



# Project Administration Memorandum

---

Project Number: 36432  
Loan Number: 2116  
October 2005

## People's Republic of China: Dali-Lijiang Railway 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

**PROJECT ADMINISTRATION MEMORANDUM**

**FOR THE**

**DALI-LIJIANG RAILWAY PROJECT  
(LOAN NO. 2116-PRC)**

**October 2005**

## **CURRENCY EQUIVALENTS**

(as of April 2004)

Currency Unit	–	yuan (CNY)
CNY1.00	=	\$0.1208
\$1.00	=	CNY8.277

The exchange rate of the yuan is determined under a floating exchange rate system. In this report, a rate of \$1.00 = CNY8.277, the rate prevailing at the time of fact-finding of the Project, was used.

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
BOA	–	boundaries of analysis
DLR	–	Dali–Lijiang Railway
DMIS	–	dispatch management information system
EA	–	Executing Agency
EIA	–	environmental impact assessment
EMDP	–	ethnic minorities development plan
EMP	–	environmental management and monitoring program
GMS	–	Greater Mekong Subregion
km	–	Kilometer
LIBOR	–	London interbank offered rate
MIS	–	management information system
MOR	–	Ministry of Railways
PPMS	–	project performance management system
PRC	–	People's Republic of China
TA	–	Technical Assistance
WYRC	–	West Yunnan Railway Company
YPG	–	Yunnan provincial government

## **NOTES**

The fiscal year (FY) of the Government and its agencies ends on 31 December. In this report, “\$” refers to US dollars.

## CONTENTS

	Loan Processing History	ii
	Project Framework	iii-iv
I.	PROJECT DESCRIPTION	1
	A. Project Area and Location	1
	B. Objectives	1
	C. Project Scope and Components	1
	D. Special Features	2
II.	COST ESTIMATES AND FINANCING PLAN	4
	A. Detailed Cost Estimates	4
	B. Financing Plan	5
	C. Allocation of Loan Proceeds	6
III.	IMPLEMENTATION ARRANGEMENTS	6
IV.	IMPLEMENTATION SCHEDULE	6
V.	CONSULTANT RECRUITMENT	6
VI.	PROCUREMENT	7
VII.	DISBURSEMENT PROCEDURES	7
VIII.	PROJECT MONITORING AND EVALUATION	8
IX.	REPORTING REQUIREMENTS	8
X.	AUDITING REQUIREMENTS	8
XI.	MAJOR LOAN COVENANTS	9
XII.	IMPLEMENTATION OF ACCOMPANYING TECHNICAL ASSISTANCE (TA No. 4455-PRC: Support Ethnic Minorities Development Plan)	12
XIII.	KEY PERSONS INVOLVED IN THE PROJECT	12
XIV.	ANTICORRUPTION	12
XV.	CONTRACT VARIATIONS	13
APPENDIXES		
1	Project Cost Estimates and Financing Plan	
2	Implementation Schedule	
3	Terms of Reference for International Consultants	
4	ADB-Financed Contract Packages	
5	Project Performance Management System	
6	Pro Forma of the Executing Agency's Project Progress Report	
7	Sample Audit Letter	
8	Outline Terms of Reference for TA No. 4455-PRC: Support Ethnic Minorities Development Plan	
9	List of Key Persons Involved in Project Implementation	

## LOAN PROCESSING HISTORY

	<b>Date</b>
a. Approval of project preparatory technical assistance (TA 4129-PRC)	18 June 2003
b. Feasibility Study	24 August 2004
c. Fact-finding	11-23 March 2004
d. Management Review Meeting (MRM)	15 June 2004 (1st MRM) 23 September 2004 (2 <sup>nd</sup> MRM)
e. Appraisal Mission	16-25 August 2004
f. Staff Review Committee (SRC)	Not required
g. Loan Negotiations	18-20 October 2004
h. Board Circulation	11 November 2004
i. Board Consideration and Approval	2 December 2004
j. Loan Agreement signing	27 June 2005
k. Cofinancing arrangement finalized and agreements signed	18 July 2005
l. Loan Effectiveness, including conditions: - Subsidiary Loan Agreement between the Borrower and the Executing Agency (WYRC)	25 September 2005 (1 <sup>st</sup> deadline) 24 March 2006 (2 <sup>nd</sup> deadline)

## PROJECT FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumption and Risks
<b>Goal</b> Promote sustainable economic growth and reduce poverty in poor northwestern part of Yunnan province	A. Gross domestic product (GDP) is forecast to increase during 2009–2020 at 4.5% to 5.4% per annum for Yunnan province and 6.6% to 7.4% for the project area B. Per capita rural income will increase from CNY2,202 in 2002 to CNY3,000 in 2013 C. Rural poverty incidence in the project area will be reduced from 30% in 2003 to 15% in 2013	D. GDP data through periodic economic reporting by the government statistics office at the provincial and county levels E. Project performance management system (PPMS) at inception, completion, and 3 years thereafter with emphasis on socioeconomic improvement impacts	
<b>Purpose</b> <ul style="list-style-type: none"> <li>Develop an efficient, reliable, and affordable railway transport system to improve access and reduce transport costs in the project area</li> <li>Promote local economic development, especially tourism</li> </ul>	<ul style="list-style-type: none"> <li>An economic internal rate of return (EIRR) of the Project is estimated at about 17.0%</li> <li>Freight traffic in the railway increases from 5.4 million tons in 2010 to 7.2 million tons in 2015</li> <li>Passenger traffic increases from 3.1 million passengers in 2010 to 4.4 million passengers in 2015</li> <li>Operating ratio of less than 0.75 maintained</li> <li>Reduced travel time from: (i) Kunming to Lijiang, from present 17 hours to 11 hours; (ii) Dali to Lijiang, reduced from present 8 hours to 4 hours</li> <li>Cost of travel reduced from 38 fen/km to 27 fen/km</li> <li>Number of tourists traveling on the project railway increased from 2.4 million in 2010 to 3.3 million in 2015</li> <li>Number of shops, tourist centers, hotels, and business establishments set up in the vicinity of station areas</li> </ul>	<ul style="list-style-type: none"> <li>An EIRR reevaluated by midterm review report and project completion report</li> <li>Financial performance of the Western Yunnan Railway Company (WYRC)</li> <li>Progress reports</li> <li>Project administration missions</li> <li>Postevaluation surveys and reports from WYRC</li> <li>WYRC statistics</li> <li>Local government statistics</li> <li>Progress reports</li> <li>Project admin. missions and project completion report</li> <li>Postevaluation surveys</li> </ul>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>Forecast economic growth rates are realistic and achievable</li> <li>Traffic forecasts for the Dali–Lijiang Railway (DLR) realized</li> <li>Passengers currently using other transport modes will divert to DLR as originally envisaged</li> <li>Commitment of local governments to economic development through tourism</li> <li>Tourism is developed in a way that benefits local population and does not have a negative impact, particularly on minorities</li> </ul>
<b>Outputs</b> <ol style="list-style-type: none"> <li>Dali–Lijiang railway line, 167 km, including stations and access roads.</li> <li>Employment opportunities generated for poor and vulnerable groups to raise incomes and living standards and reduce poverty</li> </ol>	<ul style="list-style-type: none"> <li>Transport capacity expanded in the Dali–Lijiang corridor by 640 ton-km for freight and 448 passenger-km for passengers, in 2010</li> <li>Creation of 96,800 person-years of construction-related employment, of which the poor capture 50% of unskilled labor</li> <li>Number of qualified local ethnic minorities and poor workers hired</li> </ul>	<ul style="list-style-type: none"> <li>Project admin. missions and project completion report</li> <li>Progress reports Monitoring by WYRC and external monitoring agency</li> </ul>	<b>Assumption</b> <ul style="list-style-type: none"> <li>Strong implementation capacity of EA</li> </ul> <b>Risk</b> <ul style="list-style-type: none"> <li>Capacity enhancement on connecting railway lines may not be completed on time.</li> </ul> <b>Assumptions</b> <ul style="list-style-type: none"> <li>The resettlement implementation is successful in restoring people's livelihood after resettlement.</li> <li>Actions proposed to provide the ethnic minorities and the poor with access to project benefits are successful</li> </ul>

Continued on next page

PROJECT FRAMEWORK - *Continued*

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
3. Institutional capacity of WYRC strengthened	G. Development of an effective marketing program to attract tourism and new industry along the DLR	H. Consultants' report I. Surveys of tourism and industrial opportunities in the project area J. Progress reports	<ul style="list-style-type: none"> <li>The ethnic minorities and the poor are qualified to capture some of the opportunities</li> </ul> <b>Risk</b> <ul style="list-style-type: none"> <li>Adequate funds are not invested in marketing</li> </ul>
<b>Activities/Inputs</b>			
1. Land acquisition and resettlement	<ul style="list-style-type: none"> <li>394 ha of land acquired and 7,709 people are relocated and/or compensated by December 2006</li> <li>Timely compensation (estimated CNY 141 million) for land acquisition, housing, and lost assets</li> </ul>	<ul style="list-style-type: none"> <li>Progress monitoring reports</li> <li>Project admin. missions and project completion report</li> <li>Semiannual monitoring reports</li> </ul>	<b>Assumption</b> <ul style="list-style-type: none"> <li>Strong implementation capacity of local government</li> </ul> <b>Risk</b> <ul style="list-style-type: none"> <li>Compensation may not be paid according to the Resettlement Plan</li> </ul>
2. Technical design	<ul style="list-style-type: none"> <li>To be completed by September 2004</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports</li> </ul>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>Technical capability of the Second Survey and Design Institute</li> </ul>
3. Civil works	<ul style="list-style-type: none"> <li>To be completed by May 2008</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports</li> <li>Project admin. missions and project completion report</li> </ul>	<ul style="list-style-type: none"> <li>Strong implementation capability and availability of counterpart funds</li> </ul>
4. Communications, signaling, and power	<ul style="list-style-type: none"> <li>To be completed by December 2008</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports</li> <li>Project admin. missions and project completion report</li> </ul>	<ul style="list-style-type: none"> <li>Strong implementation capability</li> <li>Availability of counterpart funds</li> </ul>
5. Implementation of environmental protection and mitigation measures	<ul style="list-style-type: none"> <li>Comply with the environmental impact assessment and full implementation of the environmental management and monitoring program</li> <li>To be completed concurrently with the project works</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports</li> <li>Annual monitoring reports</li> </ul>	<ul style="list-style-type: none"> <li>Technical capability of third party environmental monitoring agency</li> <li>Supervision capability of local environmental protection bureaus</li> </ul>
6. Implementation of the ethnic minorities development plan and TA to support ethnic minorities development plan	<ul style="list-style-type: none"> <li>Number of beneficiary by gender and ethnic group</li> <li>Number of ethnic minorities employed</li> <li>Number of ethnic minorities trained</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring and evaluation by an independent institute</li> <li>Semiannual progress reporting by WYRC and local government</li> <li>TA review missions and consultants' report</li> </ul>	<ul style="list-style-type: none"> <li>Strong local government support and adequate funding for complementary programs</li> </ul>
7. Stakeholder consultation	<ul style="list-style-type: none"> <li>Consultations including workshops are planned during project implementation</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports</li> <li>Project admin. missions and project completion report</li> </ul>	<ul style="list-style-type: none"> <li>MOR, WYRC, and local governments continue to consult and incorporate the views of stakeholders, particularly affected people, ethnic minorities, women, and other vulnerable people</li> </ul>
8. Construction of railway stations and associated facilities	<ul style="list-style-type: none"> <li>To be completed by December 2008</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports</li> <li>Project admin. missions and project completion report</li> </ul>	<ul style="list-style-type: none"> <li>Availability of local funds</li> <li>Participatory involvement of poor, minorities, and other vulnerable groups</li> </ul>

Source: Asian Development Bank estimates.

## **I. PROJECT DESCRIPTION**

### **A. Project Area and Location**

1. The Project is located in the northwestern part of Yunnan Province, which is relatively poor. The Project is designed to promote sustainable economic growth by constructing 167 kilometers (km) of railway line from Dali to Lijiang.

2. The largely mountainous project area is not integrated into the economic mainstream partly because of inadequate transportation. The existing Class II road passes through difficult terrain, has limited passing capacity, and is occasionally affected by rain. In spite of abundant natural resources, many of the people living in this area are poor. Most people living in the area work in agriculture, which is characterized by a low level of profitability. People living in mountainous areas supplement their incomes by engaging in animal husbandry or becoming migrant laborers. The economic growth necessary to ameliorate rural poverty has failed to develop, partly because of inadequate transport services and high transport costs. Local governments and people living in the project area see the railway as a key investment for addressing the problems of lagging economic development and poverty.

3. The railway link provides connectivity from northwestern Yunnan province to Kunming, Shanghai, and Beijing via three of the 16 east-west and north-south national rail corridors. This will provide accessibility to the ports of Fangcheng and Beihai. The Project will also help in promoting the regional cooperation in the Greater Mekong Subregion (GMS), of which the People's Republic of China (PRC) is an active participant through Yunnan province, which shares borders with other GMS countries. Through the rail network, the project area will be linked to the port of Haiphong in Viet Nam and the Pan-Asian railway.

### **B. Objectives**

4. The main objective of the Project is to remove a transport constraint to sustainable economic growth, thereby helping increase living standards and reduce poverty in the Project area. This will be achieved by providing affordable railway transportation in the unserved, less-developed areas to create the conditions necessary for developing local resources and for generating employment and income-enhancing opportunities.

### **C. Project Scope and Components**

5. The Project will construct 167 km of single-track, standard gauge, Class I railway, reserved for electrification, between Dali and Lijiang, and expand the capacity of the existing Guangtong–Dali line (Guangda line) to accommodate additional traffic. The Project comprises the following components: (i) laying railway track consisting of rails and accessories, concrete sleepers, and stone ballast; (ii) constructing 11 new railway stations complete with facilities; (iii) a safety component that includes providing modern technology and equipment for signaling, communications, a dispatch management information system, freight yard operation, operational safety equipment, mechanized maintenance of tracks; (iv) installing e-governance and management information systems, including computerization and linking Dali and Lijiang to the national railway network; (v) supply of environmental mitigation and protection equipment and facilities; (vi) training on the use and maintenance of equipment provided under the Project; and (vii) strengthening institutional capacity of Ministry of Railways (MOR) and West Yunnan Railway Company (WYRC). The key inputs needed to implement the Project include civil works, equipment, consultants, and staff of MOR and WYRC.

## D. Special Features

6. **Subregional Context.** Although not a GMS initiative, the Project will promote regional cooperation in the GMS. The Yuxi-Mengzi (Kunming-Hekou) railway project is planned for construction in 2005 (under the 10th Five-Year Plan). A link from Dali-Ruili, and from Xishangbanna to the Lao People's Democratic Republic (Lao PDR), is included for construction in the railway development plan (up to 2020). These three links will provide direct rail links to the proposed Dali-Lijiang Railway (DLR) to south and southeast Asia through Lao PDR, Myanmar, and Viet Nam. The improved connectivity will promote cross-border trade and stimulate industrial and natural resource development, as well as tourism and related development in the region. The Project will provide direct link to the port of Haipong in Viet Nam and to the proposed Pan Asian Railway (Singapore-Kunming Railway) and the road network in Yunnan extending to Lao, Myanmar, and Viet Nam, thereby promoting multi-modal transport in the region (see map).

7. **Cofinancing.** ADB helped introduce Agence Française de Développement (AFD) to PRC officials and this is the first railway project in the PRC to be cofinanced by AFD. AFD will cofinance \$40 million (joint cofinancing) equivalent of the project cost.

8. **Safety.** The PRC railway network is undergoing major technological and operational changes. Improved safety is an important aspect of such development. As part of ADB's policy dialogue, emphasis has been placed on introducing operational reforms in the railway network. This includes introducing safe and reliable technology, modernizing the maintenance systems, and monitoring safety performance. A separate component of \$10 million equivalent (of which \$7.3 million will be financed by the ADB loan) is included in the Project to promote and enhance project railway safety. This component will finance the procurement of maintenance and operational equipment that will enhance safety and build capacity, including staff training.

9. **E-Governance and Management Information System (MIS).** As part of its railway sector involvement, ADB is pursuing the introduction of modern management systems and high-quality information systems. Since this is a relatively small railway, stand-alone systems are proposed to be introduced as a pilot project. These systems are scalable, and can be expanded for implementation. The Project will finance the introduction of a modern dispatch management information system (DMIS) and the linking of the DLR reservation system with the national train reservation system.

10. **Logistics Center.** Container traffic has been growing at three times the rate of ordinary freight traffic. A container terminal is planned for Kunming. Facilities for handling container traffic exist at Dali East station and these facilities will be set up under the Project at Lijiang to attract high-value traffic and to promote intermodal traffic. This will also encourage private sector shippers and freight forwarders to use the facilities for exporting and importing cargo.

11. **Tourism.** DLR will support tourism development. In 2003, 5.5 million domestic and 140,000 international tourists visited Dali, generating CNY2.56 billion in revenues. About 3.1 million domestic and 105,000 international tourists visited Lijiang, generating CNY2.04 billion. A separate component of \$10 million is included in the project design to promote tourism through the procurement of special rolling stock (a "tourist train") to cater to tourists. The consulting component will finance a study to: (i) identify how the private sector can be involved, including franchising the services; and (ii) conduct a market survey and prepare a marketing plan to attract tourists and other passengers.

12. **Private Sector.** The Project will promote private sector initiatives such as onboard train services, including catering, cleaning, and loading/unloading at freight yards. Activities such as maintenance of tracks and power cables will be outsourced. Industrial sidings will be offered to large shippers and railway station space will be rented out through open bidding to private entrepreneurs to enhance their involvement and optimize the returns to the railway. Private sidings, hotels, restaurants, and other facilities will be encouraged in the vicinity of the railway stations to maximize economic returns.

13. **Reforms.** ADB engaged MOR in discussions to enhance the policy reforms during project processing and these discussions will continue during implementation. Consolidation of the Guangda line into the proposed DLR will enhance the DLR's financial viability and provide managerial and operational flexibility. Specific measures to outsource to the private sector some of the activities hitherto handled by the railways are proposed under the Project. At the national level, MOR agreed to continue the process of separating the three large specialized companies, separating core and noncore activities, and rationalizing staff. The Project will also bring in new technology, emphasize safety, and build capacity for MOR and the joint-venture railways.

14. **Ethnic Minorities Development.** The Project will facilitate economic development, which will benefit the largely ethnic minority population, particularly the Bai and Naxi people. In accordance with ADB's social safeguard policies, an ethnic minorities development plan (EMDP) has been prepared to ensure that adverse impacts are avoided or mitigated, and that economic development benefits ethnic minorities in an equitable and sustainable manner. Consultations with ethnic minority communities have revealed strong support for the Project. The cost of implementing the EMDP will be covered by the project budget, existing local government programs, and the small-scale technical assistance (TA).

15. **Stakeholder Consultation and Participation.** Project preparation involved participatory processes. Extensive consultations were held with over 4,000 stakeholders, including various ethnic minority groups (Bai, Naxi, Tibetans, Mosuo, Yi, and Lisu), nongovernment organizations (NGOs), affected people, potential beneficiaries, monks, village leaders, local ethnic bureaus, and local governments in the project area and the seven neighboring counties (called boundaries of analysis or BOA). Consultations included discussions on project alternatives, environmental concerns, land acquisition and resettlement issues, concerns of ethnic minorities, and economic development potential. Over 75 village surveys and 800 household surveys were carried out to: (i) understand public opinion about the proposed railway, (ii) provide inputs for the environmental and social assessments, and (iii) prepare the resettlement plan and EMDP. Public opinion surveys were conducted with local residents, tourists, and other stakeholders. Environmental impact assessment (EIA) consultation workshops were held in Dali and Lijiang. In August 2004, a well-publicized and interactive consultation workshop was held in the project area (Dali) to present the draft EMDP, resettlement plan, and the EIA and to discuss findings from the consultants' studies in the BOA. In general, there was widespread support for the Project and people look forward to the opportunities that will be generated by it. The workshop and its outputs were well publicized in local media, including newspapers. During project implementation, participation of local people will be encouraged to improve the distribution of benefits. Local groups and government agencies, including the All-China Women's Federation and the provincial ethnic affairs bureau, have played and will continue to play key roles in the process of consultation and participation.

16. **Employment Opportunities for Local People.** An average of 27,670 person-years of work will be created per year during construction. Of this, about 60% will be for unskilled laborers, of which 50% or more will be targeted to poor ethnic minority households. Priority will be given to women and resettlement-affected people. Contractors will conduct training for

semiskilled and skilled equipment operators and construction workers in the project area during the first year of project implementation. In addition, local people meeting a minimum education standard will be eligible for a WYRC training course. On the basis of newly acquired skills, workers will be in a position to put themselves forward for other construction work. The use of locally produced materials for railway construction will generate additional employment during railway construction. The county poverty reduction offices will tailor some of their programs to ensure that there are sustained gains from employment in tourism, local freight transport and warehousing, and other areas of induced economic development.

17. **Railway Station Area Development.** The Project includes the construction of 11 railway stations, including roads connecting the stations to the nearest county or township. The railway stations, including their surrounding areas, have the potential to promote local business, income-generating activities, and revenues for local communities. The stations will be developed with the participation of local communities. Station area development will stimulate local earnings, particularly for the poor and ethnic minorities, as they can sell their goods, handicrafts, and services.

## II. COST ESTIMATES AND FINANCING PLAN

### A. Detailed Cost Estimates

18. The total project cost, including physical and price contingencies, is estimated at \$548 million equivalent, comprising foreign exchange costs of \$236.2 million (43%) and local currency costs of \$311.8 million equivalent (57%) (Table 1). Details are in **Appendix 1**. The cost estimates are based on quantities derived from preliminary engineering designs and unit rates, reflecting market prices for goods and materials, and including the costs of land acquisition, compensation, resettlement, environmental mitigation measures, and environmental monitoring.

**Table 1: Cost Estimates**  
(\$ million)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Base Cost</b>			
1. Railway Works, Facilities, and Equipment	207.2	263.6	470.8
2. Administration, Land Acquisition, Consulting Services, and Environmental Protection	0.8	40.9	41.7
<b>Subtotal (A)</b>	<b>208.0</b>	<b>304.5</b>	<b>512.5</b>
<b>B. Contingencies</b>			
1. Physical Contingencies	10.0	5.7	15.7
2. Price Contingencies	2.0	1.6	3.6
<b>Subtotal (B)</b>	<b>12.0</b>	<b>7.3</b>	<b>19.3</b>
<b>D. Interest during Construction</b>	<b>16.2</b>	<b>0.0</b>	<b>16.2</b>
<b>Total</b>	<b>236.2</b>	<b>311.8</b>	<b>548.0</b>

Source: Asian Development Bank estimates.

## B. Financing Plan

19. The Government has requested a \$180 million loan from ADB's ordinary capital resources to help finance the Project. The PRC will be the Borrower. The loan will finance the foreign exchange cost of civil works, railway materials, equipment, safety component, e-governance and MIS component, environmental protection measures, and consulting services; and will cover 76% of the total foreign cost and 33% of the total project cost. The loan will have a 25-year term including a grace period of 5 years, an interest rate determined in accordance with London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.75% per annum, conversion options that may be exercised in accordance with ADB's loan regulations and conversion guidelines, and such other terms and conditions set forth in the Loan and Project Agreements. The Government has provided ADB with (i) the reasons for its decisions 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 independently made, not influenced by any communication or advice from ADB.

20. The Government had also requested AFD to provide €33.5 million (about \$40 million equivalent) to finance part of the cost of civil works.<sup>1</sup> The proceeds from AFD's loan will be applied to three civil works contracts where they will complement ADB's loan proceeds up to 100% of costs. The local currency cost of \$311.8 million equivalent and foreign exchange cost of \$16.2 million equivalent, which represent the interest and commitment charges during construction on the ADB and AFD loans, will be financed 70% by MOR and 30% by Yunnan provincial government (YPG). A summary of the financing plan is in Table 2 and the details are in Appendix 1.

**Table 2: Financing Plan**  
(\$ million)

<b>Source</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>	<b>%</b>
ADB	180.0	0.0	180.0	33
AFD	40.0	0.0	40.0	7
MOR	11.3	218.3	229.6	42
YPG	4.9	93.5	98.4	18
<b>Total</b>	<b>236.2</b>	<b>311.8</b>	<b>548.0</b>	<b>100</b>

ADB = Asian Development Bank, AFD = Agence Française de Développement,  
MOR = Ministry of Railways, YPG = Yunnan provincial government.  
Source: Asian Development Bank estimates.

21. The proceeds of ADB's loan will be made available to WYRC on the same terms and conditions as those of the ADB loan. WYRC will bear the interest rate variation and foreign exchange risks. Assurance was obtained from the Government that the counterpart funds required to implement the Project, including those to cover physical and price contingencies, will be made available on time.

<sup>1</sup> According to the tentative terms and conditions, the AFD loan would be based on 6-month euro interbank offered rate (Euribor) with a negative spread of 100 basis points and a 17-year maturity, including a grace period of 5 years.

### C. Allocation of Loan Proceeds

22. The allocation of loan proceeds is in Table 3.

**Table 3: Allocation of Loan Proceeds**

No.	Component	Loan Allocation (\$)	ADB Financing Percentage
1	Civil Works	93,300,000	40% of foreign, 0% of local
2	Equipment	27,800,000	100% of foreign expenditure
3	Materials	48,500,000	100% of foreign expenditure
4	Consulting Services	400,000	100% of foreign expenditure
5	Unallocated	10,000,000	-
	<b>Total</b>	<b>180,000,000</b>	

### III. IMPLEMENTATION ARRANGEMENTS

23. The WYRC will be the Executing Agency (EA) responsible for overall implementation of the Project, setting up of the on-site construction management units along the project route, and reporting to ADB. The Foreign Capital and Technical Import Center (FCTIC) under MOR shall coordinate the project management activities, supervise the procurement of the goods and services financed under the project, and review the reports to be submitted to ADB. The business license of WYRC was issued on 16 August 2004 and includes the construction, operation, and management of the project railway. WYRC will manage and operate the Guangtong to Lijiang railway after completion of construction. WYRC has the capacity to carry out sound and safe construction of the proposed railway, as well as operate and manage its financial resources efficiently.

### IV. IMPLEMENTATION SCHEDULE

24. The Project will be implemented over about 5 years starting from February 2005 to December 2009. Land acquisition started in January 2005. The civil works under ADB financing will start in November 2005 and will take about 3.0 years to complete. Trial operations will start in January 2009 and will take 1 year before commercial operations begin. The implementation schedule is given in **Appendix 2**.

### V. CONSULTANT RECRUITMENT

25. A total of 5,472 person-months of qualified domestic consultants will be engaged and financed by the Government for (i) detailed project design; (ii) international procurement; (iii) construction supervision; (iv) construction quality assurance; (v) environmental supervision and management; (vi) monitoring and evaluation of the resettlement plan; (vii) advising on and monitoring the EMDP; and (viii) socioeconomic impact assessment, evaluation of poverty reduction, and project performance monitoring.

26. The ADB loan will be used to finance 12 person-months of international consulting services for (i) strengthening marketing and business development functions of WYRC, and

(ii) researching and strengthening the development, operation, and management of the joint-venture railway systems in the PRC. The terms of reference for the international consultants, who will be recruited as a firm using quality- and cost-based selection, in accordance with ADB's *Guidelines on the Use of Consultants*, are given in **Appendix 3**. The provisions of ADB's anticorruption policy will be included in all invitation documents and contracts for international consultants.

## VI. PROCUREMENT

27. All ADB and ADB-AFD financed procurement will follow ADB's *Guidelines for Procurement*. The civil works are divided into 12 packages. ADB will finance eight packages, to be procured under international competitive bidding procedures, and four packages will be 100% financed by the Government. Three of the eight ADB-financed packages will be cofinanced by AFD (joint cofinancing). Equipment will be procured under international competitive bidding (ICB) or international shopping (IS). The list of ADB-financed contract packages is in **Appendix 4**. Contracts valued in excess of \$500,000 for goods and \$5 million for civil works will be procured through ICB. Any supply contracts not exceeding \$500,000 will be procured through IS. Tendering companies, selected by the EA on a competitive basis, will handle the international bidding. Prequalified contractors with adequate technical and financial capacities will be allowed to bid for several packages and, if successful, may be awarded more than one contract based on the least-cost combination of contracts. The relevant sections of ADB's anticorruption policy will be included in all documents and contracts during bidding for, and implementation, of the Project.

28. The projected contract awards and disbursements for the Project are:

**Table 4: Project's Contract Awards and Disbursements  
(\$ million)**

Component	Contract Awards					Disbursements				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Civil Works	-	93.3	-	-	-	-	30.0	50.0	13.3	-
Equipment	-	7.3	18.0	2.5	-	-	2.0	10.3	13.0	2.5
Materials	-	30.0	18.5	-	-	-	10.0	24.0	14.5	-
Consulting Services	-	0.4	-	-	-	-	-	0.4	-	-
Total	-	131.0	36.5	2.5	-	-	42.0	84.7	40.80	2.5

29. **Advance Action.** ADB approved advance procurement action for civil works on 15 June 2004 up to the evaluation of bids, which covers the prequalification of contractors, bidding, and bid evaluation for the civil works contract packages, but does not include award of contracts. The advance action will be undertaken in accordance with ADB's *Guidelines for Procurement*. The Government has been advised that approval of the advance action does not commit ADB to financing the Project.<sup>2</sup>

## VII. DISBURSEMENT PROCEDURES

30. All disbursements under the ADB loan will be carried out in accordance with ADB's *Loan Disbursement Handbook*. Since most of the payments will be made for large contracts well above \$100,000, direct payment and commitment procedures will be used to withdraw the loan

<sup>2</sup> The advance action was reported in the August 2004 issue of the Internet edition of *ADB Business Opportunities*.

funds. The statement of expenditure procedure will be used for reimbursement of eligible expenditures for any individual payment not exceeding \$100,000.

31. Disbursement procedures to be used for each loan category are as follows:

<b>Loan Category</b>	<b>Disbursement Procedure</b>
Civil Works	Reimbursement and Direct Payment
Equipment and Materials	Commitment Procedures
Consulting Services	Direct Payment

## **VIII. PROJECT MONITORING AND EVALUATION**

32. A set of indicators for evaluating project performance in relation to the Project's goals, purposes, outputs, and conditions was agreed with MOR and WYRC. The indicators will be reviewed at the start of project implementation and will include (i) economic development and socioeconomic indicators for the DLR, (ii) transport costs and times for passenger and freight services, (iii) transport services offered and transport charges, (iv) accident rates, (v) financial sustainability, (vi) county/village incomes, (vii) access to social services, and (viii) jobs created in construction and maintenance (see Project Performance Management System in **Appendix 5**). At the beginning of project implementation, the DLR will establish baseline and target values for the indicators. The indicators will be measured at project inception, completion, and 3 years later, and compared with the baseline. Where relevant, indicators will be disaggregated by gender. MOR/WYRC will recruit qualified consultants for monitoring and evaluation to help establish the monitoring and evaluation system, and train staff of WYRC in its use. The main sources of data include (i) secondary data from government sources, (ii) household socioeconomic sample survey, and (iii) participatory rapid appraisal. A report summarizing the key findings of monitoring at inception, completion, and 3 years later will be submitted to ADB.

33. **Project Review.** In 2007, ADB, MOR, and WYRC will carry out a midterm review of the Project, covering all institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, financial, and other relevant aspects that may have an impact on the performance of the Project and its continuing viability.

## **IX. REPORTING REQUIREMENTS**

34. WYRC will make satisfactory arrangements for reporting the progress of project implementation by submitting quarterly progress reports (QPR). Suggested format and contents of the QPR are in **Appendix 6**. Within 3 months of completion, the WYRC will submit a project completion report to ADB.

## **X. AUDITING REQUIREMENTS**

35. WYRC will maintain separate accounts for the Project and have such accounts and related financial statements audited annually by an independent auditor and in accordance with auditing standards acceptable to ADB. WYRC will submit to ADB within 9 months after the end of each fiscal year certified copies of such audited project accounts and financial statements

and auditor's reports, all in English. The audit of such financial statements will also include: (i) an assessment of the adequacy of accounting and internal control systems with respect to project expenditures and other financial transactions; (ii) an assessment of compliance with loan covenants and ADB's requirements on project management; and (iii) an opinion on the use of the statement of expenditure procedure. WYRC will also submit its consolidated financial statements covering income statements, balance sheets, and cash-flow statements to ADB within 9 months after the end of each fiscal year. To ensure that an effective internal control system and a checks and balances mechanism are put in place, WYRC will establish an internal audit unit within the company. The unit will independently test financial transactions to ensure the safe custody of the project-financed assets and will report directly to WYRC's board of directors and external auditors. Once the auditor for the Project has been appointed, the Borrower and/or the EA should inform ADB and ADB will send an audit letter specifying the financial reporting and auditing requirements under the Project. A sample audit letter is in **Appendix 7**.

## **XI. MAJOR LOAN COVENANTS**

36. The major loan covenants are:

- (i) **Cofinancing.** If the Borrower does not obtain the AFD loan, the Borrower will, by the date of the first disbursement of the ADB loan, make other arrangements satisfactory to ADB to commit the provision of the funds intended to be provided by AFD and ensure that funds are available throughout the project implementation.
- (ii) **Reform measures.** The Government will take necessary measures to continue to implement its 2004 railway development plan including (a) separating the core railway operations from noncore transportation business operations in three large specialized railway companies, (b) rationalizing staff, and (c) ensuring that WYRC will outsource some of the activities such as construction works, track and and power cable maintenance, and industrial sidings.
- (iii) **Construction quality.** The Government will cause WYRC to ensure that the project railway is constructed in accordance with the Government's national technical standards, and that construction supervision, quality control, and contract management are carried out satisfactorily.
- (iv) **Connecting railway lines.** The Government will cause MOR and WYRC to ensure that (a) the capacity enhancement operations for the connecting railway lines are completed by the start of commercial operations of the project railway; and (b) necessary measures are promptly taken to minimize any capacity constraint on such connecting railway lines, once identified during the operation of the project railway, in order to ensure smooth flow of the traffic generated by the project railway.
- (v) **Container traffic.** The Government will cause (a) MOR to construct an extra-large container terminal in Kunming by the start of the commercial operations of the project railway, and (b) WYRC to develop the necessary marketing services to induce and channel container traffic to the project railway.

- (vi) **Passenger and freight safety.** The Government will cause WYRC to ensure the safety of passengers and freight on the project railway in accordance with the relevant laws and regulations of the Government.
- (vii) **Safety dissemination.** The Government will ensure that WYRC, in cooperation with the local governments at the prefecture, city, and county levels, formulates and implements appropriate public safety campaigns through media, public announcements, household contacts and schools to familiarize people living along the project railway route with safety issues related to railways.
- (viii) **Station access roads.** The Government will cause the local governments at the prefecture, city, and county levels, to (a) construct the station access roads in a timely manner prior to the start of commercial operations of the project railway, and (b) apply ADB's safeguard policies and terms of resettlement plan in construction of such roads.
- (ix) **Industrial sidings.** The Government will cause WYRC to ensure that potential major shippers along the project railway are encouraged and assisted as necessary to construct and operate industrial sidings for cargo shipment.
- (x) **Financial ratios and reporting.** The Government will cause WYRC to maintain, starting from the third fiscal year of start of full commercial operations of the project railway, (a) an operating ratio of not more than 75%, (b) a debt service coverage ratio of at least 1.2, and (c) a debt-to-equity ratio of not more than 60:40 to ensure operating efficiency and financial sustainability. The Government will also cause WYRC to (a) establish and maintain an internal audit unit, the composition and the terms of reference of which will be acceptable to ADB, so as to undertake timely audit of project accounts in accordance with generally accepted accounting principles; and (b) submit to ADB its audited accounts and financial statements during construction and in the first 5 years of commercial operations of the project railway within 9 months of the end of each relevant fiscal year.
- (xi) **Tariff.** The Government will ensure that MOR and WYRC set the passenger and freight tariffs, respectively, with respect to the project railway, at rates sufficient to ensure full cost recovery including the management cost of WYRC and the working (operation and maintenance) costs of the project railway, depreciation, debt service, taxes and a reasonable profit. The Government will also ensure that WYRC, in consultation with MOR, (a) carries out a tariff study 6 months prior to the trial operation of the project railway and advises ADB of the tariffs applied during such trial operation, and (b) reviews and updates such tariffs annually to ensure full cost recovery.
- (xii) **Anti-corruption.** The Government will cause MOR to ensure that (a) a supervisory body is established for prevention of undue interference in business practices and adequate resources are made available for its effective operation, (b) a leading group of officials from the Discipline Unit and Supervision Department of the MOR are located in offices involved in the bidding, construction and other operational activities under the Project, and (c) briefings between MOR and Prosecutor's Office are held on a regular basis with respect to sharing of information on or warning about detected corrupt practices.

- (xiii) **Environment.** The Government will cause MOR, YPG and WYRC to ensure that (a) the Project is designed, constructed, operated, and maintained in accordance with the environmental laws and regulations of the Government and the *Environmental Policy* of ADB; (b) the environmental management and monitoring program (EMP) and the mitigation measures included therein, as specified in the Environmental Impact Assessment prepared for the Project, are properly implemented; (c) any environmental permits, licenses and clearances are obtained in a timely manner; (d) any adverse impact on the environment that may arise from the Project implementation activities is promptly mitigated or minimized in accordance with the EMP; and (e) implementation of the EMP, including any safety breaches, violation of environmental standards and corrective measures taken thereto, is reported semi-annually to ADB.
- (xiv) **Land acquisition and resettlement.** The Government will cause MOR, YPG and WYRC to ensure that (a) the resettlement plan is carried out promptly and efficiently in accordance with all applicable Government laws and regulations and ADB's *Policy on Involuntary Resettlement*; (b) all affected people are given adequate opportunity to participate in resettlement planning and implementation; (c) the affected people are compensated and assisted prior to displacement from their houses, land and assets such that they will be at least as well off as they would have been in the absence of the Project; (d) ensure that civil works contracts include requirements to comply with the resettlement plan; and (e) implementation of the resettlement plan is monitored internally by WYRC and the respective local governments, and externally by an independent institute, and related reports are submitted to ADB and MOR as stipulated in the resettlement plan. The Government will cause MOR, YPG and WYRC to ensure that (a) funds needed for land acquisition and resettlement, including those for cost overruns, are allocated and disbursed in a timely manner; (b) the resettlement plan is updated and submitted to ADB within 3 months of completing the detailed measurement surveys; and (c) ADB is promptly advised of any substantial changes in the resettlement impacts and, if necessary, a revised resettlement plan is submitted to ADB for concurrence.
- (xv) **Ethnic minorities.** The Government will cause MOR, YPG and WYRC to ensure that (a) adverse impacts on ethnic minorities are avoided or adequately mitigated in a timely manner; (b) ethnic minorities are provided opportunities to benefit from the economic development generated through the Project in an equitable and sustainable manner; (c) the EMDP is efficiently implemented in accordance with its terms, all applicable laws and regulations of the Government, and ADB's *Policy on Indigenous Peoples*; (d) affected ethnic minorities are adequately consulted on the measures to be implemented; (e) sufficient budget is made available and funds are disbursed in a timely manner for effective implementation of EMDP; and (f) implementation of EMDP is monitored and evaluated internally by WYRC and externally by an independent local institute or organization, and reported to ADB through semiannual evaluation reports and a completion report.
- (xvi) **Poverty reduction.** The Government will ensure that WYRC causes the contractors involved in project implementation to maximize employment of local poor persons who meet the job and efficiency requirements for construction of the project railway. Such workers will be provided with adequate on-the-job training. WYRC in consultation with the Poverty Alleviation Office of the YPG will, in consultation with WYRC, monitor the Project's impact on poverty with the

assistance of domestic consultants, based on a set of indicators agreed between the Government and ADB, and submit annual monitoring reports to ADB during the Project implementation period.

- (xvii) **Gender and development.** The Government will cause WYRC to implement the Project in accordance with ADB's *Policy on Gender and Development* and take all necessary actions to encourage women living in the project area to participate in planning and implementation of the Project. Furthermore, the Government will ensure that MOR and WYRC monitor the effects of the Project on women through collection and compilation of gender-disaggregated data, where relevant, including in the resettlement plan, EMDP, and project performance management system (PPMS).
- (xviii) **Health risks.** The Government will cause WYRC to ensure that (a) contractors involved in project implementation disseminate information on the risks of socially transmitted infections, including HIV/AIDS, to the workers they employ under the Project and to local communities, through public awareness campaigns; and (b) that adequate health and treatment facilities are available nearby. The Government will cause the YPG and WYRC to ensure that similar information is disseminated, in consultation with the health bureau in Yunnan, to railway operating staff.

## **XII. IMPLEMENTATION OF ACCOMPANYING TECHNICAL ASSISTANCE**

37. Since the Project is located in an area that is predominantly inhabited with poor people, most of whom are ethnic minorities, the Government requested ADB to provide a small-scale TA to enhance the project benefits to the poor, and ethnic minorities, and assist in the preservation of local culture. The small-scale TA will have three components and assist the local governments in (i) capacity building and skill enhancement programs for the poor, vulnerable groups, and ethnic minorities, particularly with regard to income generation, sustainability, cultural tourism and eco-tourism; (ii) undertaking feasibility studies for cultural protection and preservation; and (iii) assessing measures taken or planned for the preservation of local cultures, and recommendation of further measures, if any, required prior to the completion of the Project. International and domestic consultants providing a total of 16 person-months with skills in social development, design of vocational training programs, community-based tourism, cultural tourism, and cultural preservation will be hired. The \$150,000 small-scale TA will be financed on a grant basis from ADB's TA funding program. The outline of the small-scale TA is in **Appendix 8**.

## **XIII. KEY PERSONS INVOLVED IN THE PROJECT**

38. The key persons who will be involved in the implementation of the Project from the Borrower, the EA, and ADB is attached as **Appendix 9**.

## **XIV. ANTICORRUPTION**

39. During project processing, ADB's anticorruption policy was explained to central and local government officials. ADB drew attention to the section, highlighting the section on fraud and corruption that was added to ADB's *Guidelines for Procurement* and *Guidelines on the Use of*

*Consultants*, particularly the need for bidders, suppliers, contractors, and consultants to observe the highest standards of ethics in the procurement and execution of ADB-financed contracts, and the sanctions if fraud and corruption are discovered. Based on MOR's experience in fighting corruption, the following actions will be taken to prevent corruption: (i) a leading group of officials from the discipline unit and supervision department of MOR will be resident in project offices for bidding, construction, and operations; (ii) a supervisory "watchdog" body has been established to prevent interference in the processes; and (iii) briefings between MOR and the prosecutor's office are held on a regular basis where warnings about or information on corrupt practices can be discussed.

## **XV. CONTRACT VARIATIONS**

40. The EA should seek ADB's prior approval for contract variations worth \$100,000 and above.

**PROJECT COST ESTIMATES AND FINANCING PLAN**  
(\$ million)

Item	Cost Estimates			Financing Plan		
	Foreign Exchange	Local Currency	Total Cost	ADB	AFD	MOR/ YPG
<b>A. Base Cost</b>						
1. Civil Works <sup>a</sup>	125.1	231.1	356.2	87.1	38.0	231.1
2. Railway Trackwork <sup>b</sup>	54.7	9.4	64.1	54.7	0.0	9.4
3. Buildings and Facilities	0.0	8.5	8.5	0.0	0.0	8.5
4. Signaling & Communications	4.7	8.0	12.7	4.7	0.0	8.0
5. Electric Power	4.4	3.3	7.7	4.4	0.0	3.3
6. Vehicle	10.0	0.0	10.0	10.0	0.0	0.0
7. Safety Component	7.3	2.8	10.1	7.3	0.0	2.8
8. E-governance and MIS	1.0	0.5	1.5	1.0	0.0	0.5
9. Land acquisition and Resettlement	0.0	17.1	17.1	0.0	0.0	17.1
10. Environmental Protection, Mitigation, and Monitoring	0.4	5.2	5.6	0.4	0.0	5.2
11. Administration, Consulting Services, and Miscellaneous	0.4	18.6	19.0	0.4	0.0	18.6
<b>Subtotal (A)</b>	<b>208.0</b>	<b>304.5</b>	<b>512.5</b>	<b>170.0</b>	<b>38.0</b>	<b>304.5</b>
<b>B. Contingencies</b>						
1. Physical <sup>c</sup>	10.0	5.7	15.7	8.7	1.3	5.7
2. Price <sup>d</sup>	2.0	1.6	3.6	1.3	0.7	1.6
<b>Subtotal (B)</b>	<b>12.0</b>	<b>7.3</b>	<b>19.3</b>	<b>10.0</b>	<b>2.0</b>	<b>7.3</b>
<b>C. Interest During Construction<sup>e</sup></b>	16.2	0.0	16.2	0.0	0.0	16.2
<b>Total<sup>f</sup></b>	<b>236.2</b>	<b>311.8</b>	<b>548.0</b>	<b>180.0</b>	<b>40.0</b>	<b>328.0</b>

ADB = Asian Development Bank, AFD = Agence Française de Développement, MOR = Ministry of Railways, YPG = Yunnan provincial government.

<sup>a</sup> Of \$231.1 million, MOR/YPG will provide \$130.6 million for the 7 ADB-financed civil works contracts.

<sup>b</sup> Including rails, sleepers, ballast, and bridge beams. This includes \$6.2 million for track laying and bridge erection works.

<sup>c</sup> Physical contingency is estimated at 8.0% of base cost on average.

<sup>d</sup> 2.7% per annum for 2005 and 3% thereafter on local costs. Zero percent per annum for 2005 and thereafter on foreign exchange.

<sup>e</sup> Import taxes and duties are waived under this Project.

<sup>f</sup> The entire 1% front end-fee on all new public sector loans approved during 1 January 2004–30 June 2005 will be waived.

Source: Asian Development Bank estimates.

## IMPLEMENTATION SCHEDULE (at Inception Mission)

[illegible]

Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. Introduction

1. West Yunnan Railway Company (WYRC) is implementing the Dali–Lijiang Railway (DLR) Project that will link Dali with Lijiang in Yunnan province. The objective of the Project is to promote sustainable economic growth by enhancing transportation capability in a less accessible and mountainous region, thereby creating employment and income-enhancing opportunities, raising incomes, and reducing poverty. To achieve this objective, economic developments, such as tourism, as well as value-added and labor-intensive industries, need to be facilitated in the project area. The construction of the DLR will create the conditions for a significant number of tourist and business companies to invest in the area. From the financial perspective of the DLR, tourism and industry on the route of the DLR will generate the greater proportion of the traffic. To capture the potential for economic development and traffic in the region and foster railway-local industry cooperation, institutional strengthening in railway market development will be necessary. The purpose of the consulting services will be to assist the railway in defining what the service should be, plan its future operations, and assist in creating appropriate customer-oriented services for the DLR.

### a. B. Scope

2. For the first component, the consultants will (i) determine the level of tourism, industry, and market development expertise in the WYRC; (ii) determine the programs and incentives available for attracting industry at the county, prefecture, and province levels; (iii) meet with a selection of potential shippers located or planning to locate along the route of the DLR; (iv) meet with business people of Kunming, Lijiang, and Dali to determine current operations and future inland transport requirements including for export to the Greater Mekong Subregion (GMS); (v) develop plans for improving railway services, for passengers (particularly tourists) and freight (including container services); (vi) propose measures to develop industrial sidings; and (vii) improve marketing of railway services to industries, specifically for the DLR and WYRC.

3. For the second component, the consultants will (i) review the performance of existing joint-venture railways in the People's Republic of China (PRC), (ii) identify the areas that need to be strengthened, (iii) recommend actions and changes including institutional efforts to make these joint-venture railways more market oriented and competitive, (iv) strengthen marketing and business development functions of WYRC, and (v) research and strengthen the development, operation, and management of the joint-venture railway systems in the PRC. The international consultants will be recruited in accordance with the Asian Development Bank (ADB) *Guidelines on the Use of Consultants*.

### b. C. Expertise and Cost Estimates

4. About 12 person-months of international consulting services will be engaged under quality- and cost-based selection, in accordance with ADB's *Guidelines on the Use of Consultants*. The provisions of ADB's anticorruption policy will be included in all invitation documents and contracts for international consultants. The international consultants will have expertise in industrial development and marketing, international trade, and railway operation. The loan will finance the services of the international consultants.

5. WYRC will (i) assign appropriate counterpart staff to liaise with and facilitate the work of consulting services; (ii) provide suitable office accommodation and communications facilities commensurate with requirement; (iii) assist the consultants in scheduling field visits and discussions with field agencies in connection with the study; and (iv) provide all facilities, documentation, and assistance as may be reasonably requested by the consultants to complete the work.

**ASIAN DEVELOPMENT BANK-FINANCED CONTRACT PACKAGES**  
(\$ million)

Description	Length (km)	Amount (\$ million)	Procurement Mode
<b>A. Civil Works</b>			
1. K194+500–K205+813.6	11.31	7.04	ICB
2. DK2+060.2–DK16+420	18.43	13.67	ICB
3. DK34+000–DK51+600	17.17	13.08	ICB
4. DK61+850–DK69+500	7.72	6.34	ICB
5. DK80+500–DK105+500	24.68	15.74	ICB
6. DK105+500–DK139+300	33.26	15.76	ICB
7. DK139+300–DK165+925	26.63	15.42	ICB
8. Track laying and bridge erection	163.51	6.24	ICB
<b>Subtotal (A)</b>		<b>93.30</b>	
<b>B. Materials</b> (various packages)			
Railway materials (including rails, sleepers, turnouts, fastenings, beams) and bearings etc.)		<b>48.50</b>	ICB
<b>C. Equipment and Train Set</b> (various packages)			
1. Signaling and communications equipment		4.70	ICB/IS
2. Power supply and electrical cable		4.40	ICB/IS
3. Operational safety and maintenance equipment		7.30	ICB/IS
4. E-governance and MIS equipment		1.00	ICB/IS
5. Environmental protection equipment		0.40	ICB/IS
6. Train set		10.00	ICB
<b>Subtotal (C)</b>		<b>27.80</b>	
<b>D. Consulting Services</b>		<b>0.40</b>	
<b>E. Contingencies</b>			
1. Physical contingency		8.70	
2. Price contingency		1.30	
<b>Subtotal (E)</b>		<b>10.00</b>	
<b>Total</b>		<b>180.00</b>	

ICB = international competitive bidding, IS = international shopping, MIS = management information system.  
Source: Asian Development Bank estimates.

## THE CIVIL WORKS PACKAGE OF DALI-LIJIANG RAILWAY PROJECT

Contract No.	Location	Length (km)	Earth and Stone Works (m <sup>3</sup> )	Mason (m <sup>3</sup> )	Bridge (m)	Tunnel (m)	Culvert (m)	Note
W1	K194+500~K205+813.6	11.314	695260	17860	260.4	0	400.69	
W2	DK2+060.2~DK16+420	18.427	457014	20686	4306.7	7500	374.6	Including connecting line
N3	DK16+420~DK34+600	18.282	392008	32831.8	2502.51	12428	191.7	
W4	DK34+600~DK51+600	17.16	736233	64939	2922.4	8656	775.3	
N5	DK51+600~DK61+850	10.25	825321	58332.8	1279.87	6296	358.82	
W6	DK61+850~DK69+500	7.7	26905	6551	49.9	7284	61.1	
N7	DK69+500~DK80+500	10.932	103745	8475.1	117.2	10619	/	
W8	DK80+500~DK105+500	24.68	1876462	120878	4404.9	8501	808.4	
W9	DK105+500~DK139+300	33.26	3801336	206269	2868.7	8404	2432.1	
W10	DK139+300~DK165+925	26.625	2859074	134103	7984.1	2582	1484.6	

## PROJECT PERFORMANCE MANAGEMENT SYSTEM

	Monitoring Tool	Major Indicators To Be Monitored (baseline and target figures to be incorporated into PAM)	Monitoring Agency	Accountable Agency	Reporting Frequency Submission Due Date
Sustainability	Socioeconomic Monitoring Report	Population, poverty incidence, literacy rate Infant mortality, maternal mortality, school enrollment Number of hospitals/clinics, number of schools Update of poverty reduction program of each county	WYRC	WYRC	Annually
		GDP, GDP per capita, retail prices of a selection of commodities Station area land prices, local government revenue Local price escalation, Net income per capita Fixed asset investment for roads Number of registered enterprises Number of township enterprises, Number of markets	WYRC	WYRC	(up to 3 years after physical completion)
		Progress of development of local road network Road density by approximate distance from a station Number of villages without roads / safe water / electricity / telephone line Number of HIV/AIDS cases in the project area.			The indicators will be collected for the following groups: (i) sample on-route townships; (ii) county; and (iii) city.
Viability	Operation Report	Traffic volume / Train speed Number of personnel Revenues/expenses Average travel speed	WYRC	WYRC	Annually (up to 5 years after final acceptance)
	APA AFS	Audited project accounts Audited financial statements of WYRC External auditor's checklist	YYRAI	WYRC	AFS = Same as operation report APA = Same as quarterly progress report
	Notice	Notice to proceed / Notice of resettlement completion / Notice of provisional and final acceptance of the facilities	WYRC	WYRC	Within a reasonable time
Sustainability	Environmental Monitoring and Evaluation Report	(i) Water quality: suspended solids, BOD, oil and grease for earthwork/ erosion control, sewage, and pollution from construction equipment and locomotives (PM during construction; PM, SO <sub>2</sub> , and NO <sub>x</sub> during operations); (ii) clearing of vegetation and revegetation, especially any old-growth trees; (iii) regional air quality (PM, SO <sub>2</sub> , NO <sub>x</sub> ) reported by Yunnan EPB; (iii) secondary development projects	To be nominated	WYRC	Semiannually until 2 years after provisional acceptance
Sustainability	Land Acquisition and Resettlement Progress Report (External)	Sample household incomes (restoration) Sample village incomes Opinion surveys Rehabilitation measures Training progress Complaints, grievance, and responses Ethnic minority/Vulnerable groups/Gender	To be determined	WYRC	Semiannual reporting during implementation and annual evaluation reports thereafter for at least 2 years.

	<b>Monitoring Tool</b>	<b>Major Indicators To Be Monitored</b> (baseline and target figures to be incorporated into PAM)	<b>Monitoring Agency</b>	<b>Accountable Agency</b>	<b>Reporting Frequency Submission Due Date</b>
<b>Sustainability</b>	<b>Land Acquisition and Resettlement Monitoring Report (Internal)</b>	Implementation schedule Number of signed household land acquisition agreement Compensation payments Removal of houses / Construction of new houses Transfer of land Rehabilitation measures Complaints, grievance, and responses Resettlement disbursements	RCSO with assistance of SSDI	WYRC and local government	Quarterly until completion of resettlement within 3 months from the end of each quarter One completion report when implementation is complete
<b>Sustainability</b>	<b>Ethnic Minority Development Plan Report (Internal)</b>	Physical and expenditure progress of implementing measures Number of Beneficiaries by gender ethnic group Impact of mitigation and enhancement measures by gender and ethnic group Impact of sustainable tourism development on the culture and tradition of smaller minority groups in the project area	WYRC and local government	WYRC and local government	Semiannual reports; Mid term review; One completion report
<b>Sustainability</b>	<b>Ethnic Minority Development Plan Report (External)</b>	Implementation of mitigation and enhancement measures Participation of ethnic minorities by gender and ethnic group Effectiveness of mitigation and enhancement measures by gender and ethnic group Impact of sustainable tourism development on the culture and tradition of smaller minority groups from Lijiang to Xianggelia	To be determined	WYRC	Annual reporting implementation and results
<b>Technical Feasibility</b>	<b>Quarterly Progress Report</b>	Implementation schedule Contract award Disbursements Physical progress by contract Update of project cost estimate Number of poor for unskilled local labor Workers safety / accidents at construction sites	WYRC	WYRC	Quarterly until the quarter in which physical completion takes place, or the loan account with ADB is closed, whichever is later. Within 3 months from the end of each quarter
<b>All</b>	<b>Midterm Review</b>	Evaluation of various aspects of project implementation including technical, environmental, resettlement, social, institutional, economic and financial, and sector performance	WYRC	MOR (FCTIC) and WYRC	In third year from the signing of the Loan Agreement
<b>All</b>	<b>PCR</b>	Evaluation of various aspects of project implementation including technical, environmental, resettlement, social, institutional, economic and financial, and sector performance	WYRC	MOR (FCTIC) and WYRC	Within 3 months after physical completion

ADB = Asian Development Bank, AFS = audited financial statement, APA = audited project accounts, BOD = biochemical oxygen demand, CNAO = China National Audit Office, EPB = environmental protection bureau, FCTIC = Foreign Capital and Technical Import Center, SSDI = Second Survey and Design Institute, GDP = gross domestic product, MOR = Ministry of Railways, NO<sub>x</sub> = nitrogen oxides, PAM = project administration memorandum, PCR = project completion review, PM = particulate matter, RCSO = Railway Construction Support Office, SO<sub>2</sub> = sulfur dioxide, WYRC = Western Yunnan Railway Company, YYRAI = Yunnan Yunda Registered Accountant Institute.

Source: Asian Development Bank estimates.

## **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).

## SAMPLE AUDIT LETTER

ASIAN DEVELOPMENT BANK

**Regional Department**  
Sector Division / Regional or Resident Mission

[Date]<sup>1</sup>

[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 *Handbook for Borrowers on the Financial Governance and Management of Investment Projects Financed by the 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 \_\_\_\_<sup>2</sup> and \_\_\_\_<sup>3</sup> of the Loan Agreement of \_\_\_\_\_ between ADB and [the Borrower] and sections \_\_\_\_<sup>4</sup> and \_\_\_\_<sup>5</sup> of the Project Agreement<sup>6</sup> of \_\_\_\_\_ between ADB and [name of the EA].<sup>7</sup> 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:<sup>8</sup>

-  
-

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)

## **OUTLINE OF THE TECHNICAL ASSISTANCE SUPPORT TO ETHNIC MINORITIES DEVELOPMENT PLAN**

### **A. Introduction**

1. The objective of the Project is to promote sustainable economic growth by enhancing transportation capability in a less accessible and mountainous region, thereby creating employment and income-enhancing opportunities, raising incomes, and reducing poverty. Since the Project is located in an area that is predominantly inhabited by ethnic minorities, an ethnic minorities development plan (EMDP) has been prepared to ensure compliance with the social safeguard policies of the Asian Development Bank (ADB). The West Yunnan Railway Company has requested ADB to provide technical assistance (TA) to enhance the project benefits to the poor, most of whom are ethnic minorities, and assist in developing feasibility studies for the preservation of local culture. The TA will assist the local governments in the project area in providing capacity building and training to the local people, help in the design and implementation of cultural preservation measures, and make a midterm assessment of cultural preservation.

### **B. Scope**

2. The scope of the consulting services has three components: (i) capacity building and skill enhancement programs for the poor, vulnerable groups, and ethnic minorities, particularly with regard to income generation, sustainability, community-based tourism, and cultural tourism; (ii) feasibility studies for cultural protection and preservation; and (iii) an assessment of the measures taken or planned for the preservation of local cultures, and recommending further measures, if any, that are required to be taken prior to the completion of the Project.

3. The capacity building and skill enhancement component would focus on (i) identifying the tourism training needs, particularly for community-based tourism and for cultural tourism; (ii) identify people who can be trained, particularly among ethnic minorities and the vulnerable sector; (iii) formulate training plans, including identification of trainers; and (iv) commence a pilot training program. The key objective of this component will be to enhance the skills of local people so that they can maximize the employment opportunities generated by the completion of the Project.

4. There will be two feasibility studies and they will be focusing on the preservation or restoration of ancient cultures. For the first feasibility study the consultants will conduct (i) a study on the protection of successor folk culture, and (ii) a study on the rescue and classification of ancient works. The objective of this feasibility study would be to assess opportunities to support artists within the project area, focusing primarily on the Bai and Naxi people (Dongba culture). The second feasibility study would focus on the identification, classification, translation, and restoration/preservation of ancient books, oral records, and inscriptions. The rescue work for Dali and Lijiang ancient works requires more inputs. The two studies will recommend an action plan for implementation by the local governments.

5. During the midterm review of the Project, an assessment will be made of the measures taken or planned for the preservation of local cultures, and whether such measures are adequate to achieve results given the pressures from economic development. Based on this assessment, the consultants will recommend further measures that are required to be taken prior to the completion of the Project by the local government.

### C. Expertise, Cost Estimates, and Financing Plan

6. About 16 person-months of international and domestic consulting services will be engaged in accordance with ADB's *Guidelines on the Use of Consultants*. The consultants will have expertise in (i) social development; (ii) design of vocational training programs; (iii) community-based tourism and cultural tourism; (iv) ethnic minority cultures in the project area, especially Bai and Naxi; and (v) cultural preservation. The local government, in liaison with West Yunnan Railway Company (WYRC), will (i) assign appropriate counterpart staff to facilitate the work of consultants; (ii) set up meetings, field visits, and discussions with local agencies in connection with the study; and (iii) provide all documentation and assistance as may be reasonably requested by the consultants to complete the work.

7. The total cost of the TA is estimated at \$188,000 equivalent, comprising \$47,000 in foreign exchange and \$141,000 equivalent in local currency. ADB will finance \$150,000 equivalent on a grant basis from ADB's TA funding program to cover the entire foreign exchange cost and \$103,000 equivalent of the local currency cost. The Government will finance the remaining local currency cost amounting to \$38,000, which covers the provision of counterpart staff, local transportation, background reports, studies, and logistics.

**Table A12: Cost Estimates and Financing Plan**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	27.0	0.0	27.0
ii. Domestic Consultants	0.0	42.0	42.0
b. International and Local Travel	10.0	7.0	17.0
c. Reports and Communications	3.0	3.0	6.0
2. Equipment <sup>b</sup>	3.0	0.0	3.0
3. Training, Seminars, and Conferences	0.0	26.0	26.0
4. Miscellaneous Administrative and Support Costs	2.0	8.0	10.0
5. Contingencies	2.0	17.0	19.0
<b>Subtotal (A)</b>	<b>47.0</b>	<b>103.0</b>	<b>150.0</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0.0	12.0	12.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	19.0	19.0
3. Others	0.0	7.0	7.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>38.0</b>	<b>38.0</b>
<b>Total</b>	<b>47.0</b>	<b>141.0</b>	<b>188.0</b>

<sup>a</sup> Financed by the Asian Development Bank's technical assistance funding program.

<sup>b</sup> Equipment includes three units of computer and a printer.

Source: Asian Development Bank estimates.

## **LIST OF KEY PERSONS INVOLVED IN PROJECT IMPLEMENTATION**

### **Borrower (MOF)**

Mr. Chen Huan  
Director, IFI Division III  
International Department  
Ministry of Finance  
Beijing, PRC

### **Executing Agency (WYRC)**

Mr. Wu Hongbo  
Authorized Representative  
West Yunnan Railway Company Ltd.  
Kunming, PRC

Mr. Wu Weiquan  
Chief Accountant  
West Yunnan Railway Company Ltd.  
Kunming, PRC

### **FCTIC-Ministry of Railways**

Mr. Liu Junfu  
Deputy Director General, FCTIC  
Ministry of Railways  
Beijing, PRC

Mr. Chen Xiaoxin  
Director  
Project Division II  
Foreign Capital & Technical Import Center  
Ministry of Railways  
Beijing, PRC

Mr. Huang Ren Gao  
Deputy Chief/Senior Economist  
Project Division II  
Foreign Capital & Technical Import Center  
Ministry of Railways  
Beijing, PRC

### **Co-Financier (AFD)**

Mr. Olivier Richard  
Director/Representative  
Beijing Office,  
Beijing, PRC

Mr. Damien Navizet  
Project Manager, DLR  
Infrastructure Department  
Paris, France

**ADB**

Mr. Nigel Rayner  
Director  
Transport and Communications Division

Mr. Manmohan Parkash  
Transport Specialist (Railways)  
Transport and Communications Division

Ms. Teresita S. Capati  
Associate Project Analyst  
Transport and Communications Division