

Document of
The World Bank

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Report No: 40866-CN

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$38.4 MILLION

TO THE

PEOPLE'S REPUBLIC OF CHINA

FOR A

GANSU CULTURAL AND NATURAL HERITAGE PROTECTION
AND DEVELOPMENT PROJECT

February 13, 2008

Urban Development Sector Unit
Sustainable Development Department
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective July 25, 2007)

Currency Unit = RMB Yuan
RMB 7.7 = US\$1
US\$0.13 = RMB 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CNAO	China National Audit Office
CPMO	County Project Management Office
CPS	Country Partnership Strategy
DA	Designated Account
EA	Environmental Assessment
EIF	Environmental Impact Assessment Form
EIR	Environmental Impact Registration
EPB	Environmental Protection Bureau
EMP	Environmental Management Plan
FM	Financial Management
FMS	Financial Management Specialist
FSR	Feasibility Study Report
GCHB	Gansu Provincial Cultural Heritage Bureau
GCRB	Gansu Provincial Cultural Relics Bureau
GDP	Gross Domestic Product
GDRC	Gansu Provincial Development and Reform Commission
GFB	Gansu Provincial Finance Bureau
PPLG	Gansu Provincial Project Leading Group
GPAO	Gansu Provincial Audit Office
GPG	Gansu Provincial Government
GTA	Gansu Provincial Tourism Administration
ICOMOS	International Council on Monuments and Sites
IBRD	International Bank for Reconstruction and Development
IPP	Indigenous Peoples Plan
MDP	Minority Development Plan
MFB	Municipal Finance Bureau
MPLG	Municipal Project Leading Group
MoC	Ministry of Construction
MoF	Ministry of Finance
MG	Municipal Government
MPMO	Municipal Project Management Office
NDRC	National Development and Reform Commission
PAP	Project Affected Persons
PIU	Project Implementing Unit

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PPMO	Provincial Project Management Office (within Gansu Provincial Development and Reform Commission)
PY	Person year (employment)
RAP	Resettlement Action Plan
RPF	Resettlement Policy Framework
SA	Social Assessment
SACH	State Administration of Cultural Heritage
SEPA	State Environmental Protection Administration
ToR	Terms of Reference
WA	Withdrawal Application

Vice President:	James W. Adams
Country Director:	David R. Dollar
Sector Manager:	Magdolna Lovei
Task Team Leader:	Mara K. Warwick

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CHINA
Gansu Cultural and Natural Heritage Protection and Development Project

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CHINA

GANSU CULTURAL AND NATURAL HERITAGE PROTECTION AND DEVELOPMENT
PROJECT

PROJECT APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC

EASCS

Date: February 13, 2008 Country Director: David R. Dollar Sector Manager/Director: Magdolna Lovei Project ID: P091949 Lending Instrument: Specific Investment Loan	Team Leader: Mara K. Warwick Sectors: Other social services (57%); General transportation sector (30%); General water, sanitation and flood protection sector (10%); Solid waste management (3%) Themes: Other environment and natural resources management (P); Other social development (P); Other urban development (S); Water resource management (S) Environmental screening category: Full Assessment
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Project Financing Data

Loan Credit Grant Guarantee Other:

For Loans/Credits/Others:

Total Bank financing (US\$m.): 38.40

Proposed terms: VSL

Financing Plan (US\$m)

Source	Local	Foreign	Total
Borrower	19.44	0.00	19.44
International Bank for Reconstruction and Development	0.00	38.40	38.40
Total:	19.44	38.40	57.84

Borrower:

People's Republic of China

Responsible Agency:

Gansu Provincial Development and Reform Commission

319 Houlou No. 1 Building; Zhongyang Guangchang, Chengguan District;

Lanzhou, 730030; P.R. China.

Tel: +86 931 846 4760

Fax: +86 931 848 4190

gansupmo@126.com

Estimated disbursements (Bank FY/US\$m)									
FY	09	10	11	12	13	14			
Annual	3.84	5.76	9.60	9.60	7.68	1.92			
Cumulative	3.84	9.60	19.20	28.80	36.48	38.40			
Is approval for any policy exception sought from the Board?							[] Yes [X] No		
Does the project include any critical risks rated “substantial” or “high”? <i>Ref. PAD III. E</i>							[X] Yes [] No		
Does the project meet the Regional criteria for readiness for implementation? <i>Ref. PAD IV. G</i>							[X] Yes [] No		
Project development objective <i>Ref. PAD II. C , Technical Annex 3</i> The project development objective is to generate benefits for local communities from the development of sustainable cultural tourism in Gansu Province.									
Project description [<i>one-sentence summary of each component</i>] <i>Ref. PAD II. D, Technical Annex 4</i> Component 1 – Protection and Development of Priority Sites including the following activities to be carried out at each of nine project sites: 1.1 Heritage Conservation and Presentation – preservation and conservation of key relics; research, interpretation and presentation of cultural and natural heritage assets. 1.2 Infrastructure, Tourism Services and Environmental Protection – investment in high priority physical infrastructure at key cultural and natural heritage sites that raise local standards of living and have a high potential for promoting local economic development through tourism. Component 2 – Institutional Strengthening and Capacity Building including project management strengthening, training of site managers, staff and local residents in heritage conservation, site management and tourism development, and implementation of several key tourism and heritage studies designed to assist the Gansu Provincial Government and local governments protect heritage and develop the tourism industry in Gansu.									
Which safeguard policies are triggered, if any? <i>Ref. PAD IV. F, Technical Annex 10</i> Environmental Assessment (OP/BP 4.01); Physical Cultural Resources (OP/BP 4.11); Involuntary Resettlement (OP/BP 4.12); Indigenous Peoples (OP/BP 4.10); Safety of Dams (OP/BP 4.37)									

Significant, non-standard conditions, **if any**: None.

Ref. PAD C.7

Board presentation:

None.

Loan/credit effectiveness:

None.

Covenants applicable to project implementation:

- Fiduciary Covenants: Maintaining adequate records and accounts; sources of funds; procurement.
- Safeguards Covenants: Related covenants include: environmental monitoring and management plans, resettlement and land acquisition.
- Dated Conditions:
 - a) **Project implementation assistance**. By September 1, 2008, the signing of the consulting contract by the PPMO for project implementation assistance.
 - b) **Site operation plans**. By December 31, 2010, each PIU will furnish to the Bank an acceptable operation and maintenance plan (including financing required and financing sources) for the heritage and tourism facilities at their site.
 - c) **Maijishan Dam Safety**. By September 30, 2008, Maijishan PIU will furnish to the Bank an acceptable long-term operation, maintenance and emergency preparedness plan (including financing required and financing sources) for Xianren Lake Dam and Yinyue Lake Dam.
 - d) **Financial Management**. By December 31, 2008, Gansu has provided training in financial management to staff in the MPMOs and PIUs in a manner satisfactory to the Bank.
 - e) **Development Control Plan for Jiayuguan Great Wall Scenic Area**: By December 31, 2010, the PIU for Jiayuguan Great Wall Scenic Area will prepare and submit to the Jiayuguan Municipal Government for approval, a Development Control Plan according to Chinese regulations for the Jiayuguan Great Wall Scenic Area.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. Gansu Province, with its capital of Lanzhou and a total population of 26 million, is located in northwestern China. The economy has traditionally been based on agricultural production, mining of the province's abundant mineral reserves, and heavy industrial development. Poor infrastructure and Gansu's distance from the coast have largely kept it isolated from the rapid development experienced by other provinces in China over the last two decades. As a result, Gansu is the second poorest province in the country, measured by per-capita GDP. Moreover, the province contains some of the country's poorest communities, as listed on the Government's national poverty register.

2. A major element of Gansu's poverty alleviation and economic restructuring strategy is the development of a sustainable tourism industry. The province has a rich endowment of cultural and natural heritage resources which offer a strong platform for economic development through tourism. The core and unique heritage of Gansu comprises the three great cultural icons of China namely the Great Wall, the Silk Road, and the Yellow River. Gansu's geographic setting includes the Gobi Desert, the Qilian Mountain Range and numerous important oases, wetlands and rivers. As a result, Gansu possesses some of the most significant cultural and natural heritage sites in China, including two UNESCO World Heritage sites (the Mogao Grottoes and the Great Wall at Jiayuguan). Gansu is also included in a nomination currently being prepared for a UNESCO World Cultural Heritage Route listing of the Silk Road.

3. A feature of many of Gansu's heritage sites is that they are not isolated monuments. Many are very large (tens of square kilometers) and contain a range of cultural assets, ecosystems, and embedded communities, many of which are vulnerable because of poverty and/or ethnicity. These communities have largely lived a subsistence existence off the land, so tourism provides a new and important opportunity for local economic development. This type of activity is already occurring on a small scale at many sites, with local communities developing small guesthouses, restaurants, handicraft associations, and other tourist activities. In places where this has already occurred, the improvement in income and living standards is large.

4. Protection and management of Gansu's cultural heritage is the responsibility of Gansu Provincial Government (GPG) through its Gansu Provincial Cultural Relics Bureau (GCRB) under the sectoral leadership of the State Administration of Cultural Heritage (SACH). Cultural relics in China are managed through a process of listing at various levels of government, depending on the significance of the relic. The level at which each relic is listed determines, by law, the requirements for conservation planning and management and responsibility for financing preservation. State-listed relics, of which Gansu has around 40, are managed on a day-to-day basis by local governments.

5. Many of Gansu's key relics are at significant risk from environmental impacts such as humidity, sand storms, flooding and erosion, and from theft and vandalism due to weak security. Overall, the level of preservation and protection has been poor, primarily due to a lack of financing and institutional capacity, particularly at the local level. Until recently, Gansu has not been able to prepare cultural conservation plans for its key heritage sites, which has resulted in

Gansu's inability to capture state conservation funding, except in emergency situations. Further, institutional barriers have been significant, with conflicted or unclear authority over the relics and the heritage sites in which they are located. In many cases, tourism authorities control the sites but are not responsible for the relics within the sites, which has led to over-building of tourism infrastructure around the relics, and little or no preservation of the relics themselves.

6. Tourism is seen by the GPG as a way to generate income to finance heritage protection and as a source of local economic development. However, despite Gansu's rich tourism resources, the sector currently contributes only 3% of provincial GDP. In recent years for which data is available, Gansu attracted only 1 in every 176 of China's international tourists, and 1 in every 113 domestic tourists. This is largely due to limited or substandard infrastructure such as accommodation and local transportation; weak planning, management and marketing skills; and, limited local business activities to support tourism.

7. This project does not intend to resolve all of the problems that limit heritage protection and tourism development in Gansu Province; rather, it has been designed as a barrier removal and demonstration project, which will allow GPG to build capacity in the province, while testing methods for reducing institutional, planning, and financing barriers at key sites in the province.

8. During the project preparation period, Gansu has made significant advances in resolving one of the key barriers – a lack of planning in the heritage and tourism sectors – through the commissioning of high-quality provincial, municipal and site-level tourism, development and conservation plans. For the first time, this provides a sustainable foundation for heritage protection and cultural tourism in the province and specifically, at the project sites. Moreover, GPG has already started to expand this planning work to other cultural tourism sites outside the project, demonstrating that this aspect of the project design is already replicating throughout the province.

9. At the level of the individual sites, the project will also address some of the key physical barriers to sustainable cultural tourism development, ensuring that communities within and around the project sites as well as tourists experience direct benefits from improvements in basic infrastructure such as water and sanitation, power supply, solid waste management and access to markets. The project will effectively resolve the financial barrier to heritage preservation at the project sites by financing conservation works and protection for key cultural and natural heritage assets including the provision of safety and security systems. Moreover, tourism infrastructure will be upgraded through provision of visitor facilities and exhibitions, upgrading of tourism management and planning; and, strengthening of research, interpretation and presentation of the heritage.

10. Finally, the project will support the greater involvement in and acceptance of sustainable tourism by the community through the project's training program and several key activities such as the Folk Culture Center at Mati Temple Scenic Area. The development of local entrepreneurial activities based on tourism (e.g., handicrafts, home stays, guiding) will be supported through technical assistance and community training in business planning, hospitality skills, marketing, and promotion.

B. Rationale for Bank involvement

11. The rationale for Bank involvement in the project is strong because this project is intended to be a demonstration for Gansu and more broadly, for China. The Bank will provide Gansu with the benefit of its extensive global and China experience in heritage protection, sustainable tourism, institutional development, and financial management. The Bank has had a long and successful engagement in China on the protection of cultural heritage, including the Leshan Grand Buddha, the Shenyang Imperial Palace, Chongqing's Huguang Huiguan, and the historic city center of Shaoxing. Moreover, the Bank has collaborated with SACH, Ministry of Construction (MoC) and other Chinese authorities in the dissemination of international and Chinese best practice on heritage protection and financing, and sustainable tourism development, through a pair of international conferences in China in 2000 and 2006. In addition, the Bank has extensive experience in similar projects in other regions of the world, including Peru, Ethiopia and Morocco, which it will bring to the project, as appropriate.

12. The project is inherently cross-sectoral and the Bank is well-placed to support GPG as it coordinates the many actors required to ensure the success of sustainable tourism development. In addition, since Gansu is one of China's poorest provinces, the level of financing that the Bank is able to provide to this sector is significant, allowing Gansu to successfully conduct the program in multiple municipalities for greatest capacity and awareness building benefit. Even though Gansu has worked with the Bank in other sectors, this is the first project in the heritage and tourism sectors. The province has benefited from the analytical rigor of Bank project preparation and appraisal to achieve optimal project design. Value-added during implementation would include cost savings through procurement under Bank guidelines and improved project management and construction quality.

13. Finally, as per the priorities of the central government, the Bank is well-placed to assist China in disseminating its experiences in this sector and in particular in this project, to a wider audience around the world. As this is a new sector of focus for China, and one which holds significant potential for economic development in China's lagging hinterland, the Bank's assistance in dissemination of the project experience will help China attract further financing for the heritage and tourism sectors in the future.

C. Higher level objectives to which the project contributes

14. The project is consistent with China's 11th Five-Year Plan, especially with respect to the high priority placed by the central government on the improvement of cultural heritage preservation in China. The government's strategy in this regard is articulated in the State Council's *Notice on Strengthening Cultural Heritage Protection*, which was issued in 2005, and which requires substantial progress to be made by local governments in the protection of cultural heritage before 2010.

15. Gansu is one of the provinces targeted under the Government's Great Western Development Initiative, which aims to alleviate poverty and restructure the economies of the western provinces. In addition, the project is consistent with two strategic pillars in the Country Partnership Strategy (CPS) 2006-2010. As part of addressing the CPS pillar of "Reducing Poverty, Inequality and Social Exclusion," the project will target economic development and

poverty reduction activities to extremely poor communities. The project will address the pillar of “Managing Resource Scarcity and Environmental Challenges” by providing technical assistance and institutional strengthening for the protection and management of the province’s irreplaceable cultural and natural resources.

16. In the Results Matrix of the CPS, the development goal of “Managing Resource Scarcity and Environmental Challenges” includes “protect cultural and natural heritage and promote cultural and eco-tourism.” The CPS further states the intention of supporting the development of demonstration tourism sites and increasing the number of listed heritage sites with environmental protection measures in place. The project is designed to also contribute to other development goals found in the CPS including: providing basic services infrastructure (power and water supply, solid waste management, drainage and road upgrading); building capacity in planning and management skills; improving land management (planning for large sites); and focusing on sustainable income increases for the poor.

II. PROJECT DESCRIPTION

A. Lending instrument

17. The lending instrument is a Specific Investment Loan. The Loan will be a single currency, variable spread loan, with a maturity of 17 years inclusive of 5 years grace and a front end fee of 0.25%. The loan amount is US\$38.4 million.

B. [If Applicable] Program objective and Phases

18. Not applicable.

C. Project development objective and key indicators

19. The project development objective is to generate benefits for local communities from the development of sustainable cultural tourism in Gansu Province.

20. Key indicators are listed in Annex 3. Outcome indicators measure the level of participation in and benefit created for local citizens through the development of sustainable tourism at the various project sites. Intermediate indicators focus on the level of heritage conservation at the sites, the involvement of local communities in training for tourism and heritage protection, and the level of visitor satisfaction with the facilities at each site, including access, management, environmental quality, and heritage presentation. The baseline data is being collected through tourist and community surveys at each site. Ongoing data will be gathered through annual surveys during the project implementation period.

D. Project components

21. The project comprises two components, the first of which is conducted at each of nine key cultural and natural heritage sites within the following six municipalities in Gansu Province: Jiuquan and Jiayuguan Municipalities in the west; Zhangye, Baiyin and Lanzhou Municipalities in central Gansu; and Tianshui Municipality in the east. The second component, a provincially-

managed institutional strengthening and capacity building component, will benefit the citizens, government officials and others at all nine project sites and within the municipal and provincial governments. The two components are:

Component 1 – Protection and Development of Priority Sites including the following activities to be carried out at each of nine project sites:

1.1 Heritage Conservation and Presentation – preservation and conservation of key relics; research, interpretation and presentation of cultural and natural heritage assets.

1.2 Infrastructure, Tourism Services and Environmental Protection – investment in high priority physical infrastructure at cultural and natural heritage sites that raises local standards of living and has a high potential for promoting local economic development through tourism.

Component 2 – Institutional Strengthening and Capacity Building including project management strengthening, training of site managers, staff and local residents in heritage conservation, site management and tourism development, and implementation of several key tourism and heritage studies designed to assist the Gansu Provincial Government and local governments protect heritage and develop the tourism industry in Gansu.

E. Lessons learned and reflected in the project design

22. Over the past 15 years, the Bank has gained experience through a series of projects supporting heritage conservation in China and through a recent analysis of the cultural heritage sector entitled *Management of Urban Cultural Heritage in China: A Sector Overview*.¹ The key lessons have been incorporated into the design of the project as follows:

23. ***Comprehensive and Coordinated Planning.*** The *Sector Overview* and project experience have found that planning authorities in China would benefit from more assistance in developing plans that address the impacts and trade-offs among different land use categories. During project preparation, the team has found that local plans for heritage conservation, urban upgrading and tourism development are often done without the necessary consistency and coordination. Many of these issues were addressed during project preparation through the screening and upgrading of all these plans for suitability and consistency. The project will continue to provide guidance on planning issues.

24. ***International Standards in Heritage Site Conservation and Interpretation.*** Previous projects in China have found that local officials and practitioners tend to follow conservation and interpretation practices which are outdated and employ lower standards than current international practice. To encourage international practices, the project activities will emphasize use of the *Principles for the Conservation of Heritage Sites in China*, which is a set of guidelines for international best practice recently issued by SACH and China's ICOMOS Chapter. The project will also support international experts to provide guidance on conservation and interpretation activities at the project sites.

¹ World Bank, 2005. *Management of Urban Cultural Heritage in China: A Sector Overview*. Working Paper No. 2, Urban Development Working Papers, East Asia Infrastructure Department. Washington D.C.

25. ***Sustainable Tourism Development.*** Recent studies on heritage sites and trends in China's tourism sector suggest that there has been a tendency toward excessive exploitation of heritage assets, and a lack of understanding of the negative impacts of tourism. To address the issues of sustainable tourism planning, the project will make use of the lessons learned in the development of cultural heritage tourism strategies for Shaoxing and Ningbo under the Zhejiang Urban Environment Project. These strategies include: (1) strengthening and coordination of key agencies; (2) improving tourism market research and analysis; (3) developing appropriate levels of tourism based on realistic visitor numbers; and (4) planning that emphasizes cooperation rather than competition among local tourist destinations.

26. ***Community Benefits and Poverty Reduction.*** Previous projects in both heritage and environmental conservation have established the importance of minimizing negative impacts and maximizing benefits for nearby communities in order to reduce poverty and engage their support for project conservation goals. This project will focus on community benefits through: (1) provision of basic infrastructure services to communities near project sites (e.g. water and sanitation and road improvements); and (2) support for training in local economic activities, such as souvenir sales, restaurants, and guest houses.

27. ***Gansu Fiscal Capacity.*** Gansu has participated in several World Bank projects in the past, primarily in the rural and transport sectors. Experience on these projects has shown that implementation is often delayed due to a lack of available counterpart financing. This project has attempted to address the problem through: (a) increasing the World Bank financing percentage of the project to 70%; (b) developing counterpart funding plans during preparation; and (c) reaching agreement with local authorities for ensuring that counterpart financing will be available at the appropriate time.

F. Alternatives considered and reasons for rejection

28. A number of alternatives were reviewed with GPG to determine the optimal packaging for a sustainable cultural tourism development project, including: (a) the balance in project content between tourism and heritage protection; (b) the number, type and distribution of sites to be included in the project; and (c) methods for including the community in the project.

29. ***Balance Between Tourism and Heritage Protection.*** Gansu, in consultation with the task team, considered several configurations for the project, either as a heritage conservation only project, as a tourism only project, or as a balance of the two. The heritage conservation only project was not considered feasible given the financing source (IBRD), and considering that conservation only would not initiate tourism development. The tourism only option was also rejected on the basis that the construction of tourism facilities without parallel conservation and protection of the cultural relics would likely endanger the heritage resources and ultimately, the sustainability of tourism. Therefore, a balance between heritage protection and tourism development was sought at the individual subcomponent level and for the project as a whole. In ensuring a good balance, other sources of financing and activities were considered, for example, ear-marked funds from SACH for heritage preservation works.

30. ***Number, Type and Distribution of Sites.*** During identification, GPG presented a long list of possible candidates for the project. These ranged from World Heritage sites to cultural sites of localized importance. Some tourism projects that were not based on heritage were also proposed but were dropped at an early stage. Options for concentrating the project in one or two municipalities, versus spreading it across the province, were also discussed. After considerable analysis, GPG and the task team agreed that given the demonstrative nature of the project, sites should be: (1) limited in number; (2) representative of different types of sites; and (3) distributed around the province to maximize the capacity building and institutional development aspects of the project. Consequently, sites of different sizes and types were selected, including World Heritage listed monuments, large mixed cultural and natural heritage sites, one site with an indigenous population, and several small heritage towns. Two sites (Shichuan Ancient Pear Orchard and Jiuquan Museum) were initially included but were withdrawn from the project at the appraisal stage. Ultimately, nine sites in six municipalities were appraised.

31. ***Community Involvement in the Project.*** Several methods for involving the community in the project were considered during project design. Initially, a small loan facility was proposed but this was ultimately dropped because it was decided that, given the large set of new skills the GPG would be developing as part of the project, this facility would be too demanding for the GPG to design and implement successfully. Instead, community involvement in tourism will be promoted through the project's capacity building program that will provide training to more than 9,000 community members in multiple aspects of tourism service provision, heritage management, and basic business skills.

III. IMPLEMENTATION

A. Partnership arrangements (if applicable)

32. Not applicable.

B. Institutional and implementation arrangements

33. ***Project Management.*** The Gansu Provincial Project Leading Group (PPLG), chaired by a Vice Governor of Gansu, will provide high-level guidance to the project and coordinate on policy and institutional issues related to the project. A Provincial Project Management Office (PPMO) under the Social Development Department of the Gansu Provincial Development and Reform Commission has been established with sufficient staff to provide overall project management.

34. The PPMO has established an Expert Panel made up of 13 technical specialists on engineering, planning, cultural heritage, architecture and other topics. The members of the panel are recognized experts employed by relevant GPG bureaus and universities and they will review all preliminary designs for physical investments under the project, for conformity with conservation plans and regulations.

35. Municipal Project Leading Groups (MPLGs) and Municipal Project Management Offices (MPMOs) have been set up in the six Gansu municipalities of Lanzhou, Jiuquan, Jiayuguan,

Zhangye, Baiyin and Tianshui for the preparation and implementation of their projects with similar arrangements as PPLG and the PPMO. The MPMOs are located within the following municipal government agencies: Development and Reform Commission for Jiuquan Municipality; Tourism Bureau for Baiyin and Zhangye Municipalities; Culture Bureau for Lanzhou Municipality; Culture, Broadcasting and Television Bureau for Jiayuguan Municipality; and Maijishan Scenic Area Administration Bureau for Tianshui Municipality. The responsibilities of the MPMOs are to guide preparation and execution of project components within their jurisdiction, and to coordinate activities with the PPMO. Project Implementation Units (PIUs) have also been established in the nine project sites to be responsible for project implementation, construction supervision and management in their respective sites.

36. **Construction Supervision.** The project includes two layers of construction supervision: local supervision for individual sites, and overall supervision of the project. Overall project supervision will be provided by the PPMO with assistance from a consulting firm hired by the PPMO, selected on the basis of international competition. Local supervision including on-site supervision and the provision of construction supervision reports will be carried out by local consultants hired by the PIUs.

37. **Fund Flow.** The Bank loan to the People's Republic of China will be on-lent to Gansu Province, which will in turn on-lend funds to the participating municipalities. The designated account (DA) will be established and managed by GFB.

38. **Disbursement.** Each PIU will submit withdrawal applications and related invoices for civil works and equipment to the Finance Bureau of the same administrative level for review and clearance. If there is another level of government between the PIU and the Provincial Government, the application and supporting evidence will be submitted to that level finance bureau for review and clearance. Finally, the cleared application and supporting evidence will be forwarded to the GFB, copying the PPMO for verification. Upon the PPMO's verification, the GFB will make the final review, clearance and disbursement from the project DA. For activities under the PPMO's direct responsibility, the PPMO will submit withdrawal applications and supporting evidence to the GFB for review, clearance and disbursement.

C. Monitoring and evaluation of outcomes/results

39. Annex 3 lists the main outcome indicators for the project, as well as the principal results indicators for each component. The PPMO, MPMOs, and PIUs will regularly collect the data required for monitoring and evaluation of outcomes/results. The PPMO will prepare semi-annual reports reviewing project progress and take corrective action as necessary. Monitoring data will be collected through records on the number of local residents participating in and benefiting from sustainable tourism development at the project sites, and through annual qualitative surveys of increased community appreciation for heritage sites and tourist satisfaction with the visitor experience. The surveys, the format of which has been approved by the Bank, will be administered by the PIUs with guidance from the PPMO and the Gansu Provincial Statistical Bureau.

D. Sustainability

40. Gansu is strongly committed to the development of sustainable cultural tourism. The Vice-Governor of Gansu, the Directors of the various Gansu bureaus and commissions, the Vice-Mayors of the six municipalities, and other senior provincial and city officials have actively participated in discussions with Bank missions during preparation and appraisal.

41. Together, the project municipalities account for about 70% of the province's tourism activity compared with their 61% share of GDP and 41% share of the total population. Tourism projections were prepared for the project under high, medium, and low-growth scenarios. Under each scenario, the project municipalities' share of Gansu's tourism activity increases moderately because of the importance of these clusters to tourism growth in the province.

42. Almost 98% of tourist visits to Gansu in 2004 were by domestic tourists. All of the tourism marketing strategies and project designs of PIUs are based on improving the accessibility and attractiveness of sites principally to domestic visitors, especially day-trippers from the municipalities of Lanzhou, Baiyin, Tianshui, Zhangye, and Jiayuguan. Based on per capita income growth in these municipalities over the last ten years, PIUs' strong emphasis on domestic, particularly urban Gansu, markets is reasonable. Domestic tourism markets are viewed as being more sustainable than foreign tourist markets, especially given their stronger resilience to cyclical macro-economic downturns over the next 20-25 years.

43. The project has been designed with respect for the uncertainties of the market, with an emphasis on providing a balance between heritage protection, improvements to local community standard of living, and environmental protection on the one hand, and tourism service infrastructure on the other. Conservative estimates of tourism demand have been used to evaluate the sustainability of the proposed investments, and operation and maintenance has been supported through the inclusion of key maintenance equipment in the project. Marketing and information systems are also included to promote tourism in Gansu.

44. Furthermore, the project includes training of about one hundred local site managers and workers, and more than 9,000 community members. Community training will include awareness-raising on the benefits and impacts of tourism, and business skills to assist local communities participate successfully in tourism.

E. Critical risks and possible controversial aspects

45. The overall project risk rating is considered substantial, in part due to possible reputational risks due to the high visibility of cultural heritage sites and indigenous peoples. To deal with this, the project is planning a communications strategy that will be focused on providing an effective flow of information about the project and its progress to communities living in or near the project sites, local governments, and media organizations. The communications strategy would also establish a joint understanding between GPG and the Bank on the sensitive issues each faces and protocols for managing information and responding to any unexpected project-related outcomes or negative publicity.

46. To address the risk of negative impact of the project on listed cultural relics, the project has established an approach for both the preparation and implementation stages. During preparation the team has agreed with Gansu that all cultural conservation plans will be approved before the preparation of designs for conservation works; all preliminary designs for cultural conservation works will be reviewed by GPG's Project Experts Panel prior to bidding; all conservation works contracts must be prior-reviewed by the Bank regardless of contract size; and all bidders for such contracts must be pre-qualified. During the implementation stage, the supervision team will include both a Chinese and an international conservation expert and all conservation works will be closely supervised.

47. To address the risk of inadequate or inappropriate development occurring in parallel to the Bank financed project at heritage sites, the team has (since the identification mission) focused significant resources on building Gansu's understanding of good development around heritage sites. This has included the presence of several tourism and heritage experts as integral members of the task team. Attention to appropriate development has been a subject of regular Bank missions, focused consultant missions, and a three-day interactive workshop. More importantly, the project has initiated proper planning at all the project sites, including tourism, conservation and site planning. These plans provide a sustainable basis for future development and have helped to raise awareness and capacity. During implementation, the team will continue a close collaboration with the local authorities on these issues, supplement supervision with annual satellite imagery, and implement an extensive training program (workshops, domestic and international study tours) for site managers and local government officials and professionals to further increase awareness and commitment to appropriate development. In addition, the project will provide training to local community members on a range of topics that will include the importance and contents of site-specific plans.

48. To address the risk of negative impacts on indigenous people at the one project subcomponent with an indigenous population (Mati Temple Scenic Area), the project has been prepared in compliance with OP4.10. A social assessment carried out at the site in consultation with affected minority communities confirmed that the communities are in favor of the project. A Minority Development Plan, based on the social assessment, was prepared and used to guide project design. It includes: (1) the collection, recording and presentation of local minority culture for a Folk Culture Center; and (2) training in the provision of tourism services and marketing, handicraft production and the presentation and interpretation of minority culture for ethnic community members. All these activities will be funded by the project.

49. Implementation risks include:

Risks	Risk Mitigation Measures	Risk Rating with Mitigation
To project development objectives		
Lack of community support for tourism	Social assessments prepared during project preparation; inclusion of a significant training and awareness-raising program for site managers, government officials, and more than 9,000 community members.	M
Negative impact of project on listed cultural relics	Preparation of a conservation plan for every heritage site to guide and govern the project investments and other development at each site over the long-term; all conservation works contracts require prior review; all contractors for conservation works will be pre-qualified according to national qualification requirements; experts from the Provincial Cultural Relics Bureau engaged in project supervision and design review through the PPMO's Experts Panel; inclusion of a conservation specialist on the Bank supervision team.	S
Potential for inadequate or inappropriate development occurring in parallel to Bank financed project at sites	Preparation of consistent conservation plan, tourism plan and physical layout plan for every site; provision of technical assistance and training to strengthen site management and continue to improve planning; regular Bank supervision supplemented by annual satellite imagery to identify any potentially inappropriate developments; regular engagement with municipal and provincial leaders to resolve any problems.	S
Negative impacts on indigenous people	Social assessments prepared during project preparation; Minority Development Plan based on SA; recommendations of MDP including research, documentation and presentation of minority culture; training for minorities in tourism services and marketing, handicrafts development, and cultural interpretation, included in and financed by the project.	M
Project level governance issues	Close supervision of fiduciary and safeguard issues.	M
Weak municipal fiscal capacities to repay loan	Internal provincial-municipal agreements; expected significant strengthening of reported fiscal capacities starting in 2007 under new fiscal reporting requirements established by MoF; regular Bank supervision.	M

To component results		
Shortage of counterpart funds	Project design minimizes non-Bank financed items such as resettlement; overall Bank financing percentage for the project increased to 67%; detailed financing plans and explicit cost sharing agreements between government agencies and sites agreed with government.	S
Low capacity of implementing units and PMOs	Substantial training program included in the project; contract for high quality consultants to assist the PMOs supervise to international and national standards included in the loan; close supervision by task team.	S
Slow design and procurement process due to large number and variety of investments	Main design and procurement activities to be directly managed by the PPMO through engagement of two design institutes and two tendering companies, supplemented with additional specialists as required.	M
Delay in approval of cultural conservation plans which would delay implementation of conservation works	Majority of plans already prepared and in process of approval; regular engagement with Provincial Cultural Relics Bureau to ensure timely approval of plans.	S
Overall risk rating	Substantial risk	S

F. Loan/credit conditions and covenants

50. In addition to the standard covenants related to project management, reporting, etc., the following project-specific covenants are included in the legal agreement:

- Negotiations Conditions: Hiring of financial management and procurement staff members acceptable to the Bank by the PPMO; submission of a Financial Management Manual acceptable to the Bank; submission of baseline and projection data for Annex 3; domestic approvals of the project; confirmation of EMP and RAP.
- Effectiveness Conditions: There are no project-specific effectiveness conditions.
- Disbursement Conditions: There are no project-specific disbursement conditions.
- Fiduciary Covenants: Maintaining adequate records and accounts; sources of funds; procurement.
- Safeguards Covenants: Related covenants include: environmental monitoring and management plans, resettlement and land acquisition.

- Dated Conditions:
 - a) **Project implementation assistance.** By September 1, 2008, the signing of the consulting contract by the PPMO for project implementation assistance.
 - b) **Site operation plans.** By December 31, 2010, each PIU will furnish to the Bank an acceptable operation and maintenance plan (including financing required and financing sources) for the heritage and tourism facilities at their site.
 - c) **Maijishan Dam Safety.** By September 30, 2008, Maijishan PIU will furnish to the Bank an acceptable long-term operation, maintenance and emergency preparedness plan (including financing required and financing sources) for Xianren Lake Dam and Yinyue Lake Dam.
 - d) **Financial Management.** By December 31, 2008, Gansu has have provided training in financial management to staff in the MPMOs and PIUs in a manner satisfactory to the Bank.
 - e) **Development Control Plan for Jiayuguan Great Wall Scenic Area:** By December 31, 2010, the PIU for Jiayuguan Great Wall Scenic Area will prepare and submit to the Jiayuguan Municipal Government for approval, a Development Control Plan according to Chinese regulations for the Jiayuguan Great Wall Scenic Area.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

51. **Economic Analysis.** Cost effectiveness is used for economic analysis of this project. Realistic benefit-cost analysis is not feasible since the revenue streams identified by PIUs (direct tourism revenues from ticket sales and parking fees) are speculative. Moreover, the nature of the proposed investments means that they do not lend themselves to predictable, recurring revenue flows, such as from utility tariffs. Most of the proposed investments are intended to generate cultural tourism activity from a very low base. Aside from uncertainties over the extent and timing of market demand, macro-economic shifts that could have major impacts on domestic and foreign tourism (e.g. fuel prices and exchange rate fluctuations) are well beyond the influence of PIUs or GPG. Similarly, while PIUs have estimated employment and indirect tourism benefits arising from the proposed investments, these are also highly dependent on market demand and macro-economic events, and are therefore considered insufficient for rigorous benefit-cost analysis. Consequently, it is not possible to reliably predict the increase in monetary flows as a result of the project, and hence the benefits to local economies.

52. The project is expected to generate significant spillovers, including almost 2,000 person-years (PYs) of employment during construction, almost 350 PYs of direct employment associated with operations over 20 years, and almost 5,000 PYs of indirect, tourism-related employment over 20 years. The total number of employee PYs is therefore close to 8,000 over a 20-year period, conservatively representing almost RMB 70 million (2007 RMB) in additional wage income to affected communities. Broad estimates suggest that the project municipalities will generate at least RMB 6.5 billion in tourism receipts by 2025, up from RMB 3.7 billion in

2004. The project sites are expected, on average, to account for at least 60% of this growth in tourism receipts.

53. Technical and economic reviews of proposed investments were conducted throughout project preparation and by appraisal all proposed investments represent least-cost options employing locally-appropriate technologies, construction methods, and maintenance procedures.

54. **Financial Analysis.** Since most PIUs are new entities with no financial history, or administrative entities of municipal and town governments, agreement has been reached that municipal governments will be responsible for ensuring timely counterpart financing and loan repayment through internal agreements with the GPG. To assess the financial capacity of the concerned municipalities to sustain such commitments, associated outlays were compared to the on-budget financial resources of the municipalities. In aggregate, counterpart financing over the four years of project implementation represents 4.1% of on-budget revenues for 2002-2005. Loan repayment represents 2.1% of on-budget revenues and 0.11% of GDP for the same period. Recurrent expenditures on operations, maintenance, and repairs are estimated in aggregate to represent less than 1% of on-budget expenditures of the affected municipalities from 2002-2005. Counterpart financing, loan repayment, and recurrent obligations are considered well within the fiscal capacities of the affected municipal governments.

B. Technical

55. Extensive planning has been undertaken during project preparation, including the preparation and approval by the China National Tourism Administration of a Gansu Provincial Tourism Plan. In addition, municipal tourism plans, site tourism and development plans, and conservation plans have been prepared for each city and subcomponent. All plans have been reviewed for quality and consistency and approved, with the exception of the cultural conservation plans which are still awaiting final endorsement by the government. All investments selected for inclusion in the project are listed as priorities under the tourism and site development plans, and are consistent with the conservation plans. The plans not only govern development under the project, they also provide the framework for other development at the sites for the long-term.

56. With respect to cultural conservation assessment and planning, during project preparation each site has carried out relic inventories (if not previously available) and analysis, and has prepared a conservation plan according to the national regulations. Planning institutes certified by SACH have been engaged for this task and the plans have been prepared to the level required for government approval. Moreover, several sites have received upgraded relic listings (e.g. Xianrenya at Maijishan has been upgraded from provincial to state listing) during project preparation. Particular attention has been placed on conservation planning for the Great Wall at Jiayuguan site, which is UNESCO World Heritage listed. The conservation plan for this site, which complies with the new Great Wall Conservation Regulations issued by the central government in 2006, is now under final preparation. This plan represents the first dedicated conservation plan for any section along the 4,000 kilometers of the Great Wall.

57. All investment components have been prepared by locally-engaged Chinese design institutes, and in the more complicated subcomponents, such as Maijishan and the Great Wall at Jiayuguan, the main design institutes have been supplemented by institutes specialized in relic conservation, water resources, architectural design, roads, etc. Provincial consultants engaged by the PPMO provided review of the individual submissions, and prepared a consolidated feasibility study report for the whole project, to ensure consistent quality. Project designs are technically sound, represent the most cost-effective alternative, and are based on sound engineering practice.

C. Fiduciary

58. **Financial Management.** On the basis of guidelines issued by the Financial Management Sector Board on November 3, 2005, the project meets minimum Bank financial management requirements, as stipulated in BP/OP 10.02. The project's implementing units have taken the necessary actions, which include adoption and distribution of the project Financial Management Manual and provision of necessary disbursement and financial management training to financial staff, to ensure that the project will have in place an adequate financial management system that can provide, with reasonable assurance, accurate and timely information on the status of the project in the reporting format required by the Bank (see Annex 7).

59. Since none of the PIUs have experience in Bank financed projects, two training courses were conducted prior to appraisal and an additional training course will be conducted during the launch workshop on project disbursement and financial management. In addition, since existing financial management internal controls at the municipal level are not specifically related to the project activities, a manual will be prepared to uniformly align the project financial management policies at all implementing entities prior to effectiveness.

60. **Procurement.** A procurement capacity assessment of the implementing units, carried out prior to appraisal, concluded that the overall risk of the procurement process is high (details in Annex 8). An action plan to strengthen the procurement capacity of the implementing units has been agreed with the PPMO and the PIUs. The plan calls for the preparation and dissemination of a project-specific procurement manual, training workshops, and measures to avoid excessive cost overruns and improve procurement economy and efficiency. It is expected that retroactive financing will be required for some institutional strengthening and training activities, including the construction management contract, and for some construction contracts such as for the first road section in Maijishan Scenic Area. Early procurement of these activities is a positive step for the project. Retroactive financing would not be used for physical works. Only payments for expenditures made after October 1, 2007 are eligible for retroactive financing, and the ceiling for such payments is limited to US\$7,000,000.

D. Social

61. The project has significant social benefits as it improves the protection of cultural assets and promotes the analysis, interpretation and exhibition of cultural heritage, including indigenous intangible heritage. In addition, it improves the living standards of poor communities located in and around the project sites through the provision of basic services such as upgraded roads, water supply, sanitation, and power supply. By promoting sustainable tourism

development at the sites, the project will provide opportunities for local community members to participate in provision of tourism services, which has proven to be a successful way to increase household income. Moreover, the project will provide direct social benefits through the inclusion of a comprehensive community and youth training program.

62. Social assessments (SAs) were carried out at four subcomponents² as requested by the Bank. The findings of the SAs were used to inform the preparation of site plans and feasibility studies. Recommendations from the SAs have also been incorporated into the overall project design, including: (1) measures to ensure that vulnerable groups (e.g., the poor, women, elderly, disabled, and migrants) are not excluded from project benefits; and (2) measures to support community participation in tourism.

63. A Poverty Reduction Plan was prepared for the Maijishan subcomponent because the social assessment showed that 42% of the families living within the Maijishan Scenic Area are living below the poverty threshold of RMB 860 per capita, per year. The plan includes measures for addressing poverty in the communities located in and around the Maijishan site, including mechanisms for residents to gain employment and income through participation in tourism activities. The plan was used as a key input to project design, resulting in the inclusion of a local handicrafts development center that will provide a location and logistical support to poor residents of the Maijishan area to support the development of locally produced handicrafts for sale to tourists. Finally, the plan was used as an input into the design of the Maijishan subcomponent's extensive community and youth education and training program, which will build the capacity of local members of the community to participate in tourism activities at the site.

E. Environment

64. The project will contribute to the overall improvement of the environment in Gansu by providing the basis for the long-term protection and management of its cultural and natural heritage assets. More specifically, the project will significantly improve the environment within Gansu's heritage sites through rehabilitation works such as reforestation and landscaping, and through the upgrading and paving of access roads. The impact of local residents and tourists on site environments will be mitigated through the provision of key environmental services such as sanitation, solid waste, power supply, storm drainage, water supply and wastewater. Impacts from tourism will also be reduced through the provision of fencing, pathways, signage, and the development of strategically situated and appropriate tourist service centers, all of which will reduce the potential for improper use of the sites by visitors. Overall, the environment of the sites is expected to be greatly enhanced through the project, as a result of its balanced cultural conservation, environmental protection and tourist management activities.

² Social assessments were conducted for the Mati Temple, Qingcheng, Yellow River Stone Forest and Maijishan subcomponents.

F. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment (OP/BP 4.01)</u>	[X]	[]
Natural Habitats (<u>OP/BP 4.04</u>)	[]	[X]
Pest Management (<u>OP 4.09</u>)	[]	[X]
Physical Cultural Resources (<u>OP/BP 4.11</u>)	[X]	[]
Involuntary Resettlement (<u>OP/BP 4.12</u>)**	[X]	[]
Indigenous Peoples (<u>OP/BP 4.10</u>)	[X]	[]
Forests (<u>OP/BP 4.36</u>)	[]	[X]
Safety of Dams (<u>OP/BP 4.37</u>)	[X]	[]
Projects in Disputed Areas (<u>OP/BP 7.60</u>)*	[]	[X]
Projects on International Waterways (<u>OP/BP 7.50</u>)	[]	[X]

65. **Environmental Assessment.** The project is classified as a Category A project under OP4.01, Environmental Assessment. This classification was primarily based on the environmental and cultural importance and sensitivity of the sites, rather than the potential impacts of the individual investments to be financed by the project. As the physical investments have been identified and appraised during the preparation period, it has become clear that the individual investments are generally very small, primarily limited to upgrading of access roads and tourist footpaths; provision of small-scale sanitation, wastewater, power, water supply and other environmental services; provision of tourist facilities such as service centers and exhibitions; environmental rehabilitation; and cultural conservation works. The project has been designed to ensure a minimum footprint on project sites and all investments have been situated to minimize environmental impacts.

66. The project is based on an extensive and sound set of plans that have considered, in detail, the natural and cultural settings of the subcomponent sites, and have been reviewed by the task team. At the sites with cultural relics, the draft cultural conservation plans have provided the basis on which the tourism and site plans have been developed. The core and buffer zones for the cultural relics and natural habitats within the sites have been determined according to Chinese laws, and particular attention has been paid to ensuring that the site plans and project feasibility studies fully comply with the requirements of this zoning. All preliminary designs for physical investments will be reviewed and cleared by the Gansu Provincial Cultural Relics Bureau through the Project Experts Panel mechanism established by the PPMO, to ensure conformity with the conservation plans and regulations.

67. Because of the limited environmental impacts of the proposed investments in many of the sites, the Bank did not request a full environmental assessment (EA) for each subcomponent. However, to comply with domestic regulations which do require individual project EAs, even for small investments, Chinese-language EAs were prepared by appropriately certified

** In accordance with OP/BP4.10, a Minority Development Plan prepared under this policy is the equivalent of an Indigenous Peoples Plan (IPP) and complies with the requirements for an IPP in all respects.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

environmental science institutes and these were reviewed by the task team. In addition, as required by the Bank, detailed Chinese-language Environmental Management Plans (EMPs) were prepared for each subcomponent, and were also reviewed by the task team.

68. As required by the Bank, a project-level Consolidated EA/EMP was prepared by the client in Chinese and English based on Terms of Reference (ToRs) reviewed by the Bank. The EAs were prepared as an independent and parallel exercise to the preparation of the feasibility studies. Consultation was conducted as required, and the individual subcomponent EAs and EMPs were disclosed locally between April 2006 and May 2007, and the Consolidated EA/EMP was disclosed in the World Bank Infoshop on May 30, 2007.

69. The plans, EAs and feasibility studies systematically evaluated different project alternatives including: alternative types of tourism development; priority areas for tourism development within each site; tourism products; investment selection; and the size and location of facilities to be constructed. The preparation of the EAs provided a critical link between the heritage analysis, conservation and site planning, and the feasibility study preparation. The EA institutes coordinated with the planners and relevant government agencies to ensure that the proposed investments complied with the requirements of the heritage laws and regulations. In several cases, this coordination highlighted conflicts and the site plans and feasibility studies were amended in response to the advice of the EA specialists.

70. At the project concept stage, OP4.04 Natural Habitats was triggered because of the potential for the project to create impacts on natural habitats within two of the project sites, namely Maijishan Scenic Area and Mati Temple Scenic Area. However, during project preparation, the core and buffer areas of the natural habitats were accurately identified and found to be outside the main areas of tourism development within the sites. The EA analysis confirmed that all project investments are located outside the core and buffer zones of natural habitats and therefore it was determined that OP4.04 should not be triggered.

71. ***Physical Cultural Resources.*** The project triggers OP4.11, Physical Cultural Resources because of its potential impact on listed cultural relics in the subcomponent sites of Maijishan Scenic Area, Suoyang Town Tourism Scenic Area, Lutusi Ancient Government Center Tourism Scenic Area, Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area, Great Wall Cultural Tourism Scenic Area, Weijin Tombs Cultural Tourism Scenic Area, and Mati Temple Scenic Area.

72. The project has been designed to provide positive impacts on cultural heritage through the inclusion of priority preservation and protection works such as: the strengthening of the rammed earth walls of the Suoyang Ancient Town; the stabilization of the cliff on which the First Signal Tower is located and the reinforcement of the structure of the Fortress, both Great Wall structures in Jiayuguan; the provision of drainage, security and conservation of wall murals in the Buddhist grottoes at Maijishan. The project is also supporting the identification and demarcation of conservation and buffer zones at the Great Wall at Jiayuguan and the Weijin Tombs.

73. Considerable emphasis has been placed on cultural property during the preparation phase of the project, through preparation of cultural conservation plans in accordance with China's laws and regulations and the ICOMOS China Principles. The experts' work, which was commissioned by the PIUs during preparation, represents a significant advancement towards protection and sustainability of the cultural heritage at the sites because none of the sites, including the UNESCO World Heritage listed Great Wall site at Jiayuguan, had carried out any cultural planning work prior to the commencement of project preparation. All tourism plans and feasibility studies have been reviewed by the task team with reference to the conservation plans, and the proposed investments are consistent with the conservation plans. Priority conservation works have been included in the project to ensure the safety and security of the cultural heritage at each site.

74. Designs and bidding documents for conservation works will be prepared by qualified institutes under the direction of the PPMO, and, as required under Chinese law, approval of the preliminary designs by the Provincial Cultural Relics Bureau will be a prerequisite for the implementation of conservation works. Certification of contractors qualified in cultural conservation will be required, and will be assessed during pre-qualification. All contracts for conservation works will be prior reviewed by the Bank. In addition, all contracts under the project will include provisions for chance finds. Training on China's cultural relic laws and their implementation is included in the project for site managers, government officials and members of the community.

75. ***Involuntary Resettlement.*** The project triggers OP4.12, Involuntary Resettlement because of expected land acquisition and involuntary resettlement in the Lutusi Ancient Government Center Tourism Scenic Area and Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area subcomponents. The remaining subcomponents do not have land acquisition or resettlement impacts because the land to be utilized under the project is state-owned land under the direct authority of the scenic area administrations and there are no persons currently using the land who would be affected by the proposed project. The Bank has been presented with satisfactory documentary evidence to this effect.

76. It is estimated that the project will affect around 17 households. Permanent land acquisition is 24 mu and demolished housing area is 2100 m². During the project preparation period, the resettlement impacts were significantly reduced from the initial assessment through analysis of alternatives and optimization of project design. A RAP covering all of the identified land acquisition and resettlement activities has been prepared in Chinese and English by a certified institute. The Chinese version was disclosed locally on July 2, 2007 and the English version in the World Bank Infoshop on May 30, 2007. In addition, a Resettlement Policy Framework (RPF) has been prepared and adopted for the project, and will be used as a basis for updating the RAP should any future adjustments in the project investments result in additional unforeseen land acquisition or resettlement. Funds for land acquisition and resettlement have been included in the project financing plan, and will be provided through counterpart financing.

77. ***Indigenous Peoples.*** The project triggers OP4.10, Indigenous Peoples because people belonging to two minority groups, Zang and Yugu, are affected by the Mati Temple Scenic Area subcomponent. The total area of Mati Temple Scenic Area is 68 km². There are 409 households

and 2,043 people scattered in 8 administrative villages within the area. Among them, 1,680 people are Zang, 110 people are Yugu and the remainder, are Han. To prepare the project in compliance with Bank policy on Indigenous People, a Minority Development Plan (MDP)³ was prepared, based on a social assessment carried out at the site and in consultation with affected minority communities.

78. Minority communities in the Mati Temple Scenic Area will benefit in different ways from the proposed project including positive changes to the communities' existing economic structure that relies on environmentally unsustainable herding and farming activities. Moreover, as the project will support the development of tourism based in part on minority culture, it will provide the local communities with opportunities for preserving and presenting their traditions and intangible culture. Potential negative impacts which will be mitigated through the MDP include the potential for rapid tourism development which could cause environmental and social impacts.

79. Measures to ensure that affected minority communities receive culturally appropriate benefits, and to mitigate adverse impacts, were included in the MDP. A monitoring and evaluation system, grievance mechanism and information disclosure arrangement were also included. Funds for the implementation of the MDP have been included in the financing plan.

80. **Safety of Dams.** The project triggers OP4.37, Safety of Dams because of works to be completed at Yinyue Lake and Xianren Lake dams under the Maijishan Scenic Area subcomponent. Both dams are existing, and relatively small, marginally exceeding the Bank's threshold for triggering OP4.37. Both dams are used solely for tourism purposes and do not serve other functions. In accordance with OP 4.37, the two dams have been evaluated by provincial dam safety specialists, and a site visit and review has been carried out by a specialist hired by the Bank as part of the Bank's due diligence. The results of the review indicate that there are no outstanding safety issues at the Yinyue Lake Dam and no remedial works are required. However, some remedial works and operational changes are necessary at the Xianren Lake Dam and agreement has been reached on the inclusion of these measures in the project. Moreover, the project legal agreements include a covenant that Gansu shall complete the dam safety remedial works for Xianren Lake Dam, and prepare Operation and Maintenance and Emergency Preparedness plans for Yinyue Lake and Xianren Lake dams by September 30, 2008.

G. Policy Exceptions and Readiness

81. No exceptions are required from Bank Policies. The project meets all key Regional readiness criteria. While the low capacity of implementation units and PMOs is listed as a risk to component results, mitigation measures/training are already underway. The PPMO, MPMOs and PIUs have undertaken a capacity building program that started several months before the appraisal mission and this will be continued through the project. Feasibility studies for all investments under the project are completed and approved, and preliminary designs have already been prepared for more than 20% of project investments. Draft bidding documents are under preparation for the first year's contracts, and bidding is expected to commence soon.

³ In accordance with OP/BP4.10, an MDP is the equivalent of an Indigenous Peoples Plan (IPP) and complies with the requirements for an IPP in all respects.

Annex 1: Country and Sector or Program Background

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

82. Located in northwest China, Gansu is one of China's largest provinces,⁴ with diverse cultural and natural heritage assets, including stretches of the western most portions of the Great Wall, more than 1,500 kilometers of the legendary Silk Road, and a section of the Yellow River, which is seen as the "Cradle of Chinese Civilization." The province has great deserts, mountains, glaciers, forests, ancient towns, and historic religious and military architecture.

83. Gansu has a total population of 26.5 million, which amounts to just 57 people per square kilometer; one of the lowest population densities in China. While the economy has traditionally been based on agricultural production, Gansu's environmental conditions and difficult topography have led to low yields and productivity. Gansu has a large manufacturing sector, however most industrial production is generated by state-owned enterprises in pollution-intensive industries, particularly the mining and processing of mineral and metal reserves. Poor infrastructure and the province's distance from the coast, have kept Gansu largely isolated from the rapid development experienced by other provinces in China in the last two decades. As a result, Gansu has one of the smallest, least developed and least prosperous provincial economies in China. Moreover, there are major disparities between the capital, Lanzhou, and other regions of the province in levels of education, employment and standard of living. Consequently, the province contains some of the country's poorest communities, as listed on the Government's national poverty register.

84. Gansu is one of the provinces targeted under the Government's Great Western Development Initiative, which aims to alleviate poverty and restructure the economies of the western provinces. Through this program, the Government and Gansu Provincial Government (GPG) have invested heavily in a wide range of projects, including agricultural restructuring and transportation infrastructure. A major element of Gansu's poverty alleviation and economic restructuring strategy is the development of a sustainable tourism industry, for which Gansu's internationally significant heritage provides the setting and the resource.

85. *The significance of Gansu's heritage.* The Silk Road, which traversed the entire length of Gansu, was the route through which Chinese silk and other precious commodities were transported on the way to Persia and cities in the Mediterranean. Moreover, this transportation network holds great religious significance as it was also the route through which Buddhism entered East Asia from India. Gansu has several significant related sites, including three important Buddhist grotto sites (Mogao Grottoes, Maijishan Grottoes, and Mati Temple) and Labrang Monastery, which is said to be Tibetan Buddhism's most important monastery outside of Tibet itself. Currently, the State Administration of Cultural Heritage (SACH), in collaboration with the provinces of Gansu and Shaanxi and Xinjiang Autonomous Region, is actively preparing an application for the Silk Road to be listed by UNESCO as a World Cultural Heritage Route.

⁴ Gansu Province has an area of 454,000 square kilometers (about the size of Sweden).

86. The Han Dynasty portions of the Great Wall (206 BC-220 AD) in Gansu contain the sister gates of Yumen Guan and Yang Guan, which were infamous, at that time, as the limit of the civilized world. Remains of the Wall from the Ming Dynasty include the fortress of the Jiayuguan Pass, which was built around 1372. It is considered the most magnificent and well-preserved military fortress along the Great Wall and was listed as a World Heritage Site by UNESCO in 1987.

87. The province's ancient towns provide important insights into China's past. Lutusi, established in 1378, is the oldest and most complete example of an administrative center used by local leaders under the Minority Rule System. Qingcheng was a cargo collection and distribution center along the Silk Road, which gave rise to a wealthy merchant class and a rich architectural tradition. Gansu also has vast ancient tomb fields from the Wei-Jin period (220-420 AD) that contain burial chambers with painted scenes depicting details of this ancient feudal society and its politics, economics, culture, military, and technology.

88. A feature of many of Gansu's cultural and natural sites is that they are not isolated monuments. Many of the sites are very large (tens or hundreds of square kilometers), and they contain a range of cultural relics, areas of different ecosystems and natural environments, and most importantly, embedded communities. Many of these communities are vulnerable because of poverty and/or ethnicity and they have largely lived a subsistence existence.

89. Tourism at these sites therefore provides an opportunity for the communities to develop their own entrepreneurial activities which would create employment and reduce reliance on subsidies. This type of activity is already occurring at many of the sites, with local communities pooling resources to develop small guesthouses, restaurants, theatres, rural home stays, and horseback riding opportunities. In places where this has already occurred, the improvement in income and living standards is large.

90. ***Tourism growth in China.*** In 2002, China accounted for 5.2% of the global tourism market in terms of arrivals, and 4.3% in terms of tourism receipts, and it occupied fifth place on the list of the world's 15 most important destinations in both indicators. The United Nations World Tourism Organization (UNWTO) estimates that by 2020 China will be the world's leading tourism destination, attracting, perhaps, 130 million arrivals per year, which would represent 8% of the global tourism market. Currently, China has the fastest growing tourism market in the world. This is true in terms of the number of: (a) tourists visiting from foreign countries, Hong Kong and Taiwan; (b) Chinese residents traveling within China; and (c) outbound Chinese visiting other countries.

91. Growth in the Chinese tourism sector was interrupted by the SARS epidemic of 2003, but indications are that growth has recovered significantly since then. The total number of international visitors, including people on day-trips from Hong Kong and Macao, was 109 million in 2004, which represented an increase of 19% over the SARS crisis year of 2003 and 11% over the pre-SARS year of 2002. Excluding Hong Kong, Macao and Taiwan, visitors from foreign countries reached nearly 17 million in 2004, an increase of 48% over the 2003 level and 26% over the pre-SARS 2002 level. The growth rate of foreign visitors from 1985 to 2004

expanded at the average annual rate of 14% and China's foreign exchange receipts from tourism increased at an average annual rate of 17%, over the same time period.

92. Increasing affluence among China's citizens has created more travel and tourism within the country: in 2004 there were 1.1 billion domestic tourists. The average annual growth rate for domestic tourism from 1993 to 2002 was 9.4% and earnings from domestic tourism in the whole country from 1993 to 2004 had a real growth rate of 12.2% per annum. While domestic tourism is still dominated by trips that are arranged by work units and employers, the pattern is changing rapidly towards smaller groups, families and individual travelers. These tourists are growing in sophistication and their goals for tourism experiences are expected to quickly match those of foreign visitors.

93. ***Sustainability of Tourism Markets.*** Together, the project municipalities account for about 70% of the province's tourism activity compared with their 61% share of GDP and 41% share of the total population. They include most but not all of the tourism attractions in Gansu. Tourism projections were prepared for the project under high, medium, and low-growth scenarios. Under each scenario, the project municipalities' share of Gansu's tourism activity increases moderately because of the importance of these clusters to provincial tourism growth.

94. The three scenarios illustrate different futures for Gansu Province and the role of tourism within the province. Even under the low growth scenario, the number of international and domestic visitors to the province (including within province travel by residents) would rise from 9.8 million in 2004 to 20.2 million in 2025. The 2025 projection for the medium-growth scenario is 33.2 million tourists by 2025, and 49.1 million tourists under the high growth scenario. Even under the low growth scenario, the contribution of tourism to the Gansu economy would increase moderately as tourism receipts as a proportion of GDP rise from 4.0% in 2004 to 4.5 % in 2025. Under the medium growth scenario, this ratio expands to 6.1% and reaches 7.2% under the high growth scenario.

95. Almost 98% of tourist visits to Gansu in 2004 were by domestic tourists. All of the tourism marketing strategies and project designs of PIUs are based on improving the accessibility and attractiveness of sites principally to domestic visitors, especially day-trippers from the municipalities of Lanzhou, Baiyin, Tianshui, Zhangye, and Jiayuguan. Based on per capita income growth in these municipalities over the last ten years, PIUs' strong emphasis on domestic, particularly urban Gansu markets is reasonable. Domestic tourism markets are viewed as being more sustainable than foreign tourist markets, especially given their stronger resilience to cyclical macro-economic downturns over the next 20-25 years.

96. ***Key challenges to tourism development in Gansu.*** There are some inconsistencies and structural weaknesses in the way tourism numbers are recorded, analyzed and presented in China. In practical terms, this means that the numbers of tourists are probably overstated. Much of China's domestic tourism may be short-distance leisure trips and visits to friends and relatives. It may also include migrants looking for work. The numbers of international tourists are somewhat skewed by the fact that they include people on day-trips from Hong Kong and Macao. Many of these trips are workers who cross the land borders to work in Guangdong. It appears that, in China, tourism is synonymous with travel.

97. The fast pace of tourism growth in China must be seen in the context of recent studies on heritage sites and trends in China's tourism and heritage sectors. The reports suggest that there has been a tendency toward excessive exploitation of tourism and heritage assets and a lack of understanding of the real issues and impacts of tourism on the part of government bodies. Most government bureaus believe that more visitors and more entrance fees are the solution to all problems, but in practice, many key Chinese sites show insufficient returns, deteriorating infrastructure, and unsustainable management of tourism. Consequently, many of China's top sites and historic towns are experiencing very large crowds, rapid and uncontrolled commercialization, environmental degradation and the development of inappropriate entertainment and leisure facilities in the immediate vicinity of the heritage assets.

98. ***Institutional framework for heritage protection.*** The State Administration of Cultural Heritage (SACH) is responsible for developing national cultural heritage policy, legislation and technical standards in China, and for coordinating the cultural heritage work of lower level authorities. At lower levels, i.e. provincial, municipal and county level, a government office with a cultural heritage protection function is normally established under the title of Cultural Heritage Bureau (CHB). Protection and management of Gansu's cultural heritage is the responsibility of the GPG through its Gansu Provincial Cultural Heritage Bureau (GCHB) under the sectoral leadership of SACH.

99. Cultural relics in China are managed through a process of listing at various levels of government, depending on the significance of the relic. The level at which each relic is listed determines, by law, the requirements for conservation planning and management and responsibility for financing preservation. State-listed relics, of which Gansu has around 40, are managed on a day-to-day basis by local governments, but they are eligible for financial support from SACH for conservation planning and protection measures. However, this financing is highly competitive and very restricted in scope.

100. ***Legal framework for heritage protection in Gansu.*** The legal basis for cultural heritage protection in Gansu is the *Cultural Relics Protection Law of the Peoples Republic of China*, which was issued in 1982 and amended in 2002. It summarizes regulatory requirements concerning cultural heritage and states that the responsibility for the conservation of cultural heritage lies primarily with the various levels of government. This law is supported by a set of implementation regulations, and various provincial and local rules, which are described in detail in Annex 10.

101. In the field of heritage and sustainable cultural tourism, China is making significant progress in raising its heritage practices to international standards. The publication, entitled *Principles for the Conservation of Heritage Sites in China*, (The China Principles) was developed through a joint effort of China's ICOMOS⁵ and SACH. Issued in 2000, the China Principles integrate international practice into guidelines and provide a methodological approach to the conservation and management of sites, within the existing framework of China's legislation on heritage protection. The China Principles also provide a professional explanation of the relevant articles of China's laws and regulations on the protection of cultural heritage and

⁵ ICOMOS stands for International Council on Monuments and Sites.

form the professional basis for dealing with matters related to heritage sites. China is also a signatory to several international conventions and declarations, including the *UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage (The World Heritage Convention)*, the *UNESCO Convention for the Safeguard of Intangible Cultural Heritage*, and the *Seoul Declaration on Tourism in Asia's Historic Towns and Areas*, which advocates awareness raising, meaningful consultation, and effective participation in tourism planning for communities in heritage places.

102. ***Key challenges for cultural heritage protection in Gansu.*** While China and Gansu have well articulated institutional and legislative frameworks, many laws and regulations for the protection of cultural heritage are poorly understood at the local level. Another challenge for managing Gansu's heritage is the limited view of the cultural heritage laws in China which recognize relics as individual monuments, rather than as clusters or landscapes. This approach does not fit well with the actual situation in Gansu. For example, in Maijishan Scenic Area, which has an area of more than 200 km², there are many hundreds of cultural relics but each is listed separately, some at state level, others at provincial level or below. The site as a whole, and the connections and relationships between the relics, are not recognized by the laws, making it difficult for the local authorities to take a comprehensive management view of the site, its landscape, environment, and heritage.

103. Many of Gansu's key relics are at significant risk from environmental impacts such as humidity, sand storms, flooding and erosion, and from theft and vandalism due to weak security. Overall, the level of preservation and protection has been poor, primarily due to a lack of financing and institutional capacity, particularly at the local level. Until recently, Gansu has not been able to prepare cultural conservation plans for its key heritage sites, which has resulted in Gansu's inability to capture state conservation funding, except in emergency situations. Further, institutional barriers have been significant, with authority over the relics and the heritage sites in which they are located, often in conflict or unclear. In many cases, tourism authorities control the sites but are not responsible for the relics within the sites, which has led to over-building of tourism infrastructure around the relics, and little or no preservation of the relics themselves.

104. ***Institutional framework for tourism administration.*** At the national level, the responsibility for tourism development and planning lies with the China National Tourism Administration (CNTA). Similar to other national administrations, the CNTA coordinates the work of local agencies at the provincial, municipal and county levels. Gansu Tourism Administration (GTA) is the designated government authority of the Gansu Government and responsible for Gansu's tourism industry. It is significant that the GTA is an institution, rather than an administrative organ under GPG. Consequently, policy support for the sector must be implemented from the CNTA or from other Provincial authorities such as the Development and Reform Commission (DRC) and cannot be issued directly by the GTA.

105. ***Legal framework for tourism development.*** Presently, there are no specific laws concerning tourism *development* in China, although the need for such a law has become evident due to the rapid growth of China's tourism industry over the last decade. Under the current legal framework, two regulations relating to service aspects of the tourism industry (e.g. tourist guides and travel agencies) have been established. In addition, a series of technical standards have been

developed to provide technical guidance on tourism planning and facility development. Of these standards, the most important for tourism resource planning are: *General Specifications for Tourism Planning (GB/T 18971-2003)*, which defines the principles, processes and assessments for tourism planning and development; and *Standard of Rating for Quality of Tourist Attractions (GB/T 17775-2003)*, which defines the requirements and criteria for tourism zone classification. Tourism zones are classified into five categories ranging from the lowest level of “A” to the highest level of “AAAAA”, depending on the following criteria: transportation, tourism content, safety and security, sanitation, postal service, purchasing, operations management, environmental and natural resources management, natural resources attraction, marketing attraction, tourist numbers per year, and tourist feedback.

106. **Key challenges for tourism development in Gansu.** Other than standard requirements for the environmental impact assessment of construction projects, there are few restrictions or special approval processes to control development within classified tourist sites. There is little in the way of regulations concerning maintenance and management of classified tourist sites. While technical guidelines such as *The China Principles* adopted by SACH provide guidance on protection, preservation, restoration and presentation of cultural heritage assets, local authorities in Gansu have little exposure to or understanding of these guidelines. Moreover, in the past, *The Standard of Rating for Quality of Tourist Attractions* described above has created incentives for site managers to invest in inappropriate infrastructure rather than the protection and interpretation of their site’s cultural heritage, in order to receive the AAAAA rating. This has resulted in inappropriate and/or illegal infrastructure at many of the project sites.

107. Tourism is seen by the GPG as a way to generate income to finance heritage protection and as a source of local economic development, but because of the low level of tourism at many of the sites due to limited or substandard facilities, weak marketing, and negligible visitor information, this has largely not yet been realized. Despite Gansu’s rich tourism resources, the sector currently contributes only 3% of provincial GDP. In recent years for which data is available, Gansu attracted only 1 in every 176 of China’s international tourists, and 1 in every 113 domestic tourists. Moreover, a GPG study shows that the economic benefits generated by each tourist visit in Chengdu, Sichuan Province, is seven times that in Gansu’s Dunhuang City.

108. Tourism in Gansu is concentrated in several hubs around key cultural relics, in locations where airports have been constructed: i.e., in Dunhuang City, the location of the Mogao Grottoes; in Jiayuguan City, the site of the western terminus of the Great Wall; and in the areas surrounding Lanzhou, the business center of the province. The distances between these hubs are very great, and until recently, trunk infrastructure was insufficient. Gansu has made significant advances in the last two to three years in developing highway, airport and railway infrastructure in the province, and the major transportation barriers are now largely resolved. However, despite this advance, supporting infrastructure for tourism is still weak. At the level of individual tourism sites, there remains a lack of: (a) basic infrastructure such as accommodation and local transportation; (b) planning and management skills; (c) tourism marketing; and, (d) development of local business activities to support tourism.

109. **Significant progress in planning.** During the project preparation period, Gansu has made significant advances in resolving one of the key barriers to sustainable development – a

lack of planning in the heritage and tourism sectors – through the commissioning of high-quality, consistent, provincial, municipal and site-level tourism, development and conservation plans. This provides, for the first time, a sustainable foundation for heritage protection and cultural tourism in the province and specifically, at the project sites. Moreover, GPG has already started to expand this planning work to other cultural tourism sites outside the project, demonstrating that this aspect of the project design is already being replicated in the province.

110. In addition, the project has initiated multi-sectoral cooperation at the provincial and local levels. An unusual aspect of this project is that there is no single line bureau responsible for the project at all levels of local government. The project is coordinated at the provincial level by Gansu Development and Reform Commission, but depending on the characteristics of individual sites, either the tourism or cultural relics bureau is taking the lead at the local level, with others participating. This active institutional cooperation also reflects a significant innovation in Gansu's management of heritage and tourism sites. These aspects will be further strengthened during project implementation with a comprehensive program of capacity building at the provincial and local levels.

111. ***Urgent needs to be addressed by the project.*** This project does not intend to resolve all of the problems that limit heritage protection and tourism development in Gansu Province; rather, it has been designed as a *barrier removal* and *demonstration* project, which allows GPG to build capacity in the province, while testing methods for reducing institutional, planning, and financing barriers at key sites. The specific areas of need that have been identified by GPG and the project's response are described in more detail below.

112. ***Physical Infrastructure:*** Many of the project sites and the communities that live within and around them are lacking basic infrastructure services such as water and power supply, wastewater treatment and solid waste management systems. Investments in basic infrastructure are critical, not only for the sustainable development and protection of the heritage sites, but also for creating opportunities for local economic development and raising local standards of living.

113. ***Conservation and Protection of Key Heritage:*** Limited budgets and lack of access to expert skills have, in some cases, resulted in inappropriate conservation and deferred maintenance for important cultural assets. Sites have also suffered from the addition of poorly designed service buildings and damaging installations of protective rails, lighting and walkways. Conversely, sites have not benefited from protection measures to prevent and mitigate damage from overuse, fire, theft, vandalism and the elements. Emergency conservation, protection measures and correction of investments that undermine the sites' historic and aesthetic values, are needed.

114. ***Research, Interpretation and Presentation of Cultural and Natural Assets:*** While some good examples of interpretation and presentation of heritage values can be seen at sites in Gansu, much of the interpretation for tourists is conveyed in a static manner with an emphasis on statistics and historic chronologies. These methods do little to engage visitor interest or to reveal the rich meaning and value of the sites. Key to supporting tourism development in Gansu is improved site interpretation that is based on deeper research and knowledge; updated presentation methods and increased investment in fixed displays and written material; and, an

expanded number of themes that present all the cultural and natural features of the sites and appeal to all types of visitors – adventure, religious, cultural and eco-tourists.

115. *Site Planning and Management:* Many of Gansu's sites suffer from a lack of coordination among tourism plans, conservation plans and municipal development plans. While this coordination has progressed significantly during project preparation, site planning and management issues remain at some individual sites, including: (a) visitor flow and carrying capacity to avoid damage of heritage assets and provide for visitor safety and comfort; (b) clear boundary and buffer zone demarcation and regulations to prevent encroachment and uncontrolled development; (c) identification of new attractions to increase the number of visitor activities and reduce pressure on existing sites; (d) environmental protection (e.g. deforestation, erosion); and (e) programs to support direct benefits for local communities (e.g. site related employment and entrepreneurial activities).

116. *Institutional and Community Capacity:* Many of Gansu's site managers and government officials have yet to conceive of tourism as a multi-sectoral, dynamic system that goes beyond individual sites to involve transportation, hotels, shopping, restaurants, entertainment and tour operators. Anecdotal evidence also indicates that government leaders, tourism officials, and site managers in Gansu have limited experience with international tourism standards and the expectations of increasingly demanding and well-informed domestic tourists. Consequently, there is a significant need to increase and update knowledge of the tourism sector and promote strategic cooperation among all actors relevant to Gansu's tourism development.

117. While some community members have developed small entrepreneurial activities connected to the heritage sites, many of these efforts are of very low quality, provide only small incomes and lead to over supply, excessive competition and repetitious goods for sale. In addition, local residents have often not had the opportunity to learn about the full range of cultural and natural values of nearby sites, nor do they always understand the fragility of this heritage. It is critical to encourage greater understanding and involvement in conservation and sustainable tourism on the part of the community through awareness raising activities and training and technical assistance in hospitality skills, souvenir production, marketing and promotion to create jobs and income.

**Annex 2: Major Related Projects Financed by the Bank and/or other Agencies
CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development**

Sector Issue	Project	Latest Supervision (PSR) Rating (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective
Bank Financed			
Basic urban services upgrading including conservation and repair of historic buildings and urban fabric	Zhejiang Multi-cities Development (C2475-CHA; 05/18/1993); (ICR #23946-CHA (06/06/2002)	S	S
Pilot urban services upgrading and adaptive reuse in a medium density historic area; Preparation of a strategy for the support and management of living culture and the arts	Shanghai Urban Environment (L4705; 11/10/2003)	S	S
Urban heritage conservation strategy, tourism planning; Upgrading of urban infrastructure and traditional housing	Zhejiang Urban Environmental (L4724; 06/02/2004)	S	S
Documentation, conservation, restoration, protection, and presentation of cultural resources	Liaoning Environment (L3781; 09/16/1994); (ICR no. 28833-CHA; 06/25/2004)	S	S
Earthquake reconstruction support for basic urban services and repair of traditional streets, bridges, canals and historic buildings	Yunnan Earthquake Reconstruction (C3078; 06/12/1998); (ICR #22216-CHA; 06/29/2001)	HS	HS
Strategic conservation master plan and restoration of key heritage sites including World Heritage-listed Leshan Buddha	Sichuan Urban Environment (C3251/L4496; 01/09/2001); (ICR#0000377; 01/10/2007)	S	S
Strategic master plan for heritage conservation in Chongqing; Restoration of the Huguang Huiguan and technical assistance to assist the site become self-financing	Chongqing Urban Environment (L4561 ; 11/03/2000)	S	S
Other Development Agencies			
Support for World Heritage listing of Chinese cultural relics	UNESCO	Performance reported satisfactory	
Technical assistance in cultural heritage management and tourism development	UNESCO, UNWTO	Performance reported satisfactory	

Annex 3: Results Framework and Monitoring
CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

Results Framework

PDO	Project Outcome Indicators	Use of Project Outcome Information
Increase participation in sustainable cultural tourism	Number of people participating in the provision of tourism services at the project sites	Review progress towards achievement of the project objective.
Increase community benefits from sustainable cultural tourism	Percentage of tourists who purchase private tourism services when visiting the project sites (%) Percentage of local community members with awareness and knowledge of the significance of the cultural site.	Review progress towards achievement of the project objective.
Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Monitoring
Heritage conservation at project sites	Number of heritage sites in project with approved cultural heritage protection plans (#)	Review Gansu Province's progress in meeting national and provincial cultural heritage preservation targets
Development of sustainable tourism	Level of visitor satisfaction with: <ul style="list-style-type: none"> • Access within site • Interpretation of site • Management of site • Environment at site Expenditure per tourist visit at key sites (RMB/visitor/visit)	Analyze overall sustainability of tourism development at project sites. Analyze the development of tourism as key industry in Gansu Provincial economy.
Participation in sustainable tourism	Cumulative number of local community persons trained in sustainable tourism-related activities (#) Number of local community persons with improved road access to main tourist areas within Maijishan and Qingcheng (#)	Analyze direct benefits of project and tourism development to local communities and measure progress in community participation.

Arrangements for results monitoring

Project Outcome Indicators	Baseline 2007	Target Values					Data Collection and Reporting		Responsibility for Data Collection
		YR1 2008	YR2 2009	YR3 2010	YR4 2011	YR5 2012	Frequency and Reports	Data Collection Instruments	
Participation in sustainable cultural tourism									
Number of people participating in the provision of tourism services at the project sites	3,130	3,130	3,130	3,330	3,530	3,740	Annual	Community survey conducted once per year during the period May - September plus local employment records	Each PIU, consolidated by PPMO
Community benefits from sustainable cultural tourism									
Percentage of tourists who purchase private tourism services when visiting the project sites (%)	34%	34%	34%	40%	50%	60%	Annual	Visitor survey conducted once per year during the period May - September	Each PIU, consolidated by PPMO
Percentage of local community members with awareness and knowledge of the significance of the cultural site.	63%	65%	68%	72%	76%	80%	Annual	Community survey conducted once per year during the period May - September	Each PIU, consolidated by PPMO
Intermediate Outcome Indicators									
Heritage conservation at project sites									
Number of heritage sites in project with approved cultural conservation plans (#)	1	2	4	6	7	7	Annual	Annual Progress Report	PPMO
Development of sustainable tourism									
Level of visitor satisfaction with:									
• Access to site (% fully satisfied)	37%	37%	37%	40%	50%	60%	Annual	Visitor survey conducted once per year during the period May - September	Each PIU, consolidated by PPMO
• Interpretation of site (% fully satisfied)	24%	30%	40%	50%	60%	80%			
• Management of site (% fully satisfied)	21%	21%	30%	40%	50%	60%			
• Environment at site (% fully satisfied)	15%	15%	20%	30%	40%	50%			
Average expenditure per tourist visit at:									
• Majjishan Scenic Area (RMB/visitor/visit)	400	415	430	450	465	480	Annual	Visitor survey conducted once per year during the period May - September	Majjishan Tourism Administration Yellow River Stone Forest Administration Jiayuguan Tourism Administration Yadan National Geological Park Administration.
• Yellow River Stone Forest Geological Park (RMB/visitor/visit)	335	370	380	400	415	430			
• Jiayuguan Great Wall Scenic Area (RMB/visitor/visit)	625	655	690	720	760	800			
• Yadan National Geological Park (RMB/visitor/visit)	350	365	380	390	410	425			

Participation of communities in sustainable tourism

	0	2,000	5,400	7,200	7,900	9,000	Annual	Annual Progress Report	Each PIU, consolidated by PPMO
Cumulative number of local people trained in sustainable tourism-related activities (#)	0	2,000	5,400	7,200	7,900	9,000	Annual	Annual Progress Report	Each PIU, consolidated by PPMO
Number of community persons with improved road access to main tourist areas within Maijishan and Qingcheng (#)	0	8,000	10,000	18,000	25,000	27,000	Annual	Annual Progress Report	Each PIU, consolidated by PPMO

Annex 4: Detailed Project Description

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

118. The project development objective is to generate benefits for local communities from the development of sustainable cultural tourism in Gansu Province. The project comprises two components:

- **Component 1 – Protection and Development of Priority Sites (US\$46.67 million)** including the following activities to be carried out at each of nine project sites:
 - 1.3 Heritage Conservation and Presentation (US\$31.53 million) – preservation, conservation and research of key relics; interpretation and presentation of cultural and natural heritage assets.
 - 1.4 Infrastructure, Tourism Services and Environmental Protection (US\$14.10 million) – investment in high priority physical infrastructure at key cultural and natural heritage sites that raise local standards of living and have a high potential for promoting local economic development through tourism.
- **Component 2 – Institutional Strengthening and Capacity Building (US\$1.39 million)** including project management strengthening, training of site managers, staff and local residents in heritage conservation, site management and tourism development, and implementation of several key tourism and heritage studies designed to assist the Gansu Provincial Government and local governments protect heritage and develop the tourism industry in Gansu.

Component 1 – Protection and Development of Priority Sites

119. Component 1 will be carried out at nine priority cultural and natural heritage tourism sites in Gansu Province, located in three regions of Gansu: the western desert region, central Gansu, and the eastern mountainous region as summarized in the table below. A balanced program of heritage protection, infrastructure and tourism service development and training will be financed at each site.

Region	Municipality	Project Subcomponent
Western	Jiuquan	Yadan National Geological Park Suoyang Town Tourism Scenic Area
	Jiayuguan	Great Wall Cultural Tourism Scenic Area Weijin Tombs Cultural Tourism Scenic Area
Central	Zhangye	Mati Temple Scenic Area
	Lanzhou	Lutusi Ancient Government Center Tourism Scenic Area Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area
	Baiyin	Yellow River Stone Forest National Geological Park
Eastern	Tianshui	Maijishan Scenic Area

Western region

120. ***Yadan National Geological Park – US\$ 4.33 million.*** Situated in the Gobi Desert 165 km northwest of Dunhuang City, this is the largest known yardang formation in the world (375 km²). It was recognized and mentioned by early Silk Road travelers and is believed to be the location of the legendary “devil’s city”. Yardangs are natural geological formations formed by the process of wind and sand erosion, commonly found in very arid regions. The site was designated in 2001 as a National Geological Park under the direction of Ministry of Land Resources. In recent years, a road has been constructed from Dunhuang to the yardang field for the production of two popular Chinese movies, and this access and visibility have significantly increased tourist visits and development potential.

121. The proposed investments at this site include: (a) tourist roads of about 19 km and car park facilities within the Yadan site; (b) a link road from the park gate to the main highway; (c) provision of services including water supply, wastewater, solid waste and power; (d) a tourist service center; (e) exhibition and presentation facilities; (f) a site maintenance center; (g) tourist and service vehicles; (h) signage; and, (i) training of local community members in tourism and heritage.

122. ***Suoyang Town Tourism Scenic Area – US\$ 2.32 million.*** The ancient town of Suoyang, located 70 km southeast of the seat of Guazhou County, was established during the Han Dynasty (206B.C. to 220 A.D.). A fortress was built at Suoyang during that period and while it was largely destroyed in 1521, relics remain. The site is a state-listed cultural relic due to its extremely high archaeological value. The whole area is named for cynomorium (“suoyang” in Chinese pinyin), a local plant that a famous Tang Dynasty general’s army used as food to survive a siege in the city.

123. The proposed investments at this site include: (a) an extensive program for stabilization and preservation of the ancient mud structure, including reinforcement of the town’s mud walls and protection of the ground surface; (b) a cultural protection management station; (c) a tourism service center and exhibition hall located outside the Suoyang protection area, including external amenities such as a car park; (d) provision of site services such as water supply, sanitation, solid waste and security; and, (e) training of local community members in tourism and heritage.

124. ***Great Wall Cultural Tourism Scenic Area – US\$ 5.04 million.*** The Jiayuguan Great Wall site has extremely significant historic and cultural value, as it represents the early military events that shaped the Chinese nation and the influences of the Silk Road, which passed through this area. The site was listed as a UNESCO World Heritage Site in 1987. The project will address the needs of two important assets of the Jiayuguan Great Wall, the Jiayuguan Fortress and the First Signal Tower, and the Great Wall structure connecting these sites. Jiayuguan Fortress was built in the late Ming dynasty, around 1372, after the defeat of the Mongols. Known as “The First and Mighty Pass under Heaven”, it is considered the most magnificent and well-preserved military fortress along the Great Wall. The First Signal Tower is the first beacon tower of the western-most section of the Ming Dynasty Great Wall. It was built on top of an 80-meter-high cliff, along the north bank of the Tuolai River. The Great Wall at Jiayuguan is

already a significant tourist site within Gansu because of its close proximity to Jiayuguan City which boasts one of Gansu's three commercial airports.

125. The proposed investments at this site include: (a) preservation and protection of the Great Wall Fortress, including the wall structures and wooden towers; (b) environmental rehabilitation and protection around the Great Wall Fortress, including site demarcation of the core protection area; (c) reinforcement of the cliff below the First Signal Tower; (d) embankment protection along the Tuolai River at the First Signal Tower; (e) expansion of the underground service center and exhibition at the First Signal Tower; (f) storage facilities for the existing Great Wall Museum; (g) a tourism training center; (h) provision of services including water supply, wastewater, solid waste, power, fire fighting and security; and, (i) training of local community members in tourism and heritage-related activities.

126. ***Weijin Tombs Cultural Tourism Scenic Area – US\$ 2.27 million.*** Located 18 km northeast of Jiayuguan, the tomb complex covers an area of 30 km², and contains at least 1,600 tombs built between the Third and Fifth Centuries, during the Wei and Jin Dynasties. The underground brick tombs, now state-listed relics, were discovered in 1972 and eighteen have been excavated. Most Weijin tombs consist of two or three chambers and house three or four generations of the same family. Scenes painted on the bricks of the inner chamber walls depict a wide range of subjects, providing insights into this ancient Chinese feudal society and its politics, economics, culture, military affairs, science and technology.

127. The proposed investments at this site include: (a) protection measures for the ancient tombs, including drainage rehabilitation, signage, site demarcation and environmental monitoring equipment inside the tombs; (b) expansion and upgrading of the existing exhibition center and tourist service center; (c) provision of services including water supply, wastewater, solid waste, power and security; (d) studies on tomb mural preservation techniques; and; (e) training of local community members in tourism and heritage-related activities.

Central region

128. ***Mati Temple Scenic Area – US\$ 2.39 million.*** Mati Temple Scenic Park, located at the base of the Qilian Mountains in the central section of the Hexi Corridor, is a 14 km² tourism development area within the 100 km² of Mati Scenic Area. The tourism area contains main state-listed cultural relics, including Mati (Horseshoe) Temple, which is a complex of ancient Buddhist caves dating back to the Silk Road period, carved into a cliff face and connected by a series of passageways, tunnels, balconies and stairways. Other heritage assets in the area include the Thousand Buddha Caves and the Jinta Caves, a very small double grotto with extremely valuable frescoes. The larger scenic area also holds numerous niches and small grottoes, as well as pristine pine forests, mountain meadows, and glaciers. The unspoiled environment, combined with the grotto art and the presence of the minority ethnic groups, offers visitors many rich opportunities to contemplate China's Buddhist past, to enjoy hiking and horseback riding and to learn more about the Yugu culture. The site is located in Sunan Yugu-Tibetan Autonomous County and is about 65 km south of Zhangye City.

129. The proposed investments at this site include: (a) an Yugu folk culture museum and collection of folk arts for exhibition; (b) upgrading of access roads, including drainage within the park; (b) upgrading of the power distribution system within the park; (c) provision of services, including water supply and sanitation and a new landfill outside the scenic area; (d) protection of Jinta Temple through provision of fire and security facilities; (e) a heritage management building at North Mati Temple; (f) a tourist service center and scenic area tourist gate; (g) a web-based tourism information system; and, (h) training of local community in tourism and heritage.

130. ***Lutusi Ancient Government Center Tourism Scenic Area – US\$ 2.31 million.*** About 120 km to the north of Lanzhou in Yongdeng County, is the ancient government complex of Lutusi. Built in 1378, Lutusi is the oldest, largest and most complete example of an administrative center (*yamen*) used by local leaders under China's ancient minority rule system. Under this system, during the Yuan, Ming and Qing Dynasties, hereditary chiefs were put in charge of local governance, and this building is an emblem of the minority peoples' rights of autonomy. In 1932, after 562 years, this system was changed to one of bureaucratic appointments by the central government. The complex occupies 13,500 m², contains 226 administrative and residential buildings and has 36 courtyards and 72 gates. There is also a Buddhist temple, which contains important and valuable frescos. Lutusi is a state-listed cultural relic.

131. The proposed investments at this site include: (a) upgrading of roads within the township around Lutusi and provision of a tourist car park; (b) provision of services including water supply, power, sanitation, and solid waste; (c) a tourist service center and web-based tourism information system; (d) stabilization of the ground surface and protection and preservation of the ancient garden within Lutusi; (e) fencing around Lutusi; and, (f) training of local community members in tourism and heritage-related activities.

132. ***Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area – US\$ 5.22 million.*** Qingcheng is located on the banks of the Yellow River, about 110 km from Lanzhou. In its early days, Qingcheng was a trading port and a cargo collection and distribution center along the Silk Road. Many merchants established themselves in the town and built fine dwellings with exceptional wood carving and highly decorated walls. The resulting Ming and Qing Dynasty courtyard houses, temples and traditional streetscapes in the town core are a significant cultural asset for the town. Many of the townspeople have recognized their community's heritage values and begun pooling their own funds for building restorations. Moreover, the town people have created community associations based on local intangible heritage (e.g., embroidery, stone cutting, and wood carving). Local citizens are also involved in the provision of tourism services such as home stays.

133. The proposed investments at this site include: (a) upgrading of key town roads and drainage for local resident and tourist access; (b) upgrading of services and facades in select historical alleyways; (c) protection and preservation of 45 historical houses and the Chenghuang Temple within the ancient town; (d) interpretation and exhibitions; (e) provision of services including water supply, power, sanitation and solid waste; and, (f) training of local community members in tourism and heritage-related activities.

134. ***Yellow River Stone Forest National Geological Park – US\$ 3.82 million.*** This massive geological formation covering an area of 50 km² was created by a combination of different rock types with different cementation strengths being eroded over more than one million years. It was “discovered” by a fieldwork team from the Chinese Ministry of Geology and Mineral Resources in 1990 and announced to the public in 1996. Due to a lack of access, however, it remained beyond tourists' reach until 2003, when a road was completed. The views and area surrounding the stone forest offer a dramatic and unusual combination of landscapes including the Yellow River, the stone forest, and a riverine oasis. A small village, called Longwan, is located on the banks of the river at the entrance to the geological formation, and citizens of the village are actively participating in the provision of tourist services such as home stays, mule cart rides, river boat rides, etc.

135. The proposed investments at this site include: (a) upgrading of access roads and tourist footpaths, especially to improve drainage, stability and safety; (b) about 6,000 m² of car park facilities; (c) an exhibition center of about 2,500 m²; (d) provision of services including water supply, wastewater, solid waste, power and security; (e) strengthening of about 3 km of Yellow River embankment for flood protection; (f) interpretation, site demarcation and signage; and, (g) training of local community members in tourism and heritage-related activities.

Eastern region

136. ***Maijishan Scenic Area – US\$ 18.58 million.*** The Maijishan Scenic Area ranges over 215 km² and contains many poor farming communities, undeveloped mountain forest, a botanical garden/arboretum, small and large tourist facilities, and three significant cultural sites – Maijishan, Shimen and Xianrenya, which are the focus of this project. Maijishan (Wheat-Stack Mountain) is among the four largest Buddhist cave complexes in China, with a total of 194 grottoes, 7,200 clay and stone statues and 1,300 m² of murals. The site's development began as early as 384 (Wei Dynasty) and was continued over the next 1,500 years. As way stations along the Silk Road, cave sanctuaries like Maijishan played an important role in the development and dissemination of Buddhism in China. Early artwork discovered in these cave sites includes sculptures of Buddha, bodhisattvas, worshippers and monks, painted representations of paradise, and illustrations based on prominent texts. The Maijishan Grottoes are currently under consideration for UNESCO World Heritage designation. The other two cultural sites within the Maijishan Scenic Area, Shimen (Stone Gate) and Xianrenya (Immortals Cliff) also contain state and provincially listed relics, including temples, palaces and grottoes.

137. The proposed investments include: (a) a cultural heritage protection plan for Maijishan; (b) protection and conservation of cultural relics at Xianrenya, Shimen, and Luohanya; (c) upgrading of about 53 km of access roads, including associated environmental protection and maintenance center/facilities; (d) about 25 km of tourist footpath construction and upgrading, including several scenic lookouts; (e) rehabilitation works at Yinyue Lake and Xianren Lake dams; (f) provision of services including water supply, wastewater, and power in Xianrenya, Shimen and Maiji sub-scenic areas; (g) car parking facilities with a total of about 8,500 m² in Shimen and Xianrenya sub-scenic areas; (h) a tourist service center and training center at Shimen sub-scenic area; (i) administrative buildings at Shimen and Xianrenya sub-scenic areas; (j) a local handicraft and tourism product development center at Maiji sub-scenic area; (k) exhibition

and interpretation facilities; (l) provision of vehicles for solid waste management, road maintenance, environmental monitoring and site administration; (m) an information system and scenic area monitoring system; (n) marketing materials; and, (o) training of local community members and youth in tourism and heritage-related activities.

Component 2 – Institutional Strengthening and Capacity Building

138. This component will be financed by the individual project sites using the loan, but all activities except 2.2 will be managed by the PPMO. Activities under 2.2 will be managed by the individual PIUs. The component will comprise the following activities:

2.1 Staff Training – US\$ 450,000

Training will be provided to about one hundred PMO and PIU staff and other government officials as appropriate, in the following topics: World Bank project procedures, project and investment management, cultural relic protection, scenic area management, tourism development strategies, tourism product and market development. Training modes would include training courses in Gansu, and domestic and international study tours and training courses.

2.2 Community Training – US\$ 100,000

Training, which will be tailored for the needs of each site, will be provided to about 9,000 members of the communities living in and around the sites. Training topics will include: cultural relics protection, benefits and impacts of tourism development, tourism product and market development, business skills for participation in tourism, protection of intangible cultural practices, etc.

2.3 Project implementation assistance – US\$ 250,000

Consultants will be hired by the PPMO to assist in design review, construction supervision, and project reporting.

2.4 Study on Gansu Provincial Tourism Industry Development – US\$ 50,000

The contents of the study include the basic conditions of the formation of Gansu provincial tourism industry, development and innovation of tourism products, establishment of tourism market and management of tourism environment. This research is aimed at identifying ways in which the benefits of tourism can be translated into greater economic development benefits in Gansu.

2.5 Cultural Conservation Plan for Maijishan Scenic Area – US\$ 200,000

A cultural conservation plan for the entire Maijishan Scenic Area, completed to national standards for state listed relics.

2.6 Studies on Intangible Heritage – US\$ 150,000

Two studies to support the conservation and development of intangible heritage and Qingcheng Ancient Town and Mati Temple Scenic Area.

2.7 Studies on Mural Preservation – US\$ 125,000

Two studies to determine appropriate preservation techniques for wall murals at Weijin Tombs and Lutusi Ancient Government Complex.

2.8 Information Systems – US\$ 65,000

Tourism information network and website for Mati Temple and Lutusi Ancient Government Center.

Annex 5: Project Costs

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

Project Cost By Component	Counterpart US\$ Million	IBRD US\$ Million	Total US\$ Million	Total RMB Million
1. Protection and Development of Priority Sites	9.15	36.92	46.07	354.73
1.1 Heritage Conservation and Presentation	2.92	10.67	13.60	104.67
1.2 Infrastructure, Tourism Services and Environmental Protection	6.22	26.25	32.47	250.06
2. Institutional Strengthening and Capacity Building	0.00	1.38	1.38	10.65
Total Baseline Cost	9.15	38.30	47.45	365.38
Physical Contingencies	4.75	0.00	4.75	36.54
Price Contingencies	0.65	0.00	0.65	5.02
Total Project Costs¹	14.55	38.30	52.85	406.94
Interest during construction	4.89	0.00	4.89	37.67
Front-end Fee	0.00	0.10	0.10	0.74
Commitment Fee	0.00	0.00	0.00	0.00
Total Financing Required	19.44	38.40	57.84	445.33

Project Cost By Municipality	Total US\$ Million	Total RMB Million
1. Tianshui Municipality	18.95	145.91
2. Jiuquan Municipality	6.75	51.99
3. Lanzhou Municipality	7.82	60.24
4. Jiayuguan Municipality	7.42	57.14
5. Baiyin Municipality	3.92	30.21
6. Zhangye Municipality	2.58	19.89
Total Baseline Cost	47.45	365.38
Physical Contingencies	4.75	36.54
Price Contingencies	0.65	5.02
Total Project Costs¹	52.85	406.94
Interest during construction	4.89	37.65
Front-end Fee	0.10	0.74
Commitment Fee	0.00	0.00
Total Financing Required	57.84	445.33

Annex 6: Implementation Arrangements

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

139. The GPG established the Gansu Provincial Project Leading Group (PPLG) in 2005 to guide formulation and give policy direction for the preparation and implementation of the project. The PPLG is led by a Vice-Governor, with Directors of Gansu Development and Reform Commission (GDRC), Gansu Finance Bureau (GFB), and Gansu Provincial Tourism Administration (GTA) as Deputy Leaders of PPLG. The GDRC, GFB, GTA, Gansu Communications Bureau, Gansu Construction Bureau, Gansu Culture Bureau, Gansu Cultural Relics Bureau, Gansu Forestry Bureau, Gansu Land Resources Bureau, and Gansu Environmental Protection Bureau are members of the PPLG.

140. The PPLG has nominated the Gansu Development and Reform Commission as the executing agency for the project.⁶ The GDRC has established a Provincial Project Management Office (PPMO) within the GDRC's Social Development Division with GDRC Vice-Director as PPMO Director and the Social Development Division Directors as PPMO Deputy-Directors.

141. The PPMO will put in place operating procedures to fulfill its responsibilities: (a) overall project coordination, management, and monitoring; (b) project-wide quality assurance; (c) progress reporting to GPG and the Bank; (d) interagency coordination and procurement support; and, (e) implementation of multi-municipal activities such as institutional strengthening and training. The GDRC, through the PPMO, will be the local agency interacting with the Bank on all project matters.

142. To assist the PPMO in carrying out its responsibilities, the PPMO, through the GDRC, has established a Project Experts Panel of 13 technical specialists on engineering, planning, cultural heritage, tourism and other topics for technical review of project reports and other related issues. The members of the panel are recognized experts employed by relevant GPG bureaus and universities. The panel will be convened by PPMO on an as-needed basis for review and quality control.

143. The PPMO will engage an appropriate number of staff for the implementation stage of the project. Training for PPMO staff is included in the project. The PPMO will have adequate office space, furniture and equipment including computers, printers, copiers and scanners, telephone lines, vehicles and office support.

144. Municipal Project Leading Groups (MPLGs) and Municipal Project Management Offices (MPMOs) have been set up in the six Gansu municipalities of Lanzhou, Jiuquan, Jiayuguan, Zhangye, Baiyin and Tianshui for the preparation and implementation of their projects with similar arrangements as the PPLG and the PPMO. The MPMOs are located within the following municipal government agencies: Development and Reform Commission for Jiuquan Municipality; Tourism Bureau for Baiyin and Zhangye Municipality; Culture Bureau for

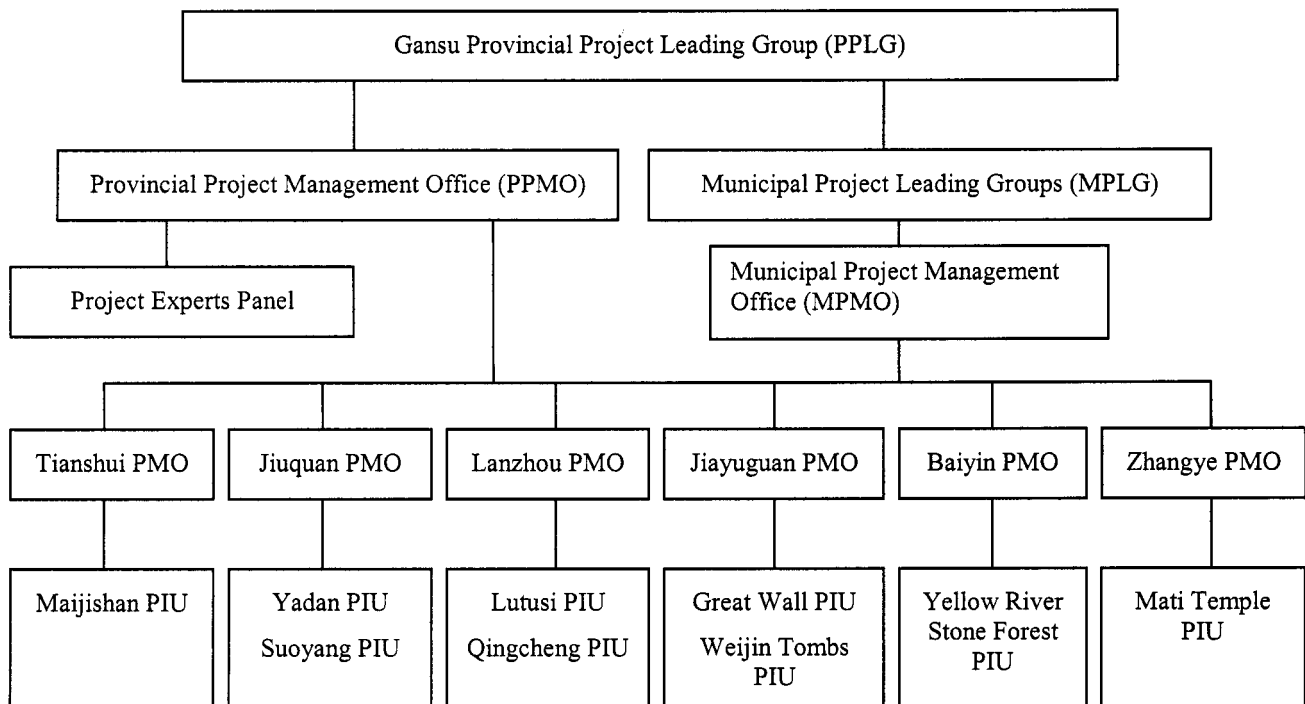
⁶ At the time of its establishment, the PPLG nominated the Gansu Provincial Tourism Administration (GTA) as the project executing agency and the GTA established a PPMO within its office. However, in November 2006, the PPLG decided to move the PPMO to the GDRC Social Development Division. The GTA continues to participate in the PPLG.

Lanzhou Municipality, Culture, Broadcasting and Television Bureau for Jiayuguan Municipality; and Maijishan Scenic Area Administration Bureau for Tianshui Municipality. The responsibilities of the MPMOs are to guide preparation and execution of project components within their jurisdictions, and to coordinate activities with the PPMO.

145. Project Implementation Units (PIUs) have also been established in the nine project scenic areas of Yadan National Geological Park; Suoyang Town, Jiayuguan Great Wall; Weijin Tombs and Folk Culture Park; Maijishan Scenic Area; Qingcheng Ancient Town; Lutusi Ancient Government Office; Yellow River Stone Forest Park and Mati Temple Scenic Park, to be responsible for project implementation, construction supervision and management in their scenic areas.

146. The PIUs will have adequate office, staff and facilities for project management. Directors of the scenic area management agencies are in charge of project management at their respective sites. The PIUs will appoint suitable full-time staff, including one project management office director, for the project management work, which should be separated from the site operation/maintenance work.

147. The institutional structure and reporting relationships are shown in the diagram below.



148. Project Implementation Units: The project implementation units can be classified into two main types: (a) scenic area administrations; (b) township governments. These are described further as follows:

- Scenic Area Administrations: The PIUs for the Maijishan Scenic Area, Yadan National Geological Park; Suoyang Town, Jiayuguan Great Wall; Weijin Tombs and

Folk Culture Park; Yellow River Stone Forest Park and Mati Temple Scenic Park subcomponents fall into this category. All of these PIUs are government entities established under relevant Municipal Governments (MG), including Tianshui MG for Maijishan PIU, Jiuquan MG for Yadan and Suoyang PIUs, Jiayuguan MG for Great Wall and Weijin PIUs, Baiyin MG for Yellow River Stone Forest PIU and Zhangye MG for Mati Temple PIU. These PIUs are controlled by relevant government agencies under the respective municipal or county (including county level, district, and city) governments.

- **Township Governments:** The PIUs for the Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area and Lutusi Ancient Government Office subcomponents fall into this category. Both of these PIUs are government entities controlled by Yuzhong and Yongdeng County Governments under Lanzhou Municipal Government respectively.

149. All PIUs are either government institutions or town government themselves, and are controlled by relevant government agencies under the management of county and municipal governments responsible for project implementation. The PIUs submit their revenue to and receive funding from the government finance bureaus and do not own the land of the sites.

150. Ten project subcomponents including one Institutional Strengthening and Training (IST) subcomponent managed by PPMO and the PIUs and nine scenic area subcomponents managed by PIUs are listed in the table below.

Municipality	County (District, City)	Project Subcomponent	Project implementation unit	Government Agency Responsible for control of PIU
Baiyin	Jingtai County	Yellow River Stone Forest National Geological Park	Jingtai Yellow River Stone Forest Scenic Tourism Area Administration	Jingtai County Government
Jiayuguan	N/A	Great Wall Cultural Tourism Scenic Area	Jiayuguan Cultural Relics Scenic Area Administration	Jiayuguan City Culture, Broadcasting & Television Bureau
	N/A	Weijin Tombs Cultural Tourism Scenic Area	Jiayuguan Cultural Relics Scenic Area Administration	Jiayuguan City Culture, Broadcasting & Television Bureau
Jiuquan	Dunhuang City	Yadan National Geological Park	Dunhuang City Yadan Geological Scenic Area Administration Department	Dunhuang City Tourism Economic Development Zone Administration
	Guazhou County	Suoyang Town Tourism Scenic Area	Guazhou County Suoyang Town Tourism Scenic Area Administration	Guazhou County Government
Lanzhou	Yongdeng County	Lutusi Ancient Government Center Tourism Scenic Area	Yongdeng County Liancheng Town Government	Yongdeng County Government

	Yuzhong County	Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area	Yuzhong County Qingcheng Town Government	Yuzhong County Government
Tianshui	N/A	Maijishan Scenic Area	Maijishan Scenic Area Administration Bureau	Tianshui Municipal Government
Zhangye	Sunan Autonomous County	Mati Temple Scenic Area	Sunan Mati Temple Tourist Area Administration	Sunan County Government
N/A	N/A	Institutional Strengthening and Training	PPMO and PIUs	Gansu Development and Reform Commission, PIUs

151. **Training.** Two types of training will be conducted under the project: training for PPMO, MPMO and PIU staff and other government officials; and training for communities and local residents. Because of the long-term nature of the training program, all training will be organized and managed by the PPMO and PIUs according to a training plan acceptable to the Bank. The PPMO shall submit to the Bank by December 1 of each year for its review, an annual training plan which covers all training activities the following year. The annual plan should include the objectives, budget, and training method of each training event. Following the completion of the training, a completion report should be submitted for review by the Bank prior to approval of disbursement according to the SOE method.

Annex 7: Financial Management and Disbursement Arrangements
CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

Introduction

152. The Financial Management Specialist (FMS) has conducted an assessment of the adequacy of the project financial management system of the Gansu Cultural and Natural Heritage Protection and Development Project. The assessment, based on guidelines issued by the Financial Management Sector Board on November 3, 2005, has concluded that the project meets the minimum Bank financial management requirements, as stipulated in BP/OP 10.02. In the FMS' opinion, the project will maintain adequate financial management arrangements acceptable to the Bank and, as part of the overall arrangements that the Borrower has in place for implementing the operation, provide reasonable assurance that the proceeds of the loan will be used for the purposes for which the loan is granted. Financial management risk is the risk that World Bank loan proceeds will not be used for the purposes intended and is a combination of country, sector and project specific risk factors. Taking into account the risk mitigation measures proposed under the project, the FM risk rating proposed for this project during the appraisal stage is high.

153. Funding sources for the project include Bank loan and counterpart funds. The Bank loan proceeds will flow from the Bank into a project designated account (DA) to be set up at and managed by Gansu Provincial Finance Bureau (GFB). From the DA, funds will flow to various municipal/county finance bureaus, to Project Implementing Units (PIUs), and finally to contractors or suppliers. The Bank loan agreement will be signed between the Bank and the People's Republic of China through its Ministry of Finance (MoF), and internal agreements for the Bank loan will be signed between MoF and GFB and finally between GFB and related municipal finance bureaus in project cities or county finance bureaus (if the county is under the direct financial management of the GPG).

154. No outstanding audits or audit issues exist with any of the implementing entities involved in the proposed project. However, the task team will continue to be attentive to financial management matters during project supervision.

Audit Arrangements

155. The Bank requires that project financial statements be audited in accordance with standards acceptable to the Bank. In line with other Bank financed projects in China, the project will be audited in accordance with International Auditing Standards and the Government Auditing Standards of the People's Republic of China. The Gansu Provincial Audit Office (GPAO) has been identified as auditors for the project. Annual audit reports will be issued by the above audit office and subject to reviews by the China National Audit Office (CNAO). The Bank currently accepts audit reports issued by CNAO or provincial/regional audit bureaus/offices for which CNAO is ultimately responsible.

156. The annual audit report of 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. The responsible agency and timing are summarized as follows:

Audit Report	Submitted by	Due date
Consolidated project financial statements	PPMO	June 30 of each calendar year

Disbursement Arrangements

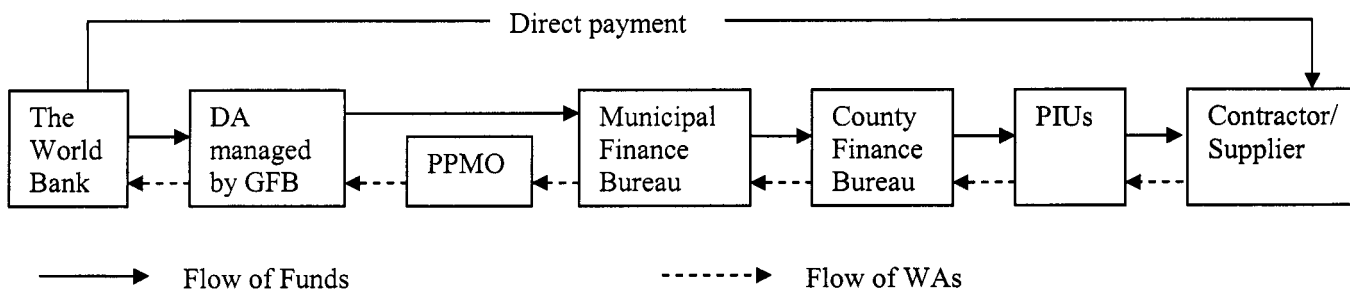
157. The Bank loan will be disbursed using traditional disbursement techniques and will not use report-based disbursements. Four disbursement methods: reimbursement, advance, direct payment, and special commitment are all available for the project. Supporting documents required for Bank disbursements under different disbursement methods will be documented in the Disbursement Letter issued by the Bank. The use of Statement of Expenditure (SOE) will be set up in line with procurement post review thresholds, as follows:

Expenditure Category	Contracts Equivalent or Less than US\$ Equivalent
Civil Works	1,000,000
Goods	250,000
Firm Consultant	100,000
Individual Consultant	All
Training and workshops	All

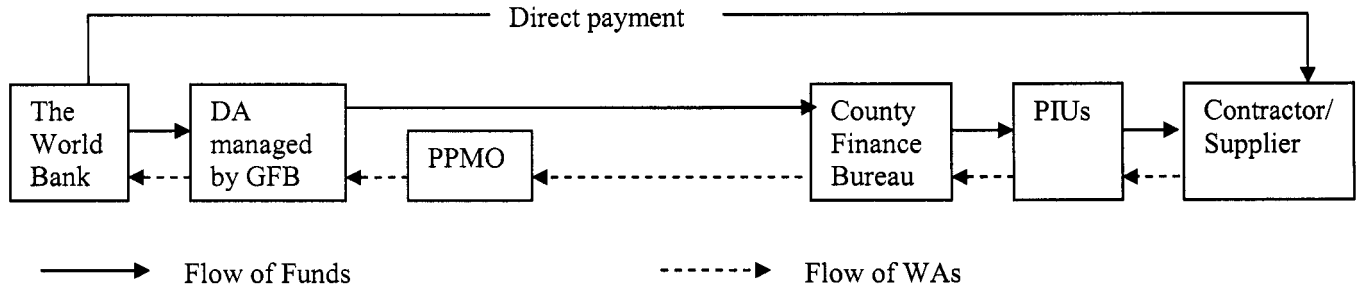
158. One segregated designated account (DA) denominated in US dollars will be established at a commercial bank acceptable to the Bank and managed by GFB. The ceiling of the DA for the Bank loan will be USD 4 million.

159. GFB will be directly responsible for the management, maintenance, and reconciliation of the DA activities of the project. Supporting documents required for Bank disbursements will be prepared and submitted by respective PIUs through the PPMO for final verification and consolidation before sending to GFB for further disbursement processing. The flow of funds and withdrawal applications (WAs) for the loan proceed is as follows:

Below Chart 1 is for the PIUs excluding Lutusi and Qingcheng



Below Chart 2 is only for the PIUs of Lutusi and Qingcheng



160. Counterpart funds will be contributions from local government appropriations.

161. The Bank loan would be disbursed against eligible expenditures as in the following table

Category	Amount of the Loan Allocated (in USD million)	Percentage of Expenditures to be financed
(1) Goods and works for Project implementation in Jiuquan Municipality	5,080,000	90%
(2) Goods and works for Project implementation in Jiayuguan Municipality	4,840,000	80%
(3) Goods and works for Project implementation in Zhangye Municipality	1,830,000	95%
(4) Goods and works for Project implementation in Baiyin Municipality	3,280,000	99%
(5) Goods and works for Project implementation in Lanzhou Municipality	6,150,000	99%
(6) Goods and works for Project implementation in Tianshui Municipality	15,734,000	99%
(7) Consultants' services, training and workshops	1,390,000	100%
(8) Front end fee (if any)	96,000	100%
Total	38,400,000	

Financial Management and Reporting Arrangements

Risk Assessment and Mitigation

162. The following risks with corresponding mitigating measures have been identified during the assessment:

Risk	Risk Rating	Incorporated Risk Mitigating Measures	Conditions of Negotiations, Board or Effectiveness
Inherent Risk			
<ul style="list-style-type: none"> Country level 	Modest	Legal and institutional framework is acceptable and current PFM systems are functioning reasonably well. See the following mitigating measures utilized in the project.	
<ul style="list-style-type: none"> Entity Level 	High	<p>Although the PPMO established under GDRC has no prior experience with the Bank financed projects, the GFB's involvement will mitigate some of these risks.</p> <p>Furthermore, the Bank will work with the PPMO to further strengthen their financial management (FM) knowledge and capacity to supervise the project's financial management.</p>	
<ul style="list-style-type: none"> Project Level 	High	<p>The PPMO and all the PIUs are new to Bank financed projects. To furnish them with enough knowledge and information in managing the project, a training schedule for FM/Disbursement will be established. A training session should be provided to the project financial staff during the project launch workshop by the Bank and another training session should be provided to the project staff by the PPMO and GFB within one year after the project starts implementation.</p> <p>Due to the lack of financial staff at the PPMO, the PPMO should recruit an experienced and qualified financial staff, acceptable to the Bank, to manage and oversee the overall financial management of the project.</p> <p>A Financial Management Manual including detailed financial management and disbursement procedures should be prepared to standardize all PIUs' financial work and to detail roles and responsibilities of PIUs, PPMO and finance bureaus.</p> <p>Furthermore, GFB will review and manage the project funds to ensure appropriate usage.</p>	<p>No. But completion of FM/Disbursement training will be a loan covenant.</p> <p>Yes. Recruitment of a financial staff at the PPMO, acceptable by the Bank, was satisfied as a Condition of Negotiation.</p> <p>Yes. Completed FM Manual, acceptable by the Bank, was satisfied as a Condition of Negotiation</p>

Control Risk			
• Budgeting	High	The FMS will work with each PIU to improve their budgeting, execution and monitoring.	
• Accounting	Modest	Accounting policies and procedures for the Bank loan are already in place. Checking by the task team at the initial implementation stage to ensure the accounting system has been correctly set up. This should be followed up by regular supervision missions.	
• Internal Control	High	There are some existing internal controls at PIUs although not specifically focused on the project activities. A financial management manual will be prepared and issued to all PIUs to uniformly align their financial management arrangements, disbursement requirements and internal control procedures. Also, the disbursement documents will be reviewed by GFB to ensure compliance.	
• Funds Flow	High	The flow of withdrawal applications and loan proceeds will go through several finance bureau levels, which will affect project implementation efficiency. The task team will ensure that mechanisms will be in place to ascertain Bank loan and counterpart funds will be released to the ultimate beneficiaries on a timely basis and avoid bottleneck in disbursements. Procedures on withdrawal applications and funds flow should be clearly documented in financial management manual.	
• Financial Reporting	Modest	The format and contents of financial statements have been stipulated by MoF and all the PIUs will use them for project financial reporting. The project financial management manual will also establish such financial reporting requirements consistent with MoF's regulations and guidance. The PPMO will be responsible for the consolidated project financial statements.	
• Auditing	Modest	The external auditor, Gansu Provincial Audit Office, has extensive experience with previous Bank projects.	

Therefore, the overall FM risk-rating of this project at the appraisal stage is high. The FMS will monitor the project FM risk during project implementation.

163. **Strengths.** GFB has experience with World Bank financed projects and it is currently handling the TB Control and Gansu/Xinjiang Pastoral projects. GFB is familiar with the management of designated account and withdrawal applications procedures for Bank financed projects.

164. **Weaknesses and Action Plan.** Since the PPMO and none of the PIUs have experience in Bank-financed projects, well-designed training courses on project disbursement and financial management should be conducted during the launch workshop and after the project begins implementation. In addition, existing financial internal controls at PIUs are not specifically related to the project activities. Thus, a financial management manual will be prepared to uniformly align the project financial management policies at all PIUs. The following action plans for addressing this weakness have been identified:

Significant weaknesses	Actions	Responsible Person	Completion Date
No financial staff at PPMO	Recruit an experienced and qualified financial staff, acceptable to the Bank, at PPMO.	PPMO	Completed
No uniform project financial management arrangement in place at all PIUs.	Financial management manual to be drafted by the PPMO, reviewed by the Bank and finalized and issued to all relevant staff at all PIUs.	PPMO	Completed
No financial management and disbursement experience on World Bank financed projects	One training session should be provided to the project financial staff during project launch workshop by the Bank. Another training session should be jointly provided to the project staff by the PPMO and GFB within one year after the project begins implementation.	WB, PPMO and GFB PPMO and GFB	Loan covenant

Implementing Agencies

165. A Provincial Project Leading Group has been established to provide overall policy guidance and facilitate coordination among different agencies. The PPLG will consist of representatives from GDRC, GFB and other provincial agencies.

166. A PPMO has been established under GDRC. It is responsible for the overall management of the project, providing necessary guidance to and coordinating with PMOs at municipal and county levels as well as PIUs. The PPMO will consist of 5 full-time staff including one financial staff and one procurement staff.

167. In each project municipality, a municipal project management office (MPMO) was established. Each PIU will be responsible for implementation of its subproject. In each PIU, a project team has been established, which includes 2 or 3 financial staff. The PIUs are responsible for daily project implementation. The accounting, reporting and withdrawal applications of each subproject will be handled by each PIU. The PIUs' names and their subcomponents are listed as follows:

Municipality	County	PIU Name	Subcomponent Name	Code
Jiayuguan	NA	Jiayuguan Cultural Relics Scenic Area Administration	Great Wall, Weijin Folk Culture Park	JYGW, JYWJ
Tianshui	NA	Maijishan Scenic Area Administration Bureau	Maijishan Scenic Area	TSMA
Jiuquan	Dunhuang City	Dunhuang City Yadan Geological Scenic Area Administration Department	Yadan National Geological Park	JQYD
	Guazhou County	Guazhou County Suoyang Town Tourism Scenic Area Administration	Suoyang Town	JQSY
Lanzhou	Yuzhong County	Yuzhong County Qingcheng Town Government,	Qingcheng Ancient Town	LZQC
	Yongdeng County	Yongdeng County Liancheng Town Government	Lutusi Ancient Government Buildings	LZLU
Baiyin	Jingtai County	Jingtai Yellow River Stone Forest Scenic Tourism Area Administration	Yellow River Stone Forest	BYR
Zhangye	Sunan County	Sunan Mati Temple Tourist Area Administration	Mati Temple Scenic Park	ZYMT

Budgeting

168. Although the cost table has been prepared for the project and the project will prepare its annual implementing plan, the budgeting system within the project is usually not well maintained or monitored. The FMS will work with the related entities to improve their budgeting system during project implementation adjustments.

Accounting

169. 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. The circular provides in-depth instructions of accounting treatment of project activities and covers the following:

- Chart of account
- Detailed accounting instructions for each project account
- Standard set of project financial statements
- Instructions on the preparation of project financial statements

170. The standard set of project financial statements mentioned above has been agreed between the Bank and MoF and applies to all Bank projects appraised after July 1, 1998 and includes the following:

- Balance sheet of the project
- Statement of sources and uses of fund by project components
- Statement of implementation of loan agreement
- Statement of designated account

- Notes to the financial statements

171. Each PIU will be managing, monitoring, and maintaining their respective project accounting records for their respective components. Original supporting documents for project activities will be retained by each PIU. In addition, each PIU will prepare their own financial statements, which will then be reviewed, approved and consolidated by the PPMO before sending to the Bank for review and comment on a regular basis.

172. Ensuring adequate project accounting staff with educational background and work experience commensurate with the work they are expected to perform is one of the factors critical to successful implementation of project financial management. Based on discussions, observation, and review of educational background and work experience of the staff identified for financial and accounting positions in the PIUs, the task team note that the financial staff are qualified and appropriate to the work they are expected to assume.

173. To strengthen financial management capacity and achieve consistent quality of accounting work, the task team has suggested that a project financial management manual be prepared. The Manual will provide detailed guidelines on financial management including internal controls, accounting procedures, fund and asset management, withdrawal application procedures, financial reporting and auditing arrangement. The first draft of the Manual will be prepared by the PPMO and submitted to the Bank by August 31, 2007. The FMS will review and provide feedback where necessary and the Manual will be finalized before project negotiation and distributed to all the relevant financial staff.

174. Some PIUs will use computerized financial management information software while some will manually record and maintain their project accounting books. The task team will monitor the accounting process, especially during the initial stage, to ensure complete and accurate financial information will be provided in a timely manner.

Internal Control and Internal Auditing

175. The related project accounting policy, procedures, and regulations were issued by MoF and a financial management manual will be prepared and issued by the PPMO to uniformly align the financial management and disbursement requirements among the different PIUs. The project will follow these documents.

176. There is no formal independent internal audit department for the project. However, this will not impact the project's financial management as the PPMO and monitoring and annual external audits will serve as the mechanism to ensure that financial management controls are functioning appropriately.

Financial Reporting

177. The format and content of the project financial statements represents the standard project financial reporting package agreed to between the Bank and MoF, and have been discussed and agreed to with all parties concerned.

178. Each implementing agency will prepare financial statements on its implemented components, which will then be used by the PPMO for preparing consolidated project financial statements and submitted to the Bank for review and comment on a regular basis. In line with the updated World Bank's Operation Manual, the interim un-audited project financial statements should be submitted as part of progress reporting to the Bank on a semi-annual basis (prior to August 15 and February 15 of the following year).

Financial Covenants

179. Further specific financial covenants (if any) applicable to the project are detailed in the PAD and legal agreements.

Supervision Plan

180. The supervision strategy for this project is based on its FM risk rating, which will be evaluated on regular basis by the FMS, in consultation with the task team leader.

Annex 8: Procurement Arrangements

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

1. General

181. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and the provisions stipulated in the Loan Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Loan, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

182. **Procurement of Works:** Works procured under this project would include: protection and development works for 9 cultural and natural heritage sites, generally including construction of roads, footpaths, parking lots and auxiliary facilities such as road signs, buildings such as visitor's service centers, museum halls, administration offices, toilets, water supply pipelines, waste water treatment facilities, garbage collection and landfills, spillways, landscaping and grassing works; strengthening of embankments; renovation and rehabilitation of ancient buildings including auxiliary protection works and facilities such as signs and guardrails. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and the Model Bidding Document (MBD) agreed with or satisfactory to the Bank for all NCB. For procurement of smaller works through shopping, PPMO should prepare a model quotation document which should be agreed with the task team before implementing related procurement. According to the current Procurement Plan, no ICB procurement is expected.

183. **Procurement of Goods:** Goods procured under this project would include electronic monitoring and security systems, exhibition and guide systems, office equipment, garbage bins, garbage collection vehicles, necessary construction equipment and machinery such as bulldozers, wheel loaders, excavators, and tippers for routine maintenance works, extinguishers, streetlights, temperature and humidity monitoring devices, first aid equipment, and passenger buses. The procurement will be done using the Bank's Standard Bidding Documents (SBD) for all ICB and the Model Bidding Document (MBD) agreed with or satisfactory to the Bank for all NCB. According to the current Procurement Plan, no ICB procurement is expected.

184. **Selection of Consultants:** The consulting services to be procured generally include development of information and exhibition system, preparation of relic conservation plans, study on cultural relic conservation, management and supervision of project implementation, etc. Short lists of consultants for services estimated to cost less than \$300,000 or equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines. Universities and government research institutions may be selected for some consulting services such as the study on traditional culture, research of

protection of cultural and natural heritage, and staff training. In carrying out procurement of these services, the specific requirements of paragraphs 1.11(c) and 2.8 of the Consultant Guidelines shall be met.

185. The procurement procedures and SBD/MBD to be used for each procurement method, as well as model contracts for works and goods procured, will be specified in the Project Management Manual prepared by PPMO. The manual will be finalized before procurement starts.

2. Assessment of the agency's capacity to implement procurement

186. Procurement activities will be carried out centrally by PPMO, which has contracted Guoxin Tendering Co. Ltd. as the procurement agent using counterpart funds.

187. An assessment of the capacity of the Implementing Agency to implement procurement actions for the project has been carried out by the Bank team on March 18-24, 2007. The assessment reviewed the organizational structure for implementing the project and the interaction between the project's staff responsible for procurement and relevant county, city, and provincial entities for administration and finance.

188. The key issues and risks concerning procurement for implementation of the project have been identified and include insufficient experienced staff for procurement, lack of procurement knowledge and procedure for Bank financed projects, insufficient staff for project management and contract administration, and complicated reporting procedures. The corrective measures which have been agreed are (1) the PPMO will conduct training of the current procurement staff on procurement knowledge and procedure for Bank financed projects; (2) the PPMO should recruit staff who have experience with similar projects; (3) the PPMO will employ experienced design consultants who will provide engineering design for all the components including the technical sections of bidding documents. Also the PPMO has employed one tendering company which will act as procurement agent for the whole project. This will ensure quality of procurement and supplement the staffing of the PIUs and will simplify the working procedures; and (4) PIUs will employ independent site supervision consultants to supervise the execution of the works.

189. In the implementation process, the PPMO will be responsible for monitoring overall progress of project procurement and all procurement documents will be submitted to the Bank through the PPMO.

190. The overall project risk for procurement is high.

C. Procurement Plan

191. The Borrower, at appraisal, developed a procurement plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the task team on July 23, 2007 and is available at the PPMO's office. It will also be available in the project's database and in the Bank's external website. The Procurement Plan

will be updated in agreement with the task team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

192. In addition to the prior review supervision to be carried out by the task team on an ongoing basis, the capacity assessment of the Implementing Agency has recommended one supervision mission every 6 months (including special procurement supervision for post review/audits) visit the field for the first two years of project implementation.

E. Details of the Procurement Arrangements Involving International Competition

1. Goods and Works

193. There are no procurement arrangements involving international competition according to the procurement plan agreed during the project appraisal.

194. The list of contracts at appraisal are:

No.	Contract Name	Category	Contract Estimate (10,000 RMB)	Procurement Method	Pre-qual. (yes/no)	Review by the Bank (Prior/Post)	Expected Bid-Opening Date	Implementation Period (months)
1	Yadan							
YDC1	Road and parking lots	Civil Works	1771.28	NCB	No	prior	Mar. '08	18
YDC2	Buildings, sanitation facilities and signage	Civil Works	433.11	NCB	No	post	June '09	12
YDC3	Water supply and drainage	Civil Works	186.00	NCB	No	post	June '09	6
YDC4	Landfill	Civil Works	8.03	Small works	No	post	Mar. '09	3
YDG1	Medical, environment equipment	Goods	113.12	NCB	No	post	June '09	3 - 4
YDG2	Vehicles	Goods	289.46	NCB	No	post	'10- '11	4 - 5
YDG3	Other equipment	Goods	18.22	Shopping	No	post	June '09	3 - 4
2	Suoyang Ancient Town							
SYC1	Water supply	Civil Works	61.60	Small Works	No	post	Mar. '08	6
SYC2	Buildings, sanitation facilities, parking lot and signage	Civil Works	829.60	NCB	No	prior	June '08	18

No.	Contract Name	Category	Contract Estimate (10,000 RMB)	Procurement Method	Pre-qual. (yes/no)	Review by the Bank (Prior/Post)	Expected Bid-Opening Date	Implementation Period (months)
SYC3	Relic conservation	Civil Works	262.31	NCB	Yes	Prior	May '09	18
SYC4	Presentation and exhibition facilities	Civil Works	281.24	NCB	Yes	Prior	May '09	12
SYG1	Equipment and vehicles	goods	76.70	Shopping	No	Post	May '08	3
3	The Great Wall							
CCC1	First Signal Tower civil works	Civil Works	568.26	NCB	No	prior	May '08	12
CCC2	Fortress civil works	Civil Works	1173.51	NCB	No	prior	May '09	18
CCC3	Fortress relic conservation	Civil Works	804.97	NCB	Yes	prior	May '10	12
CCC4	First Signal Tower cliff reinforcement	Civil Works	282.56	NCB	Yes	prior	May '09	12
CCC5	First Signal Tower presentation and exhibition facilities	Civil Works	136.50	NCB	Yes	Prior	May '09	12
CCG1	Boilers	Goods	53.00	Shopping	No	post	Aug. '10	4-5
CCG2	Fortress equipment	Goods	262.98	NCB	No	prior	Feb. '10	12
4	Weijin Ancient Tombs							
WJC1	Buildings, water supply, sanitation, signage and other	Civil Works	989.24	NCB	No	prior	May '08	18
WJC2	Presentation and exhibition facilities	Civil Works	345.00	NCB	Yes	prior	Oct. '09	12
WJG1	Equipment	Goods	91.20	NCB	No	post	Sep. '08	4-5
5	Mati Temple							
MTSC1	Road, water supply, power supply and sanitation	Civil Works	559.80	NCB	No	post	April '08	12
MTSC2	Buildings	Civil Works	629.60	NCB	No	post	May '09	12
MTSC3	Presentation and exhibition facilities	Civil Works	154.00	NCB	Yes	prior	Feb. '10	8
MTSG1	Vehicles	Goods	15.00	Shopping	No	post	Feb. '08	3-4
MTSG2	Security equipment	Goods	59.78	Shopping	No	post	Feb. '08	3-4
MTSG3	Fire-protection equipment	Goods	60.00	Shopping	No	post	Feb. '08	3-4

No.	Contract Name	Category	Contract Estimate (10,000 RMB)	Procurement Method	Pre-qual. (yes/no)	Review by the Bank (Prior/Post)	Expected Bid-Opening Date	Implementation Period (months)
6	Yellow River Stone Forest							
HSFC1	Roads and other facilities	Civil Works	652.12	NCB	No	post	April '08	18
HSFC2	Water supply and sanitation	Civil Works	234.34	NCB	No	post	June '08	8
HSFC3	Presentation hall	Civil Works	580.00	NCB	No	post	April '09	8
HSFC4	Presentation and exhibition facilities	Civil Works	277.31	NCB	Yes	prior	Feb. '10	6
HSFC5	Yellow River Embankment	Civil Works	642.19	NCB	No	post	Feb. '10	18
HSFG1	Streetlights	goods	108.00	NCB	No	post	July '09	4-5
HSFG2	Garbage bins	goods	5.00	Shopping	No	post	July '09	2-3
7	Lutusi Ancient Government							
LTSC1	Ancient street buildings, road, and facilities	Civil Works	359.90	NCB	No	post	April '08	12
LTSC2	Other structures and environmental rehab.	Civil Works	248.08	NCB	Yes	prior	Mar. '09	12
LTSC3	Sanitation and solid waste	Civil Works	45.20	Small Works	No	post	June '09	6
LTSC4	Wastewater system	Civil Works	90.00	NCB	No	post	June '09	6
LTSC5	Resettlement housing	Civil Works	151.40	NCB	No	post	April '08	6
LTSC6	Presentation and exhibition facilities	Civil Works	148.45	NCB	Yes	prior	May '09	12
LTSG1	Garbage bins and carts	Goods	1.25	Shopping	No	post	June '08	2-3
LTSG2	Vehicles	Goods	25.00	Shopping	No	post	June '08	2-3
LTSG3	Equipment	Goods	384.00	NCB	No	prior	June '09	4-5
8	Qingcheng Ancient Town							
QCC1	Roads and other facilities	Civil Works	1209.08	NCB	No	prior	April '08	18
QCC2	Water supply, sanitation and solid waste	Civil Works	769.96	NCB	No	post	Dec. '08	12
QCC3	Structures and buildings	Civil Works	526.69	NCB	No	post	Dec. '08	18

No.	Contract Name	Category	Contract Estimate (10,000 RMB)	Procurement Method	Pre-qual. (yes/no)	Review by the Bank (Prior/Post)	Expected Bid-Opening Date	Implementation Period (months)
QCC4	Conservation of ancient buildings	Civil Works	648.46	NCB	Yes	prior	Mar. '09	12
QCG1	Equipment for tourist center	goods	6.00	Shopping	No	post	Sep. '09	3-5
QCG2	Solid waste equipment	Goods	83.00	NCB	No	post	Feb. '10	3-5
QCG3	Fire-protection equipment	Goods	18.00	Shopping	No	post	Feb. '09	3-5
9	Maijishan							
MJSC1-1	Maiji-Quxi Road	Civil Works	2001.90	NCB	No	prior	Feb. '08	12
MJSC1-2	Tanzi-Yinyue Road	Civil Works	2274.03	NCB	No			
MJSC1-3	Shimen footpath and Yinyue Lake works	Civil Works	731.00	NCB	No			
MJSC2	Yuandian – Hongmenzi Road	Civil Works	2108.70	NCB	No	prior	Feb. '10	12
MJSC3	Maijishan and Xianrenya footpaths	Civil Works	285.00	NCB	No	post	June '09	12
MJSC4	Xianrenya tourist service facilities	Civil Works	1189.94	NCB	No	prior	Feb. '09	12
MJSC5	Shumen tourist service facilities	Civil Works	365.66	NCB	No	post	Feb. '10	12
MJSC6	Relics conservation	Civil Works	1760.58	NCB	Yes	prior	Feb. '11	36
MJSC7	Maintenance of Xianren Lake Dam	Civil Works	155.00	NCB	No	post	Feb. '09	12
MJSG1	Road maintenance vehicles	Goods	307.50	NCB	No	prior	Feb. '11	3-5
MJSG2	Solid waste vehicles	Goods	69.00	Shopping	No	post	Dec. '09	3-5
MJSG3	Solid waste vehicles	Goods	2.00	Shopping	No	post	Dec. '10	3-5
MJSG4	PIU vehicles	Goods	30.00	Shopping	No	post	Mar. '08	2-3
MJSG5	Power facilities	Goods	80.00	Shopping	No	post	Mar. '11	3-5
MJSG6	Environmental monitoring equipment	Goods	124.00	NCB	No	post	Mar. '11	3-5

No.	Contract Name	Category	Contract Estimate (10,000 RMB)	Procurement Method	Pre-qual. (yes/no)	Review by the Bank (Prior/Post)	Expected Bid-Opening Date	Implementation Period (months)
MJSG7	Maijishan and Xianrenya solid waste, sanitation equipment	Goods	62.50	Shopping	No	post	Mar. '09	3-5
MJSG8	Shimen solid waste, sanitation equipment	Goods	57.50	Shopping	No	post	Mar. '11	2-3
MJSG9	Relic monitoring facilities	Goods	160.00	NCB	No	post	Mar.-12	3-4
MJSG10	Information center equipment	Goods	335.34	NCB	No	prior	Mar. '10	3-5
MJSG11	Tourism promotion printed matter	Goods	15.00	Shopping	No	post	Mar. '08	3-5
MJSG12	Exhibition photos etc.	Goods	19.00	Shopping	No	post	Mar. '08	3-5

2. Consulting Services

195. List of consulting assignments:

No.	Description	Estimated Cost (10 thousand RMB)	Selection Method	Review by the Bank (prior/post)	Expected date of proposal submission	Implementation period
GSA	Management and Supervision of Project Implementation	190.00	QCBS	prior	Nov.1, 2007	2008-2010
Information System and Exhibition						
MTSS1	Mati Temple Tourism Information Network	20.00	CQS	post	May.1, 2008	2008-2010
LTSS2	Lutusi Website and Information System	30.00	CQS	post	Feb.1, 2008	2008-2010
Preparation Of Relic Conservation Plan						
MJSS1	Maijishan Relic Conservation Plan	150.00	QBS	prior	Oct.2, 2007	2008-2010
Research on Cultural Relics Conservation						
GSC	Weijin Study on Protection of Brick Mural	65.00	CQS	Prior	Jan.1, 2008	2008-2010
	Lutusi Study on Protection of Mural in Miaoyin Temple	30.00				
GSD	Mati Temple Collection and Research on Folk Dancing Culture of Yugu Nationality	43.00	CQS	post	Jan.4, 2009	2009-2010
GSE	Mati Temple Study on Traditional Culture	47.00	CQS	post	Jan.5, 2009	2009-2010

No.	Description	Estimated Cost (10 thousand RMB)	Selection Method	Review by the Bank (prior/ post)	Expected date of proposal submission	Implementa tion period
GSF	Qingcheng Study on Protection of Intangible Cultural Relics	25.00	CQS	post	Jan.5, 2009	2009-2010
GSG	Study on development of Gansu tourism	40.00	CQS	post	Jan.5, 2009	2009-2010

196. There are no consulting assignments with short-list of international firms according to the procurement plan agreed during the project appraisal.

197. Consultancy services estimated to cost above US\$100,000 per contract and single source selection of consultants (firms/individual) will be subject to prior review by the Bank.

198. Short lists composed entirely of national consultants: Short lists of consultants for services estimated to cost less than USD300, 000 or equivalent per contract, may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Annex 9: Economic and Financial Analysis

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

ECONOMIC ANALYSIS

Benefits of undertaking the project.

199. The project will play a key role in generating five sets of benefits: 1) cultural and natural heritage protection, rehabilitation, and interpretation; 2) environmental improvements; 3) local economic development; 4) local skills upgrading; and 5) institutional strengthening.

200. ***Cultural and Natural Heritage Protection, Rehabilitation, and Interpretation.*** The project will support investments to protect and rehabilitate key historic sites along the Silk Road, for which the Government of China has applied to UNESCO for designation as a World Heritage Route. Several of the subcomponent investments include heritage protection including rehabilitation to sites that already have World Heritage Site or national and/or provincial heritage designations. Other sites, such as Mati Temple, have strong local heritage values intrinsic to indigenous communities. In all cases, the integrity of heritage assets is at risk due to underinvestment in protection measures. In some cases, under the “no project” scenario, assets are facing total destruction. In addition, the majority of heritage assets are currently poorly known or understood by local residents and by actual or potential domestic and foreign tourists. The project includes significant attempts to strengthen the cataloguing, description, and communication of heritage assets and their values to world-class standards. A significant outcome of project preparation has been the preparation of Heritage Conservation Master Plans for most sites, as required by the State Administration of Cultural Heritage. Under Chinese law, these Master Plans override local urban master plans, and their authority over development at the sites including activities to be financed under the project, has been agreed at Appraisal.

201. ***Environmental Improvements.*** The project will support investments to protect and restore site and local environments, including from larger volumes of pollutant discharges associated with tourism growth. Environmental improvements under the project include drainage, wastewater treatment, and/or water supply facilities in Lutusi, Maijishan, and restoration of degraded landscapes in Maijishan and the Yellow River Stone Forest. In addition, solid waste management improvements will be supported at most sites. These improvements are expected to incubate broader environmental protection measures in the local communities.

202. ***Local Economic Development.*** Key benefits are expected to be generated in the development of local economies through construction and operation of tourism-related infrastructure in all subcomponents. Three sets of benefits are envisaged:⁷ 1) direct effects from tourism, including labor income and other forms of earnings from the tourist sector; 2) secondary effects, including indirect earnings and non-financial livelihood impacts from non-tourism sectors that arise from tourist activity (e.g. additional farm-based activity to meet growing local

⁷ For a more detailed description of potential LED benefits from tourism, see Mitchell, J., and Ashley, C., 2007, *Pathways to Prosperity: How can tourism reduce poverty?*, Consultant Report to Overseas Development Institute and the World Bank, March 2007 (Peer Review Draft Report)

demands from tourism), and induced effects from tourism workers who spend earnings in local communities; and 3) dynamic effects on local economies, such as provision of long-term infrastructure.

203. During project preparation, analysis was conducted on current and expected employment data provided by the PIUs. The project is expected to generate almost 2,000 person-years (PYs) of employment during construction, almost 350 PYs of direct employment associated with site operations over 20 years, and almost 5,000 PYs of indirect, tourism-related employment over 20 years. The total number of employee PYs is therefore close to 8,000 over a 20-year period, conservatively representing almost RMB 70 million (2007 RMB) in additional wage income to affected communities. Broad estimates suggest that the project municipalities will generate at least RMB 6.5 billion in tourism receipts by 2025, up from RMB 3.7 billion in 2004. The project sites are expected, on average, to account for at least 60% of this growth in tourism receipts.

204. Indirect including induced and dynamic benefits were not estimated during preparation as they require expertise in the application of modeling tools, and data, that were not available in the project.⁸ However, research in other countries suggests that these benefits can be substantial in tourism-related projects, including, in some circumstances, exceeding direct benefits. Most of these indirect and dynamic benefits will accrue to local household-, small-, and medium size enterprises. Procurement for project investments has intentionally been designed in packages small enough to attract bids from local enterprises.

205. **Local Skills Upgrading.** Considerable attention has been given in project design to structuring training and education programs for local residents in tourism services, and in tourism operational management for PIU staff. Training will be delivered through Gansu universities and colleges that have already started community outreach and upgrading programs in, for example, Yellow River Stone Forest National Geological Park.

206. **Institutional Strengthening.** The PPMO has designed an extensive component directed towards strengthening provincial, municipal, and local-level tourism institutions. Work under the project will include site management and staff training in heritage regulations, tourism planning, tourism development, destination management, own-site and municipal tourism plans, tourism product development, and site management. In addition, GPG will conduct a 'Study on Gansu Provincial Tourism Industry Development' to explore ways in which the benefits of tourism can be translated into greater economic development across the province. This is the first time that GPG will systematically explore linkage and spillover potentials from tourism to other sectors of the provincial economy.

Beneficiaries of the Project

207. The project will benefit: 1) local residents, by providing improved infrastructure, transport accessibility, environmental conditions, and local employment and enterprise opportunities related to sustainable cultural tourism; 2) town and county governments, who will generate fiscal returns from tourism-related activities; 3) municipal governments, who will share in some of these fiscal returns; 4) enterprises within the municipalities through provision of new

⁸ Input-Output Analysis, Computable Generalized Equilibrium Models, Value Chain Analysis.

or additional tourism-related services; and 5) domestic and foreign tourists, who will have improved access to important heritage assets.

Economic Analysis Methodology

Cost effectiveness is used for economic analysis of this project. Realistic benefit-cost analysis is not feasible since the revenue streams identified by PIUs (direct tourism revenues from ticket sales and parking fees) are highly speculative. The proposed investments do not lend themselves to predictable, recurring revenue flows, such as from utility tariffs. Most of the proposed subcomponents are attempts to generate cultural tourism activity from a non-existing or very low existing base. Aside from uncertainties over the extent and timing of market acceptance of these sites as tourism destinations, macro-economic shifts that could have major impacts on domestic and foreign tourism (e.g. fuel prices, exchange rate fluctuations, events and policies affecting disposable incomes of domestic households) are well beyond the influence of PIUs or the GPG. Similarly, while PIUs have estimated employment and indirect tourism benefits arising from the proposed investments, these are also highly dependent on market acceptance and macro-economic events, and are therefore considered insufficient for benefit-cost analysis. Therefore, it is not possible to reliably project the increase in monetary flows as a result of the project, and hence the benefits to local economies.

Choice of Investments

208. Technical reviews of proposed subcomponents were conducted throughout project preparation and all proposed investments represent least-cost options employing locally-appropriate technologies, construction methods, and maintenance procedures. The project will invest in appropriate locations, in sectors with the greatest need for intervention, and at optimal levels of investment to meet the project development objective within the fiscal capacities of affected municipal governments.

209. Infrastructure accounts for 66% of total project costs, mostly in roads and bridges to improve accessibility of tourism sites, and in physical upgrading or new construction of visitor centers and exhibition facilities to improve sites' tourism attractiveness and to adequately protect heritage assets (see Table below). By appraisal, road designs had been adjusted to reflect least-cost alignments, appropriate road widths, minimization of resettlement, and surfacing that minimizes operations and maintenance costs. Similarly, facility programs for visitor centers and exhibition facilities have been downsized to better align with realistic tourism market potentials. Environmental improvements account for 8.1% of project costs, in addition to significant natural landscape restoration investments subsumed in the cost of construction of roads and bridges in Majishan and the Yellow River Stone Forest subcomponents.

210. Heritage accounts for 16% of total project costs, largely in investments to preserve and protect valuable cultural and natural heritage assets. Project designs at appraisal reflect the results of detailed technical reviews of the current state and potential risks to all heritage assets, the appropriateness and cost-effectiveness of technologies and processes proposed to preserve and protect these assets, local and national capacities for applying these technologies and services, and how these will be procured. All represent a balance between ensuring reasonable technical standards of heritage protection and preservation at the least possible capital and recurring costs.

211. Institutional Strengthening and Training (IST) accounts for 4% of total project costs. IST comprises investments proposed at the site level by PIUs and strategic IST that will be managed at the provincial level by the PPMO. All represent necessary and reasonable levels of investment, given the unique technical, social, cultural, and environmental characteristics of the project.

212. The proposed subcomponents are least-cost solutions to high-priority investments in locations along the Silk Road having both high heritage values and high potentials for sustainable cultural tourism that could have significant positive impacts on local economies through employment generation and local enterprise development.

Public vs. Private Issues

213. All of the proposed investments are in public goods and common property that, by definition, are not excludable and hence have no attraction to private investors. In addition, the management of cultural heritage assets is stringently controlled by the Government of China, an authority that is delegated only to local governments.

214. However, all of the subcomponents are designed with the underlying goal of promoting cultural tourism to project locations. With improvements to tourism accessibility and attractiveness resulting from the project, commercial opportunities are expected to arise in accommodation and tourism-related services. The project, a public sector undertaking, will therefore directly incubate private sector investment opportunities – within the framework of Heritage Conservation Master Plans that provide statutory protection to both public and private heritage assets.

215. Since most PIUs are new entities with no financial history, or administrative entities of municipal and town governments, agreement has been reached that municipal governments will be responsible for ensuring timely counterpart financing and loan repayment through internal agreements with the GPG. To assess the financial capacity of the concerned municipalities to sustain such commitments, associated outlays were compared to the on-budget financial resources of the municipalities. In aggregate, counterpart financing over the four years of project implementation represents 3.1% of on-budget revenues for 2002-2005. Loan repayment represents 2.1% of on-budget revenues and 0.11% of GDP for the same period. Recurrent expenditures on operations, maintenance, and repairs are estimated in aggregate to represent less than 1% of on-budget expenditures of the affected municipalities from 2002-2005. Overall, counterpart financing, loan repayment, and recurrent obligations are considered well within the fiscal capacities of the affected municipal governments (Table).

MUNICIPALITY	total GDP	On-Budget	total Project Cost	total Project Cost	total Project Cost	total World	total World	total
	2002-2005	Revenues	2002-2005	as % of 2002-2005	as % of 2002-2005	Bank Loan	Bank Loan as %	World Bank Loan
	Yuan	Yuan	Yuan	On-Budget	GDP	Yuan	of On-Budget as %	of 2002-2005
				Revenues			Revenues	GDP
Jiuquan (UA)	12,322,158,000	816,980,000	81,816,136	7.6	0.50	40,425,000	4.9	0.33
Jiayuguan (UA)	18,152,210,000	1,279,300,000	87,481,494	5.3	0.37	39,270,000	3.1	0.22
Tianshui (UA)	28,014,340,000	1,321,180,000	182,351,942	13.8	0.65	124,740,000	9.4	0.45
Lanzhou (UA)	166,635,510,000	8,821,600,000	70,554,100	0.8	0.04	49,665,000	0.6	0.03
Baiyin (UA)	30,996,260,000	1,288,240,000	35,856,869	2.8	0.12	25,795,000	2.0	0.08
Zhangye (UA)	16,175,290,000	622,960,000	23,027,888	3.7	0.14	15,785,000	2.5	0.10
TOTAL:	272,295,768,000	14,150,260,000	441,088,429	3.1	0.16	295,680,000	2.1	0.11

216. Two municipalities where fiscal burdens are greatest – Jiuquan and Tianshui – are considered to be the two that are likely to attract the highest volume of new tourist visits (in Jiuquan, leveraging the Donghu Grottoes and eastern Jiuquan’s proximity to the Jiayuguan Great Wall; and in Tianshui, leveraging the completion of the national trunk highway system connecting Lanzhou and Xian by 2009). Revenue streams estimated by PIUs in these two municipalities are the most robust, and show FIRR’s over 12%.

217. **Counterpart Funds.** In the fiscal impact analysis above, total counterpart funding requirements are projected on the conservative planning assumption that all counterpart funds will be met directly from the municipal budget. However, the impact will be less, in light of counterpart funding contributions from tourism facility operators through self-raised funds and domestic bank borrowing. Of total project costs, approximately 67% is financed through the World Bank loan. Of the remaining counterpart funds required, only half is funded by municipal budget allocations from on-budget sources, with the remaining half provided by self raised funds, including allocations from ongoing relevant state projects.

218. **Municipal Debt.** Gansu Province ranks among the five weakest provinces in China in terms of fiscal self-support rate (share of own-source revenue to total revenue).⁹ The province and its municipalities therefore rely heavily on central fiscal transfers, and directed credits under the Government’s Western Development Strategy. Accurate reporting of consolidated municipal debt in Gansu is elusive for two principal reasons: 1) municipalities rarely report off-budget debt of local government-owned enterprises; and 2) much of the debt from directed credits is financed from national bond issues, and eventually converted into ad hoc transfers from the central government to support regional development policy.

219. Fiscal capacities of municipal governments will become much more transparent – and will likely prove stronger – starting in 2007. During 2006, MoF directed all municipalities to immediately include land leasing revenues in on-budget accounts that are approved annually by the Municipal People’s Congresses. Prior to this directive, proceeds from land leasing were booked off-budget, hence distorting the official reporting of actual fiscal capacities of municipalities.

220. Although the fiscal analysis summarized above indicates that loan repayment and counterpart funding are not likely to be major burdens for the municipalities, specific fiscal capacities remain unclear. Therefore, the challenge associated with prudent management of sub-national debt is indicated as a potential project risk in the risk section of this PAD.

⁹ see Ming Su and Quanhou Zhao, "The Fiscal Framework and Urban Infrastructure Finance in China", World Bank Policy Research Working Paper 4051, November 2006. Washington DC. Figures quoted are for 2002.

Annex 10: Safeguard Policy Issues

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

OVERVIEW

221. **Classification.** The project is classified as a Category A project under OP4.01, Environmental Assessment. This classification was primarily based on the environmental and cultural importance and sensitivity of the sites, rather than the potential impacts of the individual investments to be financed by the project, which are very small. Based on screening, five Bank safeguard policies are triggered: (1) Environmental Assessment (OP/BP4.01); (2) Involuntary Resettlement (OP/BP4.12); (3) Physical Cultural Resources (OP/BP4.11); (4) Indigenous Peoples (OP/BP4.10); and (5) Safety of Dams (OP/BP4.37).

222. **Legal and Policy Framework.** The *Environmental Impact Assessment (EIA) Law of the People's Republic of China*, issued in October 2002 and effective on September 1, 2003, is applicable to all construction projects that may cause negative impacts on the environment. According to the *Management Regulation on Environmental Protection for Construction Projects*, issued on November 29, 1998 by the State Council, an EIA must be prepared during the project feasibility stage. EIA approval is a necessary prerequisite for securing a construction and operating permit. Based on the severity of possible impacts on the environment, the EIA may be a simple Environmental Impact Registration (EIR), an EIA Form (EIF), or an EIA Statement. This can be determined by the Classification Management Catalogue of Environmental Protection for Construction Projects (issued by the SEPA and effective on the January 1, 2003). For this project, an EIA statement is required for each site.

223. The *Regulation on the Management of Nature Reserves of the People's Republic of China* (1994) regulates construction activities within nature reserves. Nature reserves are categorized into core, buffer and experimental areas. According to the Regulation, no construction activity is allowed in the core and buffer areas of nature reserves. To preserve biodiversity in the province, GPG has issued several specific regulations including, *Management Regulations on Nature Reserve Zones in Gansu Province*, *Protection Regulations for Wetlands*, *Management Regulations for the Qilian Mountain Reserve Zone*, *Regulations for the Xianglong Mountain National Nature Reserve Zone*, and *Management Regulations for the Baishui River Nature Reserve Zone*.

224. The *Cultural Heritage Protection Law of the People's Republic of China* (1982), the *Law of Cultural Relic Protection of the People's Republic of China* (2002) and associated regulations provide the legal basis for protection of cultural relics in China. The Law of Cultural Relic Protection stipulates that construction and tourism development should comply with the policy of cultural relic protection and damage to cultural relics caused by these activities is prohibited. The building of facilities which would impact cultural relics and the environment and any activities which may affect the safety and environment of cultural relics are prohibited within "cultural relic protection zones" (commonly known as "core protection areas") and "construction control zones" (commonly known as "buffer zones" or "secondary protection areas"). Moreover, construction projects within construction control zones that may threaten the historical view and

style are prohibited. The law also stipulates that existing facilities which have caused impact on a cultural relic and its environment should be rehabilitated.

225. In 1985, the National People's Congress ratified the *UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage* (The World Heritage Convention), thereby integrating international practices into Chinese regulation. One of the project sites, the Great Wall at Jiayuguan, is listed under this convention. This site is also regulated through a special set of national regulations called the *Regulation on the Protection of the Great Wall*, which was issued on October 11, 2006 with an effective date of December 1, 2006, by Premier Wen Jiabao on behalf of the State Council.

226. The *Principles for Conservation of Heritage Sites in China* (The China Principles) were developed through a joint effort of China's ICOMOS and SACH in 2000. The China Principles are professional guidelines for conservation practices. While not legally binding in China, they have been adopted by SACH and the lower level cultural relic bureaus as good practice, and have been used as a basis for preparation of this project.

227. Gansu Province's *Regulations for Cultural Protection*, issued on September 23, 2005, became effective on December 1, 2005. They stipulate that construction within core protection and construction control zones is prohibited without the permit of the competent cultural relic protection administration. If the construction is necessary and approved, then the style, height and appearance should be in sympathy with the environment.

228. Presently, there are no specific laws concerning tourism development in China, although the need for such a law has become evident due to the rapid development of China's tourism industry over the last decade. A series of technical standards have been developed in recent years by the China National Tourism Administration (CNTA) to provide technical guidance on tourism planning and facility development.

229. ***Institutional Oversight Responsibilities.*** Gansu Provincial and Municipal Environmental Protection Bureaus (EPBs) are responsible for drafting and issuing local regulations relating to the environment; organizing environmental monitoring and control; supervising the treatment of pollution; dealing with major pollution incidents; and carrying out education and training in environmental protection. Accordingly, within its duties, the Gansu Environmental Protection Bureau has reviewed and will approve the EA documents prepared for the project.

230. The Gansu Provincial Cultural Relics Bureau (GCRB) is responsible for: issuing local regulations relating to cultural relic protection; reviewing and approving cultural conservation plans for provincially listed relics; reviewing and providing preliminary approval for cultural conservation plans for state-listed relics and for liaison with SACH for the approval of these plans; and, reviewing and approving all construction projects within core and secondary protection zones around Gansu's listed cultural relics. Normally, the GCRB's involvement in a specific project would only commence at preliminary design stage, at which time the GCRB would review and approve the design for conformity with the cultural relic laws and cultural conservation plan. However, in this project, the GCRB has been actively involved at a much earlier stage, assisting the PIUs in the preparation of their conservation plans and investment

selection, and reviewing feasibility study reports (FSRs). During project implementation, the GCRB, through the PPMO's Project Experts Panel, will exercise its normal preliminary design approval role at the appropriate time. SACH does not have a direct role in the project per se, however, as the ultimate approving authority for the cultural conservation plans for state-listed heritage sites, of which there are six included in this project, Gansu Province requested and received SACH approval of the project proposal in April 2006.

231. **The Gansu Provincial Tourism Administration (GTA) does not hold a regulatory or oversight function in tourism development in Gansu, rather its role is limited to strategic planning for tourism, certification of tourism infrastructure, and tourism marketing and promotion.** The GTA prepared the Gansu Provincial Tourism Master Plan, which formed the basis for the project's strategic design and the municipal and site level tourism plans.

232. While not directly involved in project approval, the Ministry of Construction (MoC) is responsible for oversight of scenic areas and historic towns in China, including many of the sites included in this project. As a result, Gansu Province requested and received MoC approval of the project proposal in March 2006.

ENVIRONMENTAL ISSUES

Environmental Assessment (OP/BP4.01)

233. The project FSRs were prepared by certified Chinese design institutes. Five specialized institutes independent of those conducting the FSRs carried out preparation of EA and EMP documents for each subcomponent. Lanzhou University consolidated the individual EAs and EMPs into a Consolidated EA/EMP report produced in English and Chinese, with technical assistance from international experts. The Consolidated EA/EMP identifies potential environmental benefits and consequences of the project, analyzes the alternatives considered during project design, proposes measures to avoid, mitigate or otherwise compensate for negative environmental impacts during construction and operation, and allows incorporation of appropriate measures in the design to mitigate negative impacts to a minimum and acceptable level. The documents have been prepared on the basis of: (1) the country's legal and policy framework for pollution control and environmental protection; (2) conservation, tourism and site plans prepared by the PIUs during the project preparation period; and (3) applicable World Bank safeguard policies. The Consolidated EA/EMP report applies methodologies set out in various technical guidelines issued by the State Environmental Protection Administration (SEPA) and World Bank safeguard policies/technical sourcebooks. The scope of the project covered by the Consolidated EA/EMP report reflects the project content included in the project FSR for each of the project subcomponents.

234. ***Brief Project Description.*** The project comprises two components, the first of which is conducted at each of nine key cultural and natural heritage sites within the following six municipalities in Gansu Province: Jiuquan and Jiayuguan Municipalities in the west; Zhangye, Baiyin and Lanzhou Municipalities in central Gansu; and Tianshui Municipality in the east. This component includes upgrading of access roads and tourist footpaths; provision of small-scale sanitation, wastewater, power, water supply and other environmental services; provision of

tourist facilities such as service centers and exhibitions; environmental rehabilitation; and conservation works on relics. The second component, a provincially-managed institutional strengthening and capacity building component, will benefit the citizens, government officials and others at all nine project sites and within the municipal and provincial governments. The project has been designed to ensure a minimum footprint on the site, and to minimize environmental impacts of individual investments.

235. **Baseline Environmental Conditions.** Gansu Province, with its capital of Lanzhou and a total population of 26 million, is located in northwestern China, at the upper reaches of the Yellow River. It borders Shanxi Province in the east, Sichuan Province in the south, Qinghai and Xinjiang Provinces in the west, and Inner Mongolia and Ningxia Provinces, and the neighboring country of Mongolia in the north. The topography of Gansu Province consists of mixed mountainous regions, plateaus, plains, river valleys, and deserts, and forms six main regions with differing features. Gansu Province has a total land area of 425,800 km², occupies 4.7% of China, and is China's seventh largest province. The land area per capita is 1.82 hectares, almost twice the national average. Approximately 43% of the land area is not used directly for productive purposes, including desert, Gobi, alpine-arctic mountain terrain, bare rock, saline-alkali lowland and wetlands. Gansu has a strongly continental, temperate monsoon climate. Daily average temperature ranges between 0° and 16° C. However, temperature varies greatly across the province, according to elevation.

236. The terrestrial natural habitats of Gansu are mainly steppe grassland and semi-natural pastureland. Grasslands are most extensive in Gannan meadow, Qianlian hilly region, West Qin Mountain, Maxian Mountain, Hasi Mountain and Guan Mountain. The total forest area in Gansu is approximately 8 million hectares, or 16.5% of the total land area, and consists of fir, spruce, oak, poplar, pine and birch. There are 58 natural conservation areas in Gansu Province with a total area of almost 10 million hectares, occupying 23% of the province. Thirteen are nationally-designated, 41 are provincially-designated and four are designated at county level. Eight farms breed rare or endangered animals and four farms conserve rare plants.

237. According to the *Summary of Environmental Quality in Gansu Province (2006)*, among the thirty river sections in the province that are subject to monitoring, only sixteen sections meet the standard required for their designated function. The number of sections that met the standards in 2005 was only thirteen. The main pollutants are domestic sewage, industrial wastewater, and residues of chemical fertilizers and pesticides.

238. Dust storms are an increasing problem in Gansu Province, occurring sixteen times in 2006, mainly in March and April. This frequency is three times the number experienced in 2005. Moreover, the trend is dust storms of increasing duration. Particulate pollution aggravates air quality in Gansu's cities, contributing to deterioration in air quality in nine out of thirteen cities.

239. **Analysis of Alternatives.** An extensive analysis of alternatives was undertaken as part of project identification, design, and analysis. The EA preparation was a crucial element of this process, but not the only mechanism through which alternatives were analyzed. In the initial phases of project preparation, extensive work was conducted on provincial, municipal, and site level planning. The Gansu Provincial Tourism Master plan analyzed, on a macro level, the

potential tourism products in Gansu and established a set of priorities, which included three main historical themes: the Silk Road, the Great Wall and the Yellow River. Municipal tourism plans further analyzed alternative modes of tourism development within the municipal boundaries according to these provincial themes. At the site level, detailed heritage conservation plans analyzed the alternatives for conservation, while the tourism and site plans assessed and prioritized the tourism products for each site, and ensured that the tourism development complied with heritage conservation and protection requirements.

240. With respect to project design, a detailed screening of the original 17 proposed subcomponents was conducted during project identification according to criteria agreed between Gansu and the task team. A final list of eleven subcomponents was developed to appraisal stage. Two components withdrew at project appraisal stage. Moreover, as this project is the first of its type in China, the Bank further deepened its review of project alternatives through the commissioning of a Heritage and Tourism Strategic Overview Study and an initial Safeguards Review Study. Both of these documents are available in the project files.

241. At the subcomponent level, several mechanisms were built into project preparation to ensure the consideration of alternatives, including: (1) review of each site's cultural conservation, tourism and site plans; (2) preparation of environmental assessment reports and environmental management plans; and (3) regular feedback from the task team and specialist consultants in the fields of environmental protection, heritage conservation and social development. The Bank's policy which promotes the use of the EA mechanism to address cultural property safeguard issues prompted the EA institutes to act as the critical link between the cultural conservation planning and FSR preparation, which was an innovative approach for Gansu. In some cases this process raised legitimate concerns about the size, location, or type of infrastructure proposed in the FSR (e.g., the location of a proposed small-scale wastewater treatment plant in Maijishan was found to be within a construction control zone of a cultural relic). Alternative options were proposed by the EA consultants, and the FSRs were amended accordingly.

242. ***Impact Assessment and Mitigation.*** The project addresses the sustainable development of Gansu's cultural and natural heritage, and therefore can be predicted to deliver *significantly positive benefits* in improved preservation and conservation of this heritage. Specifically, the project will finance conservation works for significant cultural relics that are currently at risk from neglect, environmental damage, lack of security and impacts from tourism. In addition, the project will provide a basis for the long-term sustainable protection and management of these heritage assets through extensive protective measures such as drainage and security improvements, and through the improvement of inventories, identification and marking of conservation zones, and better planning, management and monitoring of sites. The project will instill a commitment to, and provide practical experience of sustainable approaches to tourism development amongst all levels of government in Gansu and the public, resulting in enhanced cultural heritage appreciation, environmental sustainability and economic development for isolated populations. Owing to the national and international significance of Gansu's heritage, the project also has the potential to make a substantial contribution to the development of approaches to sustainable tourism in China as a whole.

243. Environmental rehabilitation at some of the sites, including planting of trees and protection of soils, will deliver local improvements in the environment, conserve water and soil, and reduce noise. The impact of local residents and tourists on site environments will be mitigated through the provision of key environmental services such as sanitation, solid waste, power supply, water supply and wastewater. Impacts from tourism will also be reduced through the provision of fencing, pathways, signage, and the development of strategically situated and appropriate tourist service centers, all of which will reduce the potential for improper use of the sites by visitors. Overall, the environment of the sites is expected to be greatly enhanced through the project as a result of its balanced set of conservation, environmental protection and tourist management activities.

244. Social benefits will accrue from improvements to the living standards of poor communities located in and around heritage sites through provision of basic services such as upgraded roads, water supply, sanitation, and power supply. By promoting sustainable tourism development at the sites, the project will provide economic opportunities for members of local communities to participate in tourism services, which has proven to be a successful way to increase household income in the tourism sites. Economic development driven by tourism will increase job opportunities and enhance incentives for the protection of natural and cultural heritage. Moreover, the project will provide benefits through the inclusion of a comprehensive community and youth training program that will provide training in heritage and tourism to more than 9,000 local persons living in and around the project sites.

245. According to FSRs as verified by the GCRB, there are no proposed investments located in the core and buffer areas of nature reserves or cultural heritage sites.

246. However, there are the following risks of adverse impacts, both at a strategic level and at the level of the nine subcomponent sites.

- *Inappropriate, unsustainable tourism development.* There are risks that the project will fail to deliver its predicted benefits for cultural heritage preservation. In the worst case scenario, significant investments may be made in inappropriate infrastructure, resulting in a reduction in the economic and cultural value of the site. This may be a risk if the investments are made without an accompanying ethic of sustainable tourism and cultural heritage preservation, and careful design of investments. This risk has been mitigated by: (1) ensuring a sound, long-term planning process for investments; (2) extensive review of the FSRs; and (3) the establishment of a Project Experts Panel that will review all designs before implementation.
- *Damage to physical cultural heritage.* There is a risk of damage to physical cultural heritage from demolition, reconstruction or inappropriate restoration of physical monuments, structures and significant architecture and from inadequate protection of archaeological “chance-finds” during construction. Moreover, unnecessary reconstruction or restoration that does not match the original architecture, style and color is a threat to Gansu’s heritage. Similarly, renovation of traditional buildings with low quality materials or without expert guidance may result in the irreversible loss of valuable heritage. This risk will be mitigated through the involvement of the GCRB in design approval, the

prequalification of contractors for conservation works, and strict site supervision with advice from international experts.

- *Induced development.* This project will finance the key infrastructure requirements for medium-term tourism development at the project sites, but will not provide all infrastructure required for the long-term. If the number of tourist visits to Gansu and project sites increase as predicted, it is inevitable that additional developments will be undertaken to cater to the increased numbers. This may threaten the visual beauty or cultural heritage values of the sites, and create risks of environmental pollution. However, at each site, zoning plans (core zone, buffer zone, etc.) are in place to control induced development. Increased tourism in Gansu will contribute to the pressure for increasing development in Gansu (in hotels, water infrastructure, waste management, etc.), but the contribution of increasing tourism is insignificant, in comparison to trends in investment in the province from other sectors.

247. None of the risks of adverse environmental impacts from project works at the sites are so significant or severe that they cannot be readily avoided, mitigated or managed. The most significant potential impacts are at the Jiayuguan Great Wall (related to the restoration of the First Signal Tower that is in a precarious position at the edge of a cliff) and Maijishan Scenic Area (related to the rehabilitation of two small-scale dams). All other impacts are of more limited significance and can be readily mitigated.

248. A series of mitigation measures have been planned to reduce the impacts to an acceptable level during construction and operation. Mitigation monitoring procedures have been established and the organizations responsible for this monitoring have been designated. Details of mitigation measures, their location, time frame and the agencies responsible for their implementation and supervision have been provided in the EMP reports. The EMP covers such areas as water/wastewater management, air quality control, noise management, construction waste management, covering soil storage piles and borrow pits to limit erosion, runoff management and water storage in construction, correct orientation of roads and paths, traffic management and speed control. EMP annexes contain a series of 'Guidelines' on site clearance, construction methodology, debris disposal, and chance-find procedures.

249. ***Public Consultations and Information Disclosure.*** Public consultation during the preparation of this project was carried out using a questionnaire survey, expert consultation, workshops and public hearings. Participants in the public consultations mainly included the organizations and individuals potentially affected by environmental impacts, NGOs and experts. Two rounds of public consultation have been carried out, the first in the period from January to April, 2006 during the preparation of the EA terms of reference (ToR), and the second round at completion of draft EA reports between January and June, 2006. The detailed information on public consultations is available in the Project Files. In addition, information on the project and potential environmental impacts has been publicly disclosed through various means at localities from April 2006 to May 2007 respectively.

250. ***Environment Management Plan.*** An EMP has been developed in Chinese as a separate and stand-alone document for each subcomponent. A Consolidated EMP in English has been

included as part of the Consolidated EA/EMP. The EMP includes the relevant policies and applicable environmental standards, environmental management systems, mitigation measures, monitoring plans, institutional arrangements, capacity building and estimated costs for the mitigation measures and monitoring programs for both the construction and operation phases. To ensure that applicable national, provincial and municipal environmental laws, regulations and standards, as well as the World Bank environmental requirements are respected during project preparation and implementation, environmental management units would be established both at the PPMO and PIU levels. In addition, all MPMOs will engage specialists for environmental monitoring and supervision.

251. The EMP includes environmental monitoring programs for both the construction and operation phases. The parameters to be monitored include resettlement, noise, dust, water quality, and solid waste disposal. To ensure the strict and efficient implementation of the proposed mitigation measures, including environmental obligations during construction, a program of monitoring activities will be required, which includes two types of monitoring (details are in the EMP). These are: (1) environmental supervision (the general environmental monitoring of construction sites and activities); and (2) compliance monitoring (the specific monitoring of water quality, air quality and noise level). The semi-annual project progress reports to be furnished by the PPMO will include environmental monitoring reports, as per the formats in the EMP annexes. A summary annual report of EMP implementation progress will be furnished to the Bank to report the activities conducted in the previous calendar year.

252. In the unlikely event that the project is required to finance infrastructure at sites other than the nine subcomponent sites, or infrastructure that is not part of the currently identified activities at the seven sites, steps will be taken to ensure compliance with Chinese environmental regulations and World Bank safeguard policies.

Physical Cultural Resources (OP/BP4.11)

253. The project triggers OP4.11, Physical Cultural Resources because of its potential impact on listed cultural relics in the Maijishan Scenic Area, Suoyang Town Tourism Scenic Area, Lutusi Ancient Government Center Tourism Scenic Area, Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area, Great Wall Cultural Tourism Scenic Area, Weijin Tombs Cultural Tourism Scenic Area, and Mati Temple Scenic Area subcomponents. According to OP/BP4.11, analysis of physical cultural resources and their protection measures has been conducted as part of the EA. In the EA report, a dedicated chapter has been included to present the relevant information.

254. Gansu has two UNESCO World Heritage listed sites (Dunhuang's Mogao Grottoes and the Great Wall at Jiayuguan), five state-listed historical cities and towns, and forty three state-listed cultural heritage assets, including Maijishan Grottoes, Lutusi Ancient Government Complex, Suoyang Ancient Town, the Mati Temple Grottoes, and the Weijin Tombs. The table below presents information on the cultural resources in each project subcomponent and their levels of importance:

Municipality	Project Subcomponent	Cultural heritage resource	Historical period of heritage resource	Heritage resource classification	Status of conservation plan	Institute preparing cultural conservation plan
Jiuquan	Suoyang Town	Archaeological remains of rammed earth city walls	Sui Dynasty (A.D. 581 – 618)	State level cultural relic	Completed, submitted to SACH	Institute of Architectural History of Chinese Architectural Design and Research Academy
Jiayuguan	Great Wall	Great Wall Fortress, contiguous section of Great Wall and signal towers	Ming Dynasty (A.D. 1368 – 1644)	UNESCO World Heritage Site; state level cultural relic; Class AAAA national tourism site.	Under final preparation	China Academy of Urban Planning and Design
	Weijin Tombs	Ancient tomb field containing approx. 1,600 family tombs	Wei and Jin Dynasties (approx. A.D. 300 – 600)	State level cultural relic	Under final preparation	Lanzhou University; Dunhuang Academy
Zhangye	Mati Temple	Buddhist grottoes	East Jin Dynasty (A.D. 304 – 439)	State level cultural relic	Under preparation	Tsinghua University
Lanzhou	Lutusi Ancient Government Center	Historical center of minority rule	Ming Dynasty (A.D. 1368 – 1644)	State level cultural relic	Completed	China National Institute of Cultural Property
	Qingcheng Ancient Town	Historical trading town	North Song Dynasty (A.D. 960 – 1127)	Provincial level cultural relics	Completed	Gansu Cultural Relics Protection and Maintenance Research Institute; Institute of Dunhuang Studies of Lanzhou University.
Tianshui	Maijishan Scenic Area	Buddhist grottoes, one of the four main grotto complexes in China	North Wei Dynasty (A.D. 386 – 534)	State- and provincial-level cultural relics	Inventory completed, plan to be financed by project	TBD (Currently under competitive bidding process)

Note: Subcomponents not including cultural heritage (i.e., Yadan National Geological Park and Yellow River Stone Forest Geological Park) are not included in this table.

255. The project has been designed to provide positive impacts on cultural heritage through the inclusion of priority conservation and protection works such as: the strengthening of the rammed earth walls of the Suoyang Ancient Town; the stabilization of the cliff on which the First Signal Tower is located and the reinforcement of the structure of the Great Wall Fortress in Jiayuguan; the provision of drainage, security and conservation of wall murals in the Buddhist grottoes at Maijishan. The project is also supporting the identification and demarcation of conservation and buffer zones at the Great Wall at Jiayuguan and the Weijin Tombs.

256. Considerable emphasis has been placed on cultural property during the preparation phase of the project, through preparation of cultural conservation plans in accordance with China's laws and regulations. The experts' work, which was commissioned by the PIUs during preparation, represents a considerable advancement towards protection and sustainability for the cultural heritage at the sites because none of the sites, including the UNESCO World Heritage listed Great Wall site at Jiayuguan, had carried out any cultural planning work prior to the commencement of the project. All tourism plans and feasibility studies have been reviewed with reference to the conservation plans, and the proposed investments are consistent with these conservation plans. Priority conservation works have been included in the project to ensure the safety and security of the cultural heritage at each site.

257. Designs and bidding documents for conservation works will be prepared by qualified institutes under the direction of the PPMO, and as required under Chinese law. Approval of the designs by the appropriate cultural relic bureau will be a prerequisite for the implementation of conservation works. Certification of contractors qualified in cultural conservation will be required, and will be assessed during pre-qualification. All contracts for conservation works will be prior reviewed by the Bank. In addition, all contracts under the project will include provisions for chance finds. Training on China's cultural relic laws and their implementation is included in the project for site managers and government officials.

Safety of Dams (OP/BP4.37)

258. The project triggers OP4.37, Safety of Dams because of works to be completed at Yinyue Lake and Xianren Lake dams under the Maijishan Scenic Area subcomponent. Both dams are existing, relatively small, and marginally exceed the Bank's threshold for triggering OP4.37. Both dams are used solely for tourism purposes and do not serve other functions. According to OP 4.37, the two dams have been evaluated by provincial dam safety specialists, and a site visit and review has been carried out by a specialist hired by the Bank¹⁰ as part of the Bank's due diligence. The reports prepared by the specialist are included as annexes of the Consolidated EA/EMP.

259. Yinyue Lake Dam was constructed in the late 1950s as a 10 meter high composite earth dam. However, construction of the dam spillway and sluice system was not fully completed, and the dam has never been operated. As part of the project, the PIU intends to rehabilitate the dam and commission it for the purpose of impounding water for tourism purposes. The results of the review indicate that there are no outstanding safety issues at the Yinyue Lake Dam.

¹⁰ The specialist is employed by the Nanjing Institute of Dam Safety and was recently trained in OP/BP4.37 by the Bank's Dam Safety Adviser.

Recommended works include geological survey, design and construction of a weir structure to control the impoundment of water in the lake, and preparation and adoption of an operation, maintenance and emergency preparedness manual. The proposed works have been included in the project, and the requirement for the manual has been included as a covenant in the project.

260. Xianren Lake Dam was constructed in 1987. It is a stone masonry dam with a crest height of 16 meters and a storage volume of 240,000 m³. The dam safety inspection proposed several remedial works in order to improve the safety and operation of the dam. These have been included in the project. In addition, the preparation and adoption of an operation, maintenance and emergency preparedness manual has been included as a covenant in the project.

SOCIAL ISSUES

261. The project has significant social benefits as it improves the protection of cultural assets and promotes the analysis, interpretation and exhibition of cultural and natural heritage, including indigenous intangible heritage. In addition, it improves the living standards of poor communities located in and around project sites through the provision of basic services such as upgraded roads, water supply, sanitation, and power supply. By promoting sustainable tourism development at the sites, the project will provide opportunities for local community members to participate in the provision of tourism services, which has proven to be a successful way to increase household income in the tourism sites. Moreover, the project will provide direct social benefits through the inclusion of a comprehensive community and youth training program that will provide training in heritage conservation and tourism development to more than 9,000 local people living in and around the project sites.

262. *Social Assessments* (SAs) were carried out for the following subcomponents: Mati Temple, Qingcheng, Yellow River Stone Forest and Maijishan. The SA preparation institutes consulted the stakeholders of the project, focusing considerable attention on vulnerable groups, ethnic minority groups and persons potentially affected by loss of land. On the basis of the findings of their SAs, Mati Temple developed an MDP and Maijishan developed a Poverty Reduction Plan to protect and help ethnic minority groups and poor groups, respectively.

263. The SAs showed that the local communities support the project. Local people believe that the project will contribute to the development of the local economy through tourism industry enhancement. The local communities expect to have greater opportunities to participate in tourism services such as the provision of local food, production and sale of local tourism products, tourist entertainment, and operation of home stays. The implementation of the project is expected to reduce poverty and improve standards of living. The findings of the SA were used to inform the preparation of FSRs and in some subcomponents, specific investments were added, deleted or modified according to the recommendations of the SAs. Additional recommendations from the SAs have also been incorporated into the overall project design to ensure that vulnerable groups (e.g., the poor, women, elderly, disabled, migrants) are able to participate and are not excluded from project benefits, and that measures are incorporated to promote community participation in tourism.

264. **Poverty Impact.** A Poverty Reduction Plan was prepared for the Maijishan subcomponent because the social assessment showed that 42% of the families living within the Maijishan Scenic Area are living below the poverty threshold of RMB 860 per capita, per year. The plan includes measures for addressing poverty in the communities located in and around the Maijishan site, including mechanisms for residents to gain employment and income through participation in tourism activities. The plan was used as a key input to project design, resulting in the inclusion of a local handicrafts development center that will provide a location and logistical support to poor residents of the Maijishan area to support their development of locally produced handicrafts for sale to tourists. Finally, the plan was used as an input into the design of the Maijishan subcomponent's extensive community and youth education and training program, which will build the capacity of local members of the community to participate in tourism activities at the site.

Involuntary Resettlement (OP 4.12)

265. The project triggers OP4.12, Involuntary Resettlement because of expected land acquisition and involuntary resettlement in the Lutusi Ancient Government Center Tourism Scenic Area and Qingcheng Ancient Town Heritage Protection and Tourism Scenic Area subcomponents. The remaining subcomponents are not expected to have land acquisition or resettlement impacts because the land to be utilized under the project is state-owned land under the direct authority of the scenic area administrations and the Bank has been presented with satisfactory documentary evidence to this effect.

266. In accordance with local laws and the requirements of the Bank, the individual RAPs for the Lutusi and Qingcheng subcomponents were prepared in Chinese by design institutes assisted by the PPMO, the Lanzhou PMO, house demolition offices, local land bureaus, affected villages and communities, and potential displaced persons. On the basis of the individual RAPs for the two subcomponents, the RAP institutes produced a Consolidated Resettlement Action Plan in English, which was reviewed and approved by the PPMO and is available in the Project File.

267. During the process of project preparation, the initially expected resettlement impacts were significantly reduced through optimization of the project design and implementation arrangements. For example, a proposed parking lot in the Lutusi subcomponent was relocated to reduce resettlement impact. Moreover, the project owners and design institutes carefully considered possible linkages with associated ongoing or planned resettlement practices. As a result, a linkage within Lutusi subcomponent has been identified and included within the Lutusi RAP. This relates to the upgrading of shops to create an "Ancient Street" complex along a street near the Lutusi Ancient Government Complex. While the shop upgrading is not included in the project, the project includes the upgrading of the road surface and services along this street and therefore the resettlement associated with this development is considered to be a linkage.

268. In case of design changes during implementation (including at the seven subcomponents for which RAPs are currently not expected), a Resettlement Policy Framework (RPF) was prepared and adopted for all subcomponents, to cover the resettlement impacts which might occur during implementation. In summary, the following resettlement planning documents have

been prepared to minimize the adverse impact incurred by land acquisition and relocation. They are all available in the project files.

- (a) Consolidated RAP (English and Chinese)
- (b) Resettlement Policy Framework (English and Chinese)
- (c) Qingcheng Subcomponent RAP (Chinese)
- (d) Lutusi Subcomponent RAP (Chinese)

269. *Scope of impacts.* The table below summarizes the impacts of land acquisition and resettlement. The project resettlement impacts mainly include permanent land acquisition, residential house demolition, enterprise and public institutions demolition, temporary shop closing, infrastructures and ground attachment removal.

Subcomponent	Land Acquisition (mu)	House Demolition (m2)	Relocated Households	Resettlement Cost (RMB mil.)
Qingcheng	13.5	0	0	0.72
Lutusi	10.2	1241.49	17	2.04
Total	23.7	1241.49	17	2.76

270. *Policy objectives and legal framework.* The subcomponent RAPs were prepared in line with relevant Chinese laws and regulations and World Bank OP 4.12 on Involuntary Resettlement. Key considerations and activities in the design of the project and preparation of the RAPs included:

- (a) As a principle, acquisition of land and other assets and relocation of people would be minimized to the extent possible.
- (b) A socio-economic survey was conducted to determine baseline conditions, especially of project affected persons.
- (c) Compensation for houses or other properties would be set at full replacement value.
- (d) All project affected persons, including those who lack house registration or other documents, such as business documents and legal documents, and shop operators, would be compensated.
- (e) Basic infrastructure and service facilities would be provided in the areas where the project affected persons will be resettled.
- (f) Plans for acquisition of land and other assets and provision of rehabilitation would be carried out in consultation with the affected persons.
- (g) Financial and physical resources for resettlement and rehabilitation would be made available as and when required.
- (h) Special consideration would be given to vulnerable groups.
- (i) Institutional arrangements would ensure effective and timely design, planning, consultation and implementation of the RAP.

(j) Effective and timely supervision, monitoring and evaluation of the implementation would be carried out.

271. *Compensation Standards.* The land acquisition compensation included land compensation, resettlement subsidy and standing crop compensation. The land acquisition fund is calculated based on average annual output value (AAOV) according to the *Law of Land Administration of the People's Republic of China*. The compensation rates for structures have been determined based on their replacement cost. Different indicators, such as the prices of newly constructed houses, second houses in better condition, the prices of construction materials and labor costs, are used as reference to determine the replacement cost.

272. *Rehabilitation Program.* All land losses, house demolition and business losses will be compensated according to the local regulations. Skills training for members of the community, including those affected by resettlement, have been included in the Lutusi subcomponent. The training will focus on tourism services, skills for making tourism products, and development of local food and restaurants. The cost of the training will be borne by the PIU, as listed in the training budget of the project. In addition to this, a preferential employment policy for the project affected persons (PAPs) will be adopted by the PIUs in both Qingcheng and Lutusi.

273. *Affected Shops.* Compensation for business losses has been provided in the RAPs.

274. *Affected public infrastructure:* Compensation based on replacement value will be paid to relevant government agencies or local governments to restore the affected infrastructure and services.

275. *Implementation arrangements:* A multi-level organization has been established for the implementation of the RAPs. An independent monitor will be selected for resettlement implementation and livelihood restoration. The PIUs will be responsible for internal monitoring and will provide semi-annual internal monitoring reports to the PPMO and the Bank. Details of staffing and their responsibilities are provided in the RAPs.

276. *Budget and funding arrangement.* Both Qingcheng and Lutusi will prepare sufficient budget from their counterpart funding to conduct the resettlement of the projects.

277. *Public participation.* Project-affected persons and organizations have been informed about the project and its impact through meetings during the preparation of the RAPs. Comments and recommendations received from these meetings have been incorporated as appropriate in the RAPs and the FSRs. Public participation will continue during RAP implementation. Project information will be provided to the affected persons through TV, newspapers, bulletins and posters. The RAPs will be summarized into a resettlement information booklet and distributed to affected households.

278. *Gender issues.* Gender issues have been considered and a gender sensitive approach has been applied in resettlement planning and social assessment. Both men and women have been consulted in the RAP preparation and social assessment process. Separate men's and women's groups were interviewed. It has been found that there are no discrepancies between the expected

resettlement impacts on men and women. Both men and women will benefit equally from the proposed project.

279. *Grievance redressing mechanism.* A grievance mechanism was established during the preparation of the RAPs. All relevant telephone numbers were disclosed to PAPs. The PAPs can, therefore, prosecute any resettlement aspect, if needed. All prosecuted cases will be recorded in writing.

280. *Resettlement policy framework.* A RPF was prepared as a part of the Consolidated RAP and adopted for the project. This will be applied to the other nine project components. Once the designs have been finalized and any changes in expected resettlement impacts have been determined, if necessary, a RAP will be prepared, adopted and implemented by related PIUs in accordance with the RPF.

Indigenous Peoples (OP4.10)

281. The project triggers OP4.10, Indigenous Peoples because people belonging to two minority groups, Zang and Yugu, are affected by the Mati Temple Scenic Area subcomponent. The total area of Mati Temple Scenic Area is 68 km². There are 409 households and 2,043 people scattered in 8 administrative villages within the area. Among them, 1,680 people are Zang, 110 people are Yugu and the remainder are Han. To prepare the project in compliance with the Bank policy on Indigenous Peoples, a Minority Development Plan (MDP) was prepared, based on a social assessment carried out at the site and in consultation with affected minority communities.

282. The MDP has been used as a guide during project design, and the proposed investments at the Mati Temple site include a Folk Culture Center that will initiate the collection, recording, and presentation of local ethnic minority culture. Community participation will be the mechanism through which the Folk Culture Center is designed and implemented.

283. Based on the findings of the Mati Temple social assessment, minority communities in the project area are already benefiting from the nascent tourism development at Mati Temple. The project is expected to further expand these benefits. However, some minor adverse impacts could also occur, such as the potential for pollution and damage to the environment, if tourism development is not well controlled. The positive impacts of the project mainly include the following:

- (a) The project is expected to expand economic opportunities beyond the traditional herding and farming activities to include tourism. This is expected to stimulate local economic growth.
- (b) By relieving the current reliance on grasslands and other ecological resources, the project would help to mitigate human pressure on the local environment and promote its rehabilitation.

(c) Tourism development would help to broaden the experiences and knowledge base of the local indigenous population, enhancing their ability to develop other livelihoods and undertake further development activities.

(d) The project would help to develop tourism based on the respectful presentation and interpretation of indigenous culture. Through this work, the project aims to raise local awareness, increase community pride, and preserve indigenous heritage for the future.

284. Actions and measures to ensure that affected minority communities receive culturally appropriate benefits, and to mitigate adverse impacts, are included in the MDP with appropriate budget estimates. The monitoring and evaluation system, grievance mechanism and information disclosure arrangement are also included in the MDP.

Annex 11: Project Preparation and Supervision

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

	Planned	Actual
PCN review	January 2006	January 2006
Initial PID to PIC	January 2006	January 2006
Initial ISDS to PIC	January 2006	January 2006
Appraisal	January 2007	June/July 2007
Negotiations	November 2007	January 22, 2008
Board/RVP approval	March 20, 2008	
Planned date of effectiveness	July 2008	
Planned date of mid-term review	December 2010	
Planned closing date	December 2013	

Key institutions responsible for preparation of the project:

- i) Provincial Project Management Office under the Social Development Division of the Gansu Provincial Development and Reform Commission
- ii) Gansu Development and Reform Commission
- iii) Gansu Provincial Finance Bureau
- iv) Gansu Provincial Tourism Administration (i.e. Provincial Project Management Office until December 2006)

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Mara Warwick	Task Team Leader	EASCS
Ji You	Technical Specialist	EASCS
Chongwu Sun	Senior Environment Specialist	EASCS
Chaogang Wang	Senior Social Scientist	EASCS
Jun Zeng	Social Scientist	EASCS
Zhentu Liu	Senior Procurement Specialist	EAPCO
David I	Senior Financial Management Specialist	EAPCO
Haixia Li	Financial Management Specialist	EAPCO
John Scales	Senior Transport Specialist	EASCS
Chunxiang Zhang	Program Assistant	EACCF
Vellet Fernandes	Program Assistant	EASUR
Zhun Zhang	Institutional Specialist	Consultant
Katrinka Ebbe	Community Development Specialist	Consultant
Geoffrey Read	Technical Specialist	Consultant
Daniele Fanciullacci	Cultural Heritage Specialist	Consultant
Patrizia Barucco	Cultural Heritage Specialist	Consultant
Vincenzo Zappino	Tourism Specialist	Consultant
Edward Leman	Economic and Financial Specialist	Consultant

Annex 12: Documents in the Project File

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

Document	Prepared by	Date
Project Proposal	Gansu Provincial Forestry Research and Planning Institute	January 2006
Consolidated Feasibility Study Report (Chinese)	Gansu Provincial Forestry Research and Planning Institute	July 2007
Consolidated Environmental Assessment and Environmental Management Plan (Chinese and English)	Lanzhou University/PPMO	July 2007
Consolidated Resettlement Action Plan and Resettlement Policy Framework (Chinese and English)	Gansu Provincial Statistics Bureau/PPMO	July 2007
Indigenous Peoples Plan for Mati Temple Scenic Area (Chinese and English)	Northwest University of Nationalities/PPMO	July 2007
Project Investment Database	Chreod Ltd.	July 2007
Project Strategic Overview Report	Chreod Ltd.	June 2006
Gansu Cultural Heritage Tourism Strategic Overview	ERM Ltd.	May 2006
Review of Solid Waste Management Investments	COWI A/S	May 2006
Financial Management Assessment Report	World Bank	April 2007
Procurement Management Assessment Report	World Bank	July 2007

Annex 13: Statement of Loans and Credits

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

Project ID	FY	Purpose	Original Amount in US\$ Millions					Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF	Orig.			Frm. Rev'd	
P086515	2007	CN-3rd National Railway	200.00	0.00	0.00	0.00	0.00	200.00	0.00	0.00	
P081776	2007	CN-Guangdong/PRD2-Foshan and Jiangmen	96.00	0.00	0.00	0.00	0.00	96.00	0.00	0.00	
P077752	2007	CN-2nd Shandong Environment Project	147.00	0.00	0.00	0.00	0.00	147.00	0.00	0.00	
P088964	2007	CN-Guangxi Integrated Forestry Dev	100.00	0.00	0.00	0.00	0.00	100.00	0.00	0.00	
P091020	2007	CN-Fujian Highway Sector Investment	320.00	0.00	0.00	0.00	0.00	320.00	0.00	0.00	
P075613	2007	CN-Shaanxi Ankang Road Development	300.00	0.00	0.00	0.00	0.00	300.00	0.00	0.00	
P083322	2007	CN-Sichuan Urban Develop	180.00	0.00	0.00	0.00	0.00	177.00	-3.00	0.00	
P075732	2006	CN-SHANGHAI URBAN APL2	180.00	0.00	0.00	0.00	0.00	153.11	-3.56	0.00	
P084742	2006	CN-IAIL III	200.00	0.00	0.00	0.00	0.00	160.99	19.63	0.00	
P081255	2006	CN-Changjiang/Pearl River Watershed Reha	100.00	0.00	0.00	0.00	0.00	97.75	4.75	0.00	
P082993	2006	CN-GEF-PCB Mgmt & Disposal	0.00	0.00	0.00	18.34	0.00	17.57	5.16	0.00	
P085124	2006	CN-Economic Reform Implementation	20.00	0.00	0.00	0.00	0.00	18.44	-0.69	0.00	
P070519	2006	CN-Fuzhou Nantai Island Peri-Urban Dev	100.00	0.00	0.00	0.00	0.00	99.75	10.42	0.00	
P085333	2006	CN-5th Inland Waterways	100.00	0.00	0.00	0.00	0.00	80.58	8.34	0.00	
P096158	2006	CN-Renewable Energy II (CRESP II)	86.33	0.00	0.00	0.00	0.00	76.50	-9.83	0.00	
P094388	2006	CN-HFC-23 Emissions Reduction	0.00	0.00	0.00	0.00	0.00	1,026.27	0.00	0.00	
P093906	2006	CN-3rd Jiangxi Hwy	200.00	0.00	0.00	0.00	0.00	200.00	0.00	0.00	
P099992	2006	CN-Liaoning Medium Cities Infrastructure	218.00	0.00	0.00	0.00	0.00	207.46	-3.88	0.00	
P090336	2006	CN-GEF-NINGBO WATER & ENVMT	0.00	0.00	0.00	5.00	0.00	4.50	0.37	0.00	
P082992	2006	CN-GEF-Termite Control Demonstration	0.00	0.00	0.00	14.36	0.00	14.36	0.00	0.00	
P086629	2006	CN-Heilongjiang Dairy	100.00	0.00	0.00	0.00	0.00	96.75	-1.17	0.00	
P081348	2006	CN-HENAN TOWNS WATER	150.00	0.00	0.00	0.00	0.00	149.63	1.29	0.00	
P069862	2005	CN - Agricultural Technology Transfer	100.00	0.00	0.00	0.00	0.00	87.46	18.36	0.00	
P068752	2005	CN-Inner Mongolia Highway & Trade Corrid	100.00	0.00	0.00	0.00	0.00	76.93	5.26	0.00	
P071094	2005	CN - Poor Rural Communities Development	100.00	0.00	0.00	0.00	0.00	86.25	32.18	0.00	
P072721	2005	CN-GEF-Heat Reform & Bldg Egy Eff.	0.00	0.00	0.00	18.00	0.00	15.09	4.73	0.00	
P075730	2005	CN-HUNAN URBAN DEV	172.00	0.00	0.00	0.00	0.00	160.06	29.73	0.00	
P081161	2005	CN-CHONGQING SMALL CITIES	180.00	0.00	0.00	0.00	0.00	172.38	29.37	0.00	
P081346	2005	CN-LIUZHOU ENVIRONMENT MGMT	100.00	0.00	0.00	0.00	0.00	82.16	-0.74	0.00	
P057933	2005	CN-TAI BASIN URBAN ENVMT	61.00	0.00	0.00	0.00	0.00	37.12	10.18	0.00	
P086505	2005	CN-NINGBO WATER & ENVMT	130.00	0.00	0.00	0.00	0.00	109.66	-2.34	0.00	
P067625	2005	CN-GEF-Renewable Energy Scale-Up Program	0.00	0.00	0.00	40.22	0.00	38.22	-0.35	0.00	
P067828	2005	CN-Renewable Energy Scale-up Program	87.00	0.00	0.00	0.00	0.00	40.02	15.22	0.00	
P087291	2005	CN-PCF Jincheng Coal Bed Methane Project	0.00	0.00	0.00	0.00	0.00	18.13	0.00	0.00	
P081749	2004	CN-Hubei Shiman Highway	200.00	0.00	0.00	0.00	1.00	50.09	-2.24	0.00	
P077615	2004	CN-GEF-Gansu & Xinjiang Pastoral Develop	0.00	0.00	0.00	10.50	0.00	6.95	7.23	0.00	

P077137	2004	CN-4th Inland Waterways	91.00	0.00	0.00	0.00	0.46	66.49	15.28	14.78
P075728	2004	CN-GUANGDONG/PRD UR ENVMT	128.00	0.00	0.00	0.00	0.64	79.51	-7.72	0.00
P084003	2004	CN-GEF GUANGDONG PRD URB ENV	0.00	0.00	0.00	10.00	0.00	9.82	3.57	0.00
P075602	2004	CN-2nd National Railways (Zhe-Gan Line)	200.00	0.00	0.00	0.00	1.00	30.38	-35.29	-36.29
P075035	2004	CN - GEF-Hai Basin Integr. Wat. Env.Man.	0.00	0.00	0.00	17.00	0.00	11.79	8.58	0.00
P073002	2004	CN-Basic Education in Western Areas	100.00	0.00	0.00	0.00	0.00	43.65	37.73	0.00
P065035	2004	CN-Gansu & Xinjiang Pastoral Development	66.27	0.00	0.00	0.00	0.00	30.96	10.86	0.00
P065463	2004	CN-Jiangxi Integrated Agric. Modern.	100.00	0.00	0.00	0.00	0.00	67.63	25.97	0.00
P066955	2004	CN-ZHEJIANG URBAN ENVMT	133.00	0.00	0.00	0.00	0.00	95.14	15.96	0.00
P069852	2004	CN-Wuhan Urban Transport	200.00	0.00	0.00	0.00	1.00	104.50	97.94	0.00
P070441	2003	CN-Hubei Xiaogan Xiangfan Hwy	250.00	0.00	0.00	0.00	0.00	35.55	28.88	0.00
P058847	2003	CN-3rd Xinjiang Hwy Project	150.00	0.00	0.00	0.00	0.00	30.70	21.36	0.00
P070191	2003	CN-SHANGHAI URB ENVMT APL1	200.00	0.00	0.00	0.00	0.00	111.53	43.96	0.00
P067337	2003	CN-2nd GEF Energy Conservation	0.00	0.00	0.00	26.00	0.00	7.57	25.70	0.00
P076714	2003	CN-2nd Anhui Hwy	250.00	0.00	0.00	0.00	0.00	87.60	18.60	0.00
P040599	2003	CN-TIANJIN URB DEV II	150.00	0.00	0.00	0.00	0.00	132.04	54.82	0.00
P068058	2003	CN-Yixing Pumped Storage Project	145.00	0.00	0.00	0.00	0.00	71.81	35.34	0.00
P068049	2002	CN-Hubei Hydropower Dev in Poor Areas	105.00	0.00	0.00	0.00	0.00	20.53	10.27	0.00
P058846	2002	CN-Natl Railway Project	160.00	0.00	0.00	0.00	5.00	3.16	8.16	0.00
P060029	2002	CN-GEF-Sustain. Forestry Dev	0.00	0.00	0.00	16.00	0.00	6.88	13.67	0.00
P070459	2002	CN-Inner Mongolia Hwy Project	100.00	0.00	0.00	0.00	0.00	20.33	2.99	0.00
P064729	2002	CN-Sustainable Forestry Development	93.90	0.00	0.00	0.00	0.00	22.44	10.68	0.00
P071147	2002	CN-Tuberculosis Control Project	104.00	0.00	0.00	0.00	0.00	47.49	24.13	0.00
P045915	2001	CN-Urumqi Urban Transport	100.00	0.00	0.00	0.00	0.00	32.47	32.47	0.00
P047345	2001	CN-HUAI RIVER POLLUTION CONTROL	105.50	0.00	0.00	0.00	0.00	26.40	26.40	-2.01
P056596	2001	CN-Shijiazhuang Urban Transport	100.00	0.00	0.00	0.00	0.00	49.90	49.90	0.00
P056199	2001	CN-3rd Inland Waterways	100.00	0.00	0.00	0.00	0.00	11.74	4.58	0.00
P051859	2001	CN-LIAO RIVER BASIN	100.00	0.00	0.00	0.00	0.00	18.04	16.17	0.00
P042109	2000	CN-BEIJING ENVIRONMENT II	349.00	0.00	0.00	25.00	26.51	187.31	213.82	-11.09
P045910	2000	CN-HEBEI URBAN ENVIRONMENT	150.00	0.00	0.00	0.00	0.00	34.62	31.95	0.00
P049436	2000	CN-CHONGQING URBAN ENVMT	200.00	0.00	0.00	0.00	29.50	66.57	95.53	-2.94
P064924	2000	CN-GEF-BEIJING ENVMT II	0.00	0.00	0.00	25.00	0.00	19.90	25.00	5.81
P056424	2000	CN-Tongbai Pumped Storage	320.00	0.00	0.00	0.00	100.00	34.76	139.96	3.18
P058843	2000	CN-Guangxi Highway	200.00	0.00	0.00	0.00	19.70	3.37	23.07	3.37
P064730	2000	CN-Yangtze Dike Strengthening	210.00	0.00	0.00	0.00	0.00	71.10	71.10	6.43
P036953	1999	CN-Health IX	10.00	50.00	0.00	0.00	0.40	16.73	15.61	15.61
P042299	1999	CN-Tec Coop Credit IV	10.00	35.00	0.00	0.00	5.84	13.38	17.12	0.00
P038121	1999	CN-GEF-RENEWABLE ENERGY DEVELOPMENT	0.00	0.00	0.00	35.00	0.00	8.71	34.77	27.34
P051705	1999	CN-Fujian II Highway	200.00	0.00	0.00	0.00	0.00	15.20	15.20	10.46
P051856	1999	CN-Accounting Reform & Development	27.40	5.60	0.00	0.00	0.00	7.15	7.04	1.83
P036414	1998	CN-GUANGXI URBAN ENVMT	72.00	20.00	0.00	0.00	13.48	19.16	32.05	0.04
P003614	1998	CN-Guangzhou City Transport	200.00	0.00	0.00	0.00	20.00	47.99	67.99	47.99
P003566	1998	CN-BASIC HEALTH (HLTH8)	0.00	85.00	0.00	0.00	0.00	2.59	1.13	0.00
P003539	1998	CN-Sustainable Coastal Resources Dev.	100.00	0.00	0.00	0.00	2.06	15.28	17.34	15.28

	400.00	0.00	0.00	0.00	75.00	4.41	79.41	4.41
Total:	9,707.40	195.60	0.00	260.42	301.59	6,568.46	1,663.47	104.20

CHINA
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2002	ASIMCO	0.00	10.00	0.00	0.00	0.00	10.00	0.00	0.00
2006	ASIMCO	0.00	0.00	4.12	0.00	0.00	0.00	3.61	0.00
2005	BCCB	0.00	59.21	0.00	0.00	0.00	59.03	0.00	0.00
2003	BCIB	0.00	0.00	12.04	0.00	0.00	0.00	0.00	0.00
2006	BUFH	8.14	0.00	0.00	0.00	8.14	0.00	0.00	0.00
2005	Babei	0.00	5.00	0.00	0.00	0.00	5.00	0.00	0.00
	Babei Necktie	11.00	0.00	0.00	6.00	8.94	0.00	0.00	4.88
1999	Bank of Shanghai	0.00	21.76	0.00	0.00	0.00	21.76	0.00	0.00
2000	Bank of Shanghai	0.00	3.84	0.00	0.00	0.00	3.84	0.00	0.00
2002	Bank of Shanghai	0.00	24.67	0.00	0.00	0.00	24.67	0.00	0.00
2005	BioChina	0.00	3.70	0.00	0.00	0.00	3.13	0.00	0.00
2002	CDH China Fund	0.00	2.02	0.00	0.00	0.00	0.00	0.00	0.00
2005	CDH China II	0.00	17.99	0.00	0.00	0.00	11.38	0.00	0.00
2006	CDH Venture	0.00	20.00	0.00	0.00	0.00	0.51	0.00	0.00
2005	CT Holdings	0.00	0.00	40.00	0.00	0.00	0.00	0.00	0.00
2004	CUNA Mutual	0.00	10.53	0.00	0.00	0.00	0.00	0.00	0.00
2006	Capital Today	0.00	25.00	0.00	0.00	0.00	0.32	0.00	0.00
2005	Changyu Group	0.00	18.07	0.00	0.00	0.00	18.07	0.00	0.00
1998	Chengdu Huarong	3.36	3.20	0.00	3.13	3.36	3.20	0.00	3.13
2004	China Green Ener	20.00	0.00	0.00	0.00	15.00	0.00	0.00	0.00
2004	China Re Life	0.00	0.27	0.00	0.00	0.00	0.27	0.00	0.00
1994	China Walden Mgt	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00
2006	Chinasoft	0.00	0.00	15.00	0.00	0.00	0.00	10.00	0.00
2004	Colony China	0.00	15.31	0.00	0.00	0.00	9.29	0.00	0.00
2004	Colony China GP	0.00	0.84	0.00	0.00	0.00	0.49	0.00	0.00
2006	Conch	81.50	40.93	0.00	0.00	81.50	0.00	0.00	0.00
2006	Dagang NewSpring	25.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2002	Darong	10.00	0.24	0.00	8.00	6.67	0.24	0.00	5.33
2006	Deqingyuan	0.00	2.85	0.00	0.00	0.00	2.85	0.00	0.00
1994	Dynamic Fund	0.00	2.21	0.00	0.00	0.00	2.01	0.00	0.00
2007	Epure	0.00	10.00	0.00	0.00	0.00	0.00	0.00	0.00
2004	Fenglin	17.64	0.00	6.00	13.47	13.64	0.00	6.00	12.53
2006	Fenglin HJ MDF	0.23	0.00	0.00	3.27	0.00	0.00	0.00	0.00
2005	Five Star	0.00	0.00	7.00	0.00	0.00	0.00	0.00	0.00
2006	GDIH	50.85	0.00	0.00	0.00	50.85	0.00	0.00	0.00

2003	Great Infotech	0.00	1.73	0.00	0.00	0.00	1.03	0.00	0.00
2006	Hangzhou RCB	0.00	10.85	0.00	0.00	0.00	0.00	0.00	0.00
2005	HiSoft Tech	0.00	4.00	0.00	0.00	0.00	3.00	0.00	0.00
2006	HiSoft Tech	0.00	4.34	0.00	0.00	0.00	1.74	0.00	0.00
2004	IB	0.00	52.18	0.00	0.00	0.00	52.18	0.00	0.00
2004	Jiangxi Chenming	40.00	12.90	0.00	18.76	40.00	12.90	0.00	18.76
2006	Launch Tech	0.00	8.35	0.00	0.00	0.00	8.33	0.00	0.00
2001	Maanshan Carbon	5.25	2.00	0.00	0.00	5.25	2.00	0.00	0.00
2005	Maanshan Carbon	11.00	1.00	0.00	0.00	5.00	1.00	0.00	0.00
2005	Minsheng	15.75	0.00	0.00	0.00	7.00	0.00	0.00	0.00
2006	Minsheng & IB	25.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2001	Minsheng Bank	0.00	23.50	0.00	0.00	0.00	23.50	0.00	0.00
2005	Minsheng Bank	0.00	2.80	0.00	0.00	0.00	2.79	0.00	0.00
2001	NCCB	0.00	8.94	0.00	0.00	0.00	8.82	0.00	0.00
1996	Nanjing Kumho	0.00	3.81	0.00	0.00	0.00	3.81	0.00	0.00
2004	Nanjing Kumho	31.38	2.23	0.00	0.00	31.38	2.23	0.00	0.00
2006	Neophotonics	0.00	0.00	10.00	0.00	0.00	0.00	10.00	0.00
2001	New China Life	0.00	5.83	0.00	0.00	0.00	5.83	0.00	0.00
2005	New Hope	0.00	0.00	45.00	0.00	0.00	0.00	0.00	0.00
1995	Newbridge Inv.	0.00	0.22	0.00	0.00	0.00	0.22	0.00	0.00
2005	North Andre	8.00	6.74	0.00	0.00	0.00	4.25	0.00	0.00
2003	PSAM	0.00	2.01	0.00	0.00	0.00	0.00	0.00	0.00
	RAK China	13.00	0.00	0.00	0.00	13.00	0.00	0.00	0.00
2006	Renaissance Sec	0.00	0.00	20.04	0.00	0.00	0.00	0.00	0.00
2006	Rongde	0.00	35.00	0.00	0.00	0.00	31.38	0.00	0.00
	SAC HK Holding	0.00	1.60	0.00	0.00	0.00	1.00	0.00	0.00
2003	SAIC	12.00	0.00	0.00	0.00	12.00	0.00	0.00	0.00
2006	SBCVC	0.00	20.00	0.00	0.00	0.00	2.00	0.00	0.00
2000	SEAF SSIF	0.00	3.74	0.00	0.00	0.00	3.37	0.00	0.00
	SH Keji IT	3.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2004	SHCT	38.18	0.00	0.00	28.64	29.04	0.00	0.00	21.78
2004	SIBFI	0.14	0.07	0.00	0.00	0.00	0.07	0.00	0.00
1998	Shanghai Krupp	19.25	0.00	0.00	36.75	19.25	0.00	0.00	36.75
2006	Shanshui Group	50.00	5.50	2.20	0.00	50.00	5.50	0.00	0.00
1999	Shanxi	12.61	0.00	0.00	0.00	12.61	0.00	0.00	0.00
	SinoSpring	0.00	0.00	20.00	0.00	0.00	0.00	0.00	0.00
	Stora Enso	20.83	0.00	0.00	4.17	11.00	0.00	0.00	0.00
2005	Stora Enso	29.17	0.00	0.00	20.83	0.00	0.00	0.00	0.00
2006	Stora Enso	50.00	0.00	0.00	175.00	0.00	0.00	0.00	0.00
2006	TBK	4.00	0.00	0.00	0.00	2.00	0.00	0.00	0.00
2006	VeriSilicon	0.00	1.00	0.00	0.00	0.00	1.00	0.00	0.00
	Wanjie High-Tech	9.89	0.00	0.00	0.00	9.89	0.00	0.00	0.00
2004	Wumart	0.00	1.62	0.00	0.00	0.00	1.62	0.00	0.00
2003	XACB	0.00	17.95	0.00	0.00	0.00	0.64	0.00	0.00
2004	Xinao Gas	25.00	10.00	0.00	0.00	25.00	10.00	0.00	0.00
2006	Zhejiang Glass	50.00	24.96	0.00	18.00	0.00	0.00	0.00	0.00
2003	Zhengye-ADC	10.43	0.00	0.00	4.87	10.43	0.00	0.00	4.87
2002	Zhong Chen	0.00	4.78	0.00	0.00	0.00	4.78	0.00	0.00
2006	Zhongda_Yanjin	21.89	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Total portfolio:	733.58	577.30	181.40	340.89	470.95	371.06	29.61	108.03
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FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
2002	SML	0.00	0.00	0.00	0.00
2004	NCFL	0.00	0.00	0.02	0.00
2007	Xinao CTC	0.04	0.01	0.00	0.14
2004	China Green	0.00	0.00	0.01	0.00
2006	Launch Tech	0.01	0.00	0.00	0.00
2005	MS Shipping	0.00	0.01	0.00	0.00
2003	Peak Pacific 2	0.00	0.01	0.00	0.00
Total pending commitment:		0.05	0.03	0.03	0.14

Annex 14: Country at a Glance

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

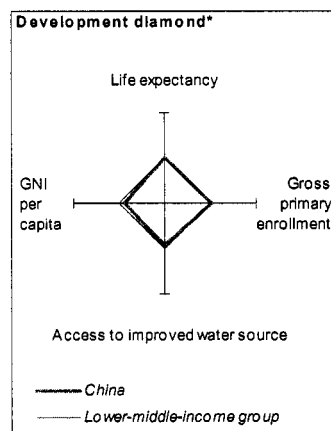
POVERTY and SOCIAL	China	East Asia & Pacific	Lower-middle-income
2005			
Population, mid-year (millions)	1,304.5	1,885	2,475
GNI per capita (Atlas method, US\$)	1,740	1,627	1,918
GNI (Atlas method, US\$ billions)	2,289.8	3,087	4,747

Average annual growth, 1999-05

Population (%)	0.7	0.9	1.0
Labor force (%)	1.0	1.3	1.4

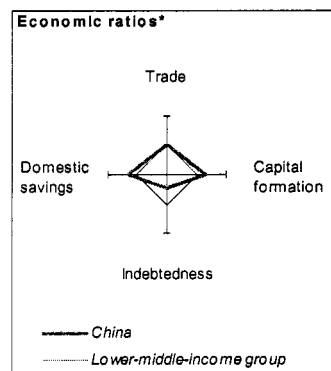
Most recent estimate (latest year available, 1999-05)

Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	40	41	50
Life expectancy at birth (years)	71	70	70
Infant mortality (per 1,000 live births)	26	29	33
Child malnutrition (% of children under 5)	8	15	12
Access to an improved water source (% of population)	77	79	82
Literacy (% of population age 15+)	91	91	89
Gross primary enrollment (% of school-age population)	118	115	114
Male	118	116	115
Female	117	114	113



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

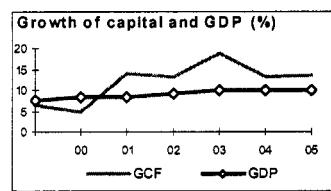
	1985	1995	2004	2005
GDP (US\$ billions)	304.9	728.0	1,931.7	2,228.9
Gross capital formation/GDP	37.8	39.3	38.7	..
Exports of goods and services/GDP	10.0	23.1	34.0	..
Gross domestic savings/GDP	33.6	41.5	41.2	..
Gross national savings/GDP	34.0	40.1	42.2	..
Current account balance/GDP	-3.8	0.8	3.6	5.0
Interest payments/GDP	0.2	0.6	0.2	..
Total debt/GDP	5.5	16.2	12.9	..
Total debt service/exports	7.7	8.6	3.5	..
Present value of debt/GDP	..	..	12.5	..
Present value of debt/exports	..	..	35.7	..



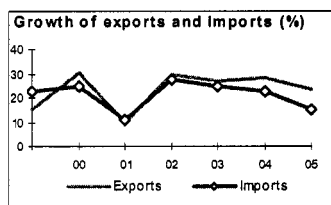
(average annual growth)	1985-95	1995-05	2004	2005	2005-09
GDP	9.7	8.8	10.1	9.9	8.0
GDP per capita	8.2	8.0	9.4	9.2	7.3
Exports of goods and services	9.4	19.7	28.4	23.6	10.3

STRUCTURE of the ECONOMY

(% of GDP)	1985	1995	2004	2005
Agriculture	28.4	19.8	13.1	..
Industry	43.1	47.2	46.2	..
Manufacturing	34.9	..	..	..
Services	28.5	33.1	40.7	..
Household final consumption expenditure	53.2	47.5	48.5	..
General gov't final consumption expenditure	13.2	11.0	10.2	..
Imports of goods and services	14.1	20.9	31.4	..



(average annual growth)	1985-95	1995-05	2004	2005
Agriculture	4.2	3.3	6.3	5.0
Industry	12.8	9.9	11.1	10.8
Manufacturing	10.0	..	..	..
Services	9.5	9.7	9.8	10.1
Household final consumption expenditure	10.2	5.7	1.1	..
General gov't final consumption expenditure	9.4	8.9	6.8	..
Gross capital formation	9.4	10.1	13.0	13.5
Imports of goods and services	10.3	17.4	22.5	15.3



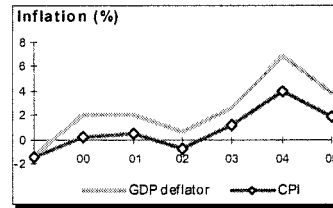
Note: 2005 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

*The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

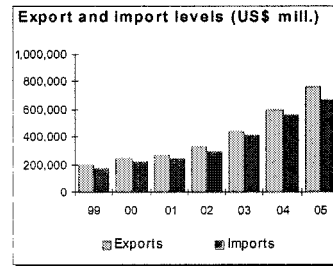
PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
Domestic prices (% change)				
Consumer prices	..	16.9	4.0	18
Implicit GDP deflator	10.1	13.7	6.9	3.8
Government finance (% of GDP, includes current grants)				
Current revenue	28.0	10.8	16.6	17.5
Current budget balance	7.3	0.6	17	2.0
Overall surplus/deficit	0.0	-15	-15	-13



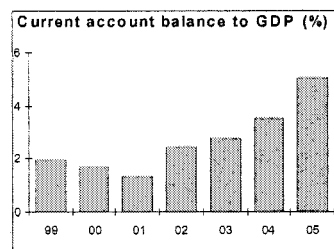
TRADE

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total exports (fob)	27,350	148,780	593,369	771,511
Food	3,803	9,954	18,870	..
Mineral fuels, lubricants, and related material	7,332	5,332	14,476	..
Manufactures	13,522	127,295	552,818	727,191
Total imports (cif)	42,252	132,084	561,423	674,331
Food	1,553	6,132	9,156	..
Fuel and energy	172	5,127	48,003	..
Capital goods	16,239	52,642	252,624	230,369
Export price index (2000=100)	52	118	102	106
Import price index (2000=100)	74	107	112	119
Terms of trade (2000=100)	70	110	91	88

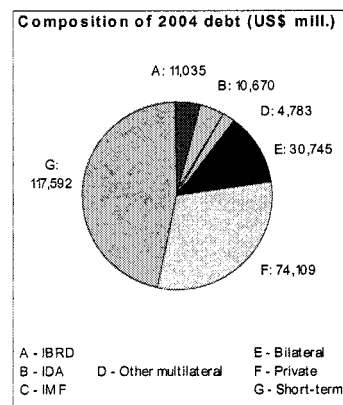


BALANCE of PAYMENTS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Exports of goods and services	30,489	167,974	655,827	843,537
Imports of goods and services	43,092	151,862	606,543	746,150
Resource balance	-12,602	16,092	49,284	97,386
Net income	841	-11,774	-3,523	4,668
Net current transfers	243	1,434	22,898	10,000
Current account balance	-11,518	5,752	68,659	112,055
Financing items (net)	6,096	16,711	137,705	98,000
Changes in net reserves	5,422	-22,463	-206,364	-210,055
Memo:				
Reserves including gold <i>(US\$ millions)</i>	..	80,277	622,945	826,303
Conversion rate <i>(DEC, local/US\$)</i>	2.9	8.4	8.3	8.2


EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	16,696	118,090	248,934	..
IBRD	498	7,209	11,035	11,140
IDA	431	7,038	10,670	9,741
Total debt service	2,478	15,066	23,657	..
IBRD	26	810	1,054	1,139
IDA	4	63	264	296
Composition of net resource flows				
Official grants	117	330	381	..
Official creditors	117	7,902	16	..
Private creditors	2,867	5,013	7,970	..
Foreign direct investment (net inflows)	1,659	35,849	54,936	..
Portfolio equity (net inflows)	0	0	10,923	..
World Bank program				
Commitments	1,092	3,148	1,285	..
Disbursements	565	2,269	1,188	1,111
Principal repayments	0	364	999	1,004
Net flows	565	1,905	190	127
Interest payments	29	509	319	430
Net transfers	536	1,396	-130	-303



Note: This table was produced from the Development Economics LDB database.

8/12/06

Annex 15: Maps

CHINA: CN-Gansu Cultural and Natural Heritage Protection and Development

