



Periodic Financing Request Report

Project Number: 50050-005
MFF Number: 0096
September 2021

People's Republic of China: Guangxi Regional Cooperation and Integration Promotion Investment Program (Tranche 3)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 September 2021)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.154
\$1.00	=	CNY6.456

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
BEZ	–	border economic zone
COVID-19	–	coronavirus disease
EMP	–	environmental management plan
FIL	–	financial intermediation loan
GMS	–	Greater Mekong Subregion
GPMO	–	Guangxi Foreign Loans Project Management Office
GZAR	–	Guangxi Zhuang Autonomous Region
IEE	–	initial environmental examination
MFF	–	multitranches financing facility
PAM	–	project administration manual
PIE	–	project implementing entity
PRC	–	People's Republic of China
RCI	–	regional cooperation and integration
SMEs	–	small and medium-sized enterprises

NOTE

In this report, "\$" refers to United States dollars.

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TRANCHE AT A GLANCE

1. Basic Data		Project Number: 50050-005
Project Name	Guangxi Regional Cooperation and Integration Promotion Investment Program - Tranche 3	Department/Division EARD/EAPF
Country Borrower	China, People's Republic of	Executing Agency Government of Guangxi Zhuang Autonomous Region, through Guangxi Foreign Loans Project Management Office
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=50050-005-CEI	
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=50050-005-PortAtaGlance	
2. Sector		ADB Financing (\$ million)
✓ Industry and trade	Industry and trade sector development	39.40
	Small and medium enterprise development	35.80
	Trade and services	25.40
Agriculture, natural resources and rural development	Agro-industry, marketing, and trade	39.40
		Total <u>140.00</u>
3. Operational Priorities		Climate Change Information
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum) 4,644.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project Medium
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		
✓ Promoting rural development and food security		
✓ Fostering regional cooperation and integration		
		ADB Financing
		Adaptation (\$ million) 1.91
		Mitigation (\$ million) 3.95
		Cofinancing
		Adaptation (\$ million) 0.00
		Mitigation (\$ million) 0.00
Sustainable Development Goals		Gender Equity and Mainstreaming
SDG 1.a		Effective gender mainstreaming (EGM) ✓
SDG 5.a		
SDG 8.2, 8.9		
SDG 9.3, 9.4		
SDG 10.3		
SDG 12.4		
SDG 13.a		
4. Risk Categorization: Low		Poverty Targeting
		General Intervention on Poverty ✓
5. Safeguard Categorization Environment: B Involuntary Resettlement: B Indigenous Peoples: B		
6. Financing		
Modality and Sources		Amount (\$ million)
ADB		140.00
Sovereign MFF-Tranche (Regular Loan): Ordinary capital resources		140.00
Cofinancing		0.00
None		0.00
Counterpart		186.70
Government		186.70
Total		326.70
Currency of ADB Financing: US Dollar		

I. BACKGROUND

1. The Asian Development Bank (ADB) and the People's Republic of China (PRC) signed a framework financing agreement for the Guangxi Regional Cooperation and Integration Promotion Investment Program on 15 October 2016. On 1 December 2016, ADB approved the provision of a \$450 million multitranche financing facility (MFF) to the PRC to be implemented through three tranches during 2017–2024.¹ The MFF is intended to help the Guangxi Zhuang Autonomous Region (GZAR) follow its road map to strengthen regional cooperation and integration (RCI) with countries of the Association of Southeast Asian Nations (ASEAN) and the Greater Mekong Subregion Economic Cooperation Program (GMS). The first tranche of \$130 million was approved on 12 December 2016² and the second tranche of \$180 million on 4 April 2018.³ The Government of the PRC submitted a request to ADB for \$140.0 million in periodic financing for tranche 3 for investments that are consistent with the intended outcomes, outputs, and approval schedule of the MFF. Tranche 3 is included in ADB's country operations business plan for 2021.⁴

2. The GZAR considers cooperation with Southeast Asian countries important to achieving its medium-term development goals. The GZAR government formulated a strategy and action plan in 2014 to guide its participation in the GMS program during 2014–2022.⁵ The MFF investment program aims to fund selected projects from the GZAR's priority investment program and will help the GZAR government tackle obstacles to better fulfill the cooperation potential on both sides of the GZAR's border with Viet Nam.⁶

3. The GZAR government has mainstreamed regional cooperation in its development strategies, and three of the eight pilot border areas approved by the PRC State Council to strengthen regional cooperation are in the GZAR, bordering Viet Nam—Baise, Dongxing, and Pingxiang.⁷ In 2020, ASEAN replaced the European Union as the PRC's largest trading partner, with trade with Viet Nam leading the way. Viet Nam accounted for 36.2% of the GZAR's \$74.8 billion overall foreign trade in 2020 from \$23.3 billion in 2011, and production and supply chains are becoming increasingly integrated, especially for manufacturing and assembly of consumer electronics. Major exports from GZAR to Viet Nam are electrical machinery and textiles, while major imports from Viet Nam are telecommunications and electrical products.

4. Tranche 3 will promote investments in climate change resilience, regional public goods delivery, institutional development, knowledge sharing, and gender equality. It will contribute to climate change mitigation and adaptation through energy- and water-saving design in building development, and through increased transport efficiency. It will support regional public goods related to food security and safety, cross-border disease control, and prevention of human and wildlife trafficking. Tranche 3 will also leverage the development of the PRC (Guangxi) Pilot Free

¹ ADB. [Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the People's Republic of China for Guangxi Regional Cooperation and Integration Promotion Investment Program](#).

² ADB. [People's Republic of China: Guangxi Regional Cooperation and Integration Promotion Investment Program \(Tranche 1\)](#).

³ ADB. [People's Republic of China: Guangxi Regional Cooperation and Integration Promotion Investment Program \(Tranche 2\)](#).

⁴ ADB. 2019. [People's Republic of China: Country Operations Business Plan, 2019–2021](#). Manila.

⁵ Government of Guangxi. 2014. *Strategy and Action Plan for Participation in the Greater Mekong Subregion Economic Cooperation Program, 2014–2022*. Nanning.

⁶ The Guangxi Regional Cooperation and Integration Investment Promotion Program project area covers Baise, Chongzuo, Fangchenggang, and Qinzhou municipalities of the GZAR.

⁷ The other five pilot border areas are Lameng, Ruili, Erenhot, Manzhouli, and Suifenhe–Dongning.

Trade Zone⁸ to implement innovative border trade administration measures, optimize customs clearance procedures, improve cross-border financial services, and boost border port operation efficiency, thereby promoting institutional development. Knowledge sharing on sustainable tourism, new refrigeration technology, food safety and security, and disease control will be provided during project implementation. Increased nonagricultural employment opportunities and skills for women and women's participation of project decision-making processes will promote gender equality.

5. Viet Nam supports the Guangxi Regional Cooperation and Integration Promotion Investment Program and is expanding trade with the PRC by developing better physical and economic connectivity infrastructure. An ongoing project under the GMS program will improve border area infrastructure in Viet Nam.⁹ The governments of the GZAR and the adjacent provinces in Viet Nam conduct regular consultations on cross-border economic cooperation.¹⁰ Investment on both sides of the border will improve connectivity and ease trade between the two countries.

II. ASSESSMENT OF THE MULTITRANCHE FINANCING FACILITY IMPLEMENTATION

6. **Progress on the road map.** The GZAR has made progress on its road map (footnote 5) for greater cooperation with ASEAN countries since the MFF was approved. The PRC (Guangxi) Pilot Free Trade Zone was established in August 2019 to take advantage of the autonomous region's geographic proximity to and potential for greater cooperation with ASEAN countries. In August 2020, the State Council announced Baise in Guangxi as the PRC's eighth pilot border area for further development and opening.¹¹ In January 2021, the GZAR established provincial border economic zones (BEZs) in Fangcheng, Jingxi, and Louzhou counties to further strengthen border economic cooperation with Viet Nam.¹²

7. **Improvements in policy framework.** The GZAR government has developed detailed implementation plans and measures to support regional cooperation and reform zones and supplement its RCI promotion policy framework.¹³ The GZAR government has adopted policies to optimize border clearance procedures, offer tax incentives for cross-border e-commerce, improve supervision of cross-border trade, lift prohibitions for cross-border barter trade between border residents, expedite investment and finance across the border, and increase port operation efficiency and reduce charges.

8. **Progress of the investment program.** The implementation of tranche 1 and tranche 2 is on track. Outputs are delivered as scheduled, and procurement and disbursement are on track.

⁸ Since 2013, the PRC has created pilot free trade zones that have an unprecedented degree of openness to foreign investment and international trade in goods and services to spur the development of a more open economy. By April 2021, the PRC State Council had approved a total 21 free trade zones.

⁹ ADB. [Report and Recommendation of the President to the Board of Directors: Proposed Loan Socialist Republic of Viet Nam: Basic Infrastructure for Inclusive Growth in the Northeastern Provinces Sector Project](#).

¹⁰ Baise and Fangchenggang conduct quarterly consultations with Vietnamese counterparts. Policy consultations are organized, when necessary, in Chongzuo.

¹¹ State Council. 2020. *Approval of Baise as Key Development and Opening-Up Pilot Zone*. Beijing.

¹² Government of GZAR. 2021. *Approval of Fangcheng, Jingxi, and Longzhou as Provincial Level BEZs*. Nanning.

¹³ Government of GZAR. 2020. *Several Policies and Measures to Promote Cross-Border Trade Facilitation in China (Guangxi) Pilot Free Trade Zone*. Nanning; Government of GZAR. 2020. *Several Opinions on High-Quality Development Promotion of Border Economic Cooperation Zones*. Nanning; and Government of GZAR. 2020. *Several Policies on Accelerating the High-Quality Construction of Guangxi Baise Key Development and Opening Pilot Zone*. Nanning.

As of 30 September 2021, the cumulative contract awards and disbursements under tranche 1 are \$56.80 million (43.69% of total ADB financing) and \$59 million (45.38%), respectively; and \$138.20 million (76.78%) and \$39.51 million (21.95%) under tranche 2. The financial intermediation loan (FIL) component for small and medium-sized enterprises (SMEs) under tranche 1 was delayed because of the rigidity in the subloan pricing policy and the lengthy process of identifying creditworthy SMEs. ADB and the Guangxi Foreign Loans Project Management Office (GPMO) have worked together to address these issues, which have brought the FIL component back on track.

9. **Compliance with undertakings and loan covenants.** Compliance by the Government of the PRC with the loan covenants and framework financing agreement undertakings has been satisfactory. Implementation of safeguards and gender action plans is on track and safeguard monitoring reports are being submitted on time.

10. **Development partner coordination.** The New Development Bank approved a \$300 million loan for Chongzuo urban water system ecological restoration in March 2019. In June 2021, the Asian Infrastructure Investment Bank approved a \$300 million loan to improve Chongzuo's Shulong port connectivity and service facilities. Through coordination with the GPMO, ADB has ensured that these investments do not overlap with GRIP. Together, the development partner support contributes to the environmentally sustainable and inclusive development in Guangxi.

III. PERIODIC FINANCING REQUEST

A. Impact and Outcome

11. The impacts will be economic growth potential for border areas in the PRC and Viet Nam realized,¹⁴ efficient transport and trade operations along GMS North–South Economic Corridor achieved,¹⁵ and economic integration between GZAR and the rest of the GMS further strengthened.¹⁶ The outcome will be benefits of RCI in border areas of Guangxi and northern Viet Nam captured, which will be achieved through four outputs.¹⁷

B. Outputs

12. **Output 1: Support for small and medium-sized enterprises in border areas expanded.** Tranche 3 will cover the development of (i) a vocational SME training center in Baise University that will increase job opportunities for Chinese and Vietnamese workers by teaching them skills required by local SME employers, such as those related to international trade, e-commerce, tourism, food security, food safety, and agriculture, and language; and (ii) a facility for agricultural product sorting, processing, and packaging lines, and a trading area at the Sino–ASEAN Agricultural Products Trade Center in Baise. The output will promote border area SME development, upgrade the regional agricultural product value chain, increase agricultural imports from ASEAN countries to the PRC, and expand the development of women-led enterprises.

13. **Output 2: Integrated logistics facilities and cross-border e-commerce platforms for the People's Republic of China and Viet Nam developed.** The output includes the development of logistics demonstration facilities in the Chongzuo Sino–Thailand Industrial Park, comprising a bonded warehouse adjacent to the river port and a cold storage facility close to rail

¹⁴ Footnote 5.

¹⁵ ADB. 2010. *Strategy and Action Plan for the Greater Mekong Subregion North-South Economic Corridor*. Manila

¹⁶ Footnote 5.

¹⁷ The design and monitoring framework is in Appendix 1.

and expressway junctions. Refrigerant with low greenhouse gas weighting potential will be chosen for cold storage facility development. A digital platform will be developed to provide warehouse management, payment settlement, and cross-border electronic transaction services. The integrated logistics facilities and platforms will promote efficient and safe cross-border trade of perishable nuts and fruits, expand imports from ASEAN countries, improve food security and food safety, and create trade-related jobs for local and Viet Nam border area residents.

14. **Output 3: Key infrastructure and trade-related services in border economic zones provided.** The output includes (i) the second phase of the development of the Chongzuo Sino–Viet Nam BEZ to improve critical infrastructure that started under tranche 2, under which tranche 3 will cover the building of water supply pipes, expansion of the capacity of the existing water plant, and construction of new roads to further expand BEZ external linkages; and (ii) development of processing facilities for frozen imported aquaculture products, logistics facilities, and an exhibition center in Fengcheng BEZ. The subprojects will directly help the PRC and ASEAN countries expand regional trade and create over 400 jobs for the GZAR and residents in the border areas of Viet Nam, of which at least 120 jobs are for women.

15. **Output 4: Cross-border tourism facilities and policy coordination improved.** The governments of the PRC and Viet Nam signed the agreement for joint protection and development of the Detian–Ban Gioc cross-border waterfall in November 2015. The Sino–Viet Nam Cross-Border Tourism Cooperation Zone has been listed as a GMS priority project.¹⁸ The project includes development of a visitor center in the tourism cooperation zone, upgrading of roads, and the design of operational tourism zone administration mechanisms through extensive policy coordination. The visitor center will install and operate a smart tourism service system providing visitors with real-time information for quality tourism experiences, as well as pandemic control, mountain torrent disaster alert, border entry, and other related services through connection to government public service systems.

16. **ADB value addition.** Tranche 3 will go beyond removing critical logistical obstacles to greater trade between the PRC, Viet Nam, and other ASEAN countries. It will help the PRC and Viet Nam realize the socioeconomic benefits of sustainable cross-border tourism zone development and boost GMS tourism cooperation. Tranche 3 also aims to tackle some challenges for women, particularly their lack of nonagricultural skills, limited capacity to start and expand businesses, and restricted access to nonagricultural jobs. The tranche is the first in the MFF to be classified as *effective gender mainstreaming*, with at least 30% of the jobs created expected to be taken by women. Tranche 3 will promote regional public goods through cross-border spillover effects (para. 17) and measures to deal with climate change challenges that confront the GZAR and Viet Nam. The introduction of refrigerant with low greenhouse gas weighting potential in cold warehouse development will offer a green development model for local industries to replicate.

17. **Benefit to Viet Nam.** Of the 2,530 jobs created by the project, about one-third are expected to be taken by Vietnamese border area residents. Investment in the vocational training center will supply Vietnamese entrepreneurs with needed skills for SME development. The project will expand food-processing capacity in the GZAR’s BEZs by about 110,000 tons annually, which, in turn, will spur agricultural and aquaculture exports from Viet Nam and other ASEAN countries and update the regional agricultural product industry chain. The development of integrated cold chain logistics and e-commerce platforms will expand e-commerce between the two countries.

¹⁸ ADB. 2018. *GMS Economic Cooperation Program: Regional Investment Framework 2022*. Manila; and ADB. 2017. *Greater Mekong Subregion Tourism Sector Strategy 2016–2025*. Manila.

The cross-border tourism subproject will create jobs and increase income opportunities for people in Viet Nam. Viet Nam will benefit from tighter control of the coronavirus disease (COVID-19) and other cross-border communicable human diseases, and from the prevention of human and wildlife trafficking through capacity building in GZAR ports and improved coordination of GZAR authorities with Vietnamese counterparts.

18. **Pandemic impact.** The COVID-19 pandemic, which began in December 2019, has impacted regional economic cooperation between Guangxi and Viet Nam. The pandemic is largely contained in the PRC but remains a risk, particularly to border trade and regional cooperation on tourism. With the growing recognition of the need for measures to prevent cross-border spread, regional cooperation is a key part of the recovery of the GZAR and neighboring areas of Viet Nam from COVID-19.

C. Summary Cost Estimates and Financing Plan

19. Tranche 3 is estimated to cost \$326.7 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Small and medium-sized enterprise development	76.3
2. Cross-border e-commerce	57.1
3. Border economic zone development	155.5
4. Technical and institutional support	3.4
Subtotal	292.3
B. Contingencies^c	24.1
C. Financial Charges during Implementation^d	10.3
Total (A+B+C)	326.7

^a Includes taxes and duties of \$25.41 million (CNY166.95 million). ADB, local financial institutions, and the government will finance taxes and duties for expenditures to be financed by the financiers. The amount does not represent an excessive share of the project cost.

^b In 2021 prices as of 2 April.

^c Physical contingencies computed at 5% for works and goods. Price contingencies computed at an average of 1.70% on foreign exchange costs and 1.95% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest and commitment charges. Interest during construction for the ordinary capital resources (OCR) loans has been computed at the 5-year US dollar fixed swap rate plus an effective contractual spread of 0.5% and maturity premium of 0.3%. Commitment charges for the OCR loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

20. The Government of the PRC has requested a loan of up to \$140 million from ADB's ordinary capital resources for tranche 3. The loan will have a 25-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, plus a 0.3% maturity premium increase following ADB's differential pricing policy effective 1 January 2021, and such other terms and conditions set forth in the draft loan and project agreements. Based on the straight-line method, the average maturity is 15.25 years.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
OCR loan from country allocation	135.0	41.3
OCR loan for regional set-aside	5.0	1.5
Government	186.7	57.1
Total	326.7	100.0

OCR = ordinary capital resources.

Source: Asian Development Bank estimates.

21. ADB will finance \$3.95 (86.43%) million of the estimated climate mitigation cost of \$4.57 million and \$1.91 million (90.62%) of the estimated \$2.11 million climate adaptation costs. Details are in Appendix 22.

D. Implementation Arrangements

22. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (Appendix 4).

Table 3: Implementation Arrangements for Project Tranche 3

Aspects	Arrangements		
Implementation period	November 2021–June 2024		
Estimated completion date	30 June 2024		
Estimated loan closing date	31 December 2024		
Management			
(i) Steering committee	Leading Group for Utilization of Foreign Loans of Guangxi Zhuang Autonomous Region, headed by the vice governor		
(ii) Executing agency	Government of Guangxi Zhuang Autonomous Region through the Guangxi Foreign Loans Project Management Office		
(iii) Key implementing agencies	(i) Daxin county government, (ii) Chongzuo municipal government, (iii) Baise municipal government, and (iv) Fangchenggang municipal government		
(iv) Project implementing entities	(i) Baise University, (ii) Guangxi Daxin Anping Investment Group Co. Ltd., (iii) Guangxi Chongzuo City Industrial Investment Development Group Co. Ltd., (iv) Chongzuo Xinghe Investment Development Co. Ltd., (v) Guangxi Baise No. 1 Agricultural Development Co. Ltd., and (vi) Fangchenggang Fangcheng District Rural Travel Investment Co. Ltd.		
Procurement	National competitive bidding	11 contracts	\$233.1 million (of which the ADB-financed portion is \$136.6 million)
	Shopping	To be used as needed	
Consulting services	Quality- and cost-based selection (project management)	138 person-months (4 international, 134 national)	\$2.7 million
	Individual consultant selection (start-up)	40 person-months (7 international, 33 national)	\$0.7 million
	Individual consultant selection (external monitoring)	20 person-months (national)	\$0.3 million
Retroactive financing and/or advance contracting	Advance contracting will be applied for the consulting service contracts and for five works contracts. Retroactive financing will be applied for consulting service contracts for start-up support and external monitoring individual consultants. Retroactive financing will be allowed for up to 20% of the loan amount for eligible expenditures before loan effectiveness, no earlier than 12 months before the signing date of the agreement.		
Disbursement	The loan proceeds will be disbursed following Asian Development Bank's (ADB) <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

Source: Asian Development Bank.

E. Tranche Readiness

23. The feasibility study reports for tranche 3 subprojects have been submitted and accepted by ADB and all required due diligence has been conducted. The subproject resettlement plans, resettlement due diligence reports, initial environmental examination (IEE), and environmental management plan (EMP) were disclosed on the ADB website on 30 June 2021.

IV. DUE DILIGENCE

A. Technical

24. Tranche 3 will apply innovative and sustainable technologies, strengthen climate resilience, and highlight the importance of adaptation measures in project design. All tranche 3 subproject building designs will follow the standard PRC guidelines and design codes, including those for architecture, water supply and sewage, firefighting, electric power supply, lighting, and information and communication technology systems. During implementation, a risk assessment will be undertaken by the project implementing agencies to ensure that the information and communication technology systems adopt best practices on cyber security and data protection processes. The designs for all subproject road construction will comply with PRC standards and urban road classification. Cost estimates have been prepared in accordance with PRC regulations.

B. Economic and Financial

25. Standard with- and without-project cost–benefit analysis was applied, when possible, to each subproject, in accordance with ADB’s guidelines.¹⁹ The resulting economic internal rate of return ranged from 13.7% to 30.0% for individual subprojects and was 25.0% overall—higher in every case than the estimated economic opportunity cost of capital of 9.0%. All subprojects remained economically viable under sensitivity testing against 10% increases in investment and operation and maintenance costs and 10% declines in benefits. The total incremental costs of the six subprojects will have a negligible impact on the GZAR government budget, and the likely fiscal impact on the four implementing agencies’ budgets was found to be minimal. The analysis determined that the financial internal rates of return for the four revenue-generating subprojects ranged from 3.44% to 10.68% for the base scenario and exceeded their weighted average costs of capital. Sensitivity tests indicated that the returns would remain viable in the face of adverse changes in costs and revenues.²⁰ Tranche 3 is considered financially sustainable.

C. Governance

26. **Financial management.** The overall financial management risk of the executing and implementing agencies and the control risk of the project implementing entities (PIEs) are moderate. The executing agency is implementing several ADB-financed projects and has practical knowledge of and experience in ADB policies and procedures that can be shared with the implementing agencies and the PIEs. The GZAR government has designated four implementing agencies to implement the six subprojects. Project management offices have been established in the development reform commissions of the four implementing agencies. Five of

¹⁹ ADB. 1997. *Guidelines for the Economic Analysis of Projects*. Manila.

²⁰ (i) The Baise cross-border agricultural product industry chain upgrading, (ii) the Chongzuo cold chain logistics demonstration, (iii) the Chongzuo Daxin Sino–Viet Nam cross-border tourism, and (iv) the Fangchenggang Sino–ASEAN Trade and Culture Exchange Center subprojects have sufficient projected revenues.

the PIEs are state-owned enterprises and the sixth is a public educational institution. Three have not implemented an ADB project. The borrower and the executing agency have prepared an action plan to mitigate the financial management risk and manage identified deficiencies (PAM, Table 16). Project management and capacity development services recruited by the GPMO will help the PIEs understand and comply with ADB policies and procedures on disbursements, accounting, financial reporting, and procurement.

27. **Procurement.** Reflecting procurement delays in the early stages of tranches 1 and 2 implementation, tranche 3 procurement risk has been assessed as substantial. By implementing the early tranches, the executing agency has become more experienced in ADB's procurement policies and procedures, and the implementing agencies and the two PIEs under tranche 3 have been involved in recent ADB-financed projects. Three of the PIEs have domestic procurement experience. Potential procurement risks will be (i) recruitment of unqualified procurement agents and (ii) recruited procurement agents' lack of decision-making authority. All procurement activities will be carried out by a firm engaged by the executing agency to act as the procurement agent on its and the PIEs' behalf. The procurement agent will report directly to the GPMO and coordinate closely with the implementing agencies and PIEs. Procurement consultants will be hired to help design and prepare bidding documents and execute the procurement procedures. These mitigation measures will reduce the tranche 3 procurement risk to medium. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the GPMO.²¹ The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty, Social, and Gender

28. The incidence of poverty in the project areas arises from local scarcity of cultivable land, capital, and technology, and the lack of demand for nonagricultural wage labor in nearby urban areas. The subprojects, especially those close to the ports and the PRC–Viet Nam border, will help provide better jobs for residents from both sides of the border, including women, by supporting cross-border trade and developing tertiary industries. Jobs and industries, in turn, will enhance interconnections among local populations, improve the local living standards, and introduce development measures that target the project-affected people. The subprojects will exploit the natural and geographical advantages of the border areas and the advantages of port trade to promote local business development, cross-border e-commerce, and barter trade between border inhabitants. Subprojects will employ local labor and improve incomes and living standards, broaden social and business links between the PRC and Viet Nam, and promote cultural exchange between the two countries.

29. Tranche 3 is classified as *effective gender mainstreaming*. The social and gender analysis indicated that the structural shift from agricultural to nonagricultural employment has left women in the subproject areas with fewer opportunities to join the labor force, particularly as many have limited skills to transition to nonagricultural work. Female entrepreneurs in the area lack opportunities for skills training and networking to start or expand their businesses. Tranche 3 subprojects will address these challenges by targeting women in all project-supported training activities and setting targets for women's employment in skilled and unskilled jobs under all outputs. Tranche 3 will pilot support for developing the organizational capacity of women's federations in four villages in the project area.

E. Safeguards

²¹ ADB. [Anticorruption Policy](#).

30. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.²²

31. **Environment (category B).** The IEE and EMP have been consolidated, based on information in domestic environmental impact reports, environment impact tables, and feasibility study reports, and from site reconnaissance. The environmental impact reports and environment impact tables for all subprojects have been approved by the local environmental protection bureaus. The IEE and EMP will be updated during detailed design as required. Potential environmental impacts from tranche 3 subprojects are short term and mostly related to construction, which can be easily managed by adapting the best construction practices. The EMP defines mitigation measures, monitoring requirements, and institutional arrangements to ensure proper environmental management throughout construction and operation. Public consultation and information disclosure were carried out during project design and will continue during project implementation. The construction contractors will be responsible for implementing the contractor duties in the EMP. The GPMO and PIEs will supervise the contractors' environmental performance and coordinate public consultations and the project grievance redress mechanism. The GPMO and PIEs will report on the subprojects' environment aspects in quarterly project progress and semiannual environment monitoring reports to ADB. The capacity of the GPMO, PIEs, and contractors responsible for EMP implementation and supervision will be strengthened through appointment of qualified staff and training. Each PIE will assign an environment officer to supervise EMP implementation. The GPMO will engage an external monitor to validate monitoring results and submit semiannual reports to the GPMO and ADB.

32. **Climate change.** The climate risk and vulnerability assessment concluded that the overall climate risk level is *medium*. Key climate change impacts will be from increasing storm intensity. The implementing agencies and PIEs will ensure that detailed project designs by the design institutes incorporate adjustments to engineering design derived from assessment results, as proactive adaptation measures. Increased transport efficiency and energy- and water-saving design in building development through green-building techniques will help mitigate climate change.

33. **Involuntary resettlement (category B).** Four subprojects under tranche 3 will require permanent acquisition and/or occupation of 2,069.52 *mu*,²³ of which rural collective land and state-owned farmland of 794.08 *mu* will be acquired. The remaining 1,275.44 *mu* are existing state-owned construction land. Permanent land acquisition will affect 1,961 people living in 500 households.²⁴ Houses and structures will be demolished, affecting 114 persons in 29 households. Significantly affected people, i.e., those who will lose more than 10% of household income and/or be physically displaced, are fewer than 200 in each subproject. Four resettlement plans have been prepared in accordance with the government's laws and regulations and ADB's Safeguard Policy Statement. For the two subprojects with past land acquisition, due diligence showed that while compensation payments have been completed, skills training and income restoration activities are still ongoing and the land-use rights certificate is still being processed. The progress of these activities will be monitored and reported as part of internal and external monitoring.²⁵ The remaining two subprojects will use unencumbered state-owned land. Due diligence confirmed the

²² ADB. [Safeguard Categories](#).

²³ A *mu* is a Chinese unit of measurement (1 *mu* = 666.67 square meters).

²⁴ (i) The Chongzuo cold chain logistics demonstration, (ii) the Chongzuo Sino-Viet Nam Border Economic Zone Demonstration (phase 2), (iii) the Chongzuo Daxin Sino cross-border tourism, and (iv) the Fangchenggang Sino-ASEAN Trade and Cultural Exchange Center subprojects will require permanent land acquisition.

²⁵ The due diligence reports are attached to the resettlement plans for (i) the Chongzuo cold chain logistics demonstration and (ii) the Chongzuo Sino-Viet Nam Border Economic Zone Demonstration (phase 2) subprojects.

absence of outstanding or legacy issues. The due diligence reports will be reconfirmed or updated and the resettlement plans will be updated based on detailed design. The reports and plans will be submitted to ADB for review and clearance before civil works contracts are awarded and land acquisition and resettlement start. Internal and external monitoring will be carried out and semiannual monitoring reports submitted to ADB. The GPMO has already established a project grievance redress mechanism. The capacity of the GPMO and staff will be strengthened further, and they will be supported by project management consultants during project implementation.

34. **Indigenous peoples (category B).** Most (84%) of the population in the project area are ethnic minorities, predominantly Zhuang and Yao. The subprojects are unlikely to have adverse impacts on their culture, religion, belief systems, or traditions, or to disfavor any community or individual based on ethnic identity. Adverse impacts are related to involuntary resettlement; the resettlement plans have adequate measures to deal with them.

F. Summary of Risk Assessment and Risk Management Plan

35. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the updated risk assessment and risk management plan (Appendix 21). The overall benefits and impacts are expected to outweigh the costs and risks involved.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Delay in procurement because of lack of experience of some PIEs and recruitment of unqualified procurement agents	<ul style="list-style-type: none"> • The project will recruit an accredited procurement agent. • The procurement agent will report directly to the GPMO. • The procurement agent will coordinate with implementing agencies and PIEs. • The consulting services team will include a procurement specialist to improve procurement capacity. • The project will engage accredited experts for bid evaluations.

GPMO = Guangxi Foreign Loans Project Management Office, PIE = project implementing entity.
Source: Asian Development Bank.

V. ASSURANCES

36. The governments of the PRC and the GZAR have assured ADB that implementation of the tranche 3 project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the updated facility administration manual and loan documents.

37. The governments have agreed with ADB on certain covenants for the project, which are set forth in the loan agreement and project agreement.

VI. THE PRESIDENT’S DECISION

38. On the basis of the approval by ADB’s Board of Directors for the provision of loans under the multitranche financing facility in an aggregate principal amount not exceeding \$450,000,000 to the People’s Republic of China for the Guangxi Regional Cooperation and Integration Promotion Investment Program, the President has approved the tranche as described in Section III and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements.