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R170-18  
22 November 2018

Proposed Loan  
Hubei Yichang Comprehensive Elderly Care  
Demonstration Project  
(People's Republic of China)

1. The Report and Recommendation of the President (RRP: PRC 49309-002) on the proposed loan to the People's Republic of China for the Hubei Yichang Comprehensive Elderly Care Demonstration Project is circulated herewith.
2. This Report and Recommendation should be read with (i) *Country Partnership Strategy: Transforming Partnership: People's Republic of China and Asian Development Bank, 2016–2020 and Addendum 1*, which were circulated to the Board on 18 January 2018 and 8 February 2018, respectively (DOCS.Sec.M2-16 and Addendum 1); and (ii) *Country Operations Business Plan: People's Republic of China, 2018–2020*, which was circulated to the Board on 5 April 2018 (DOC.IN.63-18).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 13 December 2018), the recommendation in paragraph 40 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

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# Report and Recommendation of the President to the Board of Directors

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Project Number: 49309-002  
November 2018

## Proposed Loan People's Republic of China: Hubei Yichang Comprehensive Elderly Care Demonstration Project

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 12 November 2018)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1438
\$1.00	=	CNY6.9561

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADL	–	activities of daily living
CECC	–	community-based elderly care center
ECS	–	elderly care system
EMP	–	environmental management plan
ha	–	hectare
IEE	–	initial environmental examination
m <sup>2</sup>	–	square meter
PAM	–	project administration manual
PIE	–	project implementing entity
PRC	–	People's Republic of China
SPH	–	Second People's Hospital of Yichang
JTKY	–	YCJT Group Kangyang Industry Investment Co. Ltd.
YMG	–	Yichang Municipal Government
YPMO	–	Yichang project management office

## NOTE

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

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## CONTENTS

	<b>Page</b>
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	3
C. Outputs	3
D. Summary Cost Estimates and Financing Plan	4
E. Implementation Arrangements	5
III. DUE DILIGENCE	6
A. Technical	6
B. Economic and Financial	6
C. Governance	7
D. Poverty, Social, and Gender	8
E. Safeguards	8
F. Summary of Risk Assessment and Risk Management Plan	10
IV. ASSURANCES AND CONDITIONS	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 49309-002	
<b>Project Name</b>	Hubei Yichang Comprehensive Elderly Care Demonstration Project	<b>Department /Division</b>	EARD/EASS
<b>Country Borrower</b>	China, People's Republic of	<b>Executing Agency</b>	Yichang Municipal Government
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Health</b>	Health sector development and reform		30.00
	Health system development		90.00
<b>Education</b>	Technical and vocational education and training		30.00
		<b>Total</b>	<b>150.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	CO <sub>2</sub> reduction (tons per annum)	2,551
	Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	<b>ADB Financing</b>	
		Adaptation (\$ million)	1.47
		Mitigation (\$ million)	0.98
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Pilot-testing innovation and learning		
<b>5. Poverty and SDG Targeting</b>		<b>Location Impact</b>	
Geographic Targeting	No	Rural	Low
Household Targeting	No	Urban	High
SDG Targeting	Yes		
SDG Goals	SDG3, SDG8, SDG13		
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	<b>Environment: B Involuntary Resettlement: B Indigenous Peoples: C</b>		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>150.00</b>	
Sovereign Project (Regular Loan): Ordinary capital resources		150.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>155.05</b>	
Government		155.05	
<b>Total</b>		<b>305.05</b>	
<b>Currency of ADB Financing:</b> USD			

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the People's Republic of China (PRC) for the Hubei Yichang Comprehensive Elderly Care Demonstration Project.

2. The proposed project aims to support the development of a three-tiered elderly care system (ECS) in Yichang Municipality, Hubei Province by improving the coverage and utilization of home-based, community-based, and residential-based elderly care services.

## II. THE PROJECT

### A. Rationale

3. The PRC has the largest elderly population in the world. Rapid urbanization, internal migration of youth from rural areas, and the previous one-child policy have affected traditional family support systems, which are currently unable to meet elderly care needs.<sup>1</sup> The population is aging rapidly, while per capita income remains modest and social security systems are still developing. The growing demand to create a sustainable ECS and develop adequate elderly care services exceeds current supply. Developing adequate elderly care is a major government priority. The PRC's Twelfth Five-Year Plan, 2011–2015 sought to create a three-tiered ECS.<sup>2</sup> The Thirteenth Five-Year Plan, 2016–2020 continues to support the development of elderly care by further defining the roles of the government, private sector, and civil society organizations; and promoting better integration of health care and elderly care services.<sup>3</sup>

4. Yichang is one of 42 pilot cities jointly chosen in 2014 by the Ministry of Civil Affairs and National Development and Reform Commission to comprehensively develop its ECS, expand coverage, and ensure adequate service provision.<sup>4</sup> The Asian Development Bank (ADB) began working with the Yichang Municipal Government (YMG) in 2014 to support its program of comprehensive reform by creating the Yichang elderly care strategic plan.<sup>5</sup> In 2017, 22% of Yichang Municipality's population of 4.14 million was above the age of 60, well above the 2017 national average of 14.3%. Within the municipality, there is great diversity in the distribution of elderly and their care needs. Developing an ECS to address such complexity and demand is a significant challenge and one that is faced by many municipalities in the PRC.

5. Yichang's elderly care strategic plan for 2016–2030 was finalized in 2016, and has five strategic directions aimed at (i) expanding coverage and range of services, (ii) ensuring financial sustainability, (iii) improving service quality, (iv) developing partnerships with private sector and civil society organizations, and (v) strengthening human resources. The project will align with the Yichang elderly care strategic plan, help develop Yichang's ECS, and improve services and human resources.

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<sup>1</sup> In 2015, the government announced the lifting of the one-child policy, allowing all couples to have two children.

<sup>2</sup> Government of the PRC, State Council. 2011. *National Economy and Social Development Twelfth Five-Year Plan, 2011–2015*. Beijing.

<sup>3</sup> Government of the PRC, State Council. 2015. *National Economy and Social Development Thirteenth Five-Year Plan, 2016–2020*. Beijing.

<sup>4</sup> Based on the Notice on Launching Pilot Work for the Comprehensive Reform of Elderly Care Services Industry issued in 2014 by Ministry of Civil Affairs and National Development and Reform Commission, Yichang was selected as a pilot city.

<sup>5</sup> The Yichang elderly care strategic plan was produced as the output of an ADB technical assistance to enable YMG to develop elderly care policies and needed care services. ADB. 2014. *Technical Assistance to the People's Republic of China for Strategic Elderly Care Services Development in Yichang*. Manila.

6. Yichang's ECS is still being developed. Home-based and community-based elderly care services are underdeveloped, and available human resources are severely limited. Elderly people who need care are unable to remain in their communities. Residential-based elderly care facilities are limited, either unable to provide adequate services (leading to low occupancy), or—in the case of public facilities that offer quality services at a reasonable price—have long waiting lists and are unable to meet demand. The imbalance between demand and supply results in the majority of the elderly receiving little assistance, if any.

7. The project will help YMG establish a comprehensive, three-tiered elderly care service provision by developing (i) home-based and community-based elderly care services and facilities and adequate residential care services to help address the care needs of a broad elderly population; (ii) elderly care service capacity, and human resources and associated support system for elderly care; (iii) facilities and services for geriatric and rehabilitation care to address unmet needs and support the integration of health care and elderly care services; and (iv) the capacity of elderly care management.<sup>6</sup>

8. **Strategic fit.** The project supports the thirteenth five-year plans, 2016–2020 of the PRC (footnote 3), Hubei, and YMG, which seek to develop a three-tiered elderly care system and stimulate investment in the sector; and the Healthy China 2030 strategy plan that highlights the issue of health as a critical development challenge in the PRC.<sup>7</sup> It is in line with ADB's (i) country partnership strategy for the PRC, 2016–2020, in particular the focus on inclusive growth; (ii) Operational Plan for Health, 2015–2020, which has elderly care as a focus area; (iii) Strategy 2030, as improving the quality and coverage of elderly care services is key to address the operational priority of reducing poverty and inequality, particularly the areas of achieving better health for all and ensuring social protection for those in need. It is also aligned with the operational priority on accelerating progress in gender since majority of the care givers and beneficiaries of elderly care services are women; and (iv) sustainable development goals 3 (good health and wellbeing), 8 (decent work and economic growth), and 13 (climate action).

9. **ADB value addition.** Since 2014, ADB supports the PRC's local governments to promote elderly care service development (footnote 5). Through a comprehensive approach, ADB helped YMG establish its ECS. Based on the Yichang elderly care strategic plan, an ADB lending project was prepared in 2016 to help Yichang develop a public–private partnership model to strengthen the provision of residential elderly care services by enhancing private sector involvement in the provision of services.<sup>8</sup> The project complements the public–private partnership project and presents a comprehensive approach to develop a three-tiered elderly care system in Yichang. The project will develop a demonstrative case to adapt to the aging population by helping establish a comprehensive ECS, which will have an essential knowledge transfer impacts on other cities in the PRC and in other developing member countries.<sup>9</sup>

<sup>6</sup> In addition, this project is designed with climate change adaptation and mitigation measures to respond to potential vulnerabilities. Without proper climate and flood-proofing measures, elderly people accommodated in facilities are vulnerable to extremes of temperature and other extreme climate events such as flooding.

<sup>7</sup> Government of Hubei Province. 2015. *Hubei Thirteenth Five-Year Plan, 2016–2020*. Hubei; YMG. 2015. *Yichang Thirteenth Five-Year Plan, 2016–2020*. Yichang; and Government of the PRC, State Council. 2016. *The Healthy China 2030*. Beijing.

<sup>8</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for Public–Private Partnerships Demonstration Program to Transform Delivery of Elderly Care Services in Yichang, Hubei*. Manila.

<sup>9</sup> ADB. 2016. *Country Partnership Strategy: Transforming Partnership—People's Republic of China and Asian Development Bank, 2016–2020*. Manila; ADB. 2015. *Operational Plan for Health, 2015–2020*. Manila; and ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

## B. Impact and Outcome

10. The project is aligned with the following impact: a three-tiered elderly care system (home-based, community-based, and residential-based care services) established.<sup>10</sup> The project will have the following outcome: coverage and utilization of elderly care services in Yichang increased.<sup>11</sup>

## C. Outputs

11. **Output 1: Home-based and community-based care services and facilities improved.** Output 1 will (i) help identify and strengthen appropriate home-based and community-based day care services with short-stay care, and (ii) rehabilitate or construct facilities for community-based elderly care centers (CECCs).<sup>12</sup>

12. **Output 2: Elderly care service capacity increased and its support system improved.** Output 2 will (i) improve dementia care service capacity and construct a dementia care center;<sup>13</sup> (ii) develop an elderly care–information and communication technology platform, which will support the exchange of information, monitor elderly care services, and link elderly care and health care services; and (iii) strengthen the training capacity of elderly care training institutions (Three Gorges College, and the Caregiver and Manager Training and Career Center) to meet the demands for human resources in the elderly care sector.

13. **Output 3: Facilities and services supporting the integration of health care and elderly care established.** Output 3 will (i) strengthen geriatric care functions by constructing a secondary-level geriatric hospital and expanding the geriatric capacity of a tertiary-level hospital, and (ii) construct an elderly care nursing home with basic health care functions to support the continuity of care for the elderly in need.

14. **Output 4: Capacity of elderly care management and project management support developed.** Output 4 includes (i) capacity development support to strengthen the management capacity of the Yichang Civil Affairs Bureau which is responsible for the elderly care sector, and strengthen other related bureaus and agencies to develop and operate an ECS in Yichang;<sup>14</sup> (ii) elderly care-related technical support to ensure that designs of respective elderly care or medical facilities and respective functions and services to be delivered under each facility are technically appropriate; and (iii) project management support for executing and implementing agencies and project implementing entities (PIEs) to manage and implement the project.

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<sup>10</sup> Government of the PRC, State Council. 2013. *Opinions on Promoting the Development of Elderly Care Service Industry (Circular No. 35)*. Beijing.

<sup>11</sup> The design and monitoring framework is in Appendix 1.

<sup>12</sup> Home-based delivery care services typically cover care for activities of daily living (ADL), such as bathing and feeding, as well as instrumental ADL, such as shopping and managing medications. Caregivers visit homes of elderly people to provide those care for ADL and/or instrumental ADL. Day care services would provide care for ADL for those elderly people who come to the CECCs. Home-based care and day care would enable family members to return to the labor market, or for elderly who do not have family members to stay home or visit CECCs to receive those needed care services.

<sup>13</sup> The number of people with dementia in the PRC was estimated to be about 9.6 million in 2010, and projected to reach 14.1 million by 2020 and 23.3 million by 2030. Bulletin of the World Health Organization. 2016. [The Economic Burden of Dementia in China, 1990–2030: Implications for Health Policy](#). Geneva.

<sup>14</sup> It includes support to develop a standardized care needs assessment system, a service monitoring scheme, and a financial framework for a sustainable business model to provide elderly care services.

## D. Summary Cost Estimates and Financing Plan

15. The project is estimated to cost \$305.05 million (Table 1). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).<sup>15</sup>

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

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. Output 1: Home-based and community-based care services and facilities improved	89.38
2. Output 2: Elderly care service capacity increased and its support system improved	43.95
3. Output 3: Facilities and services supporting the integration of health care and elderly care established	125.44
4. Output 4: Capacity of elderly care management and project management support developed	3.51
<b>Subtotal (A)</b>	<b>262.28</b>
<b>B. Contingencies<sup>c</sup></b>	<b>30.12</b>
<b>C. Financial Charges During Implementation<sup>d</sup></b>	<b>12.65</b>
<b>Total (A+B+C)</b>	<b>305.05</b>

<sup>a</sup> Includes taxes and duties of \$22.97 million. Such amount does not represent an excessive share of the project cost. The Asian Development Bank loan will cover taxes and duties on items financed by the Asian Development Bank. The government will provide cash contributions for taxes and duties.

<sup>b</sup> In mid-2018 prices as of April 2018.

<sup>c</sup> Physical contingencies computed at 5% of base cost, excluding training center and capacity-building subcomponents. Price contingencies computed at average 1.7% on foreign exchange costs and 2.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes interest and commitment charges. Interest during construction for the ordinary capital resources loan has been computed at the 5-year United States dollar fixed swap rate plus an effective contractual spread of 0.5% and maturity premium of 0.2%. Commitment charges for the ordinary capital resources loan are 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

16. The government has requested a regular loan of \$150 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 6 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; and such other terms and conditions set forth in the draft loan and project agreements. Based on the annuity method with a 10% discount rate applied, the average maturity is 18.53 years, and the maturity premium payable to ADB is 0.20% per year. The Government of the PRC is the borrower of the loan and will make the loan available, through the Hubei Provincial Government, to YMG on the same terms and conditions as those of the ADB loan. YMG will take the interest rate and foreign exchange risks.

17. The summary financing plan is in Table 2. ADB will finance the expenditures in relation to works, equipment, consulting services, and taxes and duties.

<sup>15</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

**Table 2: Summary Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank		
Ordinary capital resources (regular loan)	150.00	49.2
Yichang Municipal Government	155.05	50.8
<b>Total</b>	<b>305.05</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

18. Climate mitigation is estimated to cost \$2.00 million and climate adaptation is estimated to cost \$3.08 million. ADB will finance 49% (\$0.98 million) of mitigation costs and 48% (\$1.47 million) of adaptation costs. Details are in the climate change assessment.<sup>16</sup>

## **E. Implementation Arrangements**

19. YMG will be the executing agency. Under YMG, the Yichang project management office (YPMO) has been set up to coordinate with concerned bureaus and agencies, and supervise overall project implementation and management. Chaired by the vice mayor of YMG, the project leading group has been set up as a steering committee to provide the overall project direction and oversee project implementation.

20. YCJT Group Kangyang Industry Investment Co. Ltd., (JTKY) will be the implementing agency and will be responsible for overall project implementation.<sup>17</sup> It will set up a project financial account; and compile and maintain all project administration-related documents and statements for project administration, auditing, and evaluation.

21. In addition to JTKY, five PIEs will be responsible for day-to-day administration of certain project components, including the expansion of the geriatric section of the Second People's Hospital of Yichang (SPH); and construction of CECCs in Yiling District, Yidu County, Zhijiang County, and Zigui County. Under the supervision of YPMO, all PIEs will submit required project documents to JTKY.

22. A procurement plan is included in the PAM. Goods, works, and consulting services procured under the project will follow ADB's Procurement Guidelines (2015, as amended from time to time), and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). YMG requested that ADB approve advance contracting for procurement of goods, works, and consulting services, including preparation of bid documents, inviting and receiving bids, and retroactive financing under the project. Retroactive financing will be allowed for eligible expenditures up to 20% of the loan amount incurred prior to loan effectiveness, but not earlier than 12 months before the date of loan agreement. The YMG and YPMO were advised that ADB's approval of advance contracting and retroactive financing does not commit ADB to finance any part of the project.

23. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 15).

**Table 3: Implementation Arrangements**

<b>Aspects</b>	<b>Arrangements</b>
Implementation period	June 2019–December 2024

<sup>16</sup> Climate Change Assessment (accessible from the list of linked documents in Appendix 2).

<sup>17</sup> YCJTK is a state enterprise fully owned by YMG.

Aspects	Arrangements		
Estimated completion date	30 June 2024		
Estimated loan closing date	31 December 2024		
Management			
(i) Steering committee	Project leading group, led by the YMG vice mayor		
(ii) Executing agency	YMG		
(iii) Implementing agency	YCJT Group Kangyang Industry Investment Co. Ltd. (JTKY)		
(iv) Project implementing entities	(i) Yidu Social Welfare Institute (ii) Zhijiang Jinrunyuan Construction Investment Holding Group Co. (iii) Zigui County Chuyuan Investment Co. Ltd. (iv) Yiling District Social Welfare Institute (v) Second People's Hospital of Yichang		
Procurement	National competitive bidding	26 contracts	\$146.99 million
	Shopping	2 contracts	\$0.10 million
Consulting services	QCBS (project implementation support)	156 person-months	\$1.23 million
	QCBS (external monitoring)	72 person-months	\$0.47 million
	Individual consultants selection (start-up)	57 person-months	\$0.38 million
	QCBS (elderly care technical support)	49 person-months	\$0.37 million
	Individual consultants selection (elderly care system development)	60 person-months	\$0.68 million
	CQS (elderly care-ICT platform preparation)	27 person-months	\$0.20 million
	QCBS (elderly care-ICT software development)	200 person-months	\$2.21 million
Retroactive financing and advance contracting	Advance contracting and retroactive financing will be undertaken for procurement of goods, works, and consulting services. Retroactive financing will be allowed for eligible expenditures incurred up to 20% of the loan amount prior to loan effectiveness, but not earlier than 12 months before the date of loan agreement.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, CQS = consultants' qualifications selection, ICT = information and communication technology, QCBS = quality- and cost-based selection, YMG = Yichang Municipal Government.

Source: Asian Development Bank.

### III. DUE DILIGENCE

#### A. Technical

24. The project was found to be technically feasible following careful examination of the project's compatibility with local conditions and capacity for operation and maintenance. Design options were compared and least-cost alternatives were selected. The facilities were designed in accordance with relevant PRC standards and regulations. The architectural design incorporates international and national good practices, and follows community-based, elderly care-focused, efficient, and inclusive principles. Low carbon and resource-efficient measures, including solar hot water systems, intelligent lighting control, and passive energy-saving designs will be adopted. The proposed capacity development component was prepared based on a needs assessment for the successful implementation and sustainable operation of the project facilities.

#### B. Economic and Financial

25. The project proposes to build elderly care facilities and capacity to provide comprehensive elderly care services that are urgently needed in the rapidly aging Yichang Municipality. The project applied the cost-effectiveness approach to the economic analysis in accordance with ADB guidelines.<sup>18</sup> Therefore, the economic analysis analyzed the cost-effectiveness of the capital

<sup>18</sup> ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila (page 6).

investments in the community-based elderly care centers, dementia care center, elderly care nursing home, two hospitals (SPH and Three Gorges Hospital), and training facility of Caregiver and Manager Training and Career Center. It compared two scenarios to assess if the project minimizes resource use to achieve the desired results—in this case, the number of elderly people serviced for a given budget and life cycle cost. The alternative scenario considered alternatives in terms of site or building design. The results of the cost-effectiveness analysis showed that the alternative project would cost CNY876.68 million more during the 25-year operation period than the project scenario, making the project the more cost-effective option.

26. Financial analysis was undertaken to determine the financial viability of the revenue-generating components and the fiscal sustainability of the relevant local governments to provide counterpart funding for the project in accordance with ADB guidelines.<sup>19</sup> The financial internal rate of return was calculated for the two hospitals (SPH and Three Gorges Hospital) and compared with the weighted average cost of capital. The financial internal rate of return of 8.2% shows the two facilities are financially viable when considered in combination, while a range of sensitivity tests confirmed these components would remain viable in the face of adverse conditions. A fiscal sustainability analysis was conducted for other components of elderly care-related facilities for the governments of Yichang Municipality, Yiling District, and Yidu County, which showed that total project incremental costs will have a negligible impact on the budgets of these governments, thus confirming their fiscal sustainability. The maximum impact of incremental costs will be less than 0.8% of the respective local governments' annual fiscal revenues. YMG will be responsible for the sustainable operation of the elderly care facilities by providing subsidies if needed.

### C. Governance

27. **Financial management assessment.** The financial management assessment was conducted in accordance with ADB's guidelines (footnote 19). It considered the financial management capacity of Hubei Provincial Finance Department, YMG, JTKY, and PIEs. The assessment covered funds flow arrangements, staffing, accounting and financial reporting systems, internal and external auditing arrangements, and financial information systems. Hubei Provincial Finance Department and YMG have experience in implementing ADB-financed projects and have sufficient knowledge of ADB policies and procedures, including the use of an advance fund account and in administering the statement of expenditures procedure. The financial management risk has been assessed as *moderate* mainly because the implementing agency and five PIEs have no experience implementing ADB projects; and their staff will need to be familiarized with ADB policies and procedures. Mitigation measures to address identified deficiencies have been agreed with the executing and implementing agencies and PIEs. The proposed financial management actions are included in the PAM (footnote 15).

28. **Procurement risk assessment.** The procurement risk assessment was conducted in accordance with ADB guidelines.<sup>20</sup> YMG has experience in managing an ADB-financed project.<sup>21</sup> However, the implementing agency and the PIEs have no previous practical experience with ADB project implementation and management, and are not familiar with ADB's procurement principles and regulations. Some PIEs may have insufficient human resources to handle additional ADB procurement-related reporting and monitoring requirements.<sup>22</sup> These risks will be mitigated as

<sup>19</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila; and ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

<sup>20</sup> ADB. 2015. *Guide on Assessing Procurement Risks and Determining Project Procurement Classification*. Manila.

<sup>21</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of China for the Hubei–Yichang Sustainable Urban Transport Project*. Manila.

<sup>22</sup> Most of the procurement staff assigned are not working fulltime for the project.

follows: (i) YMG has committed to fulfill ADB's requirements for all procurement and consultant recruitment for the project; (ii) YPMO has already gained good knowledge of procurement management during previous and ongoing ADB-financed projects; (iii) an experienced external procurement agency, which is already in place, will provide support; and (iv) support for procurement activities and consultant recruitment will also be provided by procurement consultants engaged under the proposed project. The overall project procurement risk is assessed as *moderate*.

29. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, YMG, and the implementing agency. The specific policy requirements and supplementary measures are described in the PAM (footnote 15).

#### **D. Poverty, Social, and Gender**

30. All project counties and districts, except Zigui County, have lower average poverty rates (5%) than the average rates in Hubei Province (7.3%) and Yichang Municipality (8.5%). The average poverty rate in Zigui County is 15%, three times more than in other project counties and districts. The main economic activities in districts other than Zigui County are industries and businesses; which employ most of the population, resulting in high income levels. To ensure social inclusiveness and gender mainstreaming, YPMO will implement a social development and gender action plan.<sup>23</sup> All implementation actions, monitoring indicators, responsible institutions, time frame, and the budget have been discussed with the YPMO, the implementing agency, and PIEs. The agreed actions and arrangements are included in the social development and gender action plan.

31. The project is categorized as effective gender mainstreaming. On the demand side, among the elderly population, women outnumber, live longer, and suffer more diseases than men. On the supply side, the proportion of women responsible for informal family elderly care and as formal care workers is higher than men. The project will strengthen elderly care services increasing access for elderly men and women. A sound ECS will create significant employment and business opportunities in a service area that predominantly employs women and assists family caregivers. The project will increase the technical capacities of women in the formal elderly care sector. For proper service provision, sex-disaggregated data collection of elderly care services will be implemented. Targets for women's participation in jobs generated by the project during construction and operation have been established.

#### **E. Safeguards**

32. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.<sup>24</sup>

33. **Environment (category B).** An initial environmental examination (IEE), including an environmental management plan (EMP), was prepared and disclosed on the ADB website on 19 July 2018.<sup>25</sup> The EMP identified potential environmental impacts and risks for the pre-construction, construction, and operational phases; and proposed mitigation measures. The IEE concluded that the anticipated environmental impacts are insignificant and temporary, and can be

<sup>23</sup> Social Development and Gender Action Plan (accessible from the list of linked documents in Appendix 2).

<sup>24</sup> ADB. [Safeguard Categories](#).

<sup>25</sup> The IEE is based on a domestic environmental impact assessment written in Chinese and approved by the Yichang Environmental Protection Bureau, which was disclosed on the YMG website on 27 March 2018.

mitigated through EMP implementation. Construction of 2 proposed geriatric hospitals, an elderly care nursing home, a dementia care center, and 16 CECCs is expected to have minor impacts on air and water quality, solid waste management, and soil and groundwater contamination during construction and operational stages; which can be adequately mitigated through EMP implementation and monitoring. Medical waste management due diligence—addressing storage, transportation, treatment, and associated facilities—found safeguards procedures and operations to be adequate and strictly followed, and in compliance with both PRC and international regulations. YMG confirmed its commitment and capacity to implement the EMP. Further capacity-building measures were proposed in the EMP and agreed by YMG. A grievance redress mechanism will be established. The procedures, reporting timelines, and roles and responsibilities of all agencies are described in the EMP. YMG has full responsibility for safeguards oversight and EMP implementation and compliance.

34. **Climate change.** A climate risk and vulnerability assessment confirmed that all project sites are at medium risk from climate change impacts. YMG, the implementing agency, and the PIEs will ensure that the detailed project designs incorporate engineering design adjustments derived from the assessment results as proactive adaptation measures. The principal measures to mitigate predicted climate events comprise anti-flooding designs and evacuation. Heating and cooling systems will be installed in all project facilities (to help elderly people and practitioners adapt to extreme temperature conditions). Preserving existing buildings, using renewable energy, and resource saving are the three main methods to mitigate greenhouse gas emissions.

35. **Involuntary resettlement (category B).** The project will acquire 6.28 hectares (ha) of land, 4.19 ha of collectively owned land, and 2.09 ha of state-owned land. A total of 15,313 square meters (m<sup>2</sup>) of houses will be demolished, including residential houses (5,433 m<sup>2</sup>) and nonresidential buildings of three enterprises (about 9,880 m<sup>2</sup>). The 269 affected persons include (i) 170 persons in 44 households, (ii) 51 employees in three enterprises, and (iii) 4 renters with 48 persons. Three households with 10 persons will lose their residential houses because of the demolition or the conversion to CECCs. Land acquisition will affect 23 households with 88 persons, and 18 households with 72 persons will be affected by land acquisition and demolition. The YMG will be responsible for compensation and provision of support and assistance prior to land acquisition and relocation activities. Affected persons do not rely on agriculture for their livelihoods, and the area of land lost is too small to impact household incomes. Land compensation payments will be considerable. Those who lose houses will be offered cash compensation at replacement cost or resettlement housing from the local government, and building compensation will enable them to purchase houses equal in size to their original houses. The three affected enterprises will receive negotiated prices before project implementation. The four affected renters with 48 persons will be compensated according to their contractual arrangements. The project team has informed the affected business owners and their employees when the properties will be acquired, and the local government will help them find new locations to continue their business activities. The project will provide skilled and unskilled job opportunities on a priority basis for all project-affected persons during construction and operation.

36. **Indigenous peoples (category C).** The PRC has preferential policies for ethnic minorities, to ensure they participate in service administration and development programs, and manage their internal affairs. Ethnic minorities account for less than 1% of the population in the project impact areas. Most of the ethnic minorities in project impact areas (87%) are from the Tujia ethnic minority group, who share similar economic opportunities and social recognition with the PRC's dominant Han population. The project will ensure elderly people, regardless of ethnicity, gain equal access to elderly care services based on care needs, and that their cultural and religious sensitivities are recognized and elderly care providers accommodate any special

dietary requirements. Ethnic minorities associate well with other communities and will equally benefit from the project. Therefore, an ethnic minority development plan is not needed.

## F. Summary of Risk Assessment and Risk Management Plan

37. The overall benefits and impacts are expected to outweigh the costs and risks involved. The overall risk is rated *moderate*. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.<sup>26</sup>

**Table 4: Summary of Risks and Mitigating Measures**

<b>Risks</b>	<b>Mitigation Measures</b>
PIEs have insufficient qualified staff to undertake project procurement	YMG will ensure that PIEs have sufficient staff for project implementation. Procurement consultants will support PIEs in managing procurement. A procurement agency, engaged by the implementing agency, will support procurement for all components.
Implementing agency and PIE staff are unfamiliar with ADB financial management requirements, including reporting, accounting, and disbursement	Financial management consultants will (i) prepare the project financial manual on budget preparation, management, and accounting; and (ii) provide training and support to the implementing agency and PIEs during implementation.
Inadequate facility design of the geriatric facilities of SPH and Three Gorges Hospital	Hospital architects and engineering and medical equipment experts will support the two hospitals to ensure adequate facility design, equipment procurement, and construction.
Inadequate functionality of the geriatric facilities in SPH and Three Gorges Hospital	A geriatric hospital planning expert will support the two hospitals to structure necessary functionality and ensure needed planning.

ADB = Asian Development Bank, PIE = project implementing entity, SPH = Second People's Hospital of Yichang, YMG = Yichang Municipal Government.

Source: Asian Development Bank.

## IV. ASSURANCES AND CONDITIONS

38. The government and YMG have assured ADB that implementation of the 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 PAM and loan documents.

39. The government and YMG have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement and project agreement.

## V. RECOMMENDATION

40. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$150,000,000 to the People's Republic of China for the Hubei Yichang Comprehensive Elderly Care Demonstration Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 25 years, including a grace period of 6 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board.

Takehiko Nakao  
President

21 November 2018

<sup>26</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Project is Aligned with</b>			
A three-tiered elderly care system (home-based, community-based, and residential-based care services) established (Opinions on Promoting the Development of Elderly Care Service Industry [Circular No. 35, 2013]) <sup>a</sup>			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<b>Outcome</b> Coverage and utilization of elderly care services in Yichang increased	<b>By 2025</b> a. 20% increase in the number of elderly people using elderly care services; disaggregated by level of care and sex (2018 baseline: not applicable)  b. 10% increase in elderly care service providers; disaggregated by district (2018 baseline: not applicable)	a–b. Annual reports of Yichang Civil Affairs Bureau	Development of adequate elderly care services not prioritized by Yichang Municipal Government  Limited expansion of private elderly care service providers
<b>Outputs</b> 1. Home-based and community-based care services and facilities improved  2. Elderly care service capacity increased and its support system improved  3. Facilities and services supporting the integration of health care and elderly care established	1a. By 2023, 16 CECCs with age-friendly design and gender-sensitive facility use, newly constructed or rehabilitated for home-based and community-based service provision <sup>b</sup> (2018 baseline: 0)  2a. By 2024, a dementia care center built and serving 100 or more elderly people with dementia (2018 baseline: 0)  2b. By 2023, the elderly care–ICT platform established (2018 baseline: 0)  2c. By 2023, at least three elderly care-related training programs developed and conducted by the Three Gorges College, and 60 certificates of completion in elderly care-related training programs awarded, with 60% of awardees are women (2018 baseline: not applicable)  2d. By 2023, the percentage of trained caregivers and care managers of CMTCC increased by 25%, of which 60% are women (2018 baseline: not applicable)  3a. By 2024, geriatric medicine from expanded geriatric hospitals <sup>c</sup> provided to 500 or more elderly people in need; number of beneficiaries disaggregated by sex (2018 baseline: not applicable)  3b. By 2024, rehabilitation and nursing services from the developed elderly care nursing home <sup>d</sup> provided to 100 or more people in need; number of	1a. Semiannual project monitoring reports of YPMO  2a–d. Semiannual project monitoring reports of YPMO  3a–b. Semiannual project monitoring reports by YPMO	Insufficient institutional coordination among relevant bureaus and agencies to develop an elderly care system  Human resources are insufficient to meet all targets

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>4. Capacity of elderly care management and project management support developed</p>	<p>beneficiaries disaggregated by sex (2018 baseline: 0)</p> <p>4a. By 2023, recommendations for elderly care needs assessment system prepared (2018 baseline: not applicable)</p> <p>4b. By 2023, recommendations for elderly care services performance evaluation scheme prepared (2018 baseline: not applicable)</p> <p>4c. By 2024, recommendations for elderly care financial framework and operational model prepared (2018 baseline: not applicable)</p> <p>4d. By 2023, at least 70% of domestic and international training participants reported enhanced knowledge of elderly care services and the elderly care system, of which 35% are women (2018 baseline: not applicable)</p>	<p>4a–c. Semiannual project monitoring reports of YPMO</p> <p>4d. Training questionnaires</p>	

**Key Activities with Milestones**

- 1. Home-based and community-based care services and facilities improved**
  - 1.1 Complete detailed design by Q4 2019
  - 1.2 Organize and complete bidding process by Q2 2021
  - 1.3 Complete construction or rehabilitation of CECC and procurement of equipment by Q3 2022
  - 1.4 Complete preparation for selection of operator(s) by Q3 2021
- 2. Elderly care service capacity increased and its support system improved**
  - 2.1 Construct dementia care center
    - 2.1.1 Complete detailed design by Q3 2019
    - 2.1.2 Organize and complete bidding process by Q3 2020
    - 2.1.3 Complete construction of dementia care center and procurement of equipment by Q2 2021
    - 2.1.4 Complete preparation for selection of operator by Q2 2020
  - 2.2 Develop elderly care-ICT platform
    - 2.2.1 Organize and complete bidding process of ICT firms by Q4 2020
    - 2.2.2 Complete procurement of ICT equipment by Q1 2022
    - 2.2.3 Develop and install ICT application by Q3 2022
    - 2.2.4 Complete installation and configuration of ICT system by Q2 2024
  - 2.3 Strengthen capacity of Three Gorges College
    - 2.3.1 Organize and implement staff training program, and complete by Q4 2019
    - 2.3.2 Complete procurement of equipment by Q3 2020
    - 2.3.3 Complete development of relevant programs and training by Q1 2023
  - 2.4 Strengthen capacity of CMTCC
    - 2.4.1 Complete detailed design by Q3 2019
    - 2.4.2 Organize and complete bidding process by Q4 2020
    - 2.4.3 Complete construction by Q1 2021
    - 2.4.4 Procure goods by Q3 2021
    - 2.4.5 Complete training and strengthening programs by Q1 2023
- 3. Facilities and services supporting the integration of health care and elderly care established**
  - 3.1 Construct geriatric hospital (secondary level)
    - 3.1.1 Complete detailed design by Q3 2019
    - 3.1.2 Organize and complete the bidding process by Q3 2022
    - 3.1.3 Complete construction of geriatric hospital by Q2 2023
    - 3.1.4 Complete procurement of medical and other goods by Q3 2023

<b>Key Activities with Milestones</b>
<p>3.2 Strengthen geriatric functions of the Second People's Hospital of Yichang (tertiary level)</p> <p>3.2.1 Complete detailed design by Q3 2019</p> <p>3.2.2 Organize and complete bidding process by Q1 2022</p> <p>3.2.3 Complete construction of expanded building by Q3 2022</p> <p>3.2.4 Complete procurement of medical equipment and other goods by Q4 2022</p> <p>3.3 Complete nursing home with rehabilitation and medical-nursing</p> <p>3.3.1 Complete detailed design by Q1 2020</p> <p>3.3.2 Create an office under the Yichang Civil Affairs Bureau by Q2 2020</p> <p>3.3.3 Organize and complete bidding process by Q3 2022</p> <p>3.3.4 Complete construction of nursing home by Q2 2023</p> <p>3.3.5 Complete procurement of equipment and other goods by Q3 2023</p> <p><b>4. Capacity of elderly care management and project management support developed</b></p> <p>4.1 Establish elderly care needs assessment system</p> <p>4.1.1 Complete selection of consultants by Q2 2020</p> <p>4.1.2 Conduct relevant analyses by Q2 2022</p> <p>4.1.3 Prepare and submit recommendations for assessment system to relevant bureaus by Q4 2022</p> <p>4.2 Establish elderly care service performance evaluation scheme</p> <p>4.2.1 Complete selection of consultants by Q4 2020</p> <p>4.2.2 Conduct relevant analyses by Q4 2022</p> <p>4.2.3 Prepare and submit recommendations for assessment system to relevant bureaus by Q2 2023</p> <p>4.3 Prepare elderly care financial framework and operational model</p> <p>4.3.1 Complete selection of consultants by Q4 2020</p> <p>4.3.2 Conduct relevant analyses by Q4 2022</p> <p>4.3.3 Prepare recommendations of elderly care financial framework and operational model by Q1 2024</p> <p>4.4 Conduct domestic and international training</p> <p>4.4.1 Finalize training agenda by Q3 2019</p> <p>4.4.2 Complete training by Q4 2023</p> <p><b>Program Management Activities</b></p> <p>Complete selection of consultants by Q2 2020</p> <p>Prepare and manage implementation and procurement plans (Q1 2019–Q4 2023)</p> <p>Monitor project performance and ensure timely delivery of outputs (Q3 2020–Q2 2024)</p>
<p><b>Inputs</b></p> <p>Asian Development Bank: \$150.00 million (loan)</p> <p>Government: \$155.05 million</p>
<p><b>Assumptions for Partner Financing</b></p> <p>Not applicable</p>

CECC = community-based elderly care center, CMTCC = Caregiver and Manager Training and Career Center, ICT = information and communication technology, Q = quarter, YPMO = Yichang project management office.

<sup>a</sup> Government of the People's Republic of China, State Council. 2013. *Opinions on Promoting the Development of Elderly Care Service Industry (Circular No. 35)*. Beijing.

<sup>b</sup> The CECCs' services also cover short-stay services. Gender-sensitive facility use provides separate rooms per gender.

<sup>c</sup> The expanded geriatric hospitals include the secondary-level geriatric hospital (Three Gorges Hospital) and the expanded geriatric section of the Second People's Hospital of Yichang.

<sup>d</sup> The elderly care nursing home constructed under the project will be adjacent to the secondary-level geriatric hospital (Three Gorges Hospital).

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=49309-002-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Health
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Risk Assessment and Risk Management Plan
12. Climate Change Assessment
13. Social Development and Gender Action Plan
14. Initial Environmental Examination
15. Resettlement Plan