



Project Administration Memorandum

Project Number: 39149
Loan Number: 2345
November 2007

PRC: WESTERN GUANGXI ROADS 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 30 June 2007)

Currency Unit – yuan (CNY)

CNY1.00 = \$0.1314 \$1.00 =

CNY7.6132

The exchange rate of the yuan is determined under a floating exchange rate system. In this report, a rate of \$1.00 = CNY7.73, the rate prevailing at project loan appraisal, is used.

ABBREVIATIONS

ADB	–	Asian Development Bank
CO	–	carbon monoxide
CO ₂	–	carbon dioxide
EIA	–	environmental impact assessment
EIRR	–	economic internal rate of return
EMP	–	environment management plan
EMDP	–	ethnic minorities development plan
FIRR	–	financial internal rate of return
FYP	–	five-year program
GCD	–	Guangxi Communications Department
GCIG	–	Guangxi Communications Investment and Construction Group Company Limited
GEAB	–	Guangxi Expressway Administration Bureau
GHAB	–	Guangxi Highway Administration Bureau
GIAB	–	Guangxi Communications Infrastructure Administration Bureau
GRG	–	Guangxi Zhuang Autonomous Regional People's Government
GMS	–	Greater Mekong Subregion
GPAO	–	Guangxi Poverty Alleviation and Development Office
GPSB	–	Guangxi Public Security Bureau
GDP	–	gross domestic product
GTAB	–	Guangxi Transport Administration Bureau
HC	–	hydrocarbon
IEE	–	initial environmental examination
km	–	kilometer
LIBOR	–	London interbank offered rate
MOC	–	Ministry of Communications
NH	–	national highway
O&M	–	operation and maintenance
pcu	–	passenger car unit
PMO	–	Project Management Office
PRC	–	People's Republic of China
PSP	–	private sector participation
SWEC	–	Guangxi Southwest Expressway Company Limited
TA	–	technical assistance
VOC	–	vehicle operating cost
VRIF	–	village roads implementation framework
WACC	–	weighted average cost of capital

TABLE OF CONTENTS

	Page
Loan Processing History	(i)
Project Design and Monitoring Framework	(ii)
I. PROJECT DESCRIPTION	1
A. Project Area and Location	1
B. Impact and Outcome	1
C. Outputs	1
D. Special Features	
II. COST ESTIMATES AND FINANCING PLAN	3
A. Project Investment Plan	3
B. Financing Plan	4
C. Allocation of Loan Proceeds	5
III. IMPLEMENTATION ARRANGEMENTS	6
A. Executing Agency and Implementing Agencies	6
B. Project Management Organization	6
IV. IMPLEMENTATION SCHEDULE	6
V. CONSULTANT RECRUITMEN	6
VI. PROCUREMENT	7
VII. DISBURSEMENT PROCEDURES	7
VIII. PROJECT MONITORING EVALUATION	8
IX. ENVIRONMENT ASSESSMENT AND MANAGEMENT PLAN	8
X. LAND ACQUISITION AND RESETTLEMENT PLAN	8
XI. REPORTING REQUIREMENTS	8
A. Quarterly Progress Report	8
B. Project Monitoring Evaluation Report	9
C. Land Acquisition and Resettlement Report	9
D. Environmental Impact Assessment Report	9
E. Project Completion Report	9
XII. CONTRACT AWARDS AND DISBURSEMENT PROJECTIONS	9
XIII. ACCOUNTING AND AUDITING REQUIREMENTS	10
XIV. MAJOR LOAN COVENANTS	10
XV. KEY PERSONS INVOLVED IN THE PROJECT	10
XVI. ANTICORRUPTION	11

APPENDIXES

1.	Local Roads Improvement Program	13
2.	Regional Cooperation and Cross-Border Trade	15
3.	Village Road and Rural Bus Stations Implementation Framework	17
4.	Rural Transport Services and Policy Reform	43
5.	Strategic Vehicle Emission Reduction Plan	46
6.	Rural Road Maintenance Policy Reform	48
7.	Detailed Cost Estimates	50
8.	Organization Charts	51
9.	Implementation Schedule	51
10.	Procurement Plan	52
11.	Monitoring of Socio-Economic and Poverty Impacts	55
12.	Summary Resettlement Plan	60
13.	Suggested Format for Quarterly Progress Report	62
14.	Calculation of Project Progress	64
15.	Format for Project Completion Report	67
16.	Financial and Auditing Requirements/Sample Audit Letter	69
17.	List of Major Loan Covenants	71
18.	ADB Publications Related to Project Implementation	93

LOAN PROCESSING HISTORY

Date(s)

- | | | |
|----|--|----------------------------|
| a. | Approval of project or program preparatory technical assistance | 26 May 2006 |
| b. | Feasibility study | |
| c. | Fact-finding | 31 Jan – 9 Feb 2007 |
| d. | Management review meeting (MRM) | 4 Apr 2007 |
| e. | Appraisal mission | 10-18 Apr 2007 |
| f. | Staff review committee (SRC) | 21 May 2007 |
| g. | Loan negotiations | 25-27 Jun 2007 |
| h. | Board circulation | 19 Jul 2007 |
| i. | Board consideration and approval | 14 Aug 2007 |
| j. | Loan agreement signing | 29 Feb 2008 ¹ |
| k. | Loan effectiveness, including conditions (include available dates) | 30 April 2008 ¹ |

¹ Expected dates.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Contribution to pro-poor sustainable economic growth in western Guangxi and northern Viet Nam</p>	<ul style="list-style-type: none"> • GDP increases by 7%–8% per annum for Guangxi and 8%–9% for the project area during 2010–2020 • Per capita rural income in project area increases from CNY1,726 in 2005 to CNY3,800 in 2015 • Poverty incidence in the project area reduced from 30% in 2006 to 15% in 2016 • Trade between Guangxi and Viet Nam increases by 10% per annum during 2006–2016 	<p>Guangxi statistics yearbook</p> <p>Provincial and county statistical data</p> <p>Poverty alleviation and development offices</p> <p>Government statistics and accounts</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Good growth performance in the project area and beyond is sustained • The Government is committed to implement the Western Development Strategy <p>Assumptions</p> <ul style="list-style-type: none"> • Continued growth in Viet Nam and increased trade with the PRC • Streamlined cross-border operation and reduction of barriers to trade and mobility
<p>Outcome An efficient, safe, and environment-friendly regional transport system to promote trade in, and through, western Guangxi and reduce trade barriers with Viet Nam.</p>	<ul style="list-style-type: none"> • Traffic volume on the expressway increased to 6,330 pcu in 2012, and on national highway 324 increased to 5,200 pcu in 2012. Traffic on the project corridor increased by 9% per year during 2006–2012, 6% per year during 2012–2022, and 5% per year during 2022–2032 • Travel time for the expressway reduced from 5 hours before the Project to 2 hours after the Project • Travel distance is reduced by 34 km from Baise to Guizhou border after the Project • Expressway capacity is increased by 25,000–45,000 pcu per day for Longlin–Wangdian section; and by 35,000–50,000 pcu per day for Wangdian–Baise at opening • Fuel savings of 11,000 ton in 2012 and 89,000 toe in 2032; and CO₂ emissions reduced by 39,000 tons in 2012 and 450,000 tons in 2032. CO₂ emissions reduced by 4.7 million tons over 20 years in the project corridor • Vehicle operating costs for a passenger car are reduced from CNY1.45 per vehicle-km without the Project to CNY1.26 with the Project in 2012. 	<p>Actual traffic data on the expressway through its auto-monitoring system</p> <p>Travel time survey for the expressway</p> <p>PCR</p> <p>PCR</p> <p>Estimation by provincial and local EPB and design institute</p> <p>Estimation of vehicle operating costs by GCD and ADB</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Assumed economic growth rates materialize • Transport operators and drivers realize the benefits of using the expressway • The contiguous section of expressway in Guizhou is completed in 2012 <p>Assumption</p> <ul style="list-style-type: none"> • New standards are enforced on Guangxi roads

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> • Project local road capacity increased to 2,000 pcu per day for class-IV roads, 6,000 pcu per day for class-III roads, and 15,000 pcu per day for class-II roads at opening in 2012 • Administrative villages with all-weather road access increased from current 52% to 100% of the total by 2012 in the project area • Licensed bus service becomes available to 100% of villages by 2012, from 54% in 2006 in the project area • Increased frequency of households visits to markets (22 trips per annum to their nearest township markets and 4 trips to their nearest county center in 2006) in the project area • Value of trade through Pingxiang, Longbang, and Yuexu increases by 15% per annum during 2010–2012 • Livestock traded through Naxi increases by 10% per annum during 2010–2012 • Value of small-scale cross-border trade in Jingxi county increases from CNY 380 million by 20% over 5 years 	<p>PAM, progress reports, and PCR</p> <p>Provincial and county statistics offices</p> <p>Baise Transport Administration bureau</p> <p>Household survey</p> <p>Guangxi Commerce Department and Baise Border Trade Bureau</p> <p>Naxi statistics compiled by Baise border trade bureau</p> <p>Guangxi Commerce Department and trade data compiled by Baise border trade bureau</p>	<p>Assumption GCD's rural road investment projects are implemented as planned.</p> <p>Assumption • Transport and trade facilitation measures are implemented or expanded between Guangxi and Viet Nam through Pingxiang, Longbang, and Yuexu.</p> <p>Risk • Existing Naxi market facility is not expanded as planned</p> <p>Assumption • Government continues to expand the range, scale, and geographic scope of approved border-trade activities</p>
<p>Outputs</p> <p>1. Expressway infrastructure and associated facilities improved</p>	<p>1.1 177 km of expressway opened to traffic as scheduled and effectively operated</p> <p>1.2 Road safety enhanced through improved surface quality, and provision of shoulders, signs, markings; safety awareness is increased</p> <p>1.3 Cross-border trade facilities procured and functioning</p>	<p>PAM, progress reports, and PCR</p> <p>PAM, progress reports, and PCR</p> <p>PAM, progress reports, and PCR</p>	
<p>2. Local road infrastructure and associated facilities improved in the project area</p>	<p>2.1 1,060 km of local roads upgraded</p> <p>2.2 Road safety signs and markings displayed and black spots treated; safety awareness increased</p>	<p>PAM, progress reports, and PCR</p> <p>PAM, progress reports, and PCR</p>	

Activities with Milestones		Inputs
1. Implement and supervise project roads and bus station works.	Civil works, equipment, consulting services, and training completed by October 2012.	ADB: \$300 million MOC: \$170 million
2. Establish GCIG.	Restructuring plan prepared by October 2007. Corporate development plan, concession agreement, and draft charter prepared by March 2008. GCIG is established and registered by June 2008.	GRG: \$546 million Domestic loans: \$550 million
3. Implement passenger route licensing and operation reforms in Baise.	Consultants recruited by June 2008 to implement the demonstration project. An action plan is prepared and agreed with GCD by December 2008. Passenger bus route licensing reforms implemented in Baise by October 2012.	
4. Implement rural road maintenance reform in Baise.	Consultants recruited by June 2008 to conduct the rural road maintenance study. This study will identify and test modalities and technologies that offer possibilities for improving the quality and efficiency of road maintenance. Implement rural road maintenance policy reforms and regulations as approved by GCD throughout the implementation period.	
5. Implement and monitor resettlement plans, EMP, and ethnic minority development plan.	Implement resettlement plans, environmental management plans, and ethnic minority development plan throughout the implementation period.	

ADB = Asian Development Bank, GCD = Guangxi Communications Department, GCIG = Guangxi Communications Investment Group Company, GRG = Guangxi Zhuang Autonomous Regional People's Government, km = kilometer, MOC = Ministry of Communications, O&M = operation and maintenance, PAM = project administration mission, PCR = project completion report, pcu = passenger car unit, PRC = People's Republic of China, toe = ton oil equivalent.

I. PROJECT DESCRIPTION

A. Project Area and Location

1. The Project is located in western Guangxi, one of the poorest areas in the PRC. With a per capita gross domestic product that is 63% of the national average, Guangxi ranks 27th among the 31 administrative areas. The Project is designed to promote pro-poor sustainable economic growth in western Guangxi, preparing it to cope with an increasingly important role in regional cooperation and trading with Viet Nam. The Project will provide an integrated road transport network in western Guangxi by (i) constructing the 177 kilometer (km) Longlin–Baise expressway; (ii) upgrading the associated 1,060 km of local roads; (iii) improving road transport services by constructing 50 township bus stations and implementing passenger bus route licensing reforms; (iv) improving road maintenance by implementing rural road maintenance policy reform; and (v) improving corporate governance and strengthening institutional capacity by providing consulting services, equipment, and training.

B. Impact and Outcome

2. The Project will contribute to pro-poor sustainable economic growth in western Guangxi and northern Viet Nam. This will be achieved by developing an efficient, safe, and environment-friendly regional transport system to promote trade in, and through, western Guangxi and reduce trade barriers with Viet Nam.

C. Outputs

3. The project output will be derived from the following components:

- (i) Component A. (a) construction of 177 km access-controlled toll expressway from Baise to Longlin (Guizhou border); and (b) installation of facilities and equipment at the Wantong Logistics Center at Pingxiang, on the main, Nanning-Hanoi corridor.
- (ii) Component B. Upgrading of 1,060 km of local roads in Baise comprising (a) 3 priority border road sections totaling 50 km, (b) 3 priority rural road sections totaling 260 km, and (c) village access roads totaling 750 km.
- (iii) Component C (a) Construction of 2 border area bus stations at Longbang and Yuexu, and 48 townships bus stations in Baise, and (b) implementation of the passenger bus route licensing reform in Baise.
- (iv) Component D. Implement rural road maintenance policy reform in Baise
- (v) Component E. Improve corporate governance and strengthen institutional capacity by providing consulting services, equipment and training.

D. Special Features

4. **Border-Road Improvement for Trade Activities.** This includes upgrading three border-road sections totaling 50 km: (i) the Jingxi-Longbang road is an important link integrating the transport system and the planned development of the land ports in Longbang and Yuexu; and (ii) two border access roads, one accessing a border livestock market and a planned border “trading street” and the other providing improved access to a new border facility and freight station. The improvements will facilitate access to border ports to stimulate border trade, create employment opportunities, and increase regional cooperation with Viet Nam. The border road upgrading will serve strategic border development projects that are expected to result in a

significant increase in trade and traffic. By lowering transport costs and improving the transport links to the Viet Nam border at Pingxiang, Longbang and Yuexu, the Project will spur economic activity and interregional and international trade, helping reduce poverty over a wide region, including on both sides of the border. The ADB loan will provide \$13.2 million to finance border-road improvements for trade activities (Appendixes 1 and 2).

5. **Rural Road Improvement for Network Integration.** This comprises three rural road sections totaling 260 km linking to expressway interchanges and thereby integrating the expressway to the local road network and rural areas. It will help spread the benefits to the poor and minorities, who are mainly farmers and dependent on local road networks to reach markets. Better connections between the expressway and rural roads will enable more agricultural products to reach markets and allow farmers to upgrade their farming practices. As reliable transport to markets becomes more readily available, cash crop farming in remote or isolated areas will be stimulated and access to off-farm employment opportunities will be broadened. Fresh and high-value-to-weight agriculture products will be made profitable to market due to lower transport cost. The ADB loan will provide \$12.4 million to finance rural road improvement for network integration (see Appendix 2).

6. **Village Road Improvement for Poverty Reduction.** The primary objective of the village road improvement is poverty reduction. Under the recently completed World Bank financed Southwest Poverty Reduction Project, Guangxi Poverty Alleviation and Development office (GPAO) learned that (i) improving rural infrastructure was a powerful and fast-acting measure to improve well-being and poverty, and (ii) utilizing an integrated approach is very effective for addressing severe poverty. A major innovation, led by GPAO under the World Bank project, was support for village access roads. The improved access roads had important synergistic effects on other project activities (for example, with road access, schools and health clinic construction was made much easier and materials such as chemical fertilizer for agricultural activities were more easily transported to the area). The project preparatory interviews observed that poor households were extremely supportive of projects implemented by GPAO. Working in collaboration with GPA, the Project will provide \$3 million to rehabilitate 750 km of 4,000 km of rural roads in the project area following the village roads implementation framework (VRIF) agreed upon with GCD. The VRIF, as presented in Appendix 3, integrates a resettlement framework; environmental framework; and technical, procurement, and financial management framework.

7. **Rural Transport Services.** To improve the availability, efficiency, and affordability of rural passenger services, the Project includes a component to help GCD achieve the 11th FYP strategy of improving the accessibility of isolated rural and border communities. It will (i) construct 48 class-V township bus stations in Baise and two class-III border stations at Longbang and Yuexu; and (ii) implement passenger bus route licensing reforms to allow operators the flexibility to customize their routes, schedules, and services to increase demand, raise productivity, lower costs, and more closely meet the needs of rural communities. The ADB will loan provide \$1.56 million to finance the rural transport services component. Together with an existing rural bus services tax deduction scheme, these will help expand the network of formal bus services and spread the benefits of improved accessibility that will be brought about by the Project's expressway and local road components (Appendix 4).

8. **Energy Efficiency and Reduced Vehicle Emissions.** By July 2010, before the project road opens. Guangxi is expected to have adopted stricter emission standards for both new and used vehicles. The Project will significantly contribute to control of vehicle emissions because it offers better road roughness value, lower congestion, and more efficient operation. In the first

year of the expressway operation, fuel savings are expected to be more than 11,000 tons oil equivalent, or 25% lower than without the Project. This will result in the reduction of pollutant emissions of 30,000 tons of carbon dioxide (CO₂), 5,100 tons of carbon monoxide (CO), and 1,200 tons of hydrocarbon in 2012. The direct benefit of the increase capacity on the new expressway and the improved traffic flow on NH324 will result in a total reduction of CO₂ by 4.7 million ton over the 20-year forecast period. Guangxi Environmental Protection Bureau will monitor emissions on project roads (Appendix 5).

9. **Regional Cooperation.** Discussions are under way between the governments of the PRC and Viet Nam to expand the existing bilateral road transport agreement on exchange of traffic rights along the Nanning-Hanoi corridor. This corridor is part of the GMS transport corridors identified under the GMS Transport Sector Strategy (Appendix 2). Agreement on this is expected by 31 December 2007. To meet expected demand for freight transshipment and storage, the Project will provide facilities and equipment at the Wantong Logistics Center at Pingxiang on the main Nanning-Hanoi corridor. Based on the user need surveys, a list of trade logistics facilities and equipment was selected and agreed with GCD, of which ADB will finance \$10 million to help reduce transshipment costs and delays to multimodal transport flows in Pingxiang. In addition, the project expressway will improve regional linkages for long-distance traffic; the project border roads will substantially reduce travel times and costs for road freight and passengers; and the passenger bus stations and bus route licensing reforms will improve the availability, efficiency, and quality of road passenger services (see Appendix 2).

10. **Rural Road Maintenance.** Adequate maintenance is crucial to ensure the sustainability of rural roads. Building on the new national policy for funding and managing rural road maintenance announced by State Council in 2005, GCD'S 2006 rural maintenance policy reform is to be introduced in three trial cities. GCD will implement the reform in Baise. Implementation of the policy reform will help ensure improved funding, a systematic and preventive approach, and more local privatization. The Project will help increase attention to the local authorities and communities to carry out road maintenance. GCD agreed to conduct a study on rural road maintenance estimated at \$100,000 to be financed by the loan. (Appendix 6)

11. **Environmental Institutional Capacity.** Paving of the Tianlin-Leye road will eliminate the dust that plagues roadside communities for 6–7 months of the year. People living along the road will benefit greatly from this air quality improvement. The Project will strengthen the management capability of the Cenwanglaoshan Nature Reserve Management Organization by providing financing of up to CNY890,000 for capacity building, monitoring, and supervision in accordance with the approved environmental impact assessment (EIA). The Project will also support ecosystem monitoring focused along the road. This will be a valuable contribution to the future protection of Guangxi biodiversity, and will introduce better nature reserve management and operation methods to the Cenwanglaoshan Nature Reserve Management Organization.

II. COST ESTIMATES AND FINANCING PLAN

A. Detailed Cost Estimates

12. The project investment cost is estimated at \$1,566 million; including taxes (Table 1) Detailed cost estimates are in Appendix 7.

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a	ADB Financing
A. Base Cost^b		
1. Expressway	1,004.3	205.7
2. Trade Logistic Facilities and Equipment	16.8	16.8
3. Land Acquisition and Resettlement	79.5	0.0
4. Consulting Services, Studies, Project Management Environment Protection and Training	92.4	2.0
5. Local and Border Roads, and Bus Stations	114.7	30.0
Subtotal (A)	1,307.7	254.5
B. Contingencies ^c	126.1	0.0
C. Financing Charges during Construction ^d	132.2	45.5
Total (A+B+C)	1,566.0	300.0

^a In 2007 prices.

^b Includes construction taxes of \$31.3 million.

^c Physical contingencies are computed at 5% of civil works. Price contingencies computed at 2.8% for 2008, and 3% for 2009–2012 for local currency costs and 1.2% per annum for foreign exchange cost during 2008–2012.

^d Includes interest and commitment charges. Interest during construction is computed at the 5-year forward London interbank offered rate plus a spread of 0.6%.

Source: Asian Development Bank estimates.

B. Financing Plan

13. The Government has received a loan of \$300,000,000 from ADB's ordinary capital resources to help finance the Project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.35% per annum, and such other terms and conditions set forth in the draft loan and project agreements. 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 its own independent decision and not made in reliance on any communication or advice from ADB. The ADB loan will finance 19% of the total project cost. The remaining cost will be financed by MOC; Guangxi Zhuang Autonomous Regional People's Government (GRG); and cofinancing through loans from China Development Bank and China Bank of Communications, which have appraised the Project and provided commitment letters to GCD (Table 2). MOC and GRG have made budgetary provisions for the counterpart funds. The PRC Government will make the ADB loan proceeds available to GRG, which will relend to GCD, with GCD bearing the exchange rate and interest rate variation risk. On implementation of the GCD restructuring plan and incorporation of GCIG, GCD will onlend the loan proceeds to GCIG. GCIG will then bear the exchange rate and interest rate variation risk. All relending and onlending under the Project will be on the same financial terms and conditions as those of the ADB loan.

Table 2: Financing Plan
(\$ million)

Source	Amount	Percent
Asian Development Bank	300.0	19
Domestic Banks	550.0	35
Ministry of Communications	170.0	11
Guangxi Zhuang Autonomous Regional People's Government	546.0	35
Total	1,566.0	100

Source: Asian Development Bank estimates.

C. Allocation of Loan Proceeds

14. The categories of goods, services and other items to be financed out of the proceeds of the loan and the allocation of amounts to each category are shown in Table 3 below.

Table 3. Allocation and Withdrawal of Loan Proceeds

Number	Item	CATEGORY		Percentage of ADB Financing Basis for Withdrawal From the Loan Account
		Amount Allocated (\$) Category	Subcategory	
1	Works	235,700,000		
1A	Expressway		205,700,000	45 percent of total expenditure
1B	Border and Rural Roads		25,600,000	80 percent of total expenditure
1C	Village Roads		3,000,000	24 percent of total expenditure
1D	Rural Bus Stations		1,400,000	40 percent of total expenditure
2	Equipment	16,800,000		100 percent of total expenditure
3	Consulting Services and Training	2,000,000		100 percent of total expenditure
3A	Expressway: Supervision and International Training		1,740,000	100 percent of total expenditure
3B	Rural Transport Policy Reform Study		160,000	100 percent of total expenditure
3C	Road Transport Maintenance Study		100,000	100 percent of total expenditure
4	Interest and Commitment Charge	45,500,000		
	Total	300,000,000		

15. Notwithstanding the allocation of loan proceeds and withdrawal percentages in Table 3, (a) if the amount of the Loan allocated to any category appears to be insufficient to finance all the agreed expenditures in that category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan

which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures there under shall have been made; and (b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

III. IMPLEMENTATION ARRANGEMENTS

A. Executing and Implementing Agencies

16. GCD will be the Executing Agency, responsible for overall project implementation. Within GCD, the project activities will be coordinated by three bureaus—GIAB (GCIG after June 2008), Guangxi Highway Administration Bureau (GHAB), and Guangxi Transport Administration Bureau (GTAB)—the implementing agencies.

B. Project Management Organization

17. The Project Management Office (PMO) established within GCD will be responsible for overall project implementation. The PMO is led by a deputy director general, five deputy chiefs (three directors from GIAB, GHAB, GTAB, and two directors in GCD). Under the overall direction of the PMO, three sub-PMOs have been identified to be responsible for implementation of the following components: (i) GIAB, for the expressway under component A(a); (ii) GHAB for local road improvement and maintenance under components B and D; and (iii) GTAB for transport service improvement under component C. GCD, through PMO, will directly implement the cross-border trade facility under component A(b), and corporate governance under component E. GCIG, after its incorporation, will take over implementation of component A(a) in accordance with the terms of its concession agreement. The PMO will coordinate and oversee project implementation, submit progress and audit reports to ADB, and organize ADB supervision missions. Organization charts are in Appendix 8.

IV. IMPLEMENTATION SCHEDULE

18. The Project will be implemented over about 5 years, from October 2007 to October 2012. Preconstruction activities such as detailed design and preparation of bidding documents for expressway subgrade for Contracts C4-C13 and border roads for Contracts C1-3 to C1-5 began in October 2007 and the construction is expected to commence by May 2008. The **updated** implementation schedule is in **Appendix 9**.

V. CONSULTANT RECRUITMENT

19. The Project will finance 42 person-months of international consulting services, including 27 person-months for the team leader of the international consultants; and 3 person-months each for the following specialists: (i) bridge, (ii) tunnel, (iii) road pavement, (iv) road safety, and (v) restructuring and corporate governance, **GIAB will establish seven resident supervision engineer offices for construction supervision, environmental and resettlement monitoring, and project performance monitoring and evaluation.** The road passenger transport specialist will be directly recruited from the local consultant engaged for the

Sustainable Rural Transport Service TA² to provide necessary advisory inputs for the rural transport services demonstration project. All other international consultants will be selected and engaged based on a full technical proposal using the quality- and cost-based selection method in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The Project will also provide \$100,000 each to finance (i) a rural transport services demonstration project, based on the recommendations of the Sustainable Rural Transport Services TA, and (ii) a rural road maintenance policy reform study. The two TAs will be undertaken by the national consulting firms. Given the very small contract values and the intensive relevant experience of the two national firms³ proposed by GCD in the areas of the studies, these firms will be selected using the single-source selection method in accordance with ADB's *Guidelines on the Use of Consultants*. In addition, GCD will engage and entirely finance 7,700 person-months of national consultants. The national consultants, not financed by ADB, will be recruited in accordance with government procedures acceptable to ADB. The chief supervision engineer will be responsible for overall project supervision, assisted by two deputies, one of whom will be the team leader of the international consultants.

20. The terms of reference of the consulting services will also contain the human resource development plan which will include all in-country and international training programs. The formal specialist training programs will be submitted to ADB for review and concurrence. Details of the overseas training programs, including selection procedures for candidates, will be determined by the EA in consultation with the international and domestic consultants. Candidates trained abroad will be required to submit a report to the EA and ADB on the training received. On their return, the trainees will serve as resource persons in training seminars for dissemination of knowledge learned. About 70 person-months of overseas training will be provided under ADB financing in the areas listed in Table A10.1.

Table A10.1: Proposed International Training Program

	Persons	Months	Person-months
Corporatization Management	10	0.75	7.5
Expressway Asset Management	12	0.75	9.0
Highway Maintenance and Operation	10	0.75	7.5
Highway Construction and Environmental Protection	12	1.00	12.0
International Bidding and Contract Management	12	1.00	12.0
Pavement Design and Construction	12	1.00	12.0
Road Safety in Design	10	1.00	10.0
Total			70.0

VI. PROCUREMENT

21. All ADB-financed procurement will follow ADB's *Procurement Guidelines* (2007, as amended from time to time). The expressway works will be divided into 13 packages, 10 of which will be financed by ADB and procured under international competitive bidding procedures. All pavement and equipment packages will be financed by ADB and procured under international competitive bidding procedures. All other packages, including connector roads, traffic safety and management facilities, landscaping works, buildings, and ancillary facilities will

² ADB. 2006. Technical Assistance to the People's Republic of China for Sustainable Rural Transport Service. Manila

³ Institute of Comprehensive Transportation of National Development and Reform Commission, and Southwest Jiaotong University.

be financed by the Government and procured under government bidding procedures acceptable to ADB. Local road sections and the two border bus stations financed by ADB will be procured through national competitive bidding procedures in accordance with the PRC's Tendering and Bidding Law (1999), subject to clarifications to the law that have been agreed with ADB for the purposes of ADB's *Procurement Guidelines*. All village access roads and 48 class-V township bus stations financed by ADB will be procured through shopping procedures. Various thresholds for procurement and the contract packages are set out in the procurement plan in Appendix 10. The relevant sections of ADB's *Anticorruption Policy* (1998, as amended to date) will be included in all documents and contracts related to project bidding and implementation.

VII. DISBURSEMENT PROCEDURES

22. All disbursements under the ADB loan will be carried out in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). Since most payments will be made for large contracts, direct payment and commitment procedures will be used to withdraw the loan funds. If the government funds are used first for eligible expenditures, ADB's reimbursement procedure will be used. To expedite funds flow and simplify the documentation process, Guangxi Finance Department may establish an imprest account as required by GCD after loan effectiveness. Disbursement from the imprest account will be supported by an appropriate withdrawal application and related documentation. The ceiling of the imprest account will be set as either the estimated expenditures for the next 6 months, or 10% of the loan account, whichever is lower. The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account in respect of individual payments not exceeding the equivalent of \$200,000 in accordance with ADB's *Loan Disbursement Handbook* and detailed arrangements agreed upon between the Borrower and ADB. Withdrawal applications and other loan disbursement information are available at ADB Controller's Department's website, <http://fis.adb.org>.

VIII. PROJECT MONITORING AND EVALUATION

23. The project performance monitoring system (PPMS) indicators, their relevance, and monitoring practicalities were confirmed and agreed with GCD during project preparation.. The key indicators and assumptions outlined in the design and monitoring framework and monitoring of socioeconomic and poverty impacts (Appendix 11) will form the core data required for this assessment. Baseline socioeconomic and trade indicators are also Appendix 11 **GCD will measure the indicators and report the key findings to ADB on project inception, during the mid-term review, at completion, and for 3 years thereafter. GCD will recruit a capable local institute to provide 20 person-months for surveys, analysis, and reporting.**

IX. ENVIRONMENTAL ASSESSMENT AND MANAGEMENT PLAN

24. The environmental impact assessment (EIA) for the expressway was prepared by GCD and approved by the State Environmental Protection Administration in October 2006..GCD prepared EIAs for Tianlin–Leye and Napo–Dingye local roads; these were approved by Guangxi Environmental Protection Bureau in March 2007. Initial environmental examinations (IEEs) were prepared for other local roads. For the bus stations and village roads, the sites and road sections will be selected during project implementation. Environmental assessment review procedures were prepared as part of the village road implementation framework (VRIF) (para. 37) and agreed with GCD. A summary EIA for the Project was endorsed by GCD, circulated to the ADB Board, and made public through ADB's website on 9 April 2007. The EIAs, IEEs, and summary EIA assess the environmental impact of the selected alignments of the expressway,

local roads, and bus stations; and prescribe environmental protection and mitigation measures costing \$23 million. To ensure that all potential adverse environmental impacts of the Project are mitigated, GCD will implement the EMP as specified in the EIAs, IEEs, and summary EIA. The EMP will be incorporated in the bidding documents and contracts for civil works

X. LAND ACQUISITION AND RESETTLEMENT

25. GCD has prepared draft resettlement plans for the expressway and for the six local roads. For the bus stations and village roads, the sites or road sections will be identified during project implementation, a resettlement policy framework and procedural guidelines were prepared as part of the VRIF. Resettlement information booklets were distributed to affected villages in March 2007. Based on the Chinese standard for impact assessment, the equivalent of 6,030 people would lose all their land and agricultural livelihoods. Since the expressway will actually cross many parcels of scattered farmland, the average loss of land per household is estimated at 20%, which means that about 30,150 people would be partially affected. About 1,568 households will be relocated. Local government will implement resettlement with supervision by GCD. In addition, an independent agency will be contracted by GCD to carry out the external monitoring and evaluation. For land compensation, the expressway will apply national standards and the local roads will apply provincial regulations. GCD will finance the cost of resettlement for the expressway component. Local government will finance resettlement for other components with partial subsidy from GCD (Appendix 12).

XI. REPORTING REQUIREMENTS

26. The EA will submit the following reports to ADB in a timely manner:

A. Quarterly Progress Report (QPR)

27. The EA shall submit to ADB within 20 days after each quarter quarterly progress reports (QPR) on project implementation summarizing: (i) progress made against established targets; (ii) delays and problems encountered during the quarter, (iii) problems encountered during the quarter, and steps taken or proposed to be taken to solve the problems; and (iv) program activities proposed for the succeeding quarter. The format and content of the progress report should permit ADB staff to readily capture key information for inputting into the project performance report (PPR), the main tool for monitoring project implementation performance within ADB.. Start date and completion date of each major activity under each component shall be indicated in the QPR complemented by simple charts such as a bar or milestone charts to illustrate implementation progress. Detailed information such as background to a particular problem and percentage calculation of project progress should also be attached as appendixes to QPR. **Appendix 13** shows the suggested QPR format while **Appendix 14** shows the suggested format for calculating Project progress.

B. Project Monitoring and Evaluation Report

28. EA shall submit to ADB during project implementation and for 3 years after project completion, a project monitoring and evaluation report (see para. 23 above).

C. Land Acquisition and Resettlement Report

29. EA shall submit to ADB within 15 days after the end of each quarter a land acquisition and resettlement report until resettlement is completed. This report will be included in the QPR.

D. Environmental Impact Assessment Report

30. EA shall prepare an environmental impact assessment report semi-annually. This report shall be submitted to within 30 days after the end of each 6-month period.

E. Project Completion Report

31. The main objective of a project completion report (PCR) is to learn from the experiences of borrowers, executing agencies (EAs), and ADB in implementing projects, and to use the lessons to improve the performance of ongoing and future ADB-financed projects. The PCR will also be used as a measure of ADB's development effectiveness and as an input to country strategy formulation. The EA shall prepare a project completion report (PCR) and submit this to ADB not later than three months following the physical completion of the Project. The PCR will highlight the development impacts achieved by the Project, details of project implementation, costs, benefit monitoring and evaluation activities, and other relevant information. A PCR format and outline of suggested topics for this report are given in Appendix 15. The PCR with the associated financial accounts and data will be presented to ADB in English language.

XII. CONTRACT AWARDS AND DISBURSEMENT PROJECTIONS

32. To effectively monitor Project implementation, it is necessary to have accurate projections of contract awards/commitments and disbursements. Accurate disbursement projection also helps ADB in its cash flow and portfolio management. A comparison of such projections with the actual achievements will reveal impediments to smooth implementation and help determine the remedial measures. For this purpose, annual projections of contract awards and disbursements with quarterly breakdowns for each contract for the entire project period shall be prepared and submitted **every 15 December** during project implementation.

XIII. AUDITING REQUIREMENTS

33. GCD and GCIG, after its incorporation and commercialization in accordance with the terms of the restructuring plan, will maintain separate accounts for the Project and related financial statements, and will have them audited annually in accordance with appropriate auditing standards consistently applied by independent auditors, whose qualifications, experience, and terms of reference are acceptable to ADB. **GCD and GCIG will submit to ADB within 6 months of the end of each related fiscal year, certified copies of audited project accounts and financial statements, and an auditor's report on the Project, in both English and Chinese⁴.** A separate audit opinion on the use of statement of expenditures and the imprest account, if any, will be included as part of the auditor's report. Specify the financial reporting and auditing requirements in the attached audit letter, to be issued to the borrower and copied to the EAs and their appointed auditor. Sample Audit Letter is in Appendix 16.

XIV. MAJOR LOAN COVENANTS

34. The major loan covenants for this Project are detailed in Schedule 6 of the Loan Agreement. The list of major loan covenants is given in Appendix 17. The status of compliance

⁴ The first audit report, covering fiscal year 2008, will be due on 30 June 2009.

including actions taken to comply with the covenants is indicated in the appropriate column. These should also be updated and appended to the QPR.

XV. KEY PERSONS INVOLVED IN THE PROJECT

35. The Department responsible for the implementation of the Project is the East Asia Department (EARD), represented by the Transport Division (EATC). EATC has the overall responsibility for the implementation of the Project in ADB.

A. ADB Staff

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XVI. ANTICORRUPTION

36. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the local and central governments. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the loan regulations and the bidding documents for the Project. In particular, all contracts financed by ADB in connection with the Project will include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency, GIAB, GCIG, GHAB, GTAB, and all contractors, suppliers, consultants, and other service providers.

37. GCD and GCIG will ensure, during the project implementation, that (i) officials from the Discipline and Inspection Bureau will monitor bidding, construction, and operations; (ii) an internal audit unit will be established in GCIG; (iii) a two-contract system will be adopted where the winner of a civil works contract will also sign an anticorruption contract with the employer; (iv) periodic inspection of contractors will be undertaken to ensure that fund withdrawal and settlement procedures are followed, and (v) the status of procurements and awards of contracts will be published on GCD's website in accordance with ADB's *Procurement Guidelines*. GCD and GCIG will initiate liaison meetings with the Prosecutor's Office, as needed, to discuss any warnings about, or information on, any corrupt, fraudulent, collusive, or coercive practices. The institutional arrangements and reporting mechanisms referred to in the PAM are put in place to enable monitoring and accounting of the use of ADB resources. Include a reference to ADB's Anticorruption Policy, noting that anyone coming across evidence of corruption associated with the project must contact ADB's Office of the General Auditor, which will investigate such allegations.