People's Republic of China: Yunnan Pu’er Regional Integrated Road Network Development Project
CURRENCY EQUIVALENTS
(as of 15 August 2012)

Currency unit – yuan (CNY)
CNY1.00 = $0.15723
$1.00 = CNY6.3599

ABBREVIATIONS

ADB – Asian Development Bank
EA – executing agency
EIA – environmental impact assessment
EMDP – ethnic minority development plan
EMP – environmental management plan
IA – implementing agency
km – kilometer
NSEC – North South Economic Corridor
PMG – Yunnan Pu’er Municipal Government
PPTA – project preparatory technical assistance
PRC – People’s Republic of China

NOTE

In this report, "$" refers to US dollars.

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I. THE PROJECT

A. Rationale

1. The Yunnan Pu’er Municipal Government (PMG) has proposed a project with the following components: (i) Pu’er City rural road construction (upgrade of 600 kilometers [km] of rural earthen roads), (ii) rehabilitation of the Ning’er-Jiangcheng-Longfu road (253 km), and (iii) construction of the Simao-Ning’er road (50 km). The proposed project will contribute to inclusive growth and regional integration by connecting isolated rural communities and border areas to the regional road network and providing infrastructure to support trade and regional cooperation between the People’s Republic of China (PRC), Viet Nam, Lao People’s Democratic Republic (Lao PDR), and Myanmar.

2. Yunnan is a land-locked province, situated in the less-developed southwestern area of the PRC. The province’s per capita gross domestic product was CNY15,749 in 2010, only 53% of the national average and the lowest in the PRC except for Guizhou and Gansu. Pu’er is a prefecture level city of 2.59 million people in southern Yunnan Province. Rural residents in Pu’er have low incomes that averaged CNY4,338 per capita in 2011. There are over 1.5 million people in Pu’er below the poverty line (CNY2,300 per year in 2011) and all 9 counties in Pu’er are national poverty counties.

3. Pu’er is strategically located along the PRC border with three neighboring countries: Viet Nam, Lao PDR, and Myanmar. Pu’er is a key stakeholder in the government’s “Gateway” Strategy that provides a link between the PRC and Southeast Asia. During the 12th Five-Year Plan period (2011–2015), the national government seeks to establish an international channel and import-export processing base in Yunnan to support further development and regional cooperation for the China and ASEAN Free Trade Area now under negotiation. The project roads are located in the region of the Greater Mekong Subregion (GMS) North South Economic Corridor’s (NSEC) Western Subcorridor. The Western Subcorridor begins in Kunming, Yunnan Province, and traverses Pu’er before crossing into Louang Namtha and Bokeo provinces on the Lao PDR side and Shan State on the Myanmar side. The subcorridor then passes through Thailand’s Chiang Rai Province, where the route finally reaches Bangkok. The PRC’s section of the NSEC opened to traffic in 2011.

4. The proposed project components will help to link the wider area of Pu’er to this vital economic corridor and promote regional cooperation. The Western Subcorridor involves the following border crossing points in the project area: Mohan–Boten (Yunnan Province and the Lao PDR), and Daluo–Mengla (Yunnan Province and Myanmar). The project roads include links to two additional border crossings between Yunnan and Lao PDR and Viet Nam connecting these border crossings to the NSEC. The project will directly connect Pu’er to the border with Viet Nam. The border is now accessible only via a dangerous unpaved road to a border area with little infrastructure on the PRC side, while the Viet Nam border facilities have been upgraded and have paved road access. The border area hosts an active local trade in agricultural products, farm machinery, electronic products and small vehicles. The project will provide infrastructure and support facilities to enable the expansion and development of this border area. It will provide a vital link between Jiangcheng, the local center for trade and logistics, and the borders of Viet Nam and Lao PDR supporting increased trade and regional integration.

5. The economy of Pu’er is dominated by agriculture and tourism. Pu’er is famous around the PRC and internationally for tea production. High quality coffee is now being cultivated and local

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1 The NSEC was partially financed by ADB. 1999. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People’s Republic of China for the Southern Yunnan Road Development Project. Manila.
coffee growers are selling their production internationally.\textsuperscript{2} Other major cash crops that are distributed widely in the PRC and exported include bananas and tobacco. In more remote areas, buyers travel to villages to purchase agricultural production but poor roads and the resulting lack of accessibility reduces the prices paid. During rainy periods, roads become impassable and perishable crops may be lost. Through this project, over 260 villages with approximately 100,000 people will gain access to all-weather paved roads for the first time providing improved access to economic opportunities, education, health and other social services.

6. The proposed Project is a priority project in the government’s 12th Five-Year Plan. It supports the government’s regional cooperation objectives and helps connect rural villages to the growing regional transport and trade systems. It is also aligned with the key thrusts of Asian Development Bank’s (ADB’s) assistance to the PRC under the 2011–2015 country partnership strategy in the areas of: (i) inclusive growth and balanced development, and (ii) regional cooperation and integration. The project fits well with ADB’s Sustainable Transport Initiative (STI) which identifies regional cooperation and integration, road safety and social sustainability as key opportunities.

7. On 30 May 2012, the PRC and Viet Nam signed the \textit{Protocol on the Establishment of International Road Transport Permit System} which was facilitated by ADB. The agreement allows reciprocal access for trucks and buses to each country’s inland territories for the first time. This agreement lays the groundwork for expanding trade and regional cooperation between the PRC and Viet Nam and will facilitate additional trade and cross-border transport along the project roads. The project will also make use of the results of the Regional Technical Assistance (RETA) 7380: \textit{Enhancing Border Trade Services and Rules for Small and Medium-sized Enterprises (PRC, Mongolia, Viet Nam)} which prepared a border trade survey and policy brief that identifies key constraints to expanding trade between the PRC and Viet Nam.

8. The project design will benefit from the lessons of ADB’s 2007 sector assistance program evaluation for roads and railways in the PRC\textsuperscript{3} as well as from the lessons of five ADB-financed road projects in Yunnan Province.\textsuperscript{4} This project, together with the proposed Yunnan Sustainable Road Maintenance project, represents a new direction for ADB’s support for the road sector in the PRC which focuses on rural accessibility rather than expressways. This project will help to ensure that the benefits of past ADB-financed projects in Yunnan and the GMS region extend to rural areas that have been isolated from the expanding regional transport network.

9. \textbf{Additional project investments.} Parallel investments are needed to ensure the project better serves the key strategic goals of reducing poverty, supporting regional integration and trade and sustainability. A participatory approach including community consultation will be used during the project preparatory technical assistance (PPTA) to identify complementary investments to enhance the outcome and impact of the project. The following potential

\textsuperscript{2} In 2012, Starbucks Corporation began purchasing coffee beans from growers in Pu’er; its first purchases in the PRC.


investments will be evaluated during the PPTA and the most viable will be included as project components, financed through the loan and implemented by the PMG:

**Community Development and Poverty Reduction**

- **Village transport infrastructure and public transport services.** Many villages, houses and fields are located several kilometers away from feeder roads. Low-cost investments in village roads and paths that connect with feeder roads would enable use of small-motorized vehicles and motorbikes and non-motorized vehicles and improve accessibility for more remote communities. There could also be opportunities to improve bus services in the administrative villages (e.g., by improving vehicles, formalizing the services, and providing bus shelters). These investments would enhance mobility and reduce transport costs.

- **Community safety programs.** Paving a rural road raises vehicle speed, which increases the risk and severity of accidents. Vehicles need to slow down when they pass through villages. Local people also need to be educated about the dangers of new roads. The project roads would need to include basic speed control and road safety features as well as special accommodation and safety measures for non-motorized travel and public transport. Driver and community education and enforcement programs should be undertaken with the traffic police.

**Regional Cooperation and Trade**

- **Trade and logistics facilities.** There is active local trade and a regular market at the Longfu border with Viet Nam. In parallel to improving access, there is an opportunity to support the development of small-scale trade with targeted investments. A market facility at the border will be needed to compensate the traders that are informally using small stalls that will be displaced by the project road. Additionally, the potential for a small-scale logistics park in a flatter area located 7.5 km from the border can be explored. Finally, larger storage facilities and logistics centers could also be built in Pu’er and Ning’er to accommodate growing trade with Myanmar, Lao PDR, and Viet Nam.

**Asset Sustainability**

- **Erosion risk minimization.** Most of the roads recently built in Pu’er, particularly Class II and Class III roads, have created large unprotected cut slopes. Landslides are clearly visible along many of Pu’er’s roadways. Such landslides can damage the roads, pollute or disturb local streams, rivers and other sensitive environmental receptors, and threaten houses or crops. Flooding and landslide risks may increase with climate change. The PPTA consultants will assess these risks and recommend cost-effective slope protection and drainage measures that can be included in the design and serve as a model for future roads in Pu’er and Yunnan.

- **Rural road maintenance.** The condition of the older Class III, Class IV and unclassified roads in Pu’er appears to be poor. Many low-class paved roads need rehabilitation or preventive maintenance. The project could help prepare a road rehabilitation plan for Pu’er and invest in the rehabilitation of some of those roads. Villagers often carry out routine maintenance of unpaved rural roads. It is, however, limited to very small-scale works and its efficiency may be limited by lack of clear performance standards. The project could help set up community maintenance groups or enterprises, building on the approach used in Dehong prefecture under the Yunnan Integrated Road Network Development Project.⁵

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B. Impact, Outcome, and Outputs

10. The expected impact of the project is that regional integration and trade is enhanced in Yunnan Pu’er.

11. The expected outcome of the project is an improved regional transport network in Yunnan Pu’er that enhances accessibility for rural and border areas.

12. The project is proposed to have four main outputs, which will be further developed and finalized during the PPTA. The proposed project outputs include:

(i) Rural roads (600 km) upgraded from earthen roads to paved Class IV standards;
(ii) Ning’er-Jiangcheng-Longfu road (253 km) rehabilitation of existing road to Class IV and Class III standards;
(iii) Simao-Ning’er road (50 km) constructed as a new Class II highway; and
(iv) Community development.

C. Investment and Financing Plans

13. The costs are preliminary and will be further refined during the PPTA and related feasibility studies. The executing agency (EA), PMG, indicated that it intends to request a $200 million (about CNY1,278 million) project loan from ADB’s ordinary capital resources. The remaining balance would be provided from a combination of subsidies from the Yunnan Provincial Department of Transport and PMG local funding sources.

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount ($ million)</th>
<th>Share of Total (%)</th>
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<tbody>
<tr>
<td>Asian Development Bank</td>
<td>200.0</td>
<td>33.3</td>
</tr>
<tr>
<td>Government</td>
<td>400.0</td>
<td>66.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>600.0</strong></td>
<td><strong>100.0</strong></td>
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Source: ADB and government estimates.

D. Indicative Implementation Arrangements

14. The EA, PMG, is responsible for preparing the draft feasibility studies, providing counterpart funds, and overall project oversight. The implementing agency (IA) will be the Pu’er Municipal Transport Bureau. Procurement of civil works and consultants under the project will be handled by a project management office under the IA and will adhere to ADB Procurement Guidelines (2010, as amended from time to time) and ADB’s Guidelines on the Use of Consultants (2010, as amended from time to time).

II. DUE DILIGENCE REQUIRED

15. The PPTA in the amount of $750,000 will be provided to assist the EA to prepare the project for ADB financing. The following due diligence will be carried out under the PPTA:

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6 Class IV roads are small paved two-lane roads with a total width of 7 meters, Class III roads are higher standard two-lane roads with a width of 8.5 meters, and Class II roads are usually two lane highways with substantial shoulders and a width of 12 meters.
(i) **Technical.** The PPTA will review the technical viability, design, cost estimates, safety, and maintenance requirements of all project components.

(ii) **Economic and financial.** The PPTA will review alternatives and least-cost options, identify the economic rationale, and evaluate the economic and financial viability\(^7\) and sustainability of the project. The financial assessment will examine the financial capacity of the provincial government to provide the needed counterpart funds and will carefully assess the financial strength and debt burden of the IA and EA.

(iii) **Governance.** The PPTA will assess the financial management, procurement, anticorruption, policy and legal, capacity, and other institutional issues and mechanisms. The PPTA will review the institutional structure and management practices to identify needed reforms. It will also assess the management capability of the EA and IA and identify weaknesses that will be addressed through targeted capacity building during the PPTA and under the ensuing loan.

(iv) **Poverty and social.** The PPTA will assess the social and poverty impacts of the project components and help to ensure that benefits flow to rural residents, livelihoods are maintained, and the designs are inclusive with respect to the poor, the elderly, the disabled, and women. The PPTA will help ensure that a consultative and participatory approach is taken during project design, consultation, and operation and maintenance.

(v) **Safeguards.** The project will be categorized “A” for environment, involuntary resettlement, and indigenous peoples. The PPTA will assist the EA to prepare all safeguards documents in compliance with ADB’s *Safeguard Policy Statement*, 2009.

### III. PROCESSING PLAN

**A. Risk Categorization**

16. The proposed project will be classified as complex because it is categorized "A" for involuntary resettlement, environment, and indigenous peoples.

**B. Resource Requirements**

17. It is estimated that the project will require about 30 months of staff time (including staff consultant resources) from 2012 to 2014 to prepare the project up to loan approval. The PPTA, in the amount of $750,000 from ADB’s Technical Assistance Special Fund – other sources, will be initiated over 12 months from November 2012 to November 2013.

**C. Processing Schedule**

18. Major milestones include the following expected dates:

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\(^7\) Economic viability will be assessed through the analysis of travel demand, comparison of costs and benefits, and calculation of the economic internal rate of return (EIRR). Financial viability and sustainability will be assessed through the assessment of the financial capacity of the EA. The project is not expected to have any revenue generating components.
Table 2: Tentative Processing Schedule

<table>
<thead>
<tr>
<th>Milestones</th>
<th>Expected Completion Date</th>
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<tbody>
<tr>
<td>Concept clearance</td>
<td>July 2012</td>
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<tr>
<td>PPTA inception</td>
<td>November 2012</td>
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<tr>
<td>Review of safeguard documents</td>
<td>May 2013</td>
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<td>Posting of draft EIA</td>
<td>July 2013</td>
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<td>Loan fact finding</td>
<td>October 2013</td>
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<tr>
<td>MRM</td>
<td>December 2013</td>
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<tr>
<td>Loan negotiations</td>
<td>January 2014</td>
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<tr>
<td>Board consideration</td>
<td>February 2014</td>
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<tr>
<td>Loan effectiveness</td>
<td>September 2014</td>
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EIA = environmental impact assessment, MRM = management review meeting, PPTA = project preparatory technical assistance.

IV. KEY ISSUES

19. The proposed Simao to Ning’er road involves new construction of a Class II highway through mountainous terrain. The high cost of this component may threaten the project’s economic viability. The PPTA will focus initially on the traffic and economic analysis of this road section. Individual consultants will be fielded quickly to carefully assess the economic rationale and viability of the proposed Class II road investments. If the proposed road is unlikely to be economically viable, the scope of the ADB-financed project will be adjusted in consultation with the EA.

Appendix 1: Basic Project Information
Appendix 2: Problem Tree
Appendix 3: Preliminary Design and Monitoring Framework
Appendix 4: Initial Poverty and Social Analysis
Appendix 5: Project Preparatory Technical Assistance