid urbanization is projected to continue, and requires important reforms to steer it toward a more efficient, inclusive and sustainable path.

2. Urbanization and urban transport in China. Transport has been an essential element of the growth and transformation of Chinese cities in the last decades. During the 1990s and early 2000s, most Chinese cities responded to rapid urbanization and motorization primarily with build options (e.g., road widening, highway construction, grade-separated intersections), often at the expense of public and non-motorized transport. However, as congestion, air quality, and climate change concerns became more prominent in the mid-2000s, changes in policy and investments favoring

sustainable transport practices started to materialize . In addition, through two ongoing initiatives, the Government of China (GOC) is actively promoting a more comprehensive approach for urban transport management that goes beyond supply-side options. The first initiative is the Ministry of Transport's (MOT) Transit Metropolis Demonstration Project, whereby 37 cities have been chosen to pilot strategies on public and non-motorized transport priority schemes, travel demand management, and transit-oriented development patterns. The second initiative is the Ministry of Housing and Urban-Rural Development's Smart City Program, under which 90 cities are piloting information and communication technologies (ICT) applications to optimize urban management practices – including to manage their transport system. Urumqi, the project city, is pilot city for both the Transit Metropolis and the Smart City initiatives.

Sectoral and institutional Context

3. Urumqi is the capital city of the Xinjiang Uyghur Autonomous Region located in the western part of China. It has a population of 3.5 million (2014), its surface area is 13,788 km², and its urban built-up area is 368.4 km². The city has benefitted greatly from efforts to promote economic development in the western region. Since 2009, Urumqi's GDP has grown by an annual average rate of 16% (the national average was 10%), and reached RMB 240 billion (US\$ 39 billion) in 2013.

4. Traffic Congestion in Urumqi. Alongside the economic growth, motorization rate has been rapid in Urumqi. From 2008 to 2013 motorized vehicle ownership doubled, reaching 630,000 vehicles (125 vehicles per 1,000 habitants), and the expectation is that it will continue to grow at a fast rate. As a result, congestion on the city's main arterial roads has increased in recent years. Road safety issues have also become serious concern in recent years, with 619 accidents in 2013 resulting in 245 fatalities, most of which occurred in the city core area.

5. Public Transport in Urumqi. The public transport sector consists of 133 regular bus lines and four BRT lines . While the launch of BRT services in 2011 was an important breakthrough, the quality and efficiency of regular bus services still lag behind: public transport facilities, including interchanges, terminals, bus depots, and maintenance facilities, are in poor state, route coverage is below national standards , and congestion on the roads affects the efficiency of many bus services. According to a recent user satisfaction survey, 30percent of bus riders along major road corridors express dissatisfaction with the bus services provided, especially with respect to slow speed, bus over-crowdedness, long waiting times at bus stops, and lack of adequate sheltered bus stops.

6. The Urumqi Municipal Government (UMG) has developed a Comprehensive Transport System Plan for 2010-2020 to prioritize the development of mass transit systems (both metro and BRT). The mass transit network, which would serve as the backbone for mobility throughout the city, will comprise a seven-line 224 km underground metro system and a seven-line, 128 km BRT system, integrated with one another by 18 multimodal hubs. The State Council has already approved Urumqi's construction plan for the first two metro lines, which should be completed by 2020. The first four BRT lines have already been built and are operational on some of the city's key high demand corridors. The proposed project will support the development of the next three BRT lines, thus completing the BRT master plan.

7. ITS Development. With support from the central government's Smart City initiative, UMG has started to apply ITS to manage the urban transport system in the city, including the following

applications: (i) traffic control signals, (ii) traffic guidance system, (iii) bus dispatching and operation system, (iv) taxi management system, (v) smart card system, and (vi) GIS-based transport database. However, the ITS modules are scattered in several different agencies and there is no uniform data formats and standards. The information collected by these agencies is not shared among agencies or with the public. With support from the proposed project, UMG plans to upgrade the existing ITS applications and develop a comprehensive information platform to integrate data collection and sharing. The establishment of a common platform will make data sharing and analysis more accessible too users and government agencies.

8. Institutional framework. The institutional framework for urban transport in Urumqi is similar to that of many cities in China, with responsibilities spread out over many agencies. The Urumqi Transport Bureau manages and regulates all sector activities in the city, while the Comprehensive Transport Project Research Center (UCTPRC) is responsible for transport planning and policy research. The Urumqi Urban Transport Investment Company (UUTIC) owns the sole BRT operator in the city, Smart Card Company, and bus terminals and depots. In additions, there are three regular bus service operators (Urumqi Bus Company, Jimbo Bus, Haotian Bus). Other related institutions involved in urban transport include the Urban Construction Bureau in charge of road construction and Traffic Police for traffic management and enforcement.

Urban Transport Infrastructure Financing Reform under the New Budget Law

9. Traditional Local Infrastructure Financing in China. Over the last three decades, subnational governments in China have developed large infrastructure assets that have contributed to economic growth, job creation, and poverty reduction. Much of the infrastructure was financed, developed and operated through off-budget special purpose vehicles, as local governments were not allowed to borrow on their budget after the 1994 Budget Law came into effect. Debt financing was thus done through Urban Development Investment Corporations (UDICs), local government-owned enterprises that serve, among other things, as financing platforms to circumvent the “no borrowing” rule. UDIC’s use land lease fees, own-raised revenues and government support to borrow from policy and commercial banks, and, more recently, nontraditional “shadow banking” sources—trust companies and corporate bond markets. Financing through UDICs has helped to build substantial infrastructure assets in China, but it has also created large local government debt, which is considered by many experts and the central government to be unsustainable. By June 2013, the total outstanding amount of local government debt is RMB 17.8 trillion, of which UDICs loans had reached RMB 9.7 trillion yuan, and the repayment to be made in 2013 was RMB 1.85 trillion yuan, leading to severe fiscal pressure on local governments. Moreover, loans were often made with little economic evaluation of the project’s return or the borrowing entity’s revenue and creditworthiness. Instead, loans repayment relied on local government’s implicit guarantees and future unrelated revenues (including land lease fees).

10. New Local Infrastructure Financing Mechanism. The central government has recently amended the 1994 Budget Law to improve local governments’ debt management and reform local infrastructure financing mechanism. The amendment and subsequent State Council directives, including State Council Directive No. 43 on “Strengthening Local Government Debt Management”, call for new forms of local government borrowing, fund utilization, and loan repayment mechanisms. The new forms of borrowing and repayment mechanism under the new Budget Law include the following:

(i) Local governments can issue general obligation bonds on their budget to support capital expenditure programs. The bonds would be issued by Province-level governments on behalf of municipalities and county governments under borrowing limits established by the central government. The repayment will come from general local government budget.

(ii) Local governments can issue specialized bonds based on specific revenue stream to support specific infrastructure development program. These bonds are also issued by province-level governments on behalf of lower jurisdiction governments.

(iii) Local governments are encouraged to attract private sector/social capital for infrastructure development. This could be achieved through (a) PPP arrangements with the private sector, and (b) establishing a government-owned enterprise for service provision, or converting an existing UDIC with revenue from public service provision into utility service/infrastructure service company. The enterprises/special purpose companies (both private and public) can borrow from the market based on revenues from users and other operating revenues. If there are shortfalls in revenues, the sponsoring local government can provide pre-determined subsidy from the budget. In this regard, local governments would enter into concession contracts or service agreements with the service providers and provide availability payment (or similar form of operating subsidy) during the service operation period. The service provider would be responsible for raising the initial financing, and would repay the loans from operating revenue and/or government subsidies. Projects are expected to be bankable with contract terms, tariffs, and subsidies agreed between the sponsoring government and service provider. The subsidy would be reflected in the annual local government budget, but there will not be government guarantee for loan repayment.

(iv) UDICs can no longer serve as financing platforms for local governments. The UDICs operating in competitive industries would become commercial entities, separated from the government, and local government would not be allowed to guarantee their debts. UDICs with stable revenues involved in public service and infrastructure delivery would be converted into utility service providers and/or infrastructure companies.

(v) The revised budget law also calls for proper formulation and consolidation of government budgets, mandatory disclosure, elimination of local government guarantees, and separation of government and corporate responsibilities.

11. In short, through the budget law amendment and short directives, the central government has brought to an end an infrastructure financing system that has been in place since 1994, and ushered in a new mechanism that allows the market to decide on the financial viability of projects through reliance on market-based borrowing and PPPs, while at the same time providing a clearer role for subnational governments to be the administrators and regulators of infrastructure service provision in their jurisdictions.

12. New Budget Law implications for counterpart financing for World Bank Projects. World Bank transport projects in China have been highly leveraged with counterpart funds. Most are financed with 50-50 percent share between IBRD loan and counterpart funds, and some could go as low as 20 percent for the IBRD component. This has allowed the Bank to expand its development reach beyond what the loan amount would imply. Despite the low share of financing, Bank's safeguard policies and project management practices apply to the entire project. Many counterparts also appreciate the high leverage and the benefit it brings in ensuring their projects are properly

managed, while at the same time increasing the capacity of sector agencies and PMOs in project management and compliance with safeguard policies.

13. However, the New Budget Law, limits local governments' ability to come up with counterpart funds to co-finance Bank projects. This is because, in the past, local governments would use their UDICs to borrow from commercial banks and use the proceeds to finance a large part of their counterpart fund obligations. As this option is no longer available, a new form of co-financing would need to be developed that could support fiscally prudent borrowing to support infrastructure development. The main options under the new budget law are discussed below.

14. **PPP Options.** While many of the Bank's urban transport projects may not be suitable for traditional PPP modes, where the revenue is recouped from user fees only, some alternative PPP modes, such as availability payment concessions could be considered. The payment to the concessionaire comes from government budget in addition to any user fees generated from service provision. Under availability payment concession, a private concessionaire would be engaged by the local government to develop and maintain urban transport infrastructure service over a long period of time. During the concession period, the local government would make availability payment based on the performance of the concessionaire.

15. **Revenue-based Borrowing.** Some transport projects support revenue-earning companies, such as metros and bus companies. These companies are eligible to borrow from commercial banks using their revenues and future cash flow. However, their fare box revenues would generally not be adequate to cover operating expenses plus debt service obligations. In this case, the budget law allows the local governments to provide a subsidy and explicitly record it in their annual budgets. Therefore, with operating revenues and with a subsidy from the government, the revenue-earning company could borrow from commercial banks to finance counterpart fund obligations under the project.

16. Under the proposed project, the Urumqi Urban Transport Investment Company (UUTIC), which owns the BRT, smart card companies, as well as terminals and depots in Urumqi, is eligible to borrow from the market under the revised Budget Law. UUTIC generates revenues from BRT fare boxes, smart cards, and other operating revenue. UUTIC also receives capital grant from UMG to develop the BRT system and operating subsidy to make up for losses with BRT operations. UUTIC maintains a separate financial statement and consolidated financial statement including BRT's and Smart Card Company's reporting. Given its cash flows, stable government subsidy, and proper financial statement and reporting, the UUTIC has been able to receive a project loan commitment from CDB to provide parallel financing for the proposed project.

II. Proposed Development Objectives

The PDO is to improve mobility in selected corridors in Urumqi.

III. Project Description

Component Name

Component 1 BRT Corridors

Comments (optional)

Component Name

Component 2 Comprehensive Transport Information Management System

Comments (optional)**Component Name**

Component 3 Public Transport Infrastructure

Comments (optional)**Component Name**

Component 4 Capacity Building

Comments (optional)**IV. Financing (in USD Million)**

Total Project Cost:	536.80	Total Bank Financing:	140.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			396.80
International Bank for Reconstruction and Development			140.00
Total			536.80

V. Implementation

For project coordination and implementation purposes, UMG has established a Project Leading Group (PLG), headed by the Executive Vice Mayor, a Project Management Office (PMO) within the Urumqi Urban Comprehensive Transport Project Research Center (UCPRC), and a Project Implementation Unit within the Urumqi Municipal Engineering Construction Division (UMECD). The PLG will be responsible for overseeing and guiding project implementation, while the PMO will be responsible for overall project coordination, monitoring and reporting, as well as implementing and procuring goods and services financed under the proposed project. The PIU in UUMECD will be responsible for implementing and procurement of civil works under Components 1 and 3. The PMO will be responsible for ensuring compliance of all safeguard policies under the project. External monitors will be recruited by the PMO to help it ensure compliance with environment and social safeguard policies.

The Urumqi Urban Transport Investment Company (UUTIC) will assume the assets created under the proposed project and would be responsible for the repayment of the CDB loan. All the project funds from various sources including IBRD and CDB loans and government fiscal appropriation will be centralized in UUTIC, which will be responsible for project financial management work and project payments. The UUTIC will enter into an Agency Agreement with the PMO and PIU to delegate rights to them including contract signing. UUTIC will retain the responsibility for managing the project's fund, payment, and accounting and financial reporting.

The PMO will be supported from staff deputed from (i) UUTIC, (ii) Traffic Police, (iii) Urban

Management Commission, and (iii) Urumqi Transport Bureau. The staff of these organizations will support the PMO in the preparation of technical design and bidding documents, procurement of works, goods, and services financed under the project, and supervision of contractors and suppliers. Procurement agents and project management consultants will be recruited to help the PMO with the implementation of the project.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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