



Project Administration Memorandum

Project Number: 36507
Loan Number: 2175
July 2006

PRC: Jilin Water Supply and Sewerage Development Project

The project administration memorandum is an active document, progressively updated and revised as necessary, particularly following any changes in project or program costs, scope, or implementation arrangements. This document, however, may not reflect the latest project or program changes.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 February 2005)

Currency Unit	–	Yuan (CNY)
CNY 1.00	=	\$0.121
\$1.00	=	CNY8.27

ABBREVIATIONS

ADB	–	Asian Development Bank
AP	–	Affected person
CMG	–	Changchun Municipal Government
EIA	–	environmental impact assessment
EMP	–	environmental management plan
EPB	–	environmental protection bureau
IA	–	Implementing Agency
JPG	–	Jilin Provincial Government
FMA	–	Financial Management Assessment
LIBOR	–	London interbank offered rate
LMG	–	Liaoyuan Municipal Government
MMG	–	Meihekou Municipal Government
NGWWT	–	National Guidelines on Wastewater Tariffs
NGWT	–	National Guidelines on Water Tariffs
O&M	–	operations and maintenance
PIU	–	project implementing unit
PMO	–	project management office
PRC	–	The People's Republic of China
PSC	–	Project steering committee
RP	–	resettlement plan
SEPA	–	State Environmental Protection Agency
SRB	–	Songhua River Basin
UFW	–	unaccounted for water
WACC	–	Weighted Average Cost of Capital
WPA	–	water purchase agreement
WSC	–	water supply company
WTP	–	Water Treatment Plant
WWTP	–	Wastewater Treatment Plant

WEIGHTS AND MEASURES

Ha	–	Hectare
Km	–	Kilometer
Lpcd	–	liter per capita per day
M ³	–	cubic meter

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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PROJECT ADMINISTRATION MEMORANDUM

PREFACE

The Project Administration Manual (PAM) is intended to provide details of the Project components, Project inputs, financing plan, and implementation arrangements to facilitate implementation. The PAM will be the primary reference during Project implementation and will be updated periodically to incorporate significant changes in Project scope and implementation arrangements.

Project implementation is subject to the provisions of the applicable Project Agreement. The PAM will amplify and explain application of those provisions and will replace the Report and Recommendation of the President (RRP) and the Memorandum of Understanding (MOUs) prepared during project processing as the principal reference document for implementation.

a. Loan Processing History	<u>Date(s)</u>
Project Preparatory Technical Assistance (PPTA Fact-Finding Mission	27 Aug – 12 Sep 2003
Consultants' Selection	17 Dec 2003
Approval of PPTA	26 Nov 2003
PPTA Consultants' Contract Negotiation	6 Apr 2004
Fielding of PPTA Consultants	17 May 2004
Consultants' Submission of Inception Report	20 June 2004
Review Mission of PPTA	17 August 2004
Consultants' Submission of Interim Report	1 September 2004
Consultants' Submission of Draft Final Report	18 Nov 2004
PPTA Tripartite Review Mission	23 Nov 2004
Loan Fact-Finding Mission	22 Nov – 10 Dec 2004
Summary Resettlement Action Plan on ADB web site	December 2004
Management Review Meeting	22 Feb 2005
Completion of Feasibility Study and Final Report	
Loan Appraisal	28 Feb – 11 Mar 2005
Staff Review Committee Meeting	14 Apr 2005
Loan Negotiations	8 – 10 Jun 2005
Board Circulation	28 Jun 2005
Board Consideration and Approval	18 July 2005
Loan Agreement and Signing	29 September 2005
Loan Effectiveness	13 December 2005

Project Implementation

	<u>Date(s)</u>
Loan Inception Mission	20 – 25 February 2006
Initial Disbursement to the Imprest Account	
Loan Review Mission	
Loan Review Mission	
Loan Review Mission	
Midterm Review Mission	
Loan Review Mission	
Loan Review Mission	
Project Completion Review Mission	

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Enhanced urban environment, and improved public health and quality of life for the urban residents in the cities of Changchun, Liaoyuan, and Meihekou</p>	<p>Eliminate water supply interruption from the current 5–7 hours per day to zero by 2010.</p> <p>Water quality of Yitong and Yongchun rivers that flow into the Songhua River Basin will be improved from the current class IV-V to class III by 2010</p> <p>Composite incidence of diarrhea and hepatitis A drop below 2003 levels of 1.83, 1.53, and 1.49 per 1,000 persons in Changchun, Liaoyuan, and Meihekou respectively</p>	<p>Household surveys and public feedback at public hearing meetings for tariff adjustments</p> <p>Environmental monitoring data of local environmental protection bureau and state environmental protection administration</p> <p>Municipal government health bureau data on drinking water quality and the incidence of infectious disease</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Changchun, Liaoyuan, and Meihekou Tenth Five-Year Plan for Environmental Management is effectively implemented • Changchun, Liaoyuan, and Meihekou urban city plans are successfully implemented • All applicable local and national environmental laws in the People's Republic of China (PRC) are effectively enforced <p>Risks</p> <ul style="list-style-type: none"> • In stream water, quality monitoring data do not provide sufficient information to detect trends
<p>Outcome</p> <p>Improved management and utilization of water resources in the upper Songhua River Basin</p>	<p>Wastewater effluent pollutant loadings from Changchun to the Songhua River Basin fall by 2010 by the following amounts annually: 15,500 tons of biochemical oxygen demand, 27,600 tons of chemical oxygen demand, 17,900 tons of suspended solids, 1,570 tons of ammonia nitrogen, 270 tons of total phosphorous</p> <p>Recovery of the groundwater aquifer in Shuangyang and Meihekou by more than 85% by 2011</p> <p>Increase water supply service coverage of the urban population in Shuangyang (90%), Meihekou (85%), and Liaoyuan (85%) by 2010</p> <p>More than 50% reduced disruption and damage due to flooding in Liaoyuan and along the Yongchun River in Changchun by 2010</p>	<p>Wastewater effluent quality and quantity monitoring data</p> <p>Water supply company well log data</p> <p>Changchun statistical yearbook</p> <p>Household surveys</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Industrial demand for recycled nonpotable effluent will develop • Continued growth in demand for water supply and wastewater services to achieve full capacity utilization and generate revenue to finance investments • Customers are willing to pay increased tariffs • Infrastructure assets are properly maintained <p>Risks</p> <p>Existing (or enhanced) pollution prevention and control policies do not continue to be implemented by central and local government</p>

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
Outputs			
1. Improve and expand wastewater services in Changchun and Liaoyuan.	70% of wastewater collected and treated in Changchun by 2010 Provide wastewater service to 85% of the urban population in Changchun by 2010 70% of wastewater collected and treated in Liaoyuan by 2010	Site inspection and project implementation reports Wastewater system operator production statistics (rate of capacity utilization, effluent flows)	<p>Assumptions</p> <ul style="list-style-type: none"> Timely construction of the Nanjiao wastewater treatment plant (WWTP) and upgrading of the Timely construction of the Nanjiao wastewater treatment plan (WWTP) and upgrading of the Beijiao WWTP Changchun environmental protection bureau enforces environmental standards <p>Risks</p> <ul style="list-style-type: none"> Follow-on investments to connect customers to new sewers are not made quickly enough
2. Improve and expand water supply services in Changchun, Liaoyuan, and Meihekou.	Provide tertiary treatment and reuse 150,000 m ³ /day for irrigation and industrial use in Changchun by 2010 Achieve the PRC drinking water quality standards in the distribution systems for Shuangyang, Meihekou and Liaoyuan (system pressure, residual chlorine, hours of service, E. coli occurrence)	Sales records of the implementing agencies (IAs) for recycled wastewater effluent Demand and production statistics (rate of capacity utilization, average and maximum day demand) of water supply companies (WSC) WSC drinking water quality monitoring program data	<p>Assumptions</p> <ul style="list-style-type: none"> Changchun, Liaoyuan,, and Meihekou municipal governments' health bureaus enforce drinking water quality standards and monitoring requirements <p>Risks</p> <ul style="list-style-type: none"> Reluctance to use treated wastewater effluent
3. Reduce flooding in Changchun (Yongchun River) and Liaoyuan.	Flooding frequency, duration and extent reduced by 50% along the Yongchun River in the Changchun by 2010 Reduced frequency of drain overflow and local flooding in Liaoyuan	Stream flow records of the Changchun Water Resources Bureau for the Yitong River Observations of Liaoyuan government staff involved in drain maintenance	<p>Assumptions</p> <ul style="list-style-type: none"> Rehabilitated drains are maintained and cleaned on a regular basis <p>Risks</p> <ul style="list-style-type: none"> A 5-year record (2006–2010) is probably too short to monitor impacts on flooding.

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
4. Increase the institutional capacity of the IAs in Changchun, Liaoyuan, and Meihekou.	<p>The 5 IAs have functioning boards of directors and operate as independent corporations by 2006.</p> <p>The IAs provide 45 staff and resources, as indicated in the cost estimates, to implement the Project</p> <p>The IAs review and improve policies for cost control, internal financial control</p> <p>Tariffs are reviewed annually and adjusted as needed to achieve 100% cost recovery by 2010</p>	<p>WSC records concerning tariff adjustments and related public hearing Meetings</p> <p>WSC annual financial statements and audit reports</p> <p>Asian Development Bank (ADB) review Missions</p> <p>Household surveys.</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • WSCs allowed to exercise independent management • Government approves necessary tariff adjustments <p>Risks</p> <ul style="list-style-type: none"> • Lack of local government support for reform process • Adjustments in tariffs may be blocked by opposition at public hearing meetings
5. Resettlement	Resettle 1,799 persons (502 households)	<p>Independent international advisor and monitors</p> <p>Domestic advisors</p> <p>Regular reports to ADB</p> <p>Resettlement bureaus, village committees, and other local government agencies</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Entitlement paid as required on a timely basis • Effective assimilation into host communities • Training is successful <p>Risk</p> <ul style="list-style-type: none"> • Safety net/fund is not provided in timely manner
Activities with Milestones			Inputs
<p>1. Improve and expand wastewater services in Changchun and Liaoyuan:</p> <ul style="list-style-type: none"> • Complete Beijiao sewerage improvements by June 2010 (216 kilometers [km] of new sewers and drainage pipelines, 2 sewage pumping stations, 6 new maintenance stations). • Build Beijiao WWTP by June 2009 (secondary treatment works capacity of 130,000 m³/day (land acquisition and resettlement [LAR]). • Build Nanjiao WWTP by June 2009 (secondary WWTP capacity of 100,000 m³/day, LAR). • Complete Liaoyuan sewerage improvements by June 2009 (3 sewage pump stations and 12 km of sewers). 			<ul style="list-style-type: none"> • ADB inputs <ul style="list-style-type: none"> - Provide \$100 million loan - Undertake review missions - Provide training in ADB procedures • Governments and IAs (JPG, CMG, LMG, MMG) <ul style="list-style-type: none"> - Provide \$126 million equivalent in counterpart funds

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>2. Improve and expand water supply services in Changchun, Liaoyuan, and Meihekou:</p> <ul style="list-style-type: none"> • Build Beijiao wastewater reuse treatment facility by June 2009 (wastewater effluent tertiary treatment 100,000 m³/day for reuse). • Build Nanjiao wastewater reuse treatment facility by June 2009 (effluent reuse distribution network, wastewater effluent tertiary treatment 50,000 m³/day for reuse, LAR). • Complete Shuangyang water supply improvements by Dec 2008 (39,000 m³/day raw water pump station, 3.2 km of raw water transmission pipeline, 36,000 m³/day WTP, LAR). • Complete Liaoyuan improvements by June 2009 (upgrade Long Shan WTP—30,000 m³/day, upgrade He Bing WTP 80,000 m³/day, build 17 pump stations, rehabilitate 53.1 km of water distribution mains). • Complete Meihekou water supply improvements by June 2009 (40 km raw water transmission pipeline, WTP.100,000 m³/day, 55.5 km of water supply pipeline, LAR). 			<ul style="list-style-type: none"> - Secure a \$6 million equivalent local bank loan - Undertake on lending arrangements and loan management - Hire design institutes, and secure other consulting services - Contract tendering, select contractors, contract management - Initiate and support institutional reforms and capacity building - Provide planning and resources for public information and consultation activities
<p>3. Reduce flooding in Changchun (Yungchun River) and Liaoyuan:</p> <ul style="list-style-type: none"> • Complete Yongchun River improvements by June 2009 (rehabilitate 4.8 km of river channel) and LAR. • Complete Liaoyuan local drainage improvements by June 2009 (4 km open box channels and 4.3 km box culverts, LAR). 			
<p>4. Increase the institutional capacity of the IAs in Changchun, Liaoyuan, and Meihekou:</p> <ul style="list-style-type: none"> • Complete organizational arrangements for project management offices (PMOs) in Changchun, Liaoyuan, and Meihekou IAs (establish boards of directors, hire staff) by June 2005. • Complete organizational arrangements for the Shuangyang IA (hire staff; set up accounting system, financial policies and procedures, human resource policies and procedures, other administrative policies procedures; set up PMO) • Develop plans, budgets, procedures for loan implementation, and project control in all PMOs by Dec 2005 (set up budgets, project accounts, Develop plans, budgets, procedures for loan implementation, and project control in all PMOs by Dec 2005 (set up budgets, project accounts, reporting systems, disbursement procedures, budget tracking procedures, cost controls, inventory systems, etc.) • Complete IA and government staff training by Dec 2009 (training in ADB procedures for LAR and loan disbursement, water supply and wastewater treatment operations, environmental monitoring and management, finance). • Complete review and adjustment of wastewater tariffs in Changchun and water supply tariffs in Liaoyuan, Meihekou, and Shuangyang, annually through to Dec 2010 (set budgets, estimate full-cost tariffs, review existing tariffs, and propose adjustments as needed, public information and consultations, approvals). • Undertake public education in hygiene, environmental awareness, and water supply and wastewater planning on an ongoing basis through to Dec 2010. 			

I. PROJECT DESCRIPTION

A. Project Area and Location

1. The Project is located in the capital city of Changchun and the districts of Shuangyuang, Liaoyuan, and Meihekou of Jilin Province with a total population of over 4 million.

B. Project Objectives and Scope

2. The Project will enhance the urban environment and improve public health and quality of life for urban residents of the project cities by increasing wastewater coverage and improving the supply of potable water. The putcome of the Project will be improved management and utilization of water resources in the Songhua River Basin by (i) achieving the goal of 70% wastewater treatment rate in Changchun by 2010; (ii) solving the water shortage problem through effluent reuse; (iii) increasing flood control; (iv) providing a supply of reliable and high-quality potable water; (v) reducing the incidence of waterborne diseases such as diarrhea and hepatitis A; (vi) increasing the efficiency and management capacity of the IAs; (vii) integrating approaches for basinwide pollution prevention and control; and (viii) improving cost recovery through a better tariff structure, with gradual increases to achieve full cost recovery.

C. Project Components

3. The Project has five physical components: (i) Changchun wastewater treatment and sewerage system, (ii) the Shuangyuang water supply system, (iii) Changchun Yongchun River flood control capacity, (iv) Liaoyuan water supply system, and (v) Meihekou water supply system. The Project also includes capacity building to support project management and implementation, by improving the capabilities of the project management office (PMO) and implementing agencies (IAs).

4. The improvement and expansion of wastewater services in Changchun includes (i) upgrading the existing Beijiao primary wastewater treatment plant (WWTP) to secondary treatment with a capacity of 130,000 m³/day including recycling of treated wastewater; (ii) constructing sewerage pipelines, pumping stations, and maintenance and management stations; and (iii) constructing a 150,000 m³/day Nanjiao WWTP including recycling of treated wastewater. These improvements will result in 70% of the wastewater treated and wastewater services coverage increased to 85% of the urban population in Changchun by 2010. The improvement and expansion of the Shuangyang water supply system involves constructing a WTP with a capacity of 36,000 m³/day, with a related water pumping station to extract surface water from Shuanyuang reservoir, and pipelines to convey treated water from the WTP to the district's distribution network.

5. The Changchun Yongchun River flood control improvement component involves improving the dam and spillway of the Sanjia reservoir, widening the Yongchun River, and constructing seven new box culverts.

6. The improvement and expansion of the water supply and sewerage system in Liaoyuan includes (i) upgrading two existing WTPs to enable full utilization of their design capacity; (ii) improving the water distribution network by constructing booster pumping stations, rehabilitating existing water supply networks, and laying new water supply pipelines; (iii) upgrading the drainage/sewerage network to separate the drainage and sewerage systems including constructing sewerage pipelines and three wastewater pumping stations; and (iv) constructing storm-water open channels and box culverts to collect mountain terrain runoff for flood mitigation.

7. The improvement and expansion of the Meihekou water supply system includes (i) constructing a WTP with a capacity of 100,000 m³/day and a 40 km raw water transmission pipeline to convey surface water from the Hailong reservoir to the WTP, and (ii) upgrading 56 km of the existing water distribution network. Under the institutional capacity building component, the PMO and IAs will develop expertise in (i) efficient operation of the facilities; (ii) functional areas covering administration, finance, accounting, and business planning; (iii) human resource development; and (iv) cost-recovery and financial sustainability aspects including tariff review and increases to reflect inflation, increasing operating costs, and managing currency fluctuations and collections.

8. Beneficial outputs include increased access to and improved quality of water supply and wastewater services, protection from flooding, and elimination of hazards associated with poor drainage. These benefits fall disproportionately to women and the poor. Women benefit because they now assume primary responsibility for measures taken to cope with flooding, and poor water supply and wastewater services. The poor will benefit because they can least afford to pay for these coping mechanisms. Moreover, existing and proposed cost-recovery measures and poverty reduction policies protect the poor from any increases in tariffs required to finance the subprojects.

D. Special Features

9. The funding of the Project directly from water and wastewater tariffs is a major reform in line with the ADB water policy. This is expected to reduce water consumption and increase recycling of industrial water. ADB involvement in the Project, coupled with water tariff increases, is expected to have a catalytic effect in attracting future private sector participation. Recycling wastewater at a rate of 150,000 m³/day will have two significant benefits: reduce water pollution and address water shortage problems. Further, the demonstration of a successful wastewater recycling subproject will encourage replication of similar optimal and cost-effective approaches to address water pollution and water shortage.

10. To safeguard the quality of water from the Shuangyang reservoir for the Shuangyang water supply and the Hailong reservoir for the Meihekou water supply, and to prevent pollution in the upstream part of these reservoirs, Shuangyang and Meihekou water resource protection committees will be established before August 2005. They will coordinate and facilitate environmental monitoring and mitigation, and address the interests of stakeholders, before, during, and after project implementation. Plans include (i) closing off the reservoir to the general public, and (ii) restricting access to the catchment areas to prevent any pollution entering the water system upstream.¹ The committees will increase environmental awareness in the project area, develop cooperation between various regional stakeholders by sharing data, and provide a forum for discussion of environmental issues not related to the Project. The committees will be chaired by the vice mayor of Meheikou and/or Shuangyang, and comprise members of concerned provincial and municipal environment protection bureaus, IAs, and civil society.

1. Land Acquisition and Resettlement

11. Impacts related to resettlement (physical and economic displacement) include people affected by (i) permanent acquisition of land for the WWTP and pumping stations, (ii) temporary use of land for installation of trunk sewers and water pipelines, and (iii) demolition of houses and shops. Resettlement requirements have been carefully considered and incorporated into the project design. All project components were planned to minimize disruption of residential areas and villages, and maintain village cohesion. The Project will require the permanent acquisition of 78 hectares (ha) of land, temporary acquisition of 202 ha, and dismantling of 62,700 m² of

¹ Three concentric reservoir protection zones will prevent development activities.

residential houses and 2,077 m² of commercial buildings. In total, 244 households with 911 people will be permanently affected by land acquisition, and 502 households with 1,799 people by the dismantling of houses. In addition, two enterprises and 18 shops will be affected. The compensation of the permanent land loss is based on PRC Land Administration Law (1998) and the State Council Decision to Deepen Reform and Strictly Enforce Land Administration (28 November 2004).

12. The total cost for both land acquisition and resettlement is estimated to be CNY179.43 million or \$21.62 million. Resettlement impacts were identified and six resettlement plans (RPs) prepared in accordance with PRC laws and ADB policy on involuntary resettlement.² The RPs provide a socioeconomic profile of those affected and the scope of the impacts; and addresses issues related to entitlements for compensation, legal framework, public consultations, grievance procedures, rehabilitation measures, budget, and monitoring and implementation milestones.

13. JPG, CMG, LMG, MMG, and the IAs implemented the ADB full disclosure policy for the resettlement activities, including (i) disclosure of the summary resettlement plan attached to the summary environmental impact assessment (SEIA) circulated to the Board on 28 December 2004; (ii) distribution of the Resettlement Information Booklet to affected households and village offices between August 2004 and January 2005; and, (iii) posting of the RPs in village offices and resident committees in January 2005, and on the ADB website in May 2005.³ The PMO has established subproject resettlement units for supervision and monitoring in April 2005.

14. All those affected will be compensated and resettled in a timely and adequate manner in accordance with the RPs so that they will be at least as well off as they would have been without the Project. To ensure that they have been adequately compensated and rehabilitated, JPG and the IAs will (i) keep ADB informed of RP implementation through quarterly progress reports until resettlement is complete, and (ii) prepare resettlement completion reports and a post-resettlement impact evaluation report and submit it to ADB. JPG and the IAs will engage an independent agency for semiannual monitoring and annual evaluation of land acquisition and resettlement until 2 years after the completion of land acquisition and resettlement. The summary RP is provided in **Appendix 1**.

2. Poverty Reduction and Social Benefits

15. The Project will benefit about 3 million urban people in Changchun, Liaoyuan, and Meihokou, through the provision of clean water, expansion of wastewater capacity, and increased flood protection. Of the total beneficiary population, about 210,000 or 7.0% are classified as poor measured by the weighted average local urban poverty line of CNY1,875 per year. The Project will support poverty reduction by (i) providing safer and more reliable urban water supplies; (ii) improving the natural environment by increased wastewater treatment; (iii) reducing morbidity due to decreased exposure to waterborne diseases such as diarrhea and hepatitis A; (iv) reducing risk of frequent local flooding by improving collection and disposal of wastewater and storm water; (v) reducing the risk of major flooding through river training and reservoir rehabilitation works; and (vi) providing employment opportunities for the poor.

16. The Project will improve public health by reducing waterborne diseases through improved water supply, expanded wastewater capacity, and increased flood protection. An order of magnitude analysis of the impact on morbidity and mortality was completed for the Project (Supplementary Appendix H). The Project is expected to reduce disease episodes by an

² ADB. 1998. The Bank's Policy on Involuntary Resettlement.

³ All RPs were uploaded on the ADB website on 22 May 2005.

average of 8,000 cases per year. One in 20 of these cases, or 400 cases, is likely to be serious enough to result in a medical consultation. Provision of clean water will improve the quality of life of the poor and vulnerable by reducing the proportion of household income spent on medical treatment for waterborne diseases. The number of school days and workdays lost due to sickness will also be reduced. Further, the Project will reduce the proportion of household income spent on buying water from private sources and buying storage containers, filters, and other water-cleaning equipment. Water pressure improvements will greatly enhance the quality of life of households living in apartments and reduce their water-pumping costs. Improved water supply will significantly reduce the time, cost, and labor that mainly women spend on collecting water, cleaning containers, and improving water quality. The increased flood control will reduce the risk of infection from overflowing sewers during the flooding season.

17. The Project will create 3,200 full-time jobs during the 5 years of construction. The poor and women will fill about one half of these jobs. Project operations will create 567 full-time permanent jobs; many will be available to unemployed persons with basic technical training. Project-related services, such as procurement of construction materials and equipment, and follow-on multiplier effects will create an additional 5,000 jobs. Those temporarily employed in construction operations will benefit from additional training and experience that will provide them with opportunities in planned infrastructure construction.

18. In the project area, the major social measures to protect urban residents from falling into poverty include (i) living allowance for laid-off employees, (ii) unemployment insurance, and (iii) social support program under the minimum living standard scheme. Further, CMG, LMG, and MMG have agreed to implement poverty reduction⁴ measures including (i) lifeline tariffs, (ii) water bill discounts or cash rebates amounting to 50% of the monthly water bill for households living below the poverty line; and (iii) connections for the poorest households to tap water in Liaoyuan, Meihekou, and Shuangyang district in Changchun. The Project will promote public awareness and education programs about project benefits, public hygiene, and consumer behavior on water saving and managing wastewater disposal. The summary poverty reduction and social strategy is in **Appendix 2**.

3. Environment

19. The Jilin Environmental Protection Bureau has already approved the environmental impact assessment reports for all project components. The SEIA along with the summary RP was circulated to the ADB Board on 28 December 2004 and posted on the ADB website on 29 December 2004. The Project will improve the urban environment and surface water quality, primarily in the Yitong and Yongchun rivers, which flow into the SRB. The Project will target substantial improvements in wastewater management in Changchun and Liaoyuan, which will have significant positive effects on water pollution control in the upper reaches of the SRB. The Project will provide clean and reliable water supply to Liaoyuan, Meihekou, and Shuangyang district in Changchun, secured from rivers and existing reservoirs instead of from overexploited groundwater. The Project will have an overwhelming positive environmental impact and any environmental risks during construction will be mitigated through measures in the SEIA. The SEIA summarizes the environmental impacts, mitigation measures, and monitoring plans. About 100 million m³ annually of untreated wastewater will be treated under the Project. The environmental management plan, prepared as part of the SEIA, will guide environmental mitigation and monitoring under the Project. Extensive public consultations were undertaken twice during TA implementation involving 35–40 stakeholders.

⁴ The TA study (i) defined poverty levels used in the analysis, (ii) assessed and provided an income and expenditure profile of poor households based on a household survey of 1,200 households, (iii) evaluated and recommended measures to alleviate the impacts of increased water and wastewater tariffs on the poor, and (iv) assessed the positive impacts of the Project on the poor and low-income beneficiaries.

II. COST ESTIMATES AND FINANCING PLAN

A. Cost Estimates

20. The total Project cost is \$232.2 million equivalent, including a foreign exchange cost of \$110.8 million (48%) and a local currency cost of \$121.4 million equivalent (52%). Table 1 provides a summary of cost estimates. Cost estimates and financing plan are in **Appendix 3**.

TABLE 1: COST ESTIMATES
(\$ million)

Component	Foreign Exchange	Local Currency ^e	Total Cost
A. Base Costs^a			
1. Changchun Water Supply and Wastewater Treatment			
1. Beijiao WWTP and Treated Wastewater Reuse	16.5	14.0	30.5
2. Nanjiao WWTP and Treated Wastewater Reuse	15.6	21.9	37.5
3. Beijiao Sewer Mains Construction and Rehabilitation	18.9	20.2	39.1
4. Shuangyang Water Supply Facilities	2.9	2.9	5.8
5. Yongchun River Integrated Treatment	6.4	13.4	19.8
2. Liaoyuan Water Supply			
1. Water Treatment Plants Rehabilitation	2.6	1.0	3.6
2. Water and Wastewater Pipes, Pump Stations	10.9	12.4	23.3
3. Meihekou Water Supply Capacity	12.6	21.5	34.1
4. Project Management	1.3	0.0	1.3
Subtotal (A)	86.3	108.9	195.2
B. Contingencies			
1. Physical ^b	8.6	10.9	19.5
2. Price ^c	2.2	2.4	4.6
Subtotal (B)	10.8	13.3	24.1
C. Financing Charges During Implementation^d	12.3	0.8	13.1
Total	10.8	121.4	232.2

WWTP= Wastewater Treatment Plant.

^a In end 2004 prices.

^b Computed at 10% for all civil works; and 5% for equipment, training, and consulting.

^c Computed, based on foreign exchange inflation rate of 2.3%, and local currency inflation rate at 3.61% in 2005 and 3.3% in 2006, 3.2% in 2007, and 3.0% in 2008 and onward; and includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest, and commitment charges. Interest during construction has been computed at the 5-year forward Libor rate plus a spread of 0.6%.

^e Includes taxes and duties at \$15.81 million.

Source: Asian Development Bank estimates.

B. Financing Plan

21. ADB will provide a loan of \$100.0 million, about 43% of the total project cost, to finance 90% of the foreign exchange cost of the Project, including interest during construction. The remaining costs will be financed through water and wastewater tariffs, CMG, LMG and MMG budget sources, and domestic loans from the PRC banks.⁵ The ADB loan has a term of 25 years, including a grace period of 5 years, with interest rate to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.75% per annum, and such other terms and conditions set forth in the loan and project agreements. The financing plan for the Project is summarized in Table 2.

⁵ Industrial and Commercial Bank of China (ICBC) has issued a letter of commitment for the domestic loans. The loans carry an interest rate of 6.1% per annum with a maturity of 11 years, including a grace period of 4 years. Analysis of the cash flow obligations of CMG, LMG, and MMG indicate that they have sufficient financial resources to meet their counterpart financing obligations under the Project.

TABLE 2: FINANCING PLAN
(\$ Million)

Sources	Foreign Exchange	Local Currency	Total Cost	%
A. ADB Loan	100.0	0.0	100.0	43
B. Counterpart Funds^a				
Changchun Municipal Government	6.4	63.0	69.4	29
Changchun Shuangyang District Government	0.3	3.3	3.6	2
Changchun Hi-Tech District Government	0.8	14.9	15.7	7
Liaoyuan Municipal Government	1.7	10.2	11.9	5
Meihekou Municipal Government	1.6	24.2	25.8	11
Subtotal (B)	10.8	115.6	126.4	54
C. Domestic Commercial Bank	0.0	5.8	5.8	3
Total Cost to be Financed	110.8	121.4	232.2	100.0

^a The detailed financing plan is in Supplementary Appendix A. Government will finance the entire foreign physical and price contingencies.

Source: Asian Development Bank estimates.

22. The Government has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility on the basis of these terms and conditions, and (ii) an undertaking that these choices were the Government's independent decision and not made in reliance on any communication or advice from ADB. The Borrower will be the Government of the PRC, which will relend to the Jilin provincial government (JPG). JPG will onlend to CMG, LMG and MMG, which will onlend to the IAs. All onlending will be on the same terms and conditions as the ADB loan. The IAs will assume the foreign exchange and interest rate variation risks for ADB's loan. The flow of funds and onlending arrangements are illustrated in **Appendix 4**.

C. Allocation of Loan Proceeds

23. The loan will finance \$100.0 million of foreign exchange costs. The amount allocate for each category is in Table 3.

TABLE 3: ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS

Number	Item	CATEGORY		PERCENTAGE OF ADB FINANCING	
		Amount Allocated		%	Basis for Withdrawal from the Loan Account
		Category	Subcategory		
1	Civil Works	31,768,000			
1A	For CWGUDC		15,950,000	55	Percent of total expenditure (55% for foreign and 0% for local)
1B	For CSWSC		1,397,000	55	Percent of total expenditure (55% for foreign and 0% for local)
1C	For CHTIDGC		4,335,000	55	Percent of total expenditure (55% for foreign and 0% for local)
1D	For LWC		6,962,000	55	Percent of total expenditure (55% for foreign and 0% for local)
1E	For MWSC		3,124,000	55	Percent of total expenditure (55% for foreign and 0% for local)
2	Equipment and Materials	54,697,000			
2A	For CWGUDC		34,513,000	100	Percent of foreign expenditure
2B	For CSWSC		1,629,000	100	Percent of foreign expenditure
2C	For CHTIDGC		2,494,000	100	Percent of foreign expenditure
2D	For LWC		6,547,000	100	Percent of foreign expenditure

2E	For MWSC		9,514,000	100	Percent of foreign expenditure
3	Consulting Services	1,255,000		100	Percent of foreign expenditure
4	Interest & Commitment Charge	12,280,000			Amounts due
	Total	100,000,000			

III. IMPLEMENTATION ARRANGEMENTS

A. Project Management

24. The Executing Agency is JPG. A project steering committee (PSC) was established, headed by JPG vice governor and comprising the heads of the Jilin Development Reform Commission; Jilin Construction Commission; Jilin Finance Bureau; and the Mayors of CMG, LMG and MMG. The PSC will provide overall policy guidance, facilitate interagency coordination, and resolve any institutional problems affecting project implementation. A Project Management Office (PMO) was established at the JPG level led by the Jilin Construction Commission. The PMO will also be the PSC secretariat. Project implementing units (PIUs) established in CMG, LMG and MMG, will report to the PMO and coordinate and monitor activities of the IAs. The IAs are limited liability companies incorporated under the PRC company law with initial registered capital. A board of directors will oversee financial and operational matters of the IAs including (i) hiring/firing of senior management; (ii) reviewing staffing and remuneration plans; (iii) reviewing the progress of construction and approving annual construction plans; (iv) reviewing and approving annual financial budgets; (v) reviewing investment plans and accounts of the IAs; and (vi) approving procurement of major equipment and civil works contracts. The IAs will increase their staff strength significantly for the construction period and when operations begin. A financial management assessment of the internal controls, and accounting and auditing procedures of the IAs found them to be generally in order and they will be fully functional and available for use under the Project for the construction and operational phases (**Appendix 5**). An assessment of the IAs' technical and institutional capacities found them to be adequate for project implementation. IA organization is in **Appendix 6**. The IAs will retain the services of design institutes, specialist procurement agencies, and construction supervision companies to help with implementation. The PMO and IAs will have several staff trained in project management and relevant ADB procedures during project implementation.

IV. IMPLEMENTATION SCHEDULE

25. The Project will be implemented over 5 years from 2005 to the end of 2009 (**Appendix 7**). This schedule is considered realistic as the project implementation structure is already in place and preparatory works are under way. ADB's successful experience in similar projects in the PRC, and JPG's and the IAs' in-depth knowledge and experience in water supply and wastewater treatment projects indicates that this schedule is achievable.

V. COST ESTIMATES AND FINANCING PLAN DURING IMPLEMENTATION

26. To be updated during the implementation of the Project with reference to the *Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank*.

VI. CONSULTANT RECRUITMENT, RESETTLEMENT MONITORING AND STAFF DEVELOPMENT AND TRAINING

A. Consulting Services

27. Consulting services will be required to (i) build the capacity of PMO and IA staff; (ii) monitor construction and operation; and (iii) monitor resettlement. A consultant firm will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* using the quality and cost-based selection method. Provision has been made for 30 person-months of international and 120 person-months of domestic consulting services to be funded under the loan, to support the PMO, PIUs, and IAs in project implementation and capacity building. These tasks include (i) review of designs, specifications, and tender documents; (ii) construction supervision, quality control, and related monitoring of progress during project implementation; (iii) training for the PMO, PIUs, and IAs in finance, accounting, mechanical, and operation and maintenance (O&M), including leakage detection; (iv) development of a management information system for the PMO, PIUs, and the IAs; (v) social, resettlement, and environmental monitoring; (vi) review of project water and wastewater tariffs, and impact on retail tariffs based on actual investment cost; (vii) project management; (viii) efficient operating procedures; (ix) preventive maintenance; (x) financial management; (xi) human resource development; (xii) corporate governance; and (xiii) provision of advice to the PMO and IAs on performance improvements including management of nonrevenue water. The outline terms of reference are in **Appendix 8**. Capacity building for the IAs will also include hands-on domestic and international training on project facilities. The consultants will assist the PMO with ADB procedures and reporting, procurement, quality control, start-up testing, commissioning, O&M, and implementation of the project performance management system.

B. Resettlement Monitoring

28. ADB requires monitoring and evaluation of the resettlement and resettlers for at least 2 years after the resettlement program has been completed. The PMO and IAs will retain the services of a domestic monitor, to be engaged by the PMO (and one international social specialist under the consulting services). The monitor will visit the sites semiannually to review progress made and the general welfare of those resettled, make recommendations to resolve any issues/problems, and support the training programs. The monitor will pay special attention to programs to help resettlers experiencing difficulties to regain their preproject standard of living. Monitoring and evaluation reports will be prepared and simultaneously submitted to ADB, PMO, PIUs, and IAs.

VII. PROCUREMENT

29. Equipment, materials and goods, and services financed by the loan will be procured in accordance with ADB's *Guidelines on Procurement* and follow ADB procedures for international competitive bidding (ICB) for packages each with a value greater than \$1.0 million. Packages valued at \$1.0 million or less will be procured following international shopping procedures; packages valued at \$100,000 and less will be procured through direct purchase procedures. Civil works contracts costing more than \$10 million will be procured using ICB. Civil works contracts valued at \$10 million equivalent or less can be procured using local competitive bidding procedures in accordance with the PRC Tendering and Bidding Law and the respective procurement regulations.⁶ Selection and engagement of contractors will be subject to ADB

⁶ ADB. 1997. *Technical Assistance to the People's Republic of China for Establishment of National Procurement Regulations for the Public Sector*. Manila.

approval.⁷ Indicative procurement packages are listed in **Appendix 9**. Major equipment will be purchased through ICB procedures and financed by the ADB loan. The internationally tendered equipment packages will include necessary technical support for ensuring proper installation, testing, commissioning, and training of operational staff as part of the related contracts. In accordance with ADB requirements, foreign contractors may participate in bidding for local competitive bidding contracts. The salient features of procurement procedures are in **Appendix 10** and is summarized below:

- (i) Equipment, materials, goods and services with value greater than \$1.0 million shall be awarded on the basis of international competitive bidding (ICB).
- (ii) Equipment, materials, goods and services valued at \$1.0 million or less will be procured following international shopping (IS) procedures.
- (iii) Equipment, materials, goods and services valued at \$100,000 and less will be procured through direct purchase procedures.
- (iv) Civil works contracts valued more than \$10 million will be procured using ICB.
- (v) Civil works contracts valued at \$10 million or less can be procured using local competitive bidding (LCB) procedures in accordance with the PRC's Tendering and Bidding Law and the respective procurement regulations.

30. Bid evaluation reports and proposal for award of contracts must be approved by ADB before a contract is awarded. ADB's prior approval is also required for substantial variations in contracts.

A. Advance Procurement Action

31. ADB has approved JPG's request for advance procurement action to expedite project implementation. Advance action will include (i) prequalification of contractors, tendering, and bid evaluation for civil works contract packages; and (ii) preparation of tender documents for the procurement of materials, plant, equipment, and vehicles. Such advance action will cover the period from the end of the Appraisal Mission visit until loan effectiveness. The issuance of invitations to bid or to prequalify under advance procurement action will be subject to ADB approval.⁸ All advance procurement actions will be undertaken in accordance with ADB *Guidelines on Procurement*. The Government and JPG were advised that approval of advance action does not commit ADB to finance the Project.

VIII. DISBURSEMENT PROCEDURES

32. To make adequate amounts of the project loan proceeds available on a timely basis, Jilin Provincial Finance Bureau will establish an imprest account after loan effectiveness in accordance with the ADB *Loan Disbursement Handbook*. Disbursements from the imprest account will be supported by an appropriate withdrawal application and related documentation. Such documentation will demonstrate, among other things, that the goods and/or services were (i) produced in and procured from ADB member countries, and (ii) eligible for ADB financing. The initial amount to be deposited in the imprest account will not exceed 6 months of estimated expenditure for the Project or 10% of the loan amount, whichever is lower. ADB statement of expenditures procedure may be used to reimburse eligible expenditures and to liquidate advances in amounts not exceeding \$200,000 equivalent per item of expenditure.⁹ The

⁷ ADB will require JPG to use ADB-approved standard bidding documents (to be developed as necessary) to ensure high quality and consistency of the documents; this will facilitate ADB review.

⁸ Advance action was approved on 22 February 2005.

⁹ Limits for the imprest account and the statement of expenditure are in accordance with the recent review of ADB's PRC portfolio and to facilitate improved efficiency in loan disbursement.

onlending agreement along with the legal opinion regarding a project component will be required as a condition of disbursement for the concerned project component.

33. The disbursement procedures are summarized in **Appendix 11** and in the ADB's *Loan Disbursement Handbook*. ADB would regularly advise the Borrower, the PMO and the PIUs on the status of loan fund disbursements through a semi-monthly Listing of Loan Disbursements.

IX. PROJECT MONITORING AND EVALUATION

A. Project Performance Monitoring and Evaluation

34. The project performance management system indicators include water and wastewater treatment service levels, treated wastewater quality, percentage of wastewater collected and treated, user satisfaction with the urban environment, nonrevenue water, water conservation, treated water quality, and other measures of operational performance; relevant social and economic data, such as income, health and gender, incidence of waterborne diseases including diarrhea and hepatitis A, and levels of *Escherichia coli* in tap water. These will permit monitoring of project impacts on improved living conditions and economic opportunities; number of connections provided to the poor; and number of people benefiting from lifeline tariffs. These relate to (i) improved water supply and wastewater treatment facilities and services, (ii) improved quality of life, (iii) resettlement, (iv) physical completion, (v) institutional strengthening, and (vi) policy reforms. The Project provides for baseline and follow-up socioeconomic and health impact surveys in years, three, four, and five of project construction. The surveys will collect necessary information on the target population (disaggregated by poor/nonpoor status) to monitor coverage of the poor and impact on public health against the baseline survey data as the new water is distributed and wastewater treatment rate increases throughout the project area. The incidence of waterborne diseases will be monitored with reference to official health statistics and using the socioeconomic survey as a cross-check to obtain beneficiary views on the extent that public health is showing real improvements as a result of the Project. The IAs will finalize the project performance management system framework, confirm achievable goals, firm up monitoring and recording arrangements, and establish systems and procedures no later than 6 months after loan effectiveness. The IAs, with the assistance of the consultants, will monitor and assess activities, and report to ADB quarterly on the physical implementation; resettlement; environment; and social, poverty, and financial aspects of the Project to ensure that impacts are monitored and reported in line with ADB requirements.

B. Project Review

35. Besides regular ADB review missions, ADB and the Government will undertake a comprehensive mid-term review, 2 years after project implementation begins. This review will include a detailed evaluation of the scope, implementation arrangements, resettlement, achievement of scheduled targets, and progress on the agenda for policy reform and capacity building measures. A review of retail water tariffs in Changchun, Liaoyuan and Meihekou will also be undertaken.

X. REPORTING REQUIREMENTS

A. Project Implementation Reports

1. Quarterly Progress Report

36. The PMO in coordination with JPG and the implementing agencies will prepare and submit to ADB quarterly reports, in English and in a format acceptable to ADB, on progress

made and problems encountered during the period under review; the steps taken or proposed to remedy these problems; and the proposed activities and expected progress during the following period. The outline of the report is in **Appendix 12**.

2. Annual Contract Awards and Disbursement Projections

37. PMO in coordination with JPG and the implementing agencies will submit to ADB an annual contract awards and disbursement projections. This requirement is effective in monitoring project implementation and will help identify impediments to implementation progress. The projection is submitted to ADB on 15 December of each year. The form is in **Appendix 13**.

3. Project Completion Report

38. Within 3 months of completion of the Project, the PMO will submit a project completion report to ADB that will provide details about implementation, costs, benefits, and other information requested by ADB. The outline of the report is in **Appendix 14**.

XI. AUDITING REQUIREMENTS

39. Sound auditing is an important element of good governance and an important anticorruption measure. ADB is helping strengthen the PRC auditing system. The IAs will maintain records adequate to identify goods and services financed out of the loan proceeds, following accounting principles and practices prescribed by the PRC Accounting Law. The law requires enterprises to prepare financial statements and generally follow internationally accepted accounting standards. The IAs will maintain separate project accounts and records. The financial statements of the project accounts and the annual corporate financial statements for IAs will be subject to external audit by the Changchun, Liaoyuan, and Meihekou municipal audit bureaus; Jilin Provincial Audit Bureau; and State Audit Administration. The audits will be carried out in accordance with regulations for auditing approved by the State Council in 1993 and will meet ADB requirements (*Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank*). A separate auditor's opinion on the use of the imprest account and statement of expenditure will be incorporated in the audit reports. The IAs' annual audited financial statements and audited project accounts will be submitted to ADB no later than 6 months after the end of the fiscal year for the entire implementation period.¹⁰ The Government, JPG, CMG, LMG, MMG, and IAs have been informed about ADB policy on submission of audited financial statements and possible penalties for delays in submission. JPG and the IAs will submit reports and information to ADB concerning the use of the loan proceeds, project implementation, and IA performance. A sample Audit Letter to be issued to the Borrower and copied to the EA and their auditors, is attached as **Appendix 15**.

XII. MAJOR LOAN COVENANTS

40. The Government, JPG, CMG, LMG, MMG and IAs have given the following assurances, which are incorporated in the legal documents and summarized in **Appendix 16**. These will be regularly monitored during implementation of the Project.

¹⁰ IAs currently have three tiers of audit including (i) internal audit, (ii) municipal government level audit, and (iii) provincial and state government level audit.

- (i) JPG, the Executing Agency, will have overall responsibility for the Project. The IAs will be responsible for day-to-day implementation. JPG will ensure that the IAs are maintained as separate legal entities with full financial and managerial autonomy as provided for under relevant PRC laws.
- (ii) JPG, through CMG, LMG, MMG, and IAs, will ensure (a) adequate staff and resources are committed to supervising and internal monitoring of implementation of each subproject RP; (b) quarterly monitoring during resettlement implementation, followed by a resettlement completion report for each subproject; (c) an independent agency acceptable to ADB is contracted to carry out monitoring and evaluation, including data disaggregated by gender where applicable, and reports are forwarded to ADB as specified in the RPs; (d) ADB is provided with a summary of annual government audits of resettlement disbursements and expenditures; (e) the RPs are updated based on detailed measurement surveys and sent to ADB for its concurrence prior to commencement of related civil works; (f) ADB is promptly advised of any substantial changes in the resettlement impacts and, if necessary, a revised resettlement plan is submitted to ADB for its approval; (g) civil works contractors' specifications include requirements to comply with the RPs and entitlements for permanent and temporary impacts on people affected; (h) the contractors are supervised to ensure compliance with RP requirements including restoration of land temporarily used during construction, applicable law, and ADB policy on involuntary resettlement.
- (iii) JPG will, and cause CMG and MMG to, ensure that the WPAs entered into between Meihekou Reservoir Management Bureau and Meihekou Water Supply Company, and between Changchun Shuangyang Water Supply Company and Shuangyang Tap Water Company, are implemented in accordance with their respective obligations under the WPA. JPG will cause CMG to ensure that as of 1 January 2010, Shuangyang Tap Water Company purchases the minimum volume of treated water specified in the concerned WPA.
- (iv) JPG will, and will cause CMG to, ensure that as of 1 January 2010, the water purchase price of the WPA for Shuangyang Tap Water Company is set at a level that ensures full cost recovery of O&M, depreciation, and financial costs, i.e., debt service obligations, and a reasonable profit margin for Shuangyang Tap Water Company. This price level will be reviewed on an annual basis, so that any changes in O&M and financial costs, inflation, and currency fluctuations are met.
- (v) JPG will, and cause MMG to, ensure that the raw water purchase price of the WPA as of 1 January 2010 for Meihekou Water Supply Company is set at a level based on recovery only of those costs associated with providing raw water to Meihekou Water Supply Company, including all resource fees or taxes. This price level will be reviewed on an annual basis, so that any changes in the price are justified based on changes in costs.

B. Conditions for Loan Effectiveness

41. The subsidiary Loan Agreement has been duly executed and delivered on behalf of, and have become fully effective and binding on, the parties thereto in accordance with their terms.

XIII. KEY PERSONS INVOLVED IN THE PROJECT

A. ASIAN DEVELOPMENT BANK

Address	:	Asian Development Bank P.O. Box 789 0980 Manila Philippines
Facsimile	:	+63 2 636 2444 +63 2 689 8899
Telephone	:	+63 2 632 4444 +63 2 689 8888
Director, ECSS	:	Mr. Robert F. Wihtol Tel. No.: +63 2 632 6640 Fax No.: +63 2 636 2407 Email: rwihtol@adb.org
Project Specialist, ECSS	:	Mr. Sangay Penjor Tel. No.: +63 2 632 6298 Fax No.: +63 2 636 2407 Email: spenjor@adb.org
Project Analyst, ECSS	:	Ms. Carolina T. Navarro Tel. No.: +63 2 632 6894 Fax No.: +63 2 636 2407 Email: cnavarro@adb.org
Counsel, OGC	:	X. Peng Tel. No.: + Email: xpeng@adb.org
Senior Financial Control Specialist, CTLA	:	Ms. Oksana Nazmieva Tel. No.: +63 2 632 4156 Email: onazmieva@adb.org
ADB websites Main Procurement Consulting Services Disbursements		http://www.adb.org/ http://www.adb.org/Procurement/prequalification-bid-documents.asp http://www.adb.org/Consulting/default.asp http://fis.adb.org/home.asp

B. PRC RESIDENT MISSION

Country Director	:	Mr. T. Sibuichi Tel. No.: +86 10 6642 6601 Fax No.: +86 10 6642 6606 Email: adbprcm@adb.org
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Project Specialist	:	
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C. EXECUTING AGENCY

Address	:	Jilin Provincial Government
Contact Person	:	Mr. Chu Minhua, Deputy Director General, Jilin Construction Commission
Telephone No.	:	
Facsimile	:	+86 431 8981051

D. PROJECT MANAGEMENT OFFICE

Contact Person	:	Mr. Guo Shiwen, Deputy Director, Jilin Construction Commission
	:	Mr. Liu Jin, Director, Jilin PMO
	:	Mr. Yang Fu, Deputy Director, Jilin PMO
	:	Ms. Wang Aijing, Project Officer, Jilin PMO
	:	Mr. Han Dongnan, Project Officer, Jilin PMO
	:	Ms. Huo Shuhong, Project Office, Jilin PMO
Address	:	No. 287 Guiyang Street, Changchun City, Jilin Province, PC 130051
Telephone No.	:	+86-0431-2752539
Facsimile	:	+86-0431-2752539

D. IMPLEMENTING AGENCIES

1. Changchun Hi-Tech Dev Company		
Contact Person	:	Yin Xiangjun
Address	:	High-Tech Industry Development Zone Engineering Administrative Office, Building 20, Chaoda Developing Garden, No. 3355 Guigu Street, Changchun City, Jilin Province, PC 130012
Telephone No.	:	+86-0431-5543167
Facsimile	:	+86-0431-5543169
2. Shuangyang Water Supply Company		
Contact Person	:	Qi Shufang
Address	:	No. 8 Nanshan Road, Shuangyang District, Changchun City, Jilin Province, PC 130600
Telephone No.	:	+86-0431-4220668
Facsimile	:	+86-0431-4222188
3. Changchun Drainage Company		
Contact Person	:	Che Zhen-guang
Address	:	No. 21 Pingquan Road, Changchun City, Jilin Province, PC 130021
Telephone No.	:	+86-0431-8613823
Facsimile	:	+86-0431-8613824
4. Liaoyuan Water Group		
Contact Person	:	Wang Shiwei
Address	:	No. 3 Fuzhen Road, Liaoyuan City, Jilin Province, PC 136200

Telephone No.	:	+86-0437-3526102
Facsimile		+86-0437-3526100
5. Meihekou Water Supply Company		
Contact Person	:	Zhang Shuzhi
Address		No. 2338 Yinhe Street, Meihekou City, Jilin Province, PC 135000
Telephone No.		+86-0448-4370509
Facsimile		+86-0448-4370509

XIV. ANTICORRUPTION

42. The ADB anticorruption policy was explained to central and local government officials. Attention was drawn to the section on fraud and corruption that was added to ADB *Guidelines for Procurement*, particularly the need for bidders, suppliers, and contractors to observe the highest standards of ethics in the procurement and execution of ADB-financed contracts, and the sanctions to be applied if fraud and corruption are discovered. The anticorruption provisions added to ADB *Guidelines on the Use of Consultants* were discussed. For the Project, CMG, LMG, and MMG will undertake the following anticorruption actions: (i) involve full-time officials from the Changchun, Liaoyuan, and Meihekou municipal discipline investigation bureaus in bidding and construction; (ii) introduce a dual-signing system, in which the civil works contract winner also signs an anticorruption contract with the employer; and (iii) periodically inspect the contractor's activities related to fund withdrawals and settlements.

SUMMARY RESETTLEMENT PLAN

1. The Project is composed of six subprojects in Changchun, Liaoyuan, and Meihekou cities, all of which will require some land acquisition and population resettlement.¹ The resettlement planning and implementation is designed to ensure that those affected will be better-off or at least not worse-off as a result of the Project.

2. The project impacts are summarized in Table A10.1. In total, 28 villages will be affected by land acquisition and resettlement. About 78 hectares (ha) of land will be permanently acquired, of which 21% is classified as farmland; this will affect 244 households or 911 people. The Project will also require the temporary acquisition of 202 ha, of which 67% is farmland and affect 2,305 households or 8,113 people. A total of 502 households or 1,799 people will be relocated and about 62,729 square meters (m²) of houses will be demolished. Two small enterprises and 18 shops with a total of 112 employees will be affected and 2,077 m² of commercial structures will be dismantled. In addition, some public infrastructure and facilities will be affected, including gravel roads, culverts, fiber cables, electric poles, transformers, and machine-operated wells. The 10,569 people affected include urban and rural residents, legal and nonlegal owners of structures, private business owners, and permanent and temporary employees.

3. To avoid or minimize land acquisition and resettlement, the preliminary and final feasibility study stages involved close consultation with local officials and village/street committees.

4. Compensation of the permanent land loss is based on the Land Administration Law of the People's Republic of China (1998) and the State Council Decision to Deepen Reform and Strictly Enforce Land Administration (Document 28 dated November 2004). The house demolition is based on the Provincial and Municipal Urban Housing Demolishment Administration Regulations. Six resettlement plans (RPs) were prepared to comply with the Asian Development Bank (ADB) policy on involuntary resettlement. Based on consultations with local governments and those affected, and general practice in Changchun, Liaoyuan, and Meihekou cities, a set of compensation standards was adopted by the respective city project management offices (PMOs) and implementing agencies (IAs). The resettlement principles established for the Project are (i) land acquisition and involuntary resettlement should be avoided or minimized where feasible by developing and comparing a series of design alternatives; (ii) compensation and entitlements provided are based on market value or replacement value, and must be adequate to allow those affected to at least maintain their preproject standard of living, with the prospect of improvement; (iii) land temporarily occupied and the period for disruption are to be kept to a minimum; (iv) all those affected, legal and illegal, are to be taken into consideration and accounted for; (v) the per capita landholding after land acquisition will be sufficient to maintain the previous livelihood standard; (vi) where land allocation per capita is not sufficient to maintain the previous livelihood standards, other income-generating activities will be provided; (vii) a preferential policy will be provided to vulnerable groups in such things as compensation, housing assignment, transfer, and employment; (viii) all those affected will be adequately informed about eligibility, compensation rates and standards,

¹ The Beijiao wastewater treatment plant phase II will be built on the existing industrial property owned by the company, so no land acquisition and resettlement will be involved. Also the Long Shan water treatment works improvement and He Bing water treatment works improvement under the Liaoyuan component will not involve any land acquisition and resettlement as the two subprojects involve rehabilitation of water treatment works.

livelihood and income restoration plans, and project timing; and (ix) close monitoring and timely actions will be carried out to identify and resolve any problems.

5. On various occasions during meetings, interviews, focus group discussions, public consultation workshops, and community consultation meetings, local representatives have participated in the planning; and concerns integrated into the RPs. The resettlement information booklet was distributed to affected villages and households between August 2004 and January 2005. The RPs were provided to village offices and resident committees, and was posted on the ADB website in May 2005. The respective project IAs have established project resettlement units to supervise implementation, continue public consultation, monitor progress, and respond to grievances. The grievance address procedures are well established and explanations are included in the resettlement information booklets.

6. For land acquisition, part of the compensation will be paid to the affected village and the resettlement subsidy will be paid to the affected households. For residential houses, enterprises, and commercial shops to be demolished, compensation will be paid to owners, including those without house registration. The payment will be made in cash according to the appraised value of the property. Households that have to relocate will also receive a transfer and transportation allowance. Compensation for standing crops, auxiliaries, and other assets will be paid directly to affected farmers. Income losses resulting from reduced production/sales and wages caused by the Project will be compensated in cash.

7. The resettlement strategy encompasses (i) the replacement of housing, and (ii) the restoration of livelihoods and income. People losing housing in urban areas have two resettlement options—to receive cash compensation or property exchange. Assistance will be provided to find available housing close to their original homes, if that is their preference. People will be relocated to apartment housing that has better infrastructure, e.g., water, sewer, road, gas, and electricity. The respective subproject implementation units (PIUs), IAs, and local government will provide necessary assistance for house construction and relocation during resettlement implementation.

8. The measures for economic rehabilitation include (i) providing employment opportunities during the project construction and operational phases; (ii) arranging for those affected to be employed in the local enterprises and businesses; (iii) redistributing land where possible; (iv) intensifying and diversifying farm operations to increase the value of production and income per unit of land; (v) developing greenhouses and animal-breeding income-generating activities; (vi) promoting and developing new enterprises and self-employed tertiary businesses (i.e., auto-accessory manufacturing, transportation, entertainment, and catering services; and (vii) providing training on scientific and diversified agricultural business, technology on animal husbandry and economic crops planting, and technology on planting vegetables in greenhouses, to assist those affected increase their income. Compensation paid to village committees will be used to improve village production and infrastructure (e.g., road construction, irrigation works, clinics, day cares, and bathhouses). Relocated enterprises and shops will be provided with the options of compensation and resettlement. The same enterprises and shops will either reemploy affected employees, or former employees will help to secure other work.

9. Based on the survey results, 7 vulnerable people were identified for the Nanjiao WWTP subproject. The subproject PMO will establish a special fund at CNY2,000 per person for them to improve their living standards. The fund will be paid as a one-time cash payment. In addition, the vulnerable households will receive CNY140/month as municipal living guarantee from the municipal civil affairs bureau. The PMO will supervise implementation to ensure these

vulnerable persons receive adequate compensation, special funds, and municipal living guarantee; and assistance to restore their living conditions and incomes.

10. Each PIU and IA will have at least 2 full-time staff responsible for land acquisition and resettlement, respectively. The staff from each subproject resettlement unit will take the lead responsibility for coordinating the planning, implementation, financing, and monitoring of land acquisition and resettlement. They will work closely with relevant village/street officials, land administration bureaus, and house demolition offices; and will be responsible for supervision and monitoring of resettlement (e.g., delivery of entitlements, selection of new housing sites, restoration of incomes, provision of replacement land, and other economic measures). A training program will be organized for the resettlement officers.

11. The cost estimate for land acquisition and resettlement is \$21.62 million, equivalent to CNY179.43 million in 2004 prices, including contingencies. Resettlement implementation will be scheduled to precede the subproject construction schedules. Most resettlement activities will occur between June 2005 and December 2006. Resettlement implementation will be completed prior to subproject construction. Detailed measurement surveys will be conducted in each village, neighborhood, and enterprise; and the compensation contracts will be negotiated and signed with village committees, households, and enterprises. Based on these surveys, the RPs will be updated and submitted to ADB for review and approval.

12. Internal and external monitoring of RP implementation will be conducted. Monitoring methodologies are specified in the RPs. Internal supervision and monitoring will be done by each IA to ensure compliance with the RP provisions. The PMO and IAs have agreed to a set of supervision milestones with ADB, to ensure timely and effective implementation of resettlement activities. External monitoring and evaluation will be carried out by an independent agency under contract to the PMO/IAs. External monitoring reports will be forwarded directly to both the PMO and ADB.

Table A10.1: Summary of Land Acquisition and Resettlement Impacts and Costs

Project Component	Engineering Works			Permanent Land Acquisition				Temporary Land Acquisition				Residential House Demolition		
	Project Activities	Quantity	Units	Total Area (ha)	Of which Farm-land (ha)	Affect-ed House-holds	Affect-ed People	Total Area (ha)	Of which Farm-land (ha)	Affect-ed House-holds	Affect-ed People	Total Area (m ³)	Affect-ed House-holds	Affect-ed People
A. Changchun														
1. Nanjiao WWTP	New WWTP	150,000	m ³ /day	20.88	6.5	91	374	1.59	0	0	0	55,354	450	1,687
2a. Beijiao WWTP	Upgrade to secondary WWTP	130,000	m ³ /day	0	0	0	0	5.83	0	0	0	0	0	0
2b. Beijiao Sewer Network	Pipelines, 3 PS, 7 maintenance stations	216	km	4.7	2.9	12	43	21.8	21.8	29	106	7,182	50	107
3. Shuangyang Water Supply	Pumping stations and WTP transmission pipeline	36,000	m ³ /day	3.15	1.26	13	48	7.59	7.04	90	448	193	2	5
4. Yongchun River Improvement	Flood canal	4.8	km	28.08	0	91	300	16.09	8.68	198	595	0	0	0
Subtotal (A)				56.81	10.66	207	765	52.9	37.52	317	1,149	62,729	502	1,799
B. Meihekou														
5a. WS Pipeline and WTP	Transmission pipeline WTP	40	km	0.56	0.56	12	36	98.5	98.5	1,988	6,964	0	0	0
5b. Water Distribution Network	pipelines	55.5	km			0	0	11.41				0	0	0
Subtotal (B)				6.16	5.97	37	146	109.91	98.50	1,988	6,964	0	0	0
C. Liaoyuan														
6a. Water Treatment Plants	Upgrading two WTP	110,000	m ³ /day	0	0	0	0	0	0	0	0	0	0	0
6b. Water Distribution Network	Pipelines, 17 PS	53.1	km	1.046	0	0	0	27.26	0	0	0	0	0	0

Project Component	Engineering Works		Permanent Land Acquisition				Temporary Land Acquisition				Residential House Demolition		
6c. Drainage and Sewerage Network	Upgrading drainage pipelines		0	0	0	0	0	0	0	0	0	0	0
	New sewer pipes and 3 PS	12 km	0	0	0	0	0	0	0	0	0	0	0
6d. Flood Canals	Open channels and box culverts	8.3 km	14.19	0	0	0	12.34	0	0	0	0	0	0
			15.24	0	0	0	39.6	0	0	0	0	0	0
Subtotal (C)													
Total			78.21	16.63	244	911	202.41	136.02	2,305	8,113	62,729	502	1,799

{**List alphabetically and define all abbreviations used in the table. Use Arial 9 pt. for the list.**}ha = hectare, m³ = cubic meter, PS = pumping station WS = water supply, WTP= water treatment plant, WWTP = wastewater treatment plant.

Sources: Asian Development Bank, Executing Agency, and Implementing Agency.

Project Components	Enterprises and Shops			Total Affected People			Affected Villages	Resettlement Costs	
	Total Area (m ³)	Number	Affected Workers	Total	Urban	Rural		10,000 CNY	\$ million
D. Changchun									
1. Nanjiao WWTP	1,887	19	106	1,793	106	1687	2	10,307.92	12.42
2a. Beijiao WWTP	0	0	0	0	0	0	0	0	0.00
2b. Beijiao Sewer Network	0	0	0	256	0	256	3	1,094.64	1.32
3. Shuanyang Water Supply	190	1	6	515	8	507	4	311.71	0.38
4. Yongchunhe Improvement	0	0	0	895	0	895	3	3,651.84	4.40
Subtotal (D)	2,077	20	112	3,459	114	3,345	12	15,366.11	18.52
E. Meihekou									
5a. WS Pipeline and WTP	0	0	0	7,000	0	7,000	13		
	0	0	0	110	0	110	1	2,368.88	2.85
5b. Water Distribution Network	0	0	0	0	0	0			
Subtotal (E)	0	0	0	7,110	0	7,110	14	2,368.88	2.85
F. Liaoyuan									
6a. Water Treatment Plants	0	0	0	0	0	0			
6b. Water Distribution Network	0	0	0	0	0	0			
6c. Drainage and Sewerage Network	0	0	0	0	0	0	2	207.85	0.25
	0	0	0	0	0	0			
6d. Flood Canals	0	0	0	0	0	0			
Subtotal (F)	0	0	0	0	0	0	2	207.85	0.25
Total	2,077	20	112	10,569	114	10,455	28	17,943	21.62

{**List alphabetically and define all abbreviations used in the table. Use Arial 9 pt. for the list.**}CNY = yuan, m³ = cubic meter, WS = water supply, WTP= water treatment plant, WWTP = wastewater treatment plant.

Sources: Asian Development Bank, executing agency, and implementing agency.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Linkages to the Country Poverty Analysis			
Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Contribution of the sector or subsector to reduce poverty in the People's Republic of China (PRC):</p> <p>The PRC has performed well against most of the Millennium Development Goals (MDG). However progress on some goals has been slow with respect to improving the proportion of the population with access to safe drinking water and reversing environmental degradation. The Project will support the achievement of the MDG for environmental sustainability (MDG, goal 7) and to half the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015 (MDG, target 10).¹</p> <p>The Project will benefit an urban population of 3.0 million by (i) providing new and improved wastewater services, (ii) reducing flood damage, and (iii) providing a 24-hour water supply service. Of the total beneficiary population, about 210,000 or 7.0% are classified as poor measured by the weighted average local urban poverty line of CNY1,875 per person per year. Provision of clean water will improve the quality of life of the poor and vulnerable people by reducing the proportion of household income spent on medical treatment for waterborne diseases. The number of school days and workdays lost due to sickness will also be reduced. Further, the Project will reduce the proportion of household income spent on buying water from private sources, and buying storage containers, filters, and water cleaning equipment.</p>			
B. Poverty Analysis		Targeting Classification: General intervention	
<p>The poverty analysis is based on the data from the urban household survey conducted by the National Bureau of Statistics (2000) and socioeconomic survey of 1,200 households in Changchun, Liaoyuan, and Meihekou cities from June to August 2004. The data indicate that the urban poverty line was CNY1,875 per capita per year in 2000 prices. The incidence of urban poverty, including the floating population in 2000 using the National Bureau of Statistics measure is 3.4%, the same as the official incidence of rural poverty in 2000. Poor households in the project area demonstrate many of the characteristics of the lowest income households outlined in the Asian Development Bank (ADB) poverty profile of the PRC. The characteristics of low income or vulnerable households in the project area are (i) head of household is long-term, laid-off former state-owned-enterprise worker, often with children of school age; (ii) households headed by women; (iii) households containing one or more disabled or chronically sick person; and (iv) floating population, usually from rural areas living in poor housing conditions.</p> <p>An order of magnitude analysis of the impact on morbidity and mortality was completed for the Project. This analysis indicates that the Project is estimated to reduce disease episodes by an average of 8,000 cases per year. One in 20 of these cases, or 400 cases, is likely to be serious enough to result in a medical consultation. The health impact analysis is in Supplementary Appendix H. In the project area, the major social measures to protect urban residents from falling into poverty include (i) living allowance for laid-off employees, (ii) unemployment insurance, and (iii) social support program under the minimum living standard scheme. Further, Changchun municipal government (CMG), Liaoyuan municipal government (LMG), and Meihekou municipal government (MMG) have agreed to implement poverty reduction² measures under the Project including (i) providing lifeline tariffs, (ii) providing water bill discounts or cash rebates amounting to 50% of the monthly water bill for households living below the poverty line; and (iii) connecting the poorest households to tap water in Liaoyuan, Meihekou, and Shuangyang district in Changchun. The Project will promote public awareness and education programs about the benefits of the Project, public hygiene and behavior of consumers on water saving, and managing wastewater disposal. The Project will provide 3,200 full-time jobs over the 5-year construction period. Project-related services, such as procurement of construction materials and equipment and follow-on multiplier effects are expected to create an additional 5,000 full-time jobs. Just over half of the construction jobs are unskilled jobs that are most likely to be filled by currently unemployed persons. Since</p>			

¹ ADB. 2004. *Poverty Profile of the People's Republic of China*. Manila.

² The TA study (i) defined poverty levels used in the analysis; (ii) assessed and provided an income and expenditure profile of the poor households based on a household survey of 1,200 households; (iii) evaluated and recommended measures to alleviate the impacts of increased water and wastewater tariffs on the poor; and (iv) assessed the positive impacts of the Project on the poor and low-income beneficiaries.

unemployment is a major cause of poverty in the project area, the poor will benefit disproportionately from this job creation. Further, project operations will create 570 full-time permanent jobs.

C. Participation Process

Is there a stakeholder analysis? Yes No

Stakeholder analysis has been conducted throughout project preparation through public participation and consultation with key stakeholders, such as government agencies, beneficiaries, people affected by the Project, business communities, and civil society organizations. In addition to the socioeconomic survey, public consultation, focus group discussion, and key respondent interviews have been conducted with 170 persons in the project area. The issues discussed include qualitative aspects of poverty, gender aspects, affordability and willingness to pay for water service, benefits of water and sanitation to poor and women, impact of land acquisition, supply of water, flood problems and relief, coping mechanisms for interrupted water services, and satisfaction to water service.

Is there a participation strategy? Yes No

Participatory approach has been part of the project design and will be continued during project implementation, monitoring, and evaluation. During project preparation, public hearing meetings on water supply and wastewater treatment, and government policies and efforts to develop water supply service were held in the project cities. The participants unanimously concluded that a tariff adjustment was necessary to recover costs, assist with the sustainable development of water supply and sewerage system, conserve water, protect the environment, improve services, and help poor families. Further public consultations will be held during project implementation to discuss and get feedback from consumers and other key stakeholders, particularly the poor, on cost recovery, tariff adjustment, affordability, public participation, water conservation, hygiene program, and environmental protection.

Two rounds of five public consultations in project cities were carried out in preparing the environmental impact assessment. The purpose of public consultations and disclosure was to (i) introduce the project components to the stakeholders; (ii) solicit ideas, suggestions, comments, concerns, and critiques on the potential environmental implications of the Project; and (iii) present the findings of the environmental impact assessment, summarizing potential environmental impacts and mitigation measures, and provide answers raised by workshop participants in the first round. Plans for public involvement during the design and construction stages of the Project were developed. These plans will provide forums for periodically updating the stakeholders on project progress and implementation of mitigation measures.

Public consultation and disclosure of resettlement plans have been conducted on various occasions during measurement surveys, village meetings, interviews, and workshops. Results of these meetings and concerns of those affected are integrated in the resettlement plans.

D. Gender Development

Strategy to maximize impacts on women:

Water service deficiencies contribute to gender inequalities in terms of women's income-generating opportunities and general status. Data from the social assessment survey clearly indicate that women cope with service deficiencies by spending more time and labor on collecting and purifying water, and cleaning up after floods. Women are also mainly responsible for caring for the sick. Consequently, time spent on income-generating activities or the family is reduced. Improvements to water supply will significantly reduce the time, cost, and labor that mainly women spend for collecting water, cleaning containers, and improving water quality. To maximize the project benefits, women will be given priority for the employment opportunities generated by the Project. Women's needs and interests will be represented in project implementation. To maximize project benefits for women, under the Health Bureau hygiene program in four districts, women have been mobilized to play a role in public awareness of the hygiene program in the project area.

Has an output been prepared? Yes No

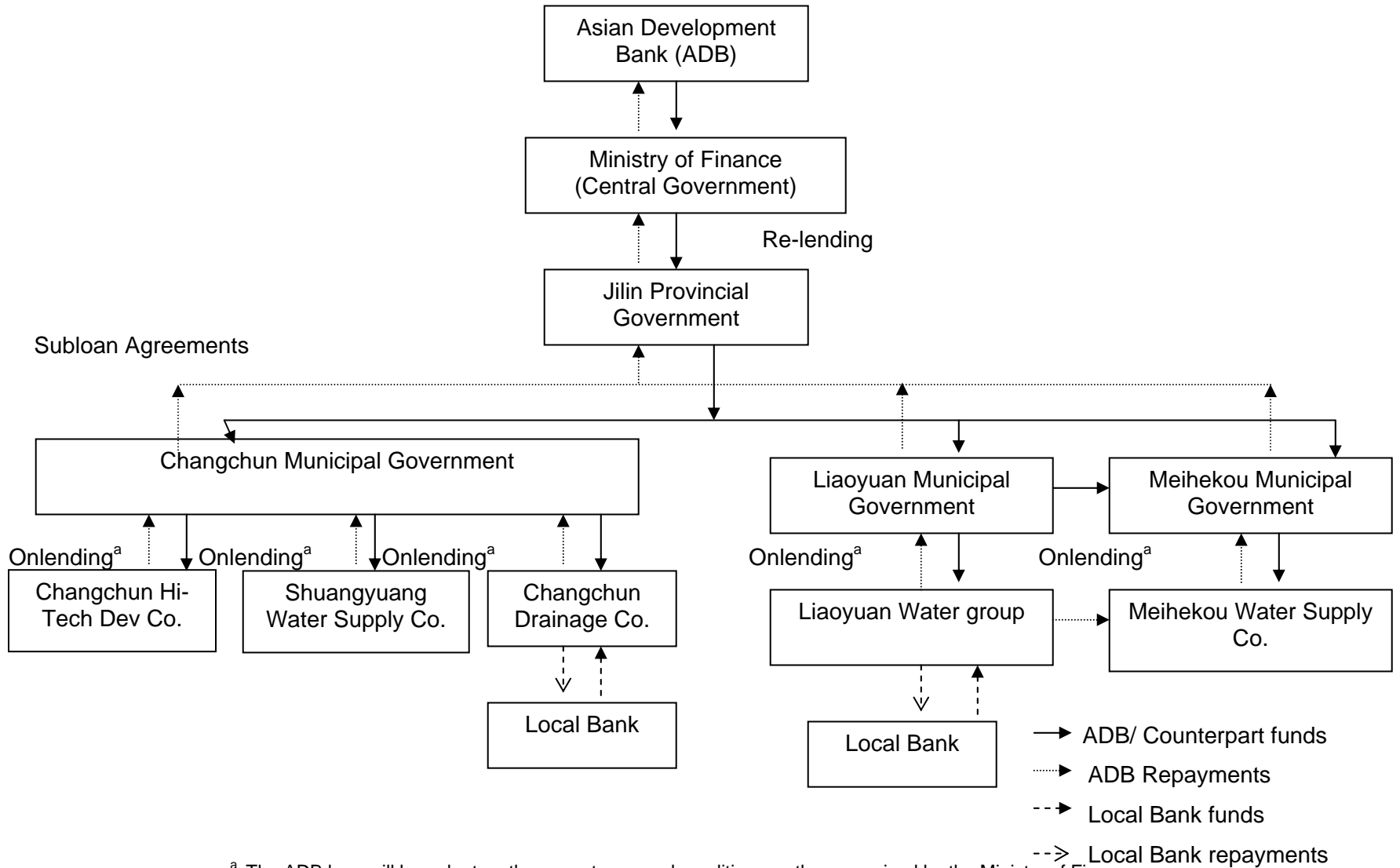
E. Social Safeguards and Other Social Risks			
Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	Resettlement plans (RPs) were prepared in accordance with ADB involuntary resettlement policy and the PRC Land Administration Law and associated laws and regulations to ensure that those affected will be better off, or at least not made worse off, as a result of the Project.	<input checked="" type="checkbox"/> Full <input type="checkbox"/> Short <input type="checkbox"/> None 6 RPs
Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	<p>The affordability analysis was based on citywide official income data. The technical assistance team reviewed local socioeconomic data, interviewed staff with social affairs agencies, undertook household surveys, and completed analysis of affordability. For the households with average income, the combined water and wastewater tariff is less than 2% of total income (3.4% of the total income for poor households) and is thus considered affordable.</p> <p>Tariff adjustment will be offset for most families by a reduction in expenditure on purchased water. The households most likely to be adversely affected by the tariff adjustment are those living below the poverty line. To mitigate the impact of tariff adjustment, the project cities provide assistance for people living below the poverty line through a minimum living standard scheme besides the five social insurance schemes, which cover old-age pension, health care, disability compensation, unemployment, and maternity benefits. In addition, the project cities provide water bill discounts or cash rebates in the amount of 50% of monthly water bill for household below the poverty line. The minimum living standard scheme and water bill discounts will offset the proposed tariff adjustment and are much better poverty reduction measures than the lifeline tariff primarily because they can be properly targeted to poor households.</p>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	No job losses will occur. The construction and operation of the Project will generate many employment opportunities for the local beneficiaries.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Ethnic minorities of Manchu and Korean reside in the project area; they are mixed with the Han majority. The social assessment shows that they are not negatively affected by the Project and are among the project beneficiaries.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No other social risks are anticipated as a result of the Project.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATES

Item	Foreign Exchange (CNY '000)	Local Currency (CNY '000)	Total Cost (CNY '000)	Foreign Exchange (\$ '000)	Local Currency (\$ '000)	Total Cost (\$ '000)
A. Base Cost (as of February 2005)						
1. Civil Works	255,009	217,251	472,260	30,798	26,238	57,036
2. Equipment and Materials, Transportation, and Installation						
Equipment	196,840	42,380	239,221	23,773	5,118	28,891
Pipe Materials, Valves, and Accessories	264,094	227,393	491,486	31,895	27,463	59,358
3. Land Acquisition and Resettlement Compensation	0	151,703	151,703	0	18,322	18,322
4. Environmental Protection	0	3,690	3,690	0	446	446
5. Implementation Supervision and Training						
Implementation	3,620	12,976	16,596	437	1,567	2,004
Supervision—Domestic						
Implementation	6,198	0	6,198	749	0	749
Supervision—International						
Training	0	1,355	1,355	0	164	164
6. Survey, Research, Design, Consulting Services	580	64,624	65,203	70	7,805	7,875
7. Bidding Documents and Expenses	0	3,116	3,116	0	376	376
8. Production Preparation and Trial Production	0	2,980	2,980	0	360	360
9. EA/IAs Project Management and Others	0	27,437	27,437	0	3,314	3,314
Subtotal (1–9)	726,340	754,905	1,481,246	87,722	91,172	178,894
10. Taxes/ Duties	0	132,735	132,735	0	16,100	16,100
Subtotal (A)	726,340	887,640	1,613,980	87,722	107,202	194,994
Inclusive of Taxes/ Duties						
B. Contingencies						
Physical Price	71,487	89,911	161,398	8,634	10,859	19,493
Price	43,487	47,423	90,910	2,187	2,427	4,614
Subtotal (B)	114,975	137,333	252,308	10,820	13,286	24,106
Base Cost (A) + Contingencies (B)	841,315	1,024,973	1,866,288	98,543	120,558	219,101
C. Financial Charges During Construction						
Interest during Construction	97,075	6,815	103,889	11,724	799	12,523
Commitment Charges	4,602	0	4,602	556	0	556
Subtotal (C)	101,676	6,815	108,491	12,280	799	13,078
Total	942,991	1,031,788	1,974,779	110,822	121,356	232,179

EA = executing agency, IA = implementing agency.

FLOW OF FUNDS AND ONLENDING ARRANGEMENTS



FINANCIAL MANAGEMENT ASSESSMENT

A. A. Introduction

1. The financial management skills of the implementing agencies (IAs)—Changchun Water Group Urban Drainage Company, Changchun High-tech Industry Development Company, Liaoyuan Water Group Company, Meihekou Water Supply Company, and Shuangyang Water Supply Company—were assessed using the Asian Development Bank (ADB) financial management assessment questionnaire.

B. B. Results

2. A full assessment was possible for the Changchun Drainage Company, Changchun National High-Tech Development Company, Liaoyuan Water Group Company, and Meihekou Water Supply Company. A cursory assessment was completed for the Shuangyang Water Supply Company, established recently to act as IA and is not yet operational.

3. Responses to the questionnaire and detailed assessments of each IA are provided in Supplementary Appendix D. A summary description of each IA follows.

4. The Changchun Water Group Urban Drainage Company is responsible for three project components and will manage a significant portion of the loan funds. It has prior experience working with an international lending agency and foreign exchange risks. It is registered and fully incorporated, which is unusual for wastewater service providers in the People's Republic of China. Adequate accounting and financial management policies and procedures appear to have been implemented, including procedures for project accounting.

5. The Changchun High-Tech Industry Development Company is a prosperous land development company. It has a comprehensive system in place for accounting and financial management, and is registered and fully incorporated. The company is audited annually by an independent auditor. The project component managed by this company, a water management structure, is relatively small. Water resources are not an element of the company's core business but it has extensive experience in civil works and project management.

6. The Liaoyuan Water Group Company manages water supply and wastewater operations for Liaoyuan. It is registered and fully incorporated, and has a comprehensive, computerized accounting system in place featuring standard reporting and control policies and procedures. It is audited annually by an independent auditor. Certain improvements are required notably with respect to budget control.

7. The Meihekou Water Supply Company manages water supply operations for Meihekou. It is registered and fully incorporated. It uses a manual accounting system featuring standard reporting and control policies and procedures. It is audited annually by an independent auditor and a government auditor. This system was found to be generally acceptable but improvements are required notably with respect to routine and project budget control.

8. The Shuangyang Water Supply Company is a newly established company set up expressly to construct and operate the project component for Shuangyang District. It is registered and fully incorporated. The company has 10 staff. The general manager, appears to have a reasonable general, but not detailed, knowledge of accounting and financial management requirements.

9. All of the operating IAs seem to have adequate accounting and financial management policies and procedures in place including procedures for project accounting. The accounts of the Changchun Drainage Company and the Meihekou Water Supply Company are not computerized but this should not be an issue. The most significant shortcomings concern budgeting and cost control. With the exception of the Changchun National High-Tech Development Company, the IAs do not appear to hold staff accountable for budget overruns. Policies and procedures relating to conflict of interest and reporting options for whistle blowers need to be strengthened. The Project provides for training on accounting controls and financial management.

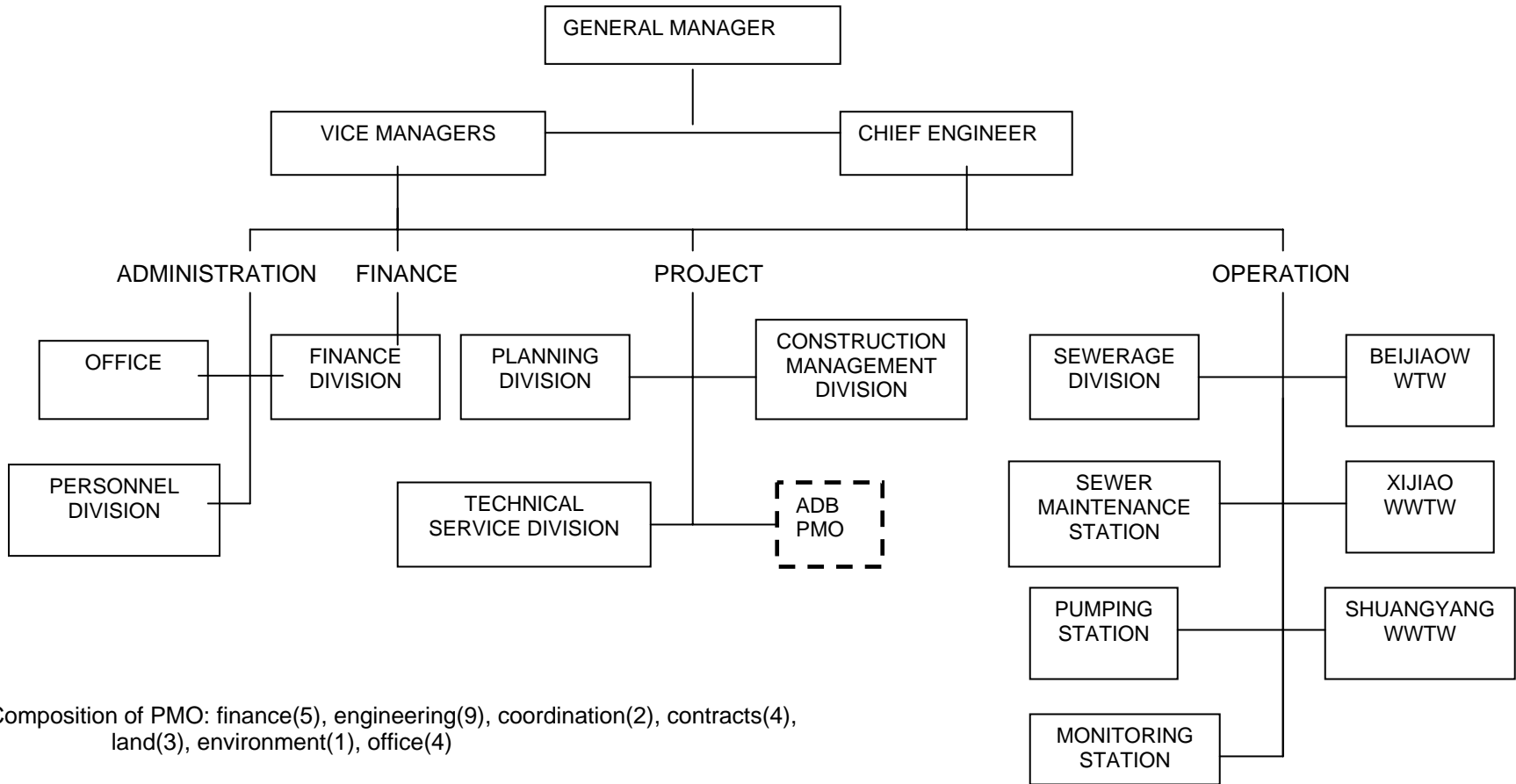
10. The Jilin provincial government (JPG), Changchun municipal government (CMG), Liaoyuan municipal government (LMG), and Meihekou municipal government (MMG) have agreed to the recommendations concerning financial management. All the IAs will be provided with thorough training in ADB loan processing policies and procedures, as well as methods for the effective management of foreign exchange risks.

11. All IAs should review and evaluate their budgeting policies and procedures to assure that these provide effective cost control. In particular, policies relating to project budgeting should require (i) a monthly review of expenditures against budgets, (ii) the routine use of variance analysis in all monthly budget reviews, and (iii) budget setting based on both physical and financial targets. Budgeting policies should also establish clear accountability for cost control at the level of the work unit and their managers, with a system of rewards for exceptionally good performance and penalties for exceptionally poor performance. All of the IAs have one or more of these policies in place, but the policies are not universally used.

12. The IAs failed to provide clear or detailed information on policies and procedures relating to conflict of interest and to reporting options for whistle blowers. Strong policies in these areas are essential to prevent wasteful and fraudulent use of company resources. The IAs should therefore review, evaluate, and strengthen policies and procedures in these areas.

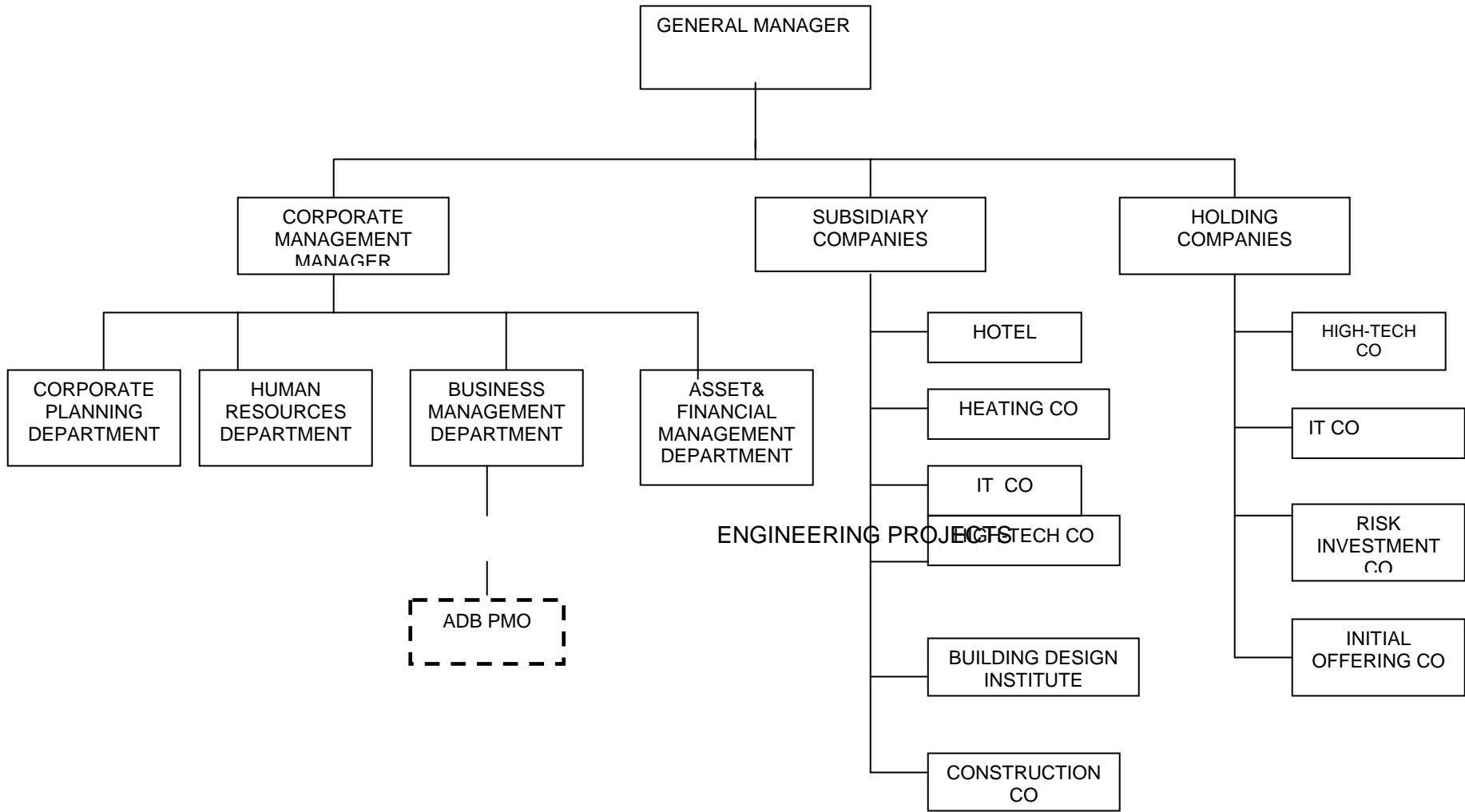
13. The respective IAs have established a well staffed project management offices. Company accounts should be adapted and appropriate subsidiary accounts established as required to assure that project management office activities can be separately accounted for. In the case of the Shuangyang Water Supply Company, a qualified person has been hired to fill the position of finance director. This person will develop the company's basic policies, procedures, and systems for accounting and financial management including its chart of accounts and procedures for budgeting and cost control. These will be in place prior to loan effectiveness. JPG, CMG, LMG, MMG, and the IAs have accepted these recommendations.

ORGANIZATION OF IMPLEMENTATION AGENCIES



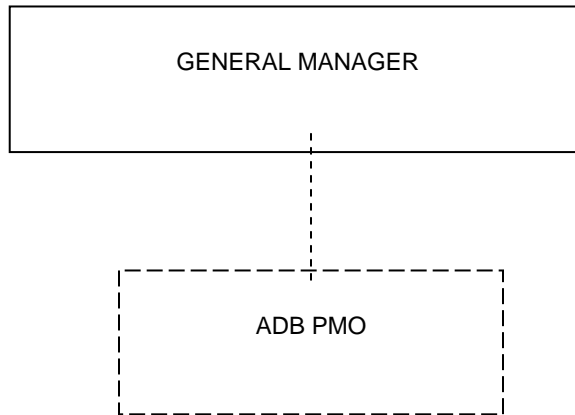
Composition of PMO: finance(5), engineering(9), coordination(2), contracts(4), land(3), environment(1), office(4)

ORGANIZATION OF CHANGCHUN NATIONAL HI-TECH DEVELOPMENT COMPANY



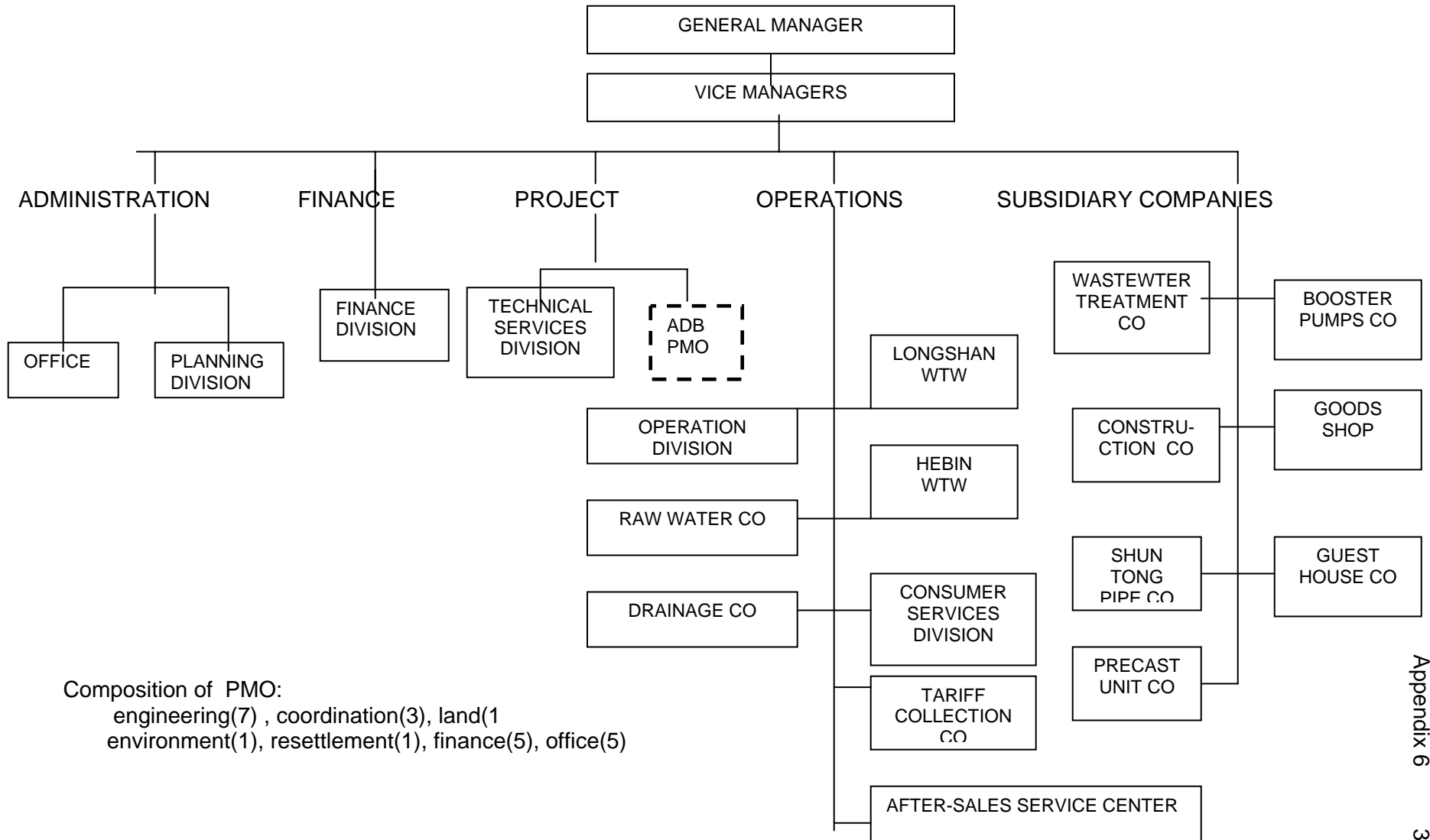
Composition of PMO: engineering(4) , coordination(3), land(1), environment(1), finance(5)

ORGANIZATION OF SHUANGYANG WATER SUPPLY COMPANY



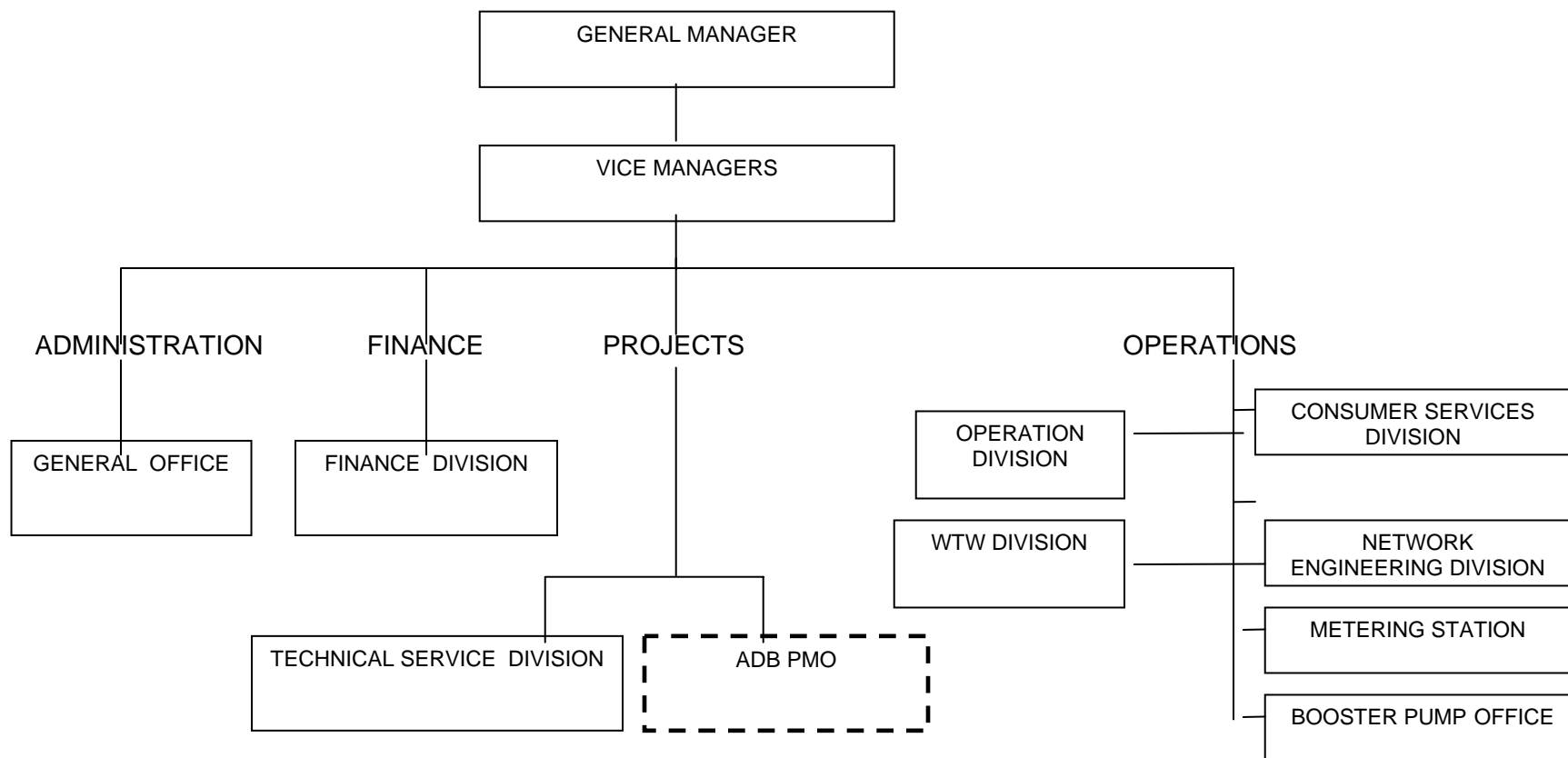
Composition of PMO: finance, engineering, coordination, land, environment, office personnel

ORGANIZATION OF LIAOYUAN WATER GROUP



Composition of PMO:
 engineering(7) , coordination(3), land(1)
 environment(1), resettlement(1), finance(5), office(5)

ORGANIZATION OF MEIHEKOU WATER SUPPLY COMPANY



Composition of PMO: engineering(6) , land(1), environment(1), resettlement(1), coordination(3), finance(5), office(5)

IMPLEMENTATION SCHEDULE

Item	2005				2006				2007				2008				2009				2010	
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
A. Beijiao WWTP Sewerage Improvement																						
1. Design and Tender Documentation	■	■																				
2. Land Acquisition and Resettlement Works																						
3. Tender Invitation, Assessment, Contract Award																						
4. Civil Works Construction																						
5. Testing and Commissioning																						
B. Beijiao WWTP Phase II																						
1. Design and Tender Documentation	■	■																				
2. Tender Invitation, Assessment, Contract Award																						
3. Civil Works Construction																						
4. E&M Equipment Installation																						
5. Testing and Commissioning																						
C. Nanjiao WWTW																						
1. Design and Tender Documentation	■	■																				
2. Tender Invitation, Assessment & Contract Award																						
3. Land Acquisition and Resettlement Works																						
4. Civil Works Construction																						
5. E&M Equipment Installation																						
6. Testing and Commissioning																						
D. Shuangyuan Water Supply																						
1. Design and Tender Documentation	■	■																				
2. Tender Invitation, Assessment, Contract Award																						
3. Land Acquisition and Resettlement Works																						
4. Civil Works Construction																						
5. E&M Equipment Installation																						
6. Testing and Commissioning																						
E. Yongchun River Improvement																						
1. Design and Tender Documentation																						
2. Tender Invitation, Assessment, Contract Award																						
3. Land Acquisition and Resettlement Works																						
4. Civil Works Construction																						
5. Testing and Commissioning																						
F. Liaoyuan Component																						
1. Design and Tender Documentation	■	■																				
2. Tender Invitation, Assessment, Contract Award																						
3. Land Acquisition and Resettlement Works																						
4. Civil Works Construction																						
5. E&M Equipment Installation																						

Item	2005				2006				2007				2008				2009				2010	
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2
6. Testing and Commissioning																						
G. Meihekou Component																						
1. Design and Tender Documentation																						
2. Tender Invitation, Assessment, Contract Award																						
3. Land Acquisition and Resettlement Works																						
4. Civil Works Construction																						
5. E&M Equipment Installation																						
6. Testing and Commissioning																						

E&M = electrical & mechanical, WWTP = wastewater treatment plant, WWTW = wastewater treatment works.

OUTLINE TERMS OF REFERENCES FOR CONSULTING SERVICES

The Consultant will work with the EA, city PMOs and IAs and provide assistance and advice on the following:

1. **Project Management and Procurement Support.** Tasks include:
 - (i) Develop comprehensive project implementation plans and procedures for monitoring and control;
 - (ii) Establish document control and contract management systems;
 - (iii) Review designs, drawings and the bidding documents, including the identification of potential technical problems; and suggest means of resolving these, including the incorporation of environmental mitigation measures where appropriate.
 - (iv) Recommend a practical and effective design supervision system;
 - (v) Carry out International Contract Bidding (ICB) and International Shopping (IS) contract procedures in accordance with the Bank's Guidelines on Procurement;
 - (vi) Establish reporting procedures to the Bank, including those covering construction progress, withdrawal and payment;
 - (vii) Exercise construction supervision and management;
 - (viii) Provide training and on-the-job guidance;
 - (ix) Establish a framework for a Project Performance Monitoring System including its design, data collection and analysis procedures, and provide training in its use; and
 - (x) Develop and implement an environmental monitoring program and reporting procedures to ensure appropriate mitigation measures are undertaken during the project construction and operational phases of the project facilities.

2. **Institutional and Managerial Improvements.** Tasks include:
 - (i) Review of the overall management organization of the Companies to identify where changes in organizational structure (the management model) might lead to improvements in the business performance of the organization;
 - (ii) Review manpower planning procedures and the assessment of staffing requirements. Make recommendations for improvements in manpower planning and assist in the preparation of a revised manpower plan. Develop (or review) standards of service with special emphasis on the service provided to customers and gain agreement to these;
 - (iii) Develop and agree a set of strategic performance indicators and targets with which to measure and assess the overall performance of the companies. These targets and indicators to include, financial, operational, construction, human resources and external relations;
 - (iv) Development of an integrated 3 to 5 year business plan which covers all main activities of the companies. The business plan to incorporate progress towards defined standards of service and a quantification of planned business performance based on the strategic indicators and targets.
 - (v) Assist the Companies to develop a procedure for identifying and prioritizing capital projects and link this process to the preparation of business plans and capital budgets;
 - (vi) Identify requirements and make appropriate recommendations for the development of human resources policy to improve the skills and performance of the workforce;
 - (vii) Prepare, agree and implement a program of management training to include

overseas and in country training for the implementation phase of the project, and make recommendations on how longer term training needs should be met.

3. **Strengthening Financial Management.** Tasks include:
 - (i) Review the financial information systems and procedures in each of the companies. And propose modifications to these. This work to include a review of the use and potential use of financial information as an aid to management decision taking within the companies;
 - (ii) Prepare and gain agreement to a Financial Management Development Plan (FMDDP) to modernize the financial management arrangements of each company;
 - (iii) Assist in the selection of software for computer based systems for financial and management accounting and other financial systems (payroll, payment of suppliers etc);
 - (iv) Assist in the preparation of implementation plans for computerized systems and ensure adequate attention is given to;
 - (v) Prepare a program of financial training seminars and courses for different levels of accountants, economists and financial managers; the content of this program to depend on the development needs identified in the FMDDP;
 - (vi) Prepare and deliver a series of training courses in financial management for non-financial managers

4. **Utility Tariff Setting, Billing and Income Collection.** Tasks include
 - (i) Work closely with the Jilin Municipal Price Bureau, Finance Bureau and other relevant Municipal Government units;
 - (ii) Develop a methodology for the periodic review of raw water supply and water tariffs so that the various different interests of Government, customers and the companies are safeguarded;
 - (iii) Design for implementation by Municipal Government authorities a socio-economic survey to regularly measure customer satisfaction with utility services and willingness to pay;
 - (iv) Undertake a review of tariff structures, develop and obtain Government agreement to proposals for the simplification and rationalization of these, with the objectives of simplifying administration and aiding customer understanding;
 - (v) Review company billing and income collection arrangements and develop an action plan for the improvement of these where either the effectiveness or efficiency of income collection is in need of improvement.

5. **Leakage Detection Technology Transfer.** Tasks include
 - (i) Conduct leakage detection surveys within project cities
 - (ii) Assess extent of leakage problem
 - (iii) Identify leakage control options
 - (iv) Develop asset inventory system for the physical and operating conditions of the distribution system
 - (v) Propose water mains rehabilitation and replacement programmes where required
 - (vi) Develop leakage management strategy for the project cities
 - (vii) Train local staff on leakage detection and control measures through seminars and field studies

- 6. Independent Resettlement Monitoring and Social Impact.** Tasks include:
- (i) To assist the Executing Agency (EA) and the Implementation Agencies (IA) in conducting the independent monitoring the progress and effectiveness of RP implementation;
 - (ii) To evaluate the income restoration and post-resettlement conditions of the APs and host communities;
 - (iii) To assess if the land acquisition and resettlement is implemented in accordance with the RP and if the goals and principles of the RP are achieved;
 - (iv) To recommend any measures to improve the implementation of the RP;
 - (v) To prepare the monitoring report which should include: (i) conclusion of investigation and evaluation; (ii) major existing and potential problems; (iii) recommended mitigation or prevention measures which will be incorporated into a revised plan if necessary; and (iv) assessment of previous follow-up actions.
- 7. Dam inspection/monitoring.** Tasks include:
- (i) Inspect the condition of the Hailong Reservoir in Meihekou and Shuangyang Reservoir in Shuangyang;
 - (ii) Conduct field studies and surveys, including installing necessary monitoring monitoring instruments to ascertain the structural and hydro-geological conditions of the reservoir;
 - (iii) Collect necessary records and field data;
 - (iv) Assess the condition of the reservoir from the safety, structural, and hydro-geological point of view based on data collected;
 - (v) Propose necessary rehabilitation works for the reservoir, prepare cost estimates and works programme;
 - (vi) Prepare necessary reports
- 8. Reporting**
- (i) Inception report – to be submitted after one month outlining the methodologies and work plan
 - (ii) Quarterly report – to be submitted every three months outlining progress within the quarter
 - (iii) Project completion report – identifying total progress, key outstanding issues and future development path
- 9. Indicative staffing Schedule and Budget**

Table1 provides an indicative staffing schedule based on the needs of individual component as assessed during project preparation. **Table 2** provides an indicative budget to the consulting services.

TableC.1: Indicative Staffing Schedule

Job Title and Area of Expertise	Person - Months
I. International Specialists	
Team Leader/Water and Wastewater Specialist	22
Procurement/Contract Specialist	6
Institution Strengthening/Capacity Building Specialist	4
Leakage Detection Specialist	2
Dam Inspection/Monitoring Specialist	1
Water Tariff/Financial Management Specialist	4
Independent Resettlement Monitoring/Social Specialist	5
International subtotal	44
II. National Specialists	
Deputy Team Leader/Water and Wastewater Specialist	26
E&M Engineer	20
Leakage detection specialist	3
Civil Engineer	18
Institution Strengthening/Capacity Building Specialist	6
PPMS Specialist	10
Environmental Monitoring Specialist	10
Resettlement Monitoring/Social Specialist	12
Domestic Subtotal	105

Table C.2: Indicative Budget

Item Budget	(\$)
International Consultancy	940,380
National Consultancy	439,825
Equipment	30,000
Local transport	40,000
Total	1,450,205

INDICATIVE PROCUREMENT PACKAGES

Item	Procurement Mode	Number of Packages	Percentage Financed by ADB
A. Changchun Component			
1. Beijiao/Nanjiao WWTPs			
Civil works: wastewater treatment works and effluent reuse networks	LCB	3	55
Equipment and materials: wastewater treatment works and effluent reuse networks	ICB	3	100
2. Beijiao WWTP Sewerage			
Civil works			
Pipeline CW and brick utility holes	LCB	3	55
Sewerage pump stations and maintenance stations	LCB	1	55
Equipment and materials: interceptors, sewers, and pumping station	ICB	3	100
3. Shuangyuang			
Civil works: water intake, WTP, road/river crossing	LCB	2	55
Equipment and materials			
WTW equipment	ICB	1	100
Pipeline materials, valves, pump equipment	IS	1	100
4. Yongchun River			
Civil works: River improvement, flood control, drainage works	LCB	3	55
Equipment and materials			
Pipe, valves, accessories	ICB	1	100
Sewage pumping station equipment	IS	1	100
B. Liaoyuan Component			
1. Water Treatment Plants			
Civil works and installation	LCB	1	55
Equipment and materials	ICB	1	100
2. Sewer Pump Station and Pipes			
Civil works: sewer pump stations, pipe (incl. pipeline CW)	LCB	1	55
Equipment and materials: sewer lifting pumps, pipes, and accessories	IS	1	100
3. Water Supply/ Distribution Pipes			
Civil works: pipeline CW	LCB	1	55
Equipment and materials: pipes, valves and accessories	ICB	1	100
4. Secondary Booster Pump Stations			
Civil works: secondary booster pump stations	LCB	1	55
Equipment and Materials: pumps and installation materials	IS	2	100
5. Mountain Torrent Control			
Civil works	LCB	1	55
Equipment and materials: gate and hoist equipment	IS	1	100
C. Meihekou Component			
Civil works: water intake, WTP, crossing roads and rivers	LCB	1	55
Equipment and materials			
Water intake, WTP, tools, and spare parts	ICB	1	100
Water conveyance pipes, valves, and accessories	ICB	1	100
Water distribution pipes, valves, and accessories	ICB	1	100
D. Project Management			
	CS	1	100

ADB = Asian Development Bank . CW = civil works , ICB = international competitive bidding, IS = international shopping, LCB = local competitive bidding, WTP = water treatment plant, WTW = water treatment works, WWTP = wastewater treatment plant.

Source: Jilin Project Management Office.

SALIENT FEATURES OF PROCUREMENT PROCEDURES

INTERNATIONAL COMPETITIVE BIDDING

A. Introduction

1. International competitive bidding (ICB) is the normally required mode of procurement under ADB loans. This provides an executing agency (EA) with a wide choice in selecting the best bid from competing suppliers and contractors. It gives prospective bidders from eligible source countries equal opportunity to bid on goods and related services or works that are being procured under ADB loans.

2. The EA must follow ADB's *Guidelines for Procurement* and procedures in preparing prequalification, bidding, and contract documents; advertising bid invitations; and accepting, opening, and evaluating bids. In addition, draft prequalification and bidding documents, bid evaluation reports, and proposed awards of contract are subject to prior approval by ADB.

B. Price Thresholds for International Competitive Bidding

3. ICB procedures must be followed for any contract with an estimated value that exceeds the threshold values set for local competitive bidding (LCB) or international shopping (IS). The threshold values are normally stated in the Loan Agreement.

C. Bidding Procedures

4. ADB has adopted four bidding procedures from which the EA may select to suit the procurement: single-stage, one-envelope; single-stage, two-envelope; two-stage, two-envelope; and two-stage biddings. Choosing the appropriate bidding procedure will depend on the complexity of the contract and the circumstances surrounding procurement.

1. Single-Stage, One-Envelope Bidding Procedure

5. For this procedure, bidders submit the price proposal and the technical proposal in one envelope. These envelopes are opened in public on the date and at the time designated in the bidding documents. The bids are evaluated, and following ADB approval, the contract is awarded to the bidder who submitted the lowest evaluated substantially responsive bid.

2. Single-Stage, Two-Envelope Bidding Procedure

6. For this procedure, bidders submit two sealed envelopes simultaneously, one containing the technical proposal and the other the price proposal.

- Initially, only the technical proposals are opened on the date and at the time advised in the bidding documents. The price proposals remain sealed and are held in custody by the EA. The technical proposals are evaluated by the EA and cannot be amended or changed. The objective is to allow the EA to evaluate the technical proposals without referring to price. Bids that do not conform to the specified requirements may be rejected, with ADB's approval, as deficient bids.
- Following ADB's approval of the technical evaluation, and on the date and at the time advised by the EA, the price proposals of the technically responsive bidders

are opened in public. The price proposals of the technically responsive bidders are evaluated, and following approval by ADB, the contract is awarded to the bidder who submitted the lowest evaluated substantially responsive bid.

3. Two-Stage, Two-Envelope Bidding Procedure

7. For this procedure, bidders submit two sealed envelopes simultaneously, one containing the technical proposal and the other the price proposal

- Initially, only the technical proposals are opened on the date and at the time advised in the bidding documents. The price proposals remain sealed and are held in custody by the EA. The technical proposals are evaluated, and if the EA requires any amendments or changes they are discussed with the bidders, and all bidders are advised in writing by the EA of the changes required. The objective is to ensure that all technical proposals conform to the same acceptable technical standard and meet the EA's technical requirements. Bids of bidders who are unable or not prepared to amend their technical bids to conform to the final technical standard required by the EA may be rejected, with ADB approval, as deficient bids
- Following ADB's approval of the evaluation of technical proposals, the bidders who meet the qualifying criteria are invited to submit revised technical proposals and supplementary price proposals. The supplementary price proposals must only contain changes in price resulting from changes in the technical proposals. Supplementary price proposals that contain changes other than those discussed during technical evaluation may result in rejection of the bids.
- The original and supplementary price proposals, and the revised technical proposals, are opened in public on the date and at the time advised by the EA. They are evaluated, and following ADB approval, the contract is awarded to the bidder who submitted the lowest evaluated substantially responsive bid.

4. Two-Stage Bidding Procedure

8. For this procedure, bidders first submit their technical proposals, in accordance with the specifications, but without prices:

- The technical proposals are opened on the date and at the time advised in the bidding documents. The EA evaluates the technical proposals and discusses them with the bidders. Any deficiencies, extraneous provisions, and unsatisfactory technical features are discussed with the bidders, and all bidders are advised in writing by the EA of the changes required. The bidders who meet the qualification criteria are invited to revise or adjust their technical proposals to meet the EA's technical requirements. The objective is to ensure that all technical proposals conform to the same acceptable technical standard and meet the EA's technical requirements. Bids of bidders who are unable or not prepared to amend their technical bids to conform to the technical standard required by the EA may be rejected, with ADB approval, as deficient bids.

- After ADB approves the evaluation of technical proposals, the second stage is to invite bidders who meet the qualification criteria to submit revised technical proposals and price proposals that are opened in public on a date and time designated by the EA. In setting the date, the EA is to allow time for bidders to prepare revised technical proposals and price proposals. The revised technical proposals and price proposals are evaluated and, following ADB's approval, the contract is awarded to the lowest evaluated substantially responsive bidder.

D. Invitation, Submission, and Opening of Bids

1. Invitation for Bids and Bidding Documents

9. Three copies of the invitation for bids and all related bidding documents for ICB (including instructions to bidders, conditions of contract, specifications, and bid forms) must be submitted to ADB for approval and reach ADB at least 21 days prior to the proposed date for issuing bidding documents. This allows a specific notice to be published in the internet version of the ADB Business Opportunities (*ADBBO*), and review of draft bidding documents by the concerned sector division, the Project Coordination and Procurement Division (COPP) and the Office of the General Counsel (OGC). EAs must use ADB's appropriate standard bidding documents (SBDs). Modifying or departing from the SBDs for country-specific or project-specific conditions must be

- minimal and consistent with the *Guidelines for Procurement*,
- subject to ADB approval; and
- introduced only through bid data sheets, and the special conditions of contract and conditions of particular application.

2. Issuing the Invitation for Bids

10. As soon as the invitation for bids is advertised in accordance with the *Guidelines for Procurement*, ADB is to be given a report on the advertising. Such a report must include

- the name of the newspaper in which the invitation for bid was advertised,
- the date of advertising, and
- a copy of the published newspaper advertisement.

11. For ICB procurement, invitations for bids require a minimum bidding periods of 60 days for supply contracts and 90 days for civil works and turnkey projects. These periods are counted from the publication date of the relevant invitation in the *Business Opportunities* section of *adb.org*, or a local English newspaper, or the date when prequalification documents are available for issue, whichever is the latest, up to the date for submission of bids.

12. The date, hour, and place for the latest delivery of the bids are to be clearly stipulated in the invitation. The manner for submitting bids must also be specified, and besides allowing for submission in person, delivery of bids by registered mail will similarly be acceptable and stated in the instructions to bidders.

3. Opening of Bids

13. Bids delivered after the deadline for submission are to be returned unopened.

14. Bids must be opened in public on the date and at the time and place stipulated in the documents. The name of each bidder and, where applicable, the total amount of its bid, discounts, bid security, and other important information are to be read aloud and recorded. All the aforementioned information is to be included in the record of the opening of bids, together with the names of the representatives present.

E. Examination and Evaluation of Bids and Award of Contracts

1. Examination and Evaluation of Bids

15. The examination and evaluation of bids must be consistent with the method, terms, and conditions set forth in the bid documents and follow the procedures set out in the *Guidelines for Procurement*.

2. Proposal for Award

16. As soon as the bids are evaluated and the EA has determined the lowest evaluated bid, the evaluation results and the proposal for award of contract must be approved by ADB before a contract is awarded or a letter of intent is issued. For this, promptly after the bid evaluation but at least 30 days prior to expiration of bid validity, ADB must be given three copies of

- an account of the public opening of the bids (together with the minutes of bid opening),
- a summary and detailed evaluation of the bids,
- the proposal for award (together with the consultants' recommendations, where applicable),
- a draft contract if such a draft differs from the draft previously approved by ADB, and
- an appropriate certificate of eligibility for the proposed contract.

17. For single-stage (two-envelope), two-stage (two-envelope), and two-stage bidding procedures, ADB's approval of the evaluation results of each envelope are to be obtained before the results are communicated to the bidders and prior to opening the second envelope or proceeding to the second stage.

3. Award of Contract

18. If the contract proposed to be executed differs substantially from the draft approved by ADB or if any substantial amendment to the contract is proposed, the proposed changes are to be submitted to ADB for prior approval. Promptly after each contract is awarded, ADB is to be given three copies of the contract as executed.

II. LOCAL COMPETITIVE BIDDING

A. Introduction

19. International competitive bidding (ICB) is the normally required mode for procuring ADB-financed goods and related services, or works. However, other methods may sometimes be more appropriate. An alternative, exception is local competitive bidding (LCB) within the borrowing developing member country (DMC). Foreign bidders from other ADB member

countries have the right to bid under ADB-funded LCB. LCB may be more economical than ICB as it normally requires less time and simpler bidding documents, as well as shorter prequalification and bidding periods. LCB also supports one of ADB's objectives: promoting domestic manufacturing and construction industries in the DMCs. Despite this, ICB is the preferred and primary procurement process: it provides the borrower with a wider choice and allows all prospective bidders from eligible countries a fair and equal opportunity to bid on goods and works procured under ADB loans. In addition, ICB is preferred as there have been more cases of corruption under LCB.

B. Criteria for Allocating Contract Packages for LCB

20. LCB may be considered only if ADB is satisfied with four items:

- foreign contractors and suppliers are not likely to be interested in bidding;
- local production or construction facilities are available at reasonable cost and are adequate for prompt delivery;
- domestic procurement procedures are satisfactory to ADB; and
- the borrower requested use of LCB.

Moreover, LCB may be considered for contracts comprising the following conditions:

- small value;
- consist of a series of small-value works;
- located in several areas that may be far apart in the borrowing DMC; and
- to be executed at different times.

C. Treatment of Foreign Bidders under LCB

21. Contractors from all member countries are entitled to apply for prequalification or to bid for contracts under LCB. ADB requires the borrowing DMC to permit such participation, but foreign bidders must adhere to local procedures acceptable to ADB, including using the local language and paying in local currency, if required by the bidding documents. Under LCB, the delivered cost of materials including import duties and other taxes may be used when comparing bids. ADB's domestic preference policy does not apply to LCB.

D. International Advertising of LCB

22. Bidding of LCB contracts estimated at \$500,000 or more for goods and related services or \$1,000,000 or more for civil works is advertised concurrently with the general procurement notices in the Business Opportunities section of adb.org. Prequalification, if used for LCB contracts, is similarly advertised.

E. Using Standard Bidding Documents for LCB

23. Borrowers are to be encouraged to use ADB-approved standard bidding documents for LCB. This will help ensure high quality and consistency in the documents and will hasten ADB's review. The documents must reflect local procurement requirements and be acceptable to ADB by not contravening the basic principles underlying the *Guidelines for Procurement*.

F. ADB Review of LCB Bidding Documents

24. For each project, the first draft English language version of the bidding documents should be submitted for ADB prior review and approval regardless of the estimated contract amount. Thereafter, the approved LCB bidding documents should be used as a model for the same project. Prior review will not be required for subsequent LCB procurement on the same project, where the contract value is estimated at less than \$10 million.

G. Approval of Bid Evaluation Report and Contract Award for LCB

25. ADB will review the bid evaluation report (BER) and award of contract on a post-facto basis. The EA must submit copies of the BER and signed contract in English as soon as possible following contract award. The ADB reserves the right to refuse financing for the contract if it is found during post review that the procurement has not been conducted in accordance with the *Guidelines*, or other provisions specified in the loan agreement. The ADB, however, agree with the EA to conduct prior review of the BER and to give prior approval for contract award. Notwithstanding the above, if the procurement requires consideration of the procurement committee, the EA should not award contract prior to the committee's deliberations and subsequent ADB approval.

H. ADB Financing of LCB Contracts

26. Under ADB's uniform financing policy, when a local bidder wins a contract under ICB, ADB financing covers the ex-factory price of locally manufactured products (excluding taxes and duties on the finished product, but including import duties on raw materials and components). Similarly, ADB financing of LCB excludes taxes and duties imposed on civil works contractors.

OTHER FORMS OF PROCUREMENT

A. International Shopping

27. International shopping (IS) is employed where the estimated contract amount is not large enough to interest foreign suppliers and contractors through the ICB process. Normally, IS is permitted for contracts estimated at up to a maximum value of \$1,000,000. For IS procurement, the executing agency (EA)

- advertises the notice inviting bids in a local English language newspaper, if practicable, with a bidding period of 30 days;
- issues written invitations to bid, providing clear technical specifications for the required goods and related services or works, and the terms and conditions of purchase, to at least three bidders representing more than one member country of ADB (member country for this purpose refers to the country of origin of the goods and not to the bidder's nationality; therefore, quotations may be solicited from authorized local agents of foreign manufacturers);
- adopts the procedures for public bid opening; and
- evaluates the bids in the same way as for ICB.

Unless otherwise indicated in the loan agreement, ADB's review will generally occur after the award of the contract (but before authorizing disbursement) when the EA sends

- the withdrawal application;
- copies of the signed contract;
- the bidding documents;
- details of bid opening procedures, including minutes of bid opening;
- the bid evaluation report;
- the results of the evaluation; and
- a certificate of eligibility of the contract where required by ADB.

These steps ensure fairness and transparency. ADB reserves the right to refuse to finance the contract in case of misprocurement. ADB, therefore, discourages the system of prior award of contract by the EA and after the fact approval by ADB unless the EA has sufficient funds to finance the contract if ADB declares misprocurement.

28. In special cases, higher ceilings for IS may be recommended, appropriate to the competence and experience of the EA, as well as the size and nature of the goods and related services or works to be procured. If IS is employed for contracts higher than \$1,000,000, ADB prior approval of bidding documents and contract awards is necessary as in the case of ICB.

29. IS may also be appropriate if items needed are available only from a limited number of suppliers, or early delivery is of paramount importance for certain works under the project.

B. Direct Purchase, Negotiation, or Single Bid

30. Direct purchase, negotiation, or single bid involving particular manufacturers, suppliers, or contractors is allowed by ADB in any of the following circumstances:

- when buying small or off-the-shelf items valued at less than \$100,000;
- when standardization is important, and equipment and spare parts needed to expand or repair existing equipment must be procured from the original supplier or from a supplier of identical goods;
- when the equipment or goods is proprietary and obtainable only from one supplier;
- when critical items are to be procured from specialist suppliers; and
- when the civil works are a natural extension of an earlier or ongoing job, or when engaging the same contractor is shown to be more economical and ensures compatibility of work quality.

In all these cases, ADB must be satisfied that the prices to be paid are reasonable and that competitive bidding offers no advantage.

31. Direct purchase for standardization is justifiable if the original equipment is suitable and outweighs the possible advantages of having another make of equipment and an alternative supplier. Similarly, in direct negotiation for extension of civil works, the following must be shown:

- the original contract was awarded following ICB, IS, or LCB procedures acceptable to ADB;
- the unit rates of the earlier contract, were updated in accordance with the provisions in the original contract to reflect any increase or decrease in the cost of construction, and were valid and reasonable;
- the contractor's performance has been satisfactory; and

- the additional work would be unlikely to result in lower prices if subjected to bidding.

32. If a number of distributors stock the same parts and are free to compete for their supply, then proprietary parts must be purchased through competitive bidding.

C. Limited Bidding or Repeat Order

33. Additional items may be procured through limited bidding when more of the same items procured earlier through ICB are urgently needed, loan funds are available, and no advantage can be gained through competitive bidding. Under this procedure, bids may be invited only from those who submitted responsive bids for the earlier advertisement, or if many bidders originally responded, from the five original lowest responsive bidders, with a bidding period of 30 days.

34. In exceptional cases, when few bidders originally responded and the lowest evaluated bid was superior (in price, reliability of equipment, availability of spare parts and after-sales service, and delivery period) the additional items required may be procured by a repeat order with that bidder. This is if

- the repeat order follows shortly after the earlier order,
- no better offer is likely, and
- the unit price for the repeat order is not more than the original unit price.

The repeat order is to follow within 18 months of the earlier order, and the additional quantities are not to exceed 30 percent of the original quantities. A repeat order may also be made when the EA, with ADB's agreement, provides an option to order additional items in the original contract documents.

D. Force Account

35. Execution of works by force account (departmental workforces) means undertaking works using the resources of a public agency of the EA's government without competitive bidding or negotiated contracts. Use of force account is on an exceptional basis and must be fully justified.

36. Force account is employed when the size of the works and its location make it unsuitable to adopt competitive bidding (this may include work such as village wells and village access roads, minor irrigation works, and other small and remote scattered works). Force account may also be used in other special cases where local contractors do not express interest in undertaking the works or where force account can be demonstrated to be the most efficient and effective method of implementation.

ADVERTISING PROCUREMENT OF GOODS AND WORKS

A. Advertising in Local English Newspapers

37. Disseminating information on procurement contracts subject to international competitive bidding (ICB) is done by advertising invitations for prequalification or bids in an English language newspaper of general circulation in the country of the executing agency (EA) and in *ADB Business Opportunities (ADBBO)*.

38. The EA forwards a report to ADB on advertising the invitation.

39. For large or specialized contracts, ADB may also require that the invitation for prequalification or bids and procurement notices be advertised in well-known technical magazines or trade publications or in widely circulated international newspapers.

B. Publishing Notices in the *ADB Business Opportunities* and *United Nations Development Business*

40. ADB advertises procurement opportunities under its loans in *ADBBO* and United Nations Development Business (*UNDB*). Advertisement in *UNDB* is, however, not mandatory as ADB has no control over its publication. *UNDB* is published twice a month and carries public procurement notices on projects financed by international organizations. *ADBBO* is published once a month and carries information only on ADB-financed projects, including procurement notices and contract awards. *ADBBO* is also on ADB's web site at <http://www.adb.org>.

5. *ADBBO* and *UNDB* contain general procurement notices (GPNs) and specific notices (SNs).

- (i) A GPN contains general information about a project that is approved or is being considered for financing, and includes
- the name of the borrower;
 - the loan number (when available), and title and description of the project;
 - the agency responsible for procurement, its mailing address, facsimile, telex, and telephone numbers;
 - a description of the goods or works subject to international competitive bidding;
 - a description of the goods or works subject to local competitive bidding; and
 - sufficient other information to enable potential bidders to determine their interest.

The GPN for a project appears in *ADBBO* for at least one month, but preferably three months, before the first prequalification (where prequalification is to be carried out) or bidding documents are made available for issue.

- (ii) An SN refers to the advertisement for prequalification (where prequalification is to be carried out) or bidding for an individual contract, and includes
- the name of the borrower;
 - the loan number, and title and description of the project;
 - the agency responsible for procurement, its mailing address, facsimile, telex, telephone numbers;
 - the EA, its address, facsimile, telex, telephone numbers (if different from the procurement agency);
 - a detailed description of the works or goods to be procured under the specific contract;
 - the price of the prequalification or bidding documents;

- the deadline for submitting the prequalification applications or bids;
- the place, complete address, date, and time for submission of prequalification applications or bids;
- the place, complete address, date, and time for opening of prequalification applications or bids; and
- whether the domestic preference scheme will apply.

6. Publication of the SN for an individual contract follows immediately after the publication of the invitation for prequalification or bids in a local English newspaper of general circulation.

DISBURSEMENT PROCEDURES

Reference: ADB's Loan Disbursement Handbook dated January 2001

A. DIRECT PAYMENT PROCEDURE

1. ADB, pays a designated beneficiary, at the request of the Borrower, from the loan funds (para. 7 of the *Handbook*).

Requirements

- (i) signed withdrawal application (*form ADB-DRP/RMP in Appendix 3 of the Handbook*)
- (ii) summary sheet (*form ADB-DRP-SS in Appendix 4 of the Handbook*)

Supporting Documents

- (i) contract or confirmed purchase order (PO) indicating amount and due date
- (i) for payment of goods: supplier's invoice, bill of lading, or other similar documents
- (ii) for payment of services: consultant's claim or invoice
- (iii) for payment of civil works: claim or invoice from the contractor and a work progress certificate signed by the project engineer and approved by the borrower's—authorized representative

B. COMMITMENT PROCEDURE

2. This procedure is used for financing import of goods. A letter of credit is usually opened by a commercial bank. The negotiating bank is authorized to seek payment from ADB under the loan (para. 8 of the *Handbook*).

3. ADB issues a Commitment Letter against a letter of credit (L/C), and agrees to pay (on behalf of the Borrower and out of loan funds) the negotiating bank for the payments made or to be made to the supplier in accordance with the terms of L/C.

Requirements

- (i) signed application for commitment letter (*form ADB-CL in Appendix 5 of the Handbook*)
- (i) summary sheet (*form in Appendix 6 of the Handbook*)

Supporting Documents

- (i) contract or confirmed PO
- (ii) two signed copies of the LC

4. ADB issues a Commitment Letter to the designated commercial bank (usually advising bank) as shown in **Appendix 7 of Handbook**. A copy of ADB's commitment letter is also sent to the EA/PMO for information.

ADB's Payment to the Negotiating Bank

5. The Commitment Letter provides for ADB's payment to the negotiating bank upon receipt of the reimbursement claim confirming that negotiation has been done in full compliance

with the letter of credit terms. Such reimbursement claim is usually made by tested telex or authenticated SWIFT message.

6. ADB's approval is required for amendment to the letter of credit (L/C) involving:
- (i) terms of payment including currency and amount of L/C;
 - (i) the description or quantity of goods;
 - (ii) beneficiary;
 - (iii) country of origin; and
 - (iv) extension of the expiry date of L/C beyond the loan closing date.

The form is shown at **Appendix 9** of the Handbook.

7. Amendments not mentioned above do not require ADB's approval. For example, extension of L/C expiry date within the loan closing date does not require ADB's approval, but simply inform ADB of such extension by filling out the form shown at *Appendix 11 of the Handbook* and attaching one copy of the amendment.

C. REIMBURSEMENT PROCEDURE

8. ADB pays to the project account for eligible expenditures, which have been incurred and paid for by the project out of its budget allocation or its own resources (para. 9 of the *Handbook*).

Requirements

- (i) signed withdrawal application (*form ADB-DRP/RMP in Appendix 3 of the Handbook*)
- (ii) summary sheet (*form ADB-RMP-SS in Appendix 4 of the Handbook*)

Supporting Documents

- (i) contract or confirmed PO
- (ii) copy of the invoice/bill/claim and delivery receipt
- (iii) evidence of payment showing the amount paid; the date of receipt and the payee

STATEMENT OF EXPENDITURES (SOE) UNDER REIMBURSEMENT PROCEDURE

9. This procedure requires no submission of supporting documents (*see paragraphs 9.8 to 9.23 of the Handbook for details*). Ceiling is \$200,000 per item of expenditures. The SOE is used in lieu of the usual supporting documents and the Summary Sheet. It may also be used in connection with the liquidation or replenishment of the imprest account.

10. The Withdrawal Application is in **Appendix 19** of the Handbook while the SOE forms are shown in **Appendixes 12 to 15** of the Handbook.

D. IMPREST FUND PROCEDURE

11. ADB makes an advance disbursement from the loan account to the imprest account to be used for ADB's share of eligible expenditures (para. 10 of the *Handbook*). The following conditions must exist before the borrower is allowed to use the procedure: (i) need for the procedure, (ii) borrower's capability, and (iii) audit arrangements.

12. The borrower is required to open for the exclusive use of the Project, a separate bank account in the name of the borrower for depositing advances. The account may be opened at the central bank of the borrower's country or in a commercial bank the borrower designates, provided that the institution chosen is capable of executing foreign exchange and local currency transactions, opening letters of credit and handling large volume of transactions, and issuing detailed monthly bank statements promptly. If the imprest account is maintained in a commercial bank, a comfort letter (**Appendix 23 of the Handbook**) is required to be submitted to ADB.

13. The ceiling of advance may not exceed the estimated expenditures for the next six months or 10 percent of the loan amount, whichever is lower. The borrower must obtain prior ADB approval for any upward changes in the approved ceiling.

14. The advances are to be gradually reduced within one year before the loan closing date or when the undisbursed balance of the loan, including outstanding commitments, is equal to twice the amount of the advance, whichever comes first.

Requirements

- (i) signed withdrawal application (*form ADB-IFP in **Appendix 19 of the Handbook***)
- (ii) summary sheet (*form ADB-IFP-EES in **Appendix 20 of the Handbook***) - for initial advance
- (iii) summary sheet (*forms are in **Appendix 12 to 15 of the Handbook***) - for replenishment
- (iv) imprest account reconciliation statement (*form is in **Appendix 21 of the Handbook***) - for replenishment
- (v) liquidation of advance (*form is in **Appendix 22 of the Handbook***) - for replenishment

E. INSTRUCTIONS FOR WITHDRAWALS

15. Before the first W/A is submitted to ADB, the name of the authorized representative(s) must be provided to ADB, through the Ministry of Finance, including the authenticated specimen signatures of the representative(s).

16. The W/A should be signed by the authorized representative(s), sequentially numbered and should not exceed five digits (00001, 00002, etc.).

17. The cover letter of the W/A should include a sentence reconfirming that the contracts were awarded on the basis of tax exemption to ensure expeditious loan disbursement by ADB.

18. The W/A forms and summary sheets to be used vary for the different procedures. A separate W/A for each currency requested should be submitted. The Project may use any of the above disbursement procedures. The forms are:

- (i) For direct payment and reimbursement procedures
 - (a) Withdrawal Application Form (*form ADB-DRP/RMP in **Appendix 3 of the Handbook***)
 - (b) Summary Sheet (*form ADB-DRP-SS in **Appendix 4 of the Handbook***)
- (ii) For commitment procedure
 - (a) Withdrawal Application Form (*form ADB-CL in **Appendix 5 of the Handbook***)
 - (b) Summary Sheet (*form in **Appendix 6 of the Handbook***)

- (ii) For imprest fund procedure
 - (a) Withdrawal Application Form (*form ADB-IFP in Appendix 19 of the Handbook*)
 - (b) Summary Sheet (*form in Appendix 20 of the Handbook for initial advance and forms in Appendix 12 to 15 of the Handbook for replenishment*)
 - © Imprest Account Reconciliation Statement (*Appendix 21 of the Handbook*)
 - (d) ADB Liquidation of Advance (*Appendix 22 of the Handbook*). This form is required only when the initial advance is to be liquidated which due one year before the closure of the Project.

19. The W/A to be submitted to ADB must be the signed original copy to the attention of Mr. Gabriel Ho, Senior Financial Control Specialist, CTLA and copied to Director, ECSS. However, supporting documents may be in photocopies and the originals to be kept for audit purposes.

PRO FORMA OF THE EXECUTING AGENCY'S PROJECT PROGRESS REPORT

A. Introduction and Basic Data

Provide the following:

- ADB loan number, project title, borrower, executing agency(ies), implementing agency(ies);
- total estimated project cost and financing plan;
- status of project financing including availability of counterpart funds and cofinancing;
- dates of approval, signing, and effectiveness of ADB loan;
- original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
- date of last ADB review mission.

B. Utilization of Funds (ADB Loan, Cofinancing, and Counterpart Funds)

Provide the following:

- cumulative contract awards financed by the ADB loan, cofinancing, and counterpart funds (commitment of funds to date), and comparison with time-bound projections (targets);
- cumulative disbursements from the ADB loan, cofinancing, and counterpart funds (expenditure to date), and comparison with time-bound projections (targets); and
- reestimated costs to completion, need for reallocation within ADB loan categories, and whether an overall project cost overrun is likely.

C. Project Purpose

Provide the following:

- status of project scope/implementation arrangements compared with those in the report and recommendation of the President (RRP), and whether major changes have occurred or will need to be made;
- an assessment of the likelihood that the immediate development objectives (project purpose) will be met in part or in full, and whether remedial measures are required based on the current project scope and implementation arrangements;
- an assessment of changes to the key assumptions and risks that affect attainment of the development objectives; and
- other project developments, including monitoring and reporting on environmental and social requirements that might adversely affect the project's viability or accomplishment of immediate objectives.

D. Implementation Progress

Provide the following:

- assessment of project implementation arrangements such as establishment, staffing, and funding of the PMO or PIU;

- information relating to other aspects of the EA's internal operations that may impact on the implementation arrangements or project progress;
- progress or achievements in implementation since the last progress report;
- assessment of the progress of each project component, such as,
 - recruitment of consultants and their performance;
 - procurement of goods and works (from preparation of detailed designs and bidding documents to contract awards); and
 - the performance of suppliers, manufacturers, and contractors for goods and works contracts;
- assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (include simple charts such as bar or milestone to illustrate progress, a chart showing actual versus planned expenditure, S-curve graph showing the relationship between physical and financial performance, and actual progress in comparison with the original schedules and budgets, the reference framework or guidelines in calculating the project progress including examples are shown in Appendix 2); and
- an assessment of the validity of key assumptions and risks in achieving the quantifiable implementation targets.

E. Compliance with Covenants

Provide the following:

- the borrower's compliance with policy loan covenants such as sector reform initiatives and EA reforms, and the reasons for any noncompliance or delay in compliance;
- the borrower's and EA's compliance with financial loan covenants including the EA's financial management, and the provision of audited project accounts or audited agency financial statements; and
- the borrower's and EA's compliance with project-specific loan covenants associated with implementation, environment, and social dimensions.

F. Major Project Issues and Problems

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives. Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

Framework and Guidelines in Calculating Project Progress

A. Introduction

1. To ensure that all implementation activities are reflected in measuring implementation progress against the project implementation schedule, the term "physical completion" in the PPR has been changed to "project progress."
2. Physical and precommencement activities are considered in calculating project implementation progress. These activities, which may include recruitment of consultants, capacity building, detailed design, preparation of bid and prequalification documents, etc., could constitute a significant proportion of overall implementation and therefore should be counted.
3. Each activity in the implementation schedule will be weighted according to its overall contribution (using time as a reference) to progress of project implementation. These weights will then be used to calculate the percentage of project progress along the entire time span of the project. This is to provide a holistic view of the pace of implementation.

B. Framework for Compiling Activity List and Assigning Weights

4. As implementation activities and their corresponding weights will vary according to the type of project, sector, and country, sector divisions or RMs will be responsible for determining and including them in the project administration memorandum. The actual project implementation progress of these activities should be reported regularly through the EA's quarterly project progress report. To ensure ADB-wide consistency, the following framework has been established; its application will be monitored through the PPR.

1. Compilation of Activity List

5. Sector divisions or RMs concerned should identify major implementation activities and include them in the implementation schedule, which is attached as an appendix in the report and recommendation of the President (RRP). The implementation schedule should follow the critical path of the project's major activities in project implementation taking account of various country, sector, and project constraints.

2. Assignment of Weights

6. Corresponding weights for each activity should be assigned to ensure that "project progress" measures the percentage of achievement (nonfinancial except when the project has credit components) for all events during the entire duration of the implementation schedule. To avoid disproportionate assignment of weights, to the extent possible these should be evenly distributed along the implementation schedule. When activities are concurrent, avoid "double counting."

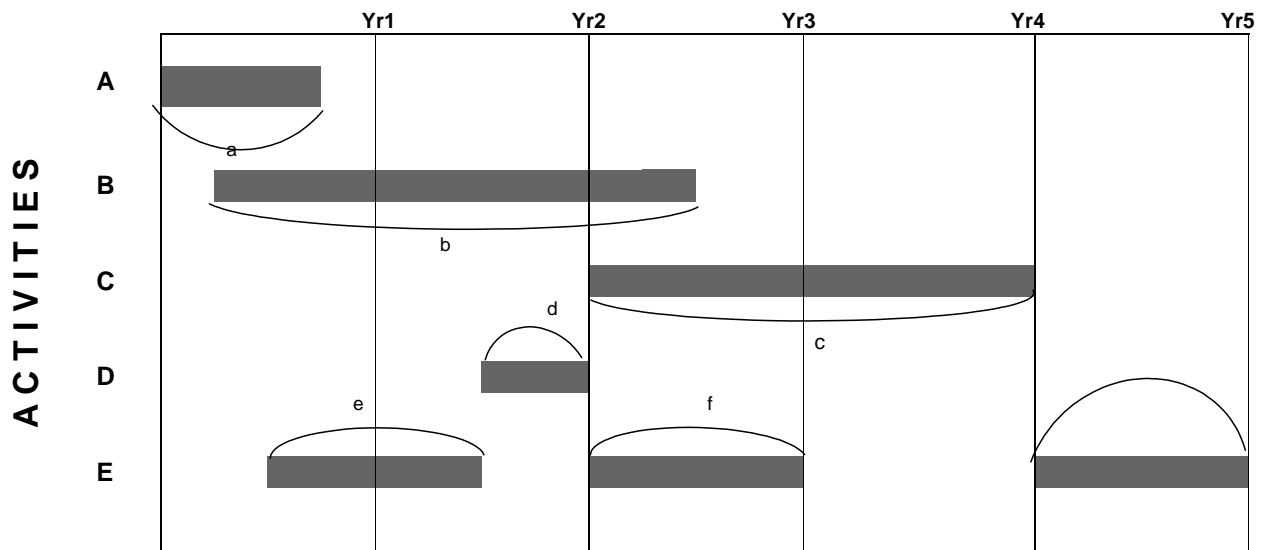
3. Computation of Project Progress

7. Once all activities are identified and corresponding weights assigned, project progress should be calculated using the following steps:
 - (i) Determine the actual percentage progress (nonfinancial) of each activity.

- (ii) Multiply these percentages by the assigned weight of each activity to arrive at the weighted progress.
- (iii) Add up the resulting weighted progress of all activities to determine the project progress.

Page 3 of this Appendix provides an illustration of this calculation using a generic sample implementation schedule and this Appendix, page 4 a specific example in the education sector.

Implementation Schedule with Activities and Weights



1. Sum of all weights should equal 100 percent ($a+b+c+d+e+f+g = 100\%$)
2. When calculating the percentage of "project progress," all completed activities should be counted as accomplished, regardless of when they were scheduled to be completed. For example, when calculating the percentage of "project progress" after year 3, if activity D is completed in year 3 rather than in year 2, it should still be included in the computation.
3. Total weight of each activity is as follows: Activity A— a ; Activity B— b ; Activity C— c ; Activity D— d ; and Activity E— $e + f + g$
4. Project progress of a project is the summation of the actual percentage of progress for each activity multiplied by the total weight of each activity.

Sample Implementation Schedule

Activities	Year 1	Year 2	Year 3	Year 4	(a) Assigned Weight	(b) Actual Progress	(a) x (b) Weighted Progress
Establish PIU	█				5%	100%	6%
Establish Accreditation Board, etc.		█			5%	0%	0%
Appoint Staff and Budget	█				4%	75%	3%
Adopt Architecture Plans		█			2%	100%	2%
Shortlist Consulting Firms	█				6%	100%	6%
Prepare Fellowship Program		█			6%	76%	4%
Prepare Civil Works Tendering		█			30%	0%	0%
Civil Works: Classrooms, Dorms, etc.		████████████████████			6%	0%	0%
Procurement of Furniture and Equipment				█	16%	10%	2%
Field Work of Consultants		████████████████████			7%	0%	0%
Provide Fellowships				████████████████████	6%	0%	0%
Conduct Study Tours			█		6%	0%	0%
Provide Curriculum Standards				████████████████████	6%	0%	0%
				Total Weight	100%		
				Imp. Progress			24%

(a) Assigned weight for each activity

(b) Actual progress of each activity

(a) x (b) weighted progress for each activity

Project progress = sum of all weighted progress for each activity

Worksheet for Quarterly & Yearly Contract Awards/Commitments & Disbursement Projections (\$ Million)

(Important: Before completing this form, please read carefully the instructions printed at the back of this form. Refer to PAN No. 5.02, issued in December 2001.)

PROJECT: _____ LGAN/GRANT NO. _____ SEGMENT NO. _____ FUNDS (OCR, GF, ADF-II, ATF) _____ COUNTRY (Acronym) _____ PROJECTIONS MADE IN: _____ (Month, Year)

Ref. Line No.	Category *	CONTRACT/COMMITMENT ITEM *	Contracts Awarded on Previous Years		QUARTER 1 Jan, Feb, Mar 20____		QUARTER 2 Apr, May, Jun 20____		QUARTER 3 Jul, Aug, Sep 20____		QUARTER 4 Oct, Nov, Dec 20____		TOTAL PROJECTED FOR THE YEAR 20____ (GP)+(QA) + (QP)		
			Month, Year Contract Awarded	GP	QA	GP	QA	GP	QA	GP	QA	GP	QA	Contract Value/ Commitment (A) (1)+(4)+(7)	Disbursement Awarded/Related to the Contract Commitment (B) (2)+(5)+(8)+(9)
			Contract Value (Back-Finance)	Contract Value Committed (3)	Disbursement Awarded/Related to the Contract Commitment (2)	Contract Value Committed (4)	Disbursement Awarded/Related to the Contract Commitment (5)	Contract Value Committed (6)	Disbursement Awarded/Related to the Contract Commitment (7)	Contract Value Committed (8)	Disbursement Awarded/Related to the Contract Commitment (9)				
TOTAL (Carried Forward) FROM PREVIOUS PAGE ___ OF ___ PAGES															
1															
2															
3															
4															
5															
6															
7															
8															
9															
10															
TOTAL OF THIS PAGE ___ OF ___ PAGES (To be carried on next page)															
GRAND TOTAL (LAST PAGE)															

* In accordance with the allocation of loan proceeds as defined in the loan documents, or any other detailed breakdown if found applicable.
 ** ATF = Asian Trust Fund. Projections should be for the ADB-ATF financed component only.
 QA = Quarterly Actual (already awarded/committed/disbursed, when projections are prepared).
 QP = Quarterly Projected (to be awarded/committed/disbursed, when projections are prepared).
 ADB Form No. 1008

NOTES AND REMARKS: _____

Page ___ of ___ pages
 GP-41-08 _____
 Revised September 2005

PROJECT COMPLETION REPORT

Suggested Topics for Project Completion Reports to be Prepared by Borrower

I. PROJECT DESCRIPTION

- A. Objectives
- B. Components (or subprojects for sector and multiprojects)
- C. Implementation methods
- D. Description and justification of changes in components (or subproject appraisal criteria) or implementation methods

II. PROJECT IMPLEMENTATION

- A. Compare original and actual implementation schedules. Indicate delays, length and causes of delays, and remedial action taken.
- B. Compare cost estimates made during appraisal and actual costs (foreign and local). Local currency costs incurred, appropriate exchange rates for their conversion into US dollars, and the foreign exchange costs financed by cofinanciers must be compiled correctly with reference to audited project accounts. Indicate factors that contributed to any significant overruns or underruns.
- C. State problems or difficulties in recruiting consultants, with reference to ADB procedures. Assess the consultant's work and the working relationship between the executing agency (EA) and the consultant. Use of a logical framework is strongly recommended.
- D. State problems or difficulties encountered in procuring goods and services (including civil works) with reference to ADB procedures. Assess the supplier's or contractor's performance under the contract.
- E. Give the extent of compliance of the borrower and EA with loan covenants, with reasons for noncompliance or delays in compliance and the remedial actions taken.
- F. State reasons for any delays in loan utilization. Evaluate the appropriateness of the disbursement methods used. Justify the reallocation of loan proceeds.
- G. State problems or difficulties with subproject appraisal. Evaluate the EA's performance and capacity to appraise subprojects.

III. INITIAL OPERATIONS

- A. Describe initial operations of the project and transitional problems encountered from project completion to initial operations.
- B. Describe measures taken to ensure continued smooth operation of the project relative to management, staffing, funding, and maintenance of project facilities.
- C. Analyze the prospects of the project benefits being realized.

IV. EVALUATION OF THE ASIAN DEVELOPMENT BANK'S PERFORMANCE

A. Assess ADB's performance in supervising project implementation. Include comments on the adequacy of the consultants' terms of reference and appropriateness of specifications in tender documents. Evaluate the effectiveness and timeliness of assistance extended by ADB to solve implementation problems.

B. Comment on problems encountered with ADB's procedures. Note the measures taken to resolve these problems and suggest changes in procedures and requirements.

SAMPLE AUDIT LETTER

ASIAN DEVELOPMENT BANK

Regional Department
Sector Division / Regional or Resident Mission

[Date]

[The Borrower]
Dear Sir or Madam:

Subject: **[Loan No. and Project Title]**
FINANCIAL REPORTING AND AUDITING REQUIREMENTS

This letter is to ensure your timely compliance with the loan covenants and the quality of financial information as required by ADB. ADB's *Financial Reporting and Auditing of Projects Financed by ADB* (the Booklet) is enclosed to guide you.

ADB, by its Charter, is required to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used for the purposes for which the loan was approved. ADB requires accurate and timely financial information from its borrowers to be assured that expenditure was for the purposes stated in the loan agreement.

For this particular loan, the requirements are stipulated in sections _____ and _____ of the Loan Agreement of _____ between ADB and [the Borrower] and sections _____ and _____ of the Project Agreement of _____ between ADB and [name of the EA]. Copies of the Loan/Project Agreements are enclosed for onward transmission by your office to your EA and the auditor(s), together with a copy of this letter.

The following are the main requirements:

- ADB requires the EA to maintain separate project accounts and records exclusively for the Project to ensure that the loan funds were used only for the objectives set out in the Loan or Project Agreements. The project accounts comprise the following:
 -
 -The first set of project accounts to be submitted to ADB covers the fiscal year ending _____. As stipulated in the Loan or Project Agreements, they are to be submitted up to _____ months after the end of the fiscal year. For this loan, the deadline is by _____. A sample report format with explanatory notes, is attached as Annex A.
- The accounts and records for the project are to be consistently maintained by using sound accounting principles. Please stipulate that your external auditor is to express an opinion on whether the financial report has been prepared using international or local

generally accepted accounting standards and whether they have been applied consistently.

ADB prefers project accounts to use international accounting standards prescribed by the International Accounting Standards Committee. Please advise your external auditor to comment on the impact of any deviations, by [name of the Executing Agency] from international accounting standards.

- Please ensure that your external auditor specifies in the Auditor's Report the appropriate auditing standards they used, and direct them to expand the scope of the paragraph in the Auditor's Report by disclosing the key audit procedures followed. Your external auditor is also to state whether the same audit procedures were followed for all supplementary financial statements submitted.

ADB wishes that auditors conform to the international auditing standards issued by the International Federation of Accountants. In cases where other auditing standards are used, request that your external auditor to indicate in the Auditor's Report the extent of any differences and their impact on the audit.

- The external auditor's opinion is also required on whether
 - the proceeds of the ADB's loan have been utilized only for the project as stated in the Loan Agreement;
 - the financial information contains data specifically agreed upon between [name of the Borrower or EA] and ADB to be included in the financial statements;
 - the financial information complies with relevant regulations and statutory requirements; and
 - compliance has been met with all the financial covenants contained in the Loan or Project Agreements.
- The Auditor's Report is to clearly state the reasons for any opinions that are qualified, adverse, or disclaimers.
- Actions on deficiencies disclosed by the external auditor in its report are to be resolved by [name of Borrower or Executing Agency] within a reasonable time. The external auditor is to comment in the subsequent Auditor's Report on the adequacy of the corrective measures taken by [name of Borrower or EA].

Compliance with these ADB requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor.

Yours sincerely,

Director /Country Director
(Sector Division/Regional or Resident Mission)

cc: (EA)
(External auditor of the Borrower or EA)

**LOAN 2175-PRC: JILIN WATER SUPPLY AND
SEWERAGE DEVELOPMENT PROJECT
STATUS OF COMPLIANCE WITH LOAN COVENANTS
(As of July 2006)**

Covenant	Status of Compliance
GENERAL	
<p>1. The Borrower shall cause JPG and, through JPG, CMG, LMG and MMG, and the PIAs to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and water supply and drainage sewerage practices. (LA, Article IV, Section 4.01 [a])</p>	Being complied with.
<p>JPG and each PIA shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and, and where applicable, water supply or drainage sewerage practices. (PA, Article II, Section 2.01[a])</p>	Being complied with.
<p>2. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement. (LA, Article IV, Section 4.01 [b])</p>	Being complied with.
<p>In the carrying out of the Project and operation of the Project facilities, JPG and each PIA shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to JPG or the PIA and all obligations set forth in the Schedule to this Project Agreement. (PA, Article II, Section 2.01[b])</p>	Being complied with.
<p>3. The Borrower shall make available to JPG and, through JPG, CMG, LMG and MMG, to the PIAs, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.</p>	Being complied with.

	Covenant	Status of Compliance
	<p>(LA, Article IV, Section 4.02)</p> <p>JPG and each PIA shall make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project. (PA, Article II, Section 2.02)</p>	Being complied with.
4.	<p>The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures. (LA, Article IV, Section 4.03)</p>	Being complied with.
5.	<p>The Borrower shall take all action which shall be necessary on its part to enable JPG and the PIAs to perform their respective obligations under the Project Agreement, including the establishment and maintenance of tariffs as stipulated in paragraph 27 of the Schedule to the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations. (LA, Article IV, Section 4.04)</p>	Not yet due.
6.	<p>The Borrower shall cause JPG to ensure that CMG, LMG and MMG exercise their rights under the Onlending Agreements in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan. (LA, Article IV, Section 4.05 [a])</p>	Being complied with.
7.	<p>The Borrower shall, and shall cause JPG to ensure that no rights or obligations under any of the Onlending Agreements shall be assigned, amended, abrogated or waived without the prior concurrence of ADB. (LA, Article IV, Section 4.05 [b])</p>	Being complied with.
8.	<p>Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the</p>	Being complied with.

Covenant	Status of Compliance
<p>provisions of Schedule 4 and Schedule 5 to the Loan Agreement. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB. (PA, Article II, Section 2.03[b])</p>	
<p>9. JPG and each PIA shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. JPG and each PIA shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request. (PA, Article II, Section 2.04)</p>	Being complied with.
<p>10. Each PIA shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice. (PA, Article II, Section 2.05[a])</p>	Not yet due.
<p>11. Without limiting the generality of the foregoing, each PIA undertakes to insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods. (PA, Article II, Section 2.05[b])</p>	Not yet due.
<p>12. JPG and each PIA shall maintain, or cause to be maintained, records and accounts adequate to identify the goods</p>	Not yet due.

	Covenant	Status of Compliance
	and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition. (PA, Article II, Section 2.06)	
13.	ADB of the one part and JPG and the PIAs of the other part shall cooperate fully to ensure that the purposes of the Loan will be accomplished. (PA, Article II, Section 2.07[a])	Being complied with.
14.	JPG and each PIA shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of their respective obligations under this Project Agreement or Onlending Agreement, or the accomplishment of the purposes of the Loan. (PA, Article II, Section 2.07[b])	To be complied with, if applicable.
15.	ADB of the one part and JPG and the PIAs of the other part shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, JPG or any PIA and the Loan. (PA, Article II, Section 2.07[c])	Being complied with.
16.	JPG and each PIA shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the goods and services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of the PIA; and (v) any other matters relating to the purposes of the Loan. (PA, Article II, Section 2.08[a])	To be complied with.
17.	Without limiting the generality of the foregoing, JPG and each PIA shall	First quarterly progress report submitted on 17 July 2006.

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<p>furnish to ADB quarterly reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.</p> <p>(PA, Article II, Section 2.08 [b])</p>	
<p>18. Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, JPG and each PIA shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by JPG and the PIA of their respective obligations under this Project Agreement and the accomplishment of the purposes of the Loan.</p> <p>(PA, Article II, Section 2.08 [c])</p>	Not yet due.
<p>19. Each PIA shall (i) maintain separate accounts for the Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by external auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six (6) months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors</p>	The first audited financial statements/accounts covering fiscal year 2006 is due on or before 30 June 2007.

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<p>relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. Each PIA shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request. (PA, Article II, Section 2.09 [a])</p>	
Disbursements	
<p>20. Notwithstanding any other provision of the Loan Agreement, no withdrawals shall be made from the Loan Account for a concerned Subproject until the following have been met:</p> <ul style="list-style-type: none"> (a) the Onlending Agreement for Subproject, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the parties thereto and shall have become effective and binding upon the parties thereto in accordance with its terms; and (b) an opinion or opinions shall be furnished to ADB of counsel acceptable to ADB showing, on behalf of the parties to an Onlending Agreement, that the Onlending Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, and is legally binding upon, the parties thereto in accordance with its terms. <p>(LA, Schedule 3, para. 9)</p>	Complied with.
Execution of Contract for Consultants	
<p>21. After the conclusion of negotiations but before the signing of the contract, ADB shall be furnished with the contract as negotiated for approval. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall</p>	To be complied with.

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<p>be submitted to ADB for prior approval. (LA, Schedule 5, para. 4[e])</p>	
<p>Execution of Project and Operation of Project Facilities; Financial Matters Implementation Arrangements</p>	
<p>22. JPG shall be the Project Executing Agency for the Project and have overall responsibility for the Project. (LA, Schedule 6, para. 1)</p>	<p>Complied with.</p>
<p>JPG shall be the Project Executing Agency for the Project and have overall responsibility for the Project. JPG shall ensure that the PIAs be maintained as separate legal entities with full financial and managerial autonomy as provided for under the relevant laws of the Borrower. (PA, Schedule, para. 1)</p>	<p>Complied with.</p>
<p>23. The Project steering committee (PSC) which has been established shall be headed by a Vice Governor and comprise the heads of Jilin Development Reform Commission, Jilin Construction Commission, Jilin Finance Bureau, and Mayors of CMG, LMG and MMG. PSC shall provide overall policy guidance, facilitate inter-agency coordination and resolve any institutional problems affecting Project implementation. (LA, Schedule 6, para. 2)/PA, Schedule, para. 2)</p>	<p>Complied with.</p>
<p>24. The Project Management Office (PMO) which has been established in JPG shall be led by Jilin Construction Commission. PMO shall also act as secretariat of PSC. The Project Implementing Units (PIUs) established in CMG, LMG and MMG shall report to PMO and also coordinate and monitor activities of the PIAs. (LA, Schedule 6, para. 3)/(PA, Schedule, para. 3)</p>	<p>Complied with.</p>
<p>25. The following PIAs shall be responsible for day-to-day implementation activities: (i) CHTIDGC, responsible for implementation of Subproject V of the Project;</p>	<p>Complied with.</p>

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(ii) CSWSC, responsible for implementation of Subproject IV of the Project; (iii) CWGUDC, responsible for implementation of Subprojects I, II, and III of the Project; (iv) LWC, responsible for implementation of Subproject VI of the Project; and (v) MWSC, responsible for implementation of Subproject VII of the Project. (LA, Schedule 6, para. 4)/(PA, Schedule, para. 4)	

Change in Ownership

26. In the event that (a) any change in ownership of the Project facilities; or (b) any sale, transfer or assignment of the shares of any PIA is anticipated, the Borrower shall, and shall cause that JPG, either CMG, LMG or MMG, whichever it may be concerned, and the concerned PIA, consult with ADB at least six months prior to the implementation of such change. The Borrower shall, and shall cause that JPG, either CMG, LMG or MMG, whichever it may be concerned, and the concerned PIA shall ensure that such change be carried out in a lawful and transparent matter.
 (LA, Schedule 6, para. 5)

To be complied with, if applicable.

JPG shall, and each PIA through duly certified board resolutions shall, ensure that no material organizational changes (either financial, operational, or structural) to, nor material asset transfers to or from the PIA be formally approved or implemented without the prior approval of the Borrower, ADB or JPG if such changes would affect any party's ability to perform its obligation under the Loan, Project or the Onlending Agreement. JPG and the concerned PIA shall ensure that such change will be made in a lawful and transparent manner.
 (PA, Schedule, para. 6)

To be complied with.

Counterpart Funding

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<p>27. The Borrower shall, and shall cause JPG, CMG, LMG and MMG to, ensure that all local cost financing including cash injection and equity contribution is provided for the Project on a timely basis to enable the full and timely completion of the Project. The Borrower shall, and shall cause JPG, CMG, LMG and MMG to, ensure that in the event of any shortfall of funds or cost overruns, counterpart funds including foreign exchange as are required to complete the Project be made available. (LA, Schedule 6, para. 6)</p> <p>JPG shall, and shall cause CMG, LMG and MMG to, ensure that all local cost financing including cash injection and equity contribution is provided for the Project on a timely basis to enable the full and timely completion of the Project. JPG shall, and cause CMG, LMG and MMG to, ensure that in the event of any shortfall of funds or cost overruns, JPG, CMG, LMG and MMG shall make available such funds including foreign exchange as are required to complete the Project. (PA, Schedule, para. 19)</p>	Complied with.
Corporate Governance	
<p>28. Each PIA shall ensure that its board of directors operate effectively and fully discharge its supervisory and management responsibilities. The board shall meet at least monthly and undertake all the functions provided for in the company charter and the Company Law of the Borrower. (PA, Schedule, para. 7)</p>	Complied with.
<p>29. Each PIA shall appoint commercial auditors qualified to undertake company audits. Each PIA shall establish an audit committee in its board of directors to review internal and external audit reports and to consider other issues of corporate governance. This audit committee shall meet at least quarterly. (PA, Schedule, para. 8)</p>	To be complied with.

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Resettlement	
<p>30. JPG, through CMG, LMG and MMG, and the PIAs shall ensure that (a) all land and rights-of-way required by the Project be made available in a timely manner; (b) the RPs be implemented promptly and efficiently in accordance with their terms; (c) the provisions of the RPs be implemented in accordance with all applicable laws and regulations of the Borrower and JPG, and ADB's Policy on Involuntary Resettlement; (d) all affected persons (APs) be given adequate opportunity to participate in resettlement planning and implementation; (e) timely provision of counterpart funds be paid for land acquisition and resettlement activities; (f) any obligations in excess of the RPs budget estimates be met; and (g) APs be given first priority for employment in the Project. PA, Schedule, para. 9)</p>	Being complied with.
<p>31. JPG shall ensure through CMG, LMG and MMG that all APs under the Project be compensated and assisted prior to displacement from housing, land and assets in accordance with the RPs such that they are at least as well off as they would have been in the absence of the Project. PA Schedule, para. 10)</p>	Being complied with.
<p>32. JPG shall ensure through CMG, LMG and MMG that funds for land acquisition and resettlement be provided as scheduled in the RPs, and shall meet any obligations in excess of the budgeted amount as necessary to meet the RPs' objectives. (PA Schedule, para. 11)</p>	Being complied with.
<p>33. JPG, through CMG, LMG and MMG, and the PIAs shall ensure that (a) adequate staff and resources be committed to supervising and internal monitoring the implementation of each Subproject RP; (b) quarterly monitoring during resettlement implementation, followed by</p>	To be complied with.

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<p>a resettlement completion report for each Subproject; (c) an independent agency acceptable to ADB be contracted to carry out monitoring and evaluation, including data disaggregated by gender where applicable, and forward reports to ADB as specified in the RPs; (d) a summary of annual government audits of resettlement disbursements and expenditures be provided to ADB; (e) the RPs be updated based on detailed measurement survey and sent to ADB for its concurrence prior to commencement of related civil works; (f) ADB be promptly advised of any substantial changes in the resettlement impacts and, if necessary, a revised resettlement plan is submitted to ADB for its approval; (g) civil works contractors' specifications include requirements to comply with the RPs and entitlements for permanent and temporary impacts to APs; (h) the contractors be supervised to ensure compliance with requirements of the RPs including restoration of land temporarily used during construction, applicable laws and ADB's <i>Policy on Involuntary Resettlement</i>; (i) JPG and PIAs require that the independent agency engaged for resettlement monitoring prepare resettlement completion reports at the completion of the resettlement and submitted such reports to ADB; and (j) JPG and PIAs require that the independent agency engaged for resettlement monitoring prepare annual evaluation of land acquisition and resettlement be prepared and submitted such reports to ADB until 2 years after the completion of land acquisition and resettlement.</p> <p>(PA, Schedule, para. 12)</p>	
<p>Construction of Project Facilities</p>	
<p>34. JPG, through CMG, LMG and MMG, and the PIAs shall ensure that all Project facilities be designed, installed, operated, and maintained in accordance with the Borrower's standards, relevant international standards and related</p>	<p>Being complied with.</p>

Covenant	Status of Compliance
regulations. (PA, Schedule, para. 13)	
35. JPG, through CMG, LMG and MMG, and the PIAs shall ensure that the construction and operation of the new facilities under the Project meet all applicable safety standards and that employees receive proper operational, maintenance, and safety training. (PA, Schedule, para. 14)	To be complied with.
Environment	
36. JPG, through CMG, LMG and MMG, and the PIAs shall ensure that (a) the Project facilities be constructed, operated, maintained, and monitored in strict conformity with all relevant laws and regulations of the Borrower, and ADB's policy and procedures on environment; (b) the environmental mitigation measures recommended in the initial environmental examination be implemented; and (c) justification is provided to ADB for any proposed changes to the mitigation measures required during design, construction, and O&M; and (d) justification is provided to the ADB within 60 days if any changes have to be implemented for safety or emergency reasons. (PA, Schedule, para. 15)	To be complied with.
37. JPG, through CMG, LMG and MMG, and the PIAs shall ensure that (a) the Project water treatment plants, waste water treatment plants, and related pipes, booster pumps and civil works are constructed and operated in accordance with environmental procedures and guidelines of the Government and ADB; (b) any adverse environmental impacts arising from the Project are minimized by implementing the mitigation measures prescribed in the SEIA and EIAs; (c) civil work contracts entered into with contractors will include obligations of contractors relating to environment including mitigation and monitoring measures as specified in the SEIA and	To be complied with.

Covenant	Status of Compliance
<p>EIAs; (d) PMO submit semi-annual reports on environmental management plan implementation to ADB. (PA, Schedule, para. 16)</p>	
<p>38. JPG shall cause CMG, LMG and MMG to, and the PIAs shall, submit to ADB annual environmental reports commencing from the start of Project implementation until one year after the commencement of commercial operation of the Project facilities. The reports shall include (i) progress made on mitigation measures and monitoring; (ii) restoration, condition, and return of lands temporarily acquired during construction; (iii) problems encountered; (iv) data collected; (v) results of the independent monitoring of resettlement activities; (vi) any research results; and (vii) a corrective action plan if any violation of the Borrower's environmental standards, rules, regulations, or laws has occurred. (PA, Schedule, para. 17)</p>	<p>To be complied with.</p>
<p>39. JPG shall cause CMG and MMG to ensure that</p> <p>(i) the Hailong and Shuangyang Water Resource Protection Committee (WRPC) be established to safeguard the quality of the water released from the Hailong Reservoir and the Shuangyang Reservoir and to prevent any pollution in the upstream part of the Huifa River and Shuangyang River;</p> <p>J.</p> <p>(ii) WRPCs ensure that protection of the reservoir be in accordance with the concerned local, provincial and national reservoir protection regulations; and</p> <p>K.</p> <p>(iii) WRPCs chaired by the respective concerned Vice Mayors and consisting of the concerned provincial and municipal bureaus play their functions, which include, among others, (a) coordinating and facilitating environmental monitoring and mitigation and addressing the interests of stakeholders before, during</p>	<p>To be complied with.</p>

Covenant	Status of Compliance
<p>and after Project implementation; (b) restricting access to the reservoir catchment area and establishing a protection zone in accordance with the local, provincial and national regulations and standards to prevent any pollution entering the water system in the upstream part; and (c) boosting environmental awareness in the Project area. (PA, Schedule, para. 18)</p>	
Financial Management	
<p>40. Except as ADB shall otherwise agree, commencing from the first year of full commercial operation of the Project, each PIA shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the PIA shows that the estimated net revenues of the PIA for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times the estimated debt service requirements of the PIA in such year on all debt of the PIA including the debt to be incurred and no event has occurred since the date of the forecast which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition of future operating results of the PIA. (PA, Schedule, para. 20[a])</p>	To be complied with.
<p>41. Except as ADB shall otherwise agree, commencing from the first year of full commercial operation of the Project, each PIA shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 70 to 30. (PA, Schedule, para. 21[a])</p>	Not yet due.
<p>42. Except as ADB shall otherwise agree, commencing from the first year of full commercial operation of the Project, each PIA shall maintain a ratio of current assets to current liabilities of not less than 1.2 to 1. (PA, Schedule, para. 22[a])</p>	Not yet due.

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Cost Recovery and Tariffs	
<p>43. JPG shall, and cause CMG and MMG to, ensure that the water purchase agreements (WPA) entered into between Meihokou Reservoir Management Bureau and MWSC, and between CSWSC and Shuangyuan Tap Water Company (STWC), are implemented in accordance with their respective obligations under the WPA. JPG shall cause CMG to ensure that STWC will purchase the minimum volume of treated water as of 1 January 2010 specified in the concerned WPA. (PA, Schedule, para. 23)</p>	Not yet due.
<p>44. JPG shall, and cause CMG to, ensure that the water purchase price of the WPA as of 1 January 2010 for STWC is set at a level that ensures full cost recovery of O&M, depreciation, and financial costs, i.e. debt service obligations, and a reasonable profit margin for STWC. This price level will be reviewed on an annual basis, so that any changes in O&M and financial costs, inflation, and currency fluctuations are met. (PA, Schedule, para. 24)</p>	Not yet due.
<p>45. JPG shall, and cause MMG to, ensure that the raw water purchase price of the WPA as of 1 January 2010 for MWSC is set at a level that is based on recovery only of those costs associated with provision of the raw water to MWSC including all resource fees or taxes. This price level shall be reviewed on an annual basis, so that any changes in the price are justified based on changes in costs. (PA, Schedule, para. 25)</p>	Not yet due.
<p>46. JPG shall, and shall cause CMG, LMG and MMG to, undertake a review of the regulation on tariff regimes prior to the midterm review of Project implementation. Such a review will include (i) recalculation of minimum cost recovery tariffs based on the actual Project costs, (ii) affordability and</p>	Not yet due.

	Covenant	Status of Compliance
	<p>willingness-to-pay surveys, (iii) financial/economic benefits, and (iv) extension of the price escalation mechanism to household and commercial users and other potential fees, and charges to encourage water conservation and sound environmental behavior. The findings shall be submitted to ADB for review and discussion during the midterm review of Project implementation. (PA, Schedule, para. 26)</p>	
47.	<p>JPG shall, and shall cause CMG, LMG and MMG to, ensure that from 2010 the tariffs for treated water and for wastewater services charged by the concerned PIAs are set at a level that ensures full cost recovery of O&M, depreciation, and financial costs, i.e., debt service obligations, and a reasonable profit margin for the PIAs. (PA, Schedule, para. 27)</p>	Not yet due.
48.	<p>JPG shall, and shall cause CMG, LMG and MMG to, ensure that no entity, whether agency or institution of the Borrower or the local governments, nor any enterprise, regardless of ownership, be granted an exemption from the tariffs established pursuant to the paragraph 29 above or granted a preferential rate or excused for delays in payments without penalties. (PA, Schedule, para. 28)</p>	Not yet due.
49.	<p>JPG shall cause CMG, LMG and MMG to, and each PIA shall, review the impact of water and wastewater tariffs adjustment on the poor and maintain the provision of water tariff rebates to protect the basic living standards of the urban poor. (PA, Schedule, para. 29)</p>	Not yet due.
50.	<p>JPG shall cause CMG, LMG and MMG to, and each PIA shall, ensure that (i) public consultation be conducted on tariff adjustment with key stakeholders including representative of the poor; and</p>	Not yet due.

Covenant	Status of Compliance
<p>(ii) public support for tariff reforms be cultivated through public information and participation programs including presentations at public meetings and news release. (PA, Schedule, para. 30)</p>	
Gender	
<p>51. JPG shall cause CMG, LMG and MMG to, and each PIA shall, take necessary measure to (a) encourage the use of local labor, including women in Project works; (b) encourage women to participate in Project implementation activities; and (c) monitor effects on women during Project implementation through the monitoring and evaluation system and in consultation with local governments and local women's federations. (PA, Schedule, para. 31)</p>	To be complied with.
Health Risks	
<p>52. JPG and each PIA shall, in coordination with the appropriate agencies identified by JPG, cause the contractors to disseminate information on the risks of socially and sexually transmitted diseases, including HIV/AIDS, to their employees during Project implementation. (PA, Schedule, para. 32)</p>	To be complied with.
Women and Child Labor	
<p>53. JPG and each PIA shall ensure that all civil works contractors engaged under the Project (i) provide timely payment of wages and safe working conditions to all workers including male and female workers (with such requirements being included in civil works contract and monitored by construction supervision consultant); (ii) provide women's employment, where appropriate, and pay equal wages to the women employees for the equivalent work; (iii) not employ child labor in Project activities as prohibited in the relevant laws and regulations of the Borrower. (PA, Schedule, para 33)</p>	To be complied with.

Covenant	Status of Compliance
Midterm Review	
<p>54. ADB, JPG and PIAs shall undertake comprehensive midterm review of the Project implementation two years after the commencement of Project implementation, including, among others, a detailed evaluation of the scope, implementation arrangements, resettlement, achievement of scheduled targets, progress on the agenda for policy reform and capacity-building measures and retail water tariffs in Changchun Municipality, Liaoyuan City and Meihekou City. (PA, Schedule, para. 34)</p>	Not yet due.
Anti-Corruption	
<p>55. JPG shall cause CMG, LMG and MMG to undertake the following anti-corruption actions: (i) involve full-time officials from the Changchun, Liaoyuan and Meihekou Municipal Discipline Investigation Bureaus in bidding and construction process; (ii) introduce a dual-signing system, in which the civil works contract winner also signs an anti-corruption contract with the employer; and (iii) periodically inspect the contractors' activities related to fund withdrawals and settlements. (PA, Schedule, para. 35)</p>	To be complied with.