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20 November 2018

Proposed Loan Sichuan Ziyang Inclusive Green Development Project (People's Republic of China)

1. The Report and Recommendation of the President (RRP: PRC 51189-001) on the proposed loan to the People's Republic of China for the Sichuan Ziyang Inclusive Green Development Project is circulated herewith.
2. This Report and Recommendation should be read with *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 11 December 2018), the recommendation in paragraph 37 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

Project Number: 51189-001
November 2018

Proposed Loan People's Republic of China: Sichuan Ziyang Inclusive Green Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 13 November 2018)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1436
\$1.00	=	CNY6.9636

ABBREVIATIONS

ADB	–	Asian Development Bank
EIA	–	environmental impact assessment
EMP	–	environmental management plan
ha	–	hectare
IT	–	information technology
LURT	–	land use rights transfer
M&E	–	monitoring and evaluation
PAM	–	project administration manual
PRC	–	People's Republic of China
R&D	–	research and development
SMART	–	specific, measurable, achievable, relevant, and time-bound
SZHTDZ	–	Sichuan Ziyang High Technology Development Zone
TVET	–	technical and vocational education and training
YREB	–	Yangtze River Economic Belt
ZMG	–	Ziyang Municipal Government

NOTE

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

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51189-001	
Project Name	Sichuan Ziyang Inclusive Green Development Project	Department /Division	EARD/EAER
Country Borrower	China, People's Republic of People's Republic of China	Executing Agency	Ziyang Municipal Government
2. Sector	Subsector(s)	ADB Financing (\$ million)	
Water and other urban infrastructure and services	Other urban services	70.01	
	Urban flood protection	101.63	
	Urban policy, institutional and capacity development	4.23	
	Education	Technical and vocational education and training	24.13
		Total	200.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	CO2 reduction (tons per annum)	291
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium
	Urban environmental improvement	ADB Financing	
		Adaptation (\$ million)	0.25
		Mitigation (\$ million)	2.81
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Partnerships (PAR)	Civil society organizations		
Private sector development (PSD)	Implementation		
	Conducive policy and institutional environment		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Urban	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG6, SDG9, SDG11		
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: A Involuntary Resettlement: A Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		200.00	
Sovereign Project (Regular Loan): Ordinary capital resources		200.00	
Cofinancing		0.00	
None		0.00	
Counterpart		213.54	
Government		213.54	
Total		413.54	
Currency of ADB Financing: 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 Sichuan Ziyang Inclusive Green Development Project. The project will provide strategic and comprehensive support for the Ziyang Municipal Government (ZMG) to (i) improve the urban environment and livability of Ziyang Municipality (Ziyang), and (ii) shift to high-quality economic growth on a more inclusive green development path.¹ The project is envisaged to play a demonstrative role for medium-sized cities with similar conditions in the middle and upper reaches of the Yangtze River Economic Belt (YREB).²

II. THE PROJECT

A. Rationale

2. The YREB is one of the three key economic growth engines in the PRC.³ Its nine provinces and two specially administered municipalities account for more than 40% of the population, 40% of freshwater resources, and about 45% of the country's economic output. While the YREB has benefited from extensive development since the late 1980s, particularly in the eastern delta area, economic growth in the middle and upper reaches of the Yangtze River Basin lags behind that of the coastal areas and is below its potential. These parts of the YREB still face significant development challenges as a result of (i) increasing pollution and pressure on natural resources; (ii) slow transformation into green development and economic diversification; (iii) limited integration of waterways, ports, and intermodal logistics; and (iv) weak institutional coordination for strategic planning. The YREB faces a growing imbalance between economic achievement and environmental quality.

3. To manage these challenges, the Government of the PRC formulated the YREB development plan 2016–2030, which stipulates the prioritization of ecological protection and promotion of green development as the guiding principle for the YREB's future growth.⁴ Inclusive green development aims to shift from a traditional, subsector approach to a crosscutting, integrated approach leading to a sustainable development model; solve the challenges of rapid urbanization; and serve as a guide to socioeconomic development. In this context, the Asian Development Bank (ADB) and the government have agreed to adopt a framework approach, providing about \$2.0 billion of funding in the YREB during 2018–2020 to strategically program ADB's lending support for development initiatives in the YREB. In doing so, priority is given to the following four areas: (i) ecosystem restoration, environmental protection, and management of water resources; (ii) inclusive green industrial transformation; (iii) construction of an integrated multimodal transport corridor; and (iv) institutional strengthening and policy reform. The project

¹ Inclusive green development is defined as an integrated approach encompassing sustainable, resilient, accessible, and affordable solutions to the challenges faced by the urban poor and vulnerable groups by enhancing their access to urban services and infrastructure through targeted investments. This integrated approach encourages an institutional delivery mechanism that brings together all institutions and stakeholders—government, the private sector, and civil society—that have the capacity to deliver systems for inclusive urban service delivery. Asian Development Bank (ADB). 2016. *GrEEEn Solutions for Livable Cities*. Manila; and ADB. 2016. *Yangtze River Economic Belt Environmental Protection and Rehabilitation Project—A Preliminary Study*. Manila (TA 9044-PRC, consultant's report).

² A demonstrative role requires social inclusion, environmental sustainability, and economic competitiveness with local financial soundness and sustainability.

³ The other two key economic growth engines in the PRC are the Beijing–Tianjin–Hebei integrated regional development strategy and the belt and road initiative.

⁴ Government of the PRC. 2016. *Outline of the Yangtze River Economic Belt Development Plan, 2016–2030*. Beijing.

will be the first in the PRC to showcase such economic development and diversification for cities and municipalities in the upper and middle reaches of the YREB, tackling the dual challenges of urbanization and environmental degradation. The project's emphasis on balanced regional urbanization and inclusive green growth ensures that development considers the needs of all population groups, with a particular focus on providing affordable, sustainable, resilient, and accessible services to women, and poor and marginalized people.⁵

4. The Yangtze River is coming under increasing pressure from rapid economic growth and urbanization. In 2015, the discharge of treated wastewater into the Yangtze River totaled an estimated 34.7 billion tons, of which 43.61% was domestic wastewater and 56.39% industrial wastewater.⁶ Since 1978, numerous industries have been developed along the Yangtze River and its tributaries, taking advantage of the waterway as an easy access to water resources and low-cost transportation, as well as an easy solution to waste disposal. The upper and middle reaches alone account for 80% of the YREB's total wastewater discharge.⁷ For instance, more than 50% of the chemical enterprises in the PRC are located along the Yangtze River Basin. Such a chemically dominated industrial structure creates a high level of water safety risks for millions of people who live along the river.⁸ Urbanization and industrialization have caused massive adverse environmental impacts that are now beyond the limits of the YREB's environmental carrying capacity. The importance of urban infrastructure and services remains high, especially in the less-developed parts of the YREB.

5. Given the lack of local jobs in the middle and upper reaches of the YREB, about 22% of the 389 million total population—or 86 million laborers—left their hometowns and their families to seek work in the coastal cities.⁹ Qualified younger people, in particular, had to migrate in search of high-technology jobs because many of their home cities have stagnated: poor management capacity, labor skills, and policies, as well as reliance on resource-intensive and low-technology industries left them unable to shift to high-quality development.¹⁰ The YREB governments are under immense pressure to create an enabling environment; and have issued policies and directives to help curb outmigration through tax, financial, training, and other incentives.¹¹

6. To promote such development in the upper and middle reaches of the YREB, ADB has worked in partnership with the central and local governments under the framework approach (para. 3) to explore high-quality development models for replication. Through a technical

⁵ ADB. 2017. *Enabling Inclusive Cities, Tool Kit for Inclusive Urban Development*. Manila.

⁶ ADB. 2018. *Framework for the Asian Development Bank's Assistance for the Yangtze River Economic Belt Initiative: 2018–2020*. Manila.

⁷ The YREB produces about 81% of the PRC's chemical fibers, 59% of cloth, 58% of chemical pesticides, 51% of fertilizers, and 48% of cement, which has come at significant environmental costs. <http://english.mep.gov.cn/.shtml>.

⁸ The three major sources of pollution in the Yangtze River are (i) domestic—from domestic wastewater discharge; (ii) industrial—from heavy industries established around the water systems in the YREB; and (iii) agricultural—from increasingly large amounts of fertilizers and pesticides discharged in the form of nonpoint source pollution. Many small and medium-sized chemical and other heavily polluting plants that did not comply with national environmental standards have now been shut down thanks to stricter environmental enforcement along the Yangtze River.

⁹ The PRC has a large migrant worker population of 171.85 million (2017), and Sichuan Province has the largest share among the provinces with 11.75 million migrant workers.

¹⁰ At the 19th National Congress of the Communist Party of China, held on 16 January 2018, it was stated that “China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development.”

¹¹ Since 2016, social protection policies have been issued to encourage migrant workers to return home for work. These policies include (i) payment of wage arrears; (ii) financial aid for business start-ups; (iii) housing and/or rental and medical benefits; and (iv) training on modern agricultural methods, electronic commerce, and entrepreneurship. State Council. 2016. *Protection Policies for Rural Labors Including Migrant Workers*. Beijing.

assistance project for the YREB,¹² ADB and the government identified two cities in the upper reaches of the YREB—the Chongqing and Ziyang municipalities—as suitable candidates for the partnership.¹³ These two municipalities are of different scales and stages of development, which showcases the problems that many cities in the middle and upper reaches of the YREB are faced with in their economic transition to a high-quality, more inclusive development path.

7. Ziyang is a typical medium-sized prefecture-level municipality in the upper reaches of the YREB, with a population of 3.6 million in 2017; average income per capita of \$2,900; and a land area of 5,747 square kilometers, covering hilly terrain traditionally used for agriculture. Its center spans both sides of the Tuo River, which is a major tributary of the Yangtze River. The Sichuan Ziyang High Technology Development Zone (SZHTDZ) is centrally located in Ziyang and integrated in its urban and most economically developed area. An economy dominated by heavy industries for decades has substantially burdened the Tuo River.¹⁴ Ziyang's conventional industrial structure and the increasingly stricter enforcement of environmental laws and policies have led to an unstable job market that cannot meet the growing demand of the local people. The ZMG needs to do more to create more local jobs for its people. It needs support to (i) tackle the task of improving the damaged ecological environment; (ii) shift the local economy from its reliance on heavy manufacturing to a high-quality development path based on services, which can help create a reliable job market; and (iii) improve its urban development planning and management.

8. **Environmental degradation.** The past industrialization and the resulting increase in wastewater discharge and air pollution have put Ziyang's environment under pressure. Changes in land use resulted in riverbank erosion, flood risks, and decreased vegetation, all of which is aggravated by the global climate change. Most of the water quality in Ziyang's rivers and lakes is already in Class IV or V at various locations.¹⁵ The urban area grew significantly as economic activity intensified, and the landfill site, a polluted water body that includes Yannan Lake, is now part of Ziyang's urban center. Immediate action is needed to rehabilitate the ecological situation; provide green spaces; and boost water quality, stormwater management, and livability. In general, ecological restoration, pollution reduction, and improvement of the water quality of the Tuo River are part of the national endeavor to promote ecological protection and green development in the YREB. A restored ecology will improve Ziyang's livability, which will not only raise the living standards of its residents; but also encourage investors and highly skilled talents to establish their businesses here, thus further promoting Ziyang's economic diversification.

9. **Lack of specialized support to promote the service industry and local job creation.** Shifting the growth engine from heavy industries to the service industry is essential for Ziyang's economic transition. Through its comparative advantage both on improvement of urban environment and livability, and its location within the Chengdu–Chongqing city cluster, Ziyang aims to develop and diversify a service industry (e.g., health, aviation, hospitality, leisure sports,

¹² ADB. 2015. *Technical Assistance to the People's Republic of China for Strengthening Provincial Planning and Implementation Capacity for Yangtze River Economic Belt*. Manila; and ADB. 2017. *Technical Assistance to the People's Republic of China for Preparing the Yangtze River Economic Belt Projects*. Manila (TA 9311-PRC). Financing from the Cities Development Initiative for Asia and ADB will ensure the project's timely preparation.

¹³ ADB. 2018. *Technical Assistance to the People's Republic of China for the Chongqing Green Transformation and Development Project*. Manila. Processing of the ensuing loan of this technical assistance project is in progress.

¹⁴ Includes 495 chemical companies that were registered in Ziyang in 2017, with value-added industrial output of the secondary industry (industry and construction), which comprised 55.6% of Ziyang's gross domestic product.

¹⁵ Government of the PRC. 2002. *Environmental Quality Standards for Surface Water (GB3838-2002)*. Beijing. The applicable standard and/or target for surface water quality is Class III and above. GB3838-2002 also cited that water quality up to Class III standard is suitable for drinking.

and rural e-commerce) that is environment-friendly and can create jobs.¹⁶ In the past, many cities in the PRC, including Ziyang, offered tax and other incentives to attract new industrial investment. The ZMG needs a paradigm shift to lure businesses into investing more in services. The project can support this by (i) showcasing the improvement in specialized public services; and (ii) assisting the private sector by helping remove major hurdles such as (a) the high costs of research and development (R&D) that discourage enterprises from venturing into light industry, and (b) the inadequacy of inspection and testing capacity that prevents the timely market launch of products.¹⁷ Ziyang has about 1.1 million migrant workers, representing a third of its 3.6 million population. It also has substantial gaps in human resource skills because of the limited relevance of its technical and vocational education and training (TVET) program, which hampers its efforts towards its development.¹⁸ The enterprises in the SZHTDZ need large numbers of skilled workers. The project's TVET interventions are essential for reskilling returning migrants; and providing the local people, including the poor and women, with jobs in the upcoming service industry.

10. Fragmented urban development planning and management. Urban development planning and management is crucial for achieving the goal of inclusive green development, i.e., the transition from highly polluting heavy industries to environment-friendly services. Like many other cities in the PRC, Ziyang has a complex but fragmented urban planning and management system involving various line agencies. The ZMG does not have an effective mechanism to share the integrated data and information. It relies on a complex interagency review and coordination process to facilitate its urban planning. As the local economy expands, the ZMG will face more administrative and environmental management challenges, which require stronger urban development planning and management systems. Hence, support for state-of-the-art, information technology (IT)-based planning and performance monitoring and evaluation (M&E) systems is essential. Women's participation in management and employment is also crucial, and gender mainstreaming under the project will help ensure this. In sum, for Ziyang to meet its urbanization needs, it is vital to (i) bridge the gap between urban development planning and environmental management; and (ii) improve the financing for such development initiatives.

11. Strategic fit. The project is consistent with the PRC's Thirteenth Five-Year Plan, 2016–2020 the Outline of the YREB Development Plan, 2016–2030 (footnote 4).¹⁹ The project is particularly aligned with the guidelines on the Yangtze River Basin's economic development issued by the State Council in 2014 to promote inclusive green development with stricter pollution control, environmental rehabilitation and protection, and sustainable water resources management. The project will directly contribute to the national endeavor of restoring the ecological system of the Yangtze River and fostering inclusive green development in the entire YREB. The project is consistent with ADB's country partnership strategy for the PRC, 2016–2020, particularly in promoting urban inclusive green development for small- and medium-sized cities in the less-developed regions.²⁰ The project is closely aligned with ADB's Strategy 2030 operational

¹⁶ Promoting Inclusive Green Development and Economic Diversification at the Upper Reach of the Yangtze River Economic Belt (accessible from the list of linked documents in Appendix 2).

¹⁷ ADB will support public facilities such as an R&D center and a center for inspecting and testing equipment and materials to promote job creation in light industries.

¹⁸ In 2017, there are about eight among the 24 TVET categories that are with priority, i. e., preschool education, tourism service and management, automobile manufacturing and maintenance, electronic commerce, vehicle use and maintenance, clothing design and processing technology, machine processing technology, and computer application. The relevance of TVET in Ziyang needs to be aligned with its emerging service and light industry businesses.

¹⁹ Government of the PRC. 2016. *Outline of the Thirteenth Five-Year Program for National Economic and Social Development, 2016–2020*. Beijing.

²⁰ ADB. 2016. *Country Partnership Strategy: People's Republic of China, 2016–2020—Transforming Partnership: People's Republic of China and Asian Development Bank*. Manila.

priorities of (i) making cities more livable (through integrated solutions, inclusive and participatory urban planning, and climate resilience), and (ii) addressing remaining poverty and reducing inequality (through human development and social inclusion, quality jobs, and education and training).²¹ It also draws on ADB's environmental, urban, and water operational plans.²²

12. Lessons. The project design incorporates key lessons from previous ADB and development partner projects as well as international best practices and innovative approaches.²³ These emphasize (i) the importance of regionally balanced, inclusive green development for sustainable growth; (ii) the need for innovative technology and standards to improve urban development, including sound solutions for ecosystem restoration and environmental degradation; and (iii) the need to provide effective institutional arrangements and government management systems.

13. Value addition of ADB assistance. Through its capacity building and state-of-the-art IT-based SMART information system, the project will enable the sharing of experiences, best practices, and innovation.²⁴ The use of advanced technologies under the project's ecological renovation and environmental sustainability will showcase important elements of ADB's engagement with the PRC (e.g., regional public goods, climate change, urbanization, and regional cooperation and integration). The project features a comprehensive approach to stopping environmental degradation and improving urban livability in Ziyang through integrated solid waste and wastewater management.²⁵ The project will be the first ADB initiative to transform a landfill site into a green park and introduce an M&E system to measure the progress of urban development.²⁶ The experience and knowledge gained from wetland rehabilitation, landfill transformation, and sustainable city development under this project can be replicated in other cities along the Yangtze River Basin in the PRC, and also in other developing member countries in Asia and the Pacific.

B. Impact and Outcome

14. The project is aligned with the following impact: sustainable economic growth and environmental improvement in the YREB achieved (footnote 4). The project will have the following outcome: economic and environmental conditions in Ziyang and the SZHTDZ improved.²⁷

²¹ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

²² ADB. 2013. *Environment Operational Directions, 2013–2020*. Manila; ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila; and ADB. 2012. *Water Operational Plan, 2011–2020*. Manila.

²³ World Bank. 2015. *China: Sichuan Chongqing Cooperation: Guang'an Demonstration Area Infrastructure Development Project*. Washington, DC.

²⁴ SMART is a mnemonic acronym which gives criteria to guide in the setting of objectives; and generally means specific, measurable, achievable, relevant, and time-bound. https://en.wikipedia.org/wiki/SMART_criteria. A SMART city solution is a system that spans the entire process (integrated approach) from strategic planning, design, implementation, operation, and management of urban spaces to M&E. Focused on information and communication technology aspects and data systems for improved urban management, the SMART city can also (i) enable a more efficient use of resources; (ii) improve equitable access to infrastructure and services; (iii) facilitate the interaction of people and businesses; (iv) enhance the physical and virtual flow of goods, capital, information, resources, and people; (v) strengthen capacity building and knowledge sharing; (vi) boost urban resilience; (vii) make the government and its governance more transparent and accountable; and (viii) improve a city's overall livability.

²⁵ Green livable cities are climate- and disaster-resilient, resource-efficient, economically vibrant and competitive, socially inclusive, equitable, tolerant, access-oriented, with good-quality public open spaces, affordable, healthy, walkable, and amenable to different groups of people.

²⁶ This is the first ADB-financed urban development project in the PRC that will introduce an IT-based management system.

²⁷ The design and monitoring framework is in Appendix 1.

C. Outputs

15. **Output 1: Ecological systems and environmental infrastructure constructed.** This output will help stem the degradation of public infrastructure by rehabilitating and developing urban environmental infrastructure. This includes (i) building 5 kilometers of “eco-dike” or flood-control embankment to comply with the requirement for protection against a 1-in-50-years flood event; (ii) building an 18-hectare (ha) area of “sponge city” interventions to capture stormwater;²⁸ (iii) developing and protecting a 25.7 ha wetland area to improve Yannan Lake’s water quality and enhance the ecological system; (iv) closing a landfill and transforming the land into 38.6 ha of green park; (v) creating a green wedge on 123 ha of undeveloped hills and gullies as a natural barrier between Ziyang’s old residential and industrial areas; and (vi) preserving the ecology of eight bare hills that are at risk of erosion.²⁹

16. **Output 2: Facilities and programs to support the service industry broadened.** This output will remove obstacles to Ziyang’s emergence as a high-quality and more inclusive green development in the SZHTDZ. This includes establishing (i) an R&D center for light industries; (ii) a center for inspecting and testing equipment and materials; and (iii) the Sichuan Ziyang TVET center, with capacity for 4,000 full-time students. Items (i) and (ii) are envisioned to reduce the time it takes for a product to reach the market and will be guided by existing institutional frameworks in the PRC. Item (iii) will raise the relevance and quality of secondary TVET with updated curricula, a better qualification framework, upgraded accreditation and assessment systems, and capacity development for teachers and management. The mid-career workforce will be able to access skills re-training and lifelong learning courses; and the younger generations will benefit from full-time TVET training.³⁰

17. **Output 3: Urban development planning and management capacity enhanced.** This output will overhaul the outdated and inefficient systems for urban development planning and management, and performance M&E. It includes (i) installing a computerized urban development planning and management component (intelligent park platform—a SMART information system—that provides modular, web-based, interactive, and decision-making support for better management of government operations, the environment, and information sharing); (ii) setting up an effective urban performance M&E system for the SZHTDZ; and (iii) undertaking a comprehensive study on urban green development planning, including a comprehensive gender study, for the SZHTDZ. The information system will be equipped with state-of-the-art hardware and software to support a government data management and office system, economy (one-stop enterprise service platform) to promote electronic commerce within Ziyang, management support system, and environmental system. The information system also helps in setting up a government services system in the SZHTDZ that improves efficiency, transparency, resource sharing, and management. All systems will be monitored throughout implementation along clearly defined performance-based benchmarks.

²⁸ Sponge city refers to a city that is designed to passively absorb, clean, and use rainfall. The sponge city interventions refer to the replacement of concrete pavements with wetlands, green rooftops, and rain gardens to absorb the stormwater back into the land, making it work for the city instead of against it.

²⁹ This entails the construction of a riverside embankment to protect the SZHTDZ, and land for recreational facilities.

³⁰ Government of the PRC. 2010. *Social Insurance Law*. Beijing. ZMG issued the (i) Opinion on Supporting to Redirect Migrant Workers to Return for Business Startups (Issuance No. Zifubanfa 2016-7) (2016), requiring the improvement of the business start-up environment to attract migrant workers to return home for work or starting a business; and (ii) Notice for Specific Rectification Action on Rural Labor’s Wage Arrears (Zifubanhuan [2017] No. 238).

D. Summary Cost Estimates and Financing Plan

18. The project is estimated to cost \$413.54 million, including taxes and duties of \$26.64 million (Table 1). Detailed cost estimates by expenditure category and by financier are in the project administration manual (PAM).³¹

Table 1: Summary Cost Estimates (\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Ecological systems and environmental infrastructure constructed	237.42
2. Facilities and programs to support the service industry broadened	98.61
3. Urban development planning and management capacity enhanced	18.95
Subtotal (A)	354.98
B. Contingencies^c	34.02
C. Financing Charges During Implementation^d	24.54
Total (A+B+C)	413.54

^a Includes taxes and duties of \$26.64 million. Such amount does not represent an excessive share of the project cost. The Government of the People's Republic of China will finance taxes and duties of \$4.43 million through cash contribution, and the Asian Development Bank will finance the balance.

^b In mid-2018 prices as of March 2018.

^c Physical contingencies computed at 5% for all cost items, except for land acquisition and resettlement. Price contingencies computed at average of 1.9% on foreign exchange costs, and 2.3% 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 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 0.1%. Commitment charges for the ordinary capital resources loan are computed at 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

19. The government has requested a regular loan of \$200 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 straight-line repayment method, the average maturity is 15.75 years; and the maturity premium payable to ADB is 0.10% per year.

20. The summary financing plan is in Table 2. ADB will finance civil works, goods, capacity development activities, and consulting services. The government will finance the design, procurement activities, construction supervision, civil works, project management, land acquisition and resettlement, environmental protection, interest and commitment charges, taxes and duties, and contingencies. The government will ensure that the counterpart funds for the project are provided in timely fashion.

21. Climate mitigation is estimated to cost \$3.48 million, and climate adaptation to cost \$0.31 million. ADB will finance 80.66% of the climate adaptation and mitigation costs.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular loan)	200.00	48.4
Government	213.54	51.6
Total	413.54	100.0

Source: Asian Development Bank estimates.

³¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

E. Implementation Arrangements

22. The ZMG is the executing agency and will supervise, coordinate, and manage the project. The Sichuan Provincial Finance Department will manage the advance account and support financial management. The SZHTDZ Administrative Committee and the Ziyang Municipal Education and Sports Bureau are the implementing agencies. The Ziyang Development Zone Investment Co., Ltd. is the project implementation unit. The ZMG has established a project leading group and a project management office. The procurement regulations to be used during project implementation will be ADB's Procurement Policy (2017, as amended from time to time) and the Procurement Regulations for ADB Borrowers (2017, as amended from time to time). The methods for selecting consultants will be quality- and cost-based, consultant's qualification, and individual consultant selections. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 31).

Table 3: Implementation Arrangements

Table 6: Implementation Arrangements			
Aspects	Arrangements		
Implementation period	December 2018–December 2024		
Estimated completion date	31 December 2024		
Estimated loan closing date	30 June 2025		
Management			
(i) Oversight body	Project leading group		
(ii) Executing agency	Ziyang Municipal Government		
(iii) Key implementing agencies	- Sichuan Ziyang High Technology Development Zone Administrative Committee - Ziyang Municipal Education and Sports Bureau		
(iv) Implementation unit	Project management office		
	Project implementation unit: Ziyang Development Zone Investment Co., Ltd.		
Procurement	OCB (AI)	4 contracts	\$49.27 million
	OCB (AN)	14 contracts	\$169.90 million
Consulting services	QCBS	274 person-months (4 contracts)	\$3.42 million
	CQS	60 person-months (3 contracts)	\$0.65 million
	ICS	16 person-months	\$0.16 million
Retroactive financing and/or advance contracting	Advance contracting and retroactive financing will apply to the recruitment of two individual consultant packages for (i) start-up project implementation activities (four specialists); (ii) preparation of the technical specifications of research and development, and testing equipment (two specialists); and (iii) project management support. Retroactive financing will be subject to a maximum amount equivalent to 20% of the loan amount for eligible expenditures incurred prior to loan effectiveness, but not earlier than 12 months before the loan agreement is signed.		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and the detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, CQS = consultant's qualification selection, ICS = individual consultant selection, OCB (AI) = open competitive bidding (advertised internationally), OCB (AN) = open competitive bidding (advertised nationally), QCBS = quality- and cost-based selection.

Source: Asian Development Bank estimates.

III. DUE DILIGENCE

A. Technical

23. The project was prepared in accordance with the PRC's guidelines and regulations. The project design meets the PRC standards and incorporates an innovative and modern industrial system as well as climate change adaptation measures. The Sichuan Provincial Development and Reform Commission confirmed the technical feasibility to be adequate after detailed examination of the project's compatibility with local conditions and capacity for operation and

maintenance. The capacity development program is based on a needs assessment for the sustainable operation of the project.

B. Economic and Financial

24. The economic analysis follows ADB's guidelines.³² Economic benefits are (i) accelerated growth in the service industry, (ii) greater efficiencies (time savings) in the testing of equipment, (iii) incremental human capital measured by the wage increase of TVET graduates, (iv) stronger flood protection, and (v) the environmental benefits of various urban inclusive green infrastructure subprojects. The economic internal rate of return was calculated at 14.84% (above the 9.0% economic opportunity cost of capital), which drops to 13.66% if the capital cost increases by 10.0%; to 14.71% if the operating cost increases by 10.0%; to 13.41% with a 10.0% benefit decrease; and to 12.16% under the combined scenarios.

25. The financial sustainability assessment indicates that the ZMG had sufficient funds to finance the counterpart contributions; and pay the debt service and operation and maintenance costs during operation. In 2016, for example, the ZMG's revenues amount to CNY25.3 billion, of which 45.8% are upper-level government allocations. Its share of the counterpart funds amounts to 1.2% of its annual revenue during construction. The loan principal and interest repayment amount will account for about 0.15% of the fiscal expenditure in the first year of operation.

C. Governance

26. The financial management risk before considering mitigation measures is *moderate* mainly because of a moderate inherent risk, a moderate control risk, and a comparatively high level of financial management capacities. Measures to mitigate the risk are in the financial management assessment.³³ The overall project procurement risk is *moderate*. The project implementation unit does not have experience in procurement for foreign-funded projects, and there are differences between the procurement practices of ADB and the ZMG.³⁴ Measures to mitigate the risks are in the risk assessment and risk management plan.³⁵

27. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the ZMG. The specific policy requirements and supplementary measures are described in the PAM (footnote 31).

D. Poverty, Social, and Gender

28. The project is classified as a *general intervention* for poverty reduction. It will contribute to socioeconomic development and poverty reduction by increasing access to (i) jobs during project construction and operation; (ii) new jobs in the service and light industries; (iii) skills training based on an updated TVET curriculum; and (iv) a better living environment. The project will directly benefit 270,000 residents of the seven project towns in Yanjiang District, including 1,618 urban and 5,547 rural poor people. The district's remaining 840,000 residents will indirectly benefit. The ZMG prepared a social development action plan based on a poverty and social analysis that included stakeholder consultations. The plan outlines further participation during implementation.

³² The economic internal rates of return were not calculated for output 1 because its benefits are not quantifiable.

³³ Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

³⁴ Procurement Risk Assessment (accessible from the list of linked documents in Appendix 2).

³⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

29. The project's gender category is *effective gender mainstreaming*. It will contribute to gender equality and inclusion by increasing women's access to jobs during construction and operation, particularly of ecological systems and environmental infrastructure. Attracting the best male and female talent will be critical to transforming Ziyang into a hub of innovation in high-technology and green industries. The project will seek to create an enabling environment for professional women to seek jobs or business opportunities in the SZHTDZ, including assessing options to enhance women's employment and job retention, job progression, and career development. The project will support information campaigns to promote female students' enrollment in technical fields in the Sichuan Ziyang TVET center. The executing and implementing agencies will ensure gender action plan implementation, monitoring, and reporting.

E. Safeguards

30. In compliance with ADB's Safeguard Policy Statement (2009),³⁶ the project's safeguard categories are as follows:³⁷

31. **Environment (category A).** The ZMG prepared an environmental impact assessment (EIA) report, including an environmental management plan (EMP), in line with the Safeguard Policy Statement. The EIA and EMP are based on the approved domestic feasibility study reports and environmental assessments, site visits, and stakeholder consultations. Consultations included affected people and local government agencies, and the outcomes were integrated in the project design. The draft EIA was disclosed on ADB's website on 27 April 2018. The ZMG, through the project management office, will be responsible for compliance with the EMP.

32. The project is expected to significantly contribute to municipal targets for environmental improvement, e.g., (i) improved water quality of the Tuo River and avoided flood damage thanks to efficient stormwater collection and the capture of point and nonpoint source pollution; and (ii) improved groundwater protection, as well as greater health and safety of residents thanks to the remediation of a landfill site. Construction and/or operational risks include the potential release of contaminants from polluted sediments during dredging or disposal, and leachate or gas emissions from the landfill site after remediation. Mitigation measures include the procedures for landfill management, and the safe collection and disposal of the dredged sediments. The project is expected to be an important demonstration project on how medium-sized cities can help in environmental rehabilitation and transformation. Hence, with effective EMP implementation and prescribed training, the result will be residual impacts within the limits of the PRC's standards as defined in the EMP.

33. **Involuntary resettlement (category A).** The project will occupy 4,265.06 *mu* of land—1,183.8 *mu* of existing state-owned land, 1,540.98 *mu* of collective land to be acquired, and 1,540.28 *mu* of collective land through the land use rights transfer (LURT).³⁸ Residential houses on 39,610 square meters and non-residential structures of 28 entities (31,030 square meters) will be demolished. In total, 1,482 households and entities with 4,737 persons will be affected. The ZMG prepared a resettlement plan in line with the Safeguard Policy Statement, and with laws and regulations of the PRC and local governments. The resettlement plan contains adequate measures of compensation, resettlement, and rehabilitation for affected people. It also includes the due diligence report for past land acquisition and the LURT framework for future LURT contracts. The ZMG held consultations with affected people and village committees, who will also be consulted during implementation. A grievance redress mechanism is included in the

³⁶ <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

³⁷ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

³⁸ A *mu* is a Chinese unit of measurement (1 *mu* = 0.067 hectares or 666.67 square meters).

resettlement plan. The executing and implementing agencies have experience in resettlement; they will carry out the internal monitoring, engage an external monitoring agency, and have committed to implement and monitor the resettlement plan by allocating adequate budget and human resources. These agencies have the capacity for managing resettlement under domestically financed projects. To implement this project's resettlement plan, their capacity will be strengthened through consulting services and training.

34. **Indigenous peoples or ethnic minorities (category C).** The project does not involve impacts on ethnic minority villages or communities that would trigger ADB's Safeguard Policy Statement requirements on indigenous peoples. A scattered population of ethnic minority individuals in the project area is not expected to suffer adverse impacts from the project.

F. Summary of Risk Assessment and Risk Management Plan

35. The risk assessment of the overall project is medium, and the benefits and impact are expected to outweigh the costs. The risks, which are rated either *medium* or *low*, and the mitigation measures are described in the risk assessment and risk management plan (footnote 35).

IV. ASSURANCES

36. The government and the ZMG 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. The government and the ZMG have agreed with ADB on certain covenants for the project, which are set forth in the draft loan and project agreements.

V. RECOMMENDATION

37. 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 \$200,000,000 to the People's Republic of China for the Sichuan Ziyang Inclusive Green Development 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

19 November 2018

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Sustainable economic growth and environmental improvement in the Yangtze River Economic Belt achieved (Outline of the Yangtze River Economic Belt Development Plan, 2016–2030) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Economic and environmental conditions in Ziyang and the SZHTDZ improved	By 2025: a. At least 5,000 jobs created in the SZHTDZ (2017 baseline: 0) b. Water quality in Yannan Lake's wetland area improved to Class IV (2017 baseline: Class V) c. Flood protection standard in the SZHTDZ reached 1-in-50 years (2017 baseline: 1-in-20 years) d. At least 100 projects undergoing support and facilitation at the R&D center (2017 baseline: 0) e. At least 1,000 students successfully completed first year of their program in the new Sichuan Ziyang TVET center, of which at least 50% are women (2017 baseline: not applicable)	a. SZHTDZ's annual statistical data b.–c. Ziyang Environmental Protection Bureau's quarterly and annual monitoring reports d. R&D center's annual records e. Sichuan Ziyang TVET center's annual records; Ziyang Municipal Education and Sports Bureau's annual records	The government changes priorities of green industrial development.
Outputs 1. Ecological systems and environmental infrastructure constructed	By 2024: 1a. At least 5.0 km of improved flood-control embankment (eco-dike) constructed (2018 baseline: 16.4 km) 1b. At least 18 ha of sponge city interventions, such as detention basins, constructed (2018 baseline: not applicable) 1c. At least 25.7 ha of wetland area downstream of the SZHTDZ rehabilitated (2018 baseline: 0 ha) 1d. Landfill closed; leachate treatment, landfill gas collection, and total landscaping of 38.6 ha of green park conducted (2018 baseline: none) 1e. At least 123 ha of hills and gullies developed, and a green wedge installed (2018 baseline: 0 ha) 1f. At least 0.82 km ² of eight bare hills restored (2018 baseline: 0 km ²) 1g. At least 20% of 50 job positions in project management during construction held by women (2018 baseline: 0%, 0)	1a.–h. Annual project report from the ZMG	Surge in price of construction materials and equipment (because of accelerated economic growth in the ZMG) beyond contingency causes budget overrun.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
2. Facilities and programs to support the service industry broadened	1h. At least 50% of jobs in landscaping made available to women (2018 baseline: 0%) By 2024: 2a. R&D center for light industries established, and equipment procured (2017 baseline: none) 2b. Center for inspecting and testing equipment and materials established, and equipment procured (2017 baseline: none) 2c. Sichuan Ziyang TVET center constructed (2017 baseline: none) 2d. Sichuan Ziyang TVET center's curriculum prepared (2017 baseline: none)	2a.–d. Annual project report from the ZMG	
3. Urban development planning and management capacity enhanced	By 2024: 3a. SMART information system established in the SZHTDZ and fully functional (2018 baseline: none) ^b 3b. Urban performance M&E system to assess inclusive green development progress in the SZHTDZ established (2018 baseline: none) 3c. Urban green development planning study, including a comprehensive gender study, for the SZHTDZ prepared (2018 baseline: none) ^c	3a. Monthly, quarterly, and semiannual reports generated from the SMART information system ^b 3b. Monthly, quarterly, and semiannual reports generated from the performance M&E system 3c. Interim or midterm and end-of-study reports generated from the master plan	Increased domestic demand for skilled staff beyond projections leads to high staff turnover.
Key Activities with Milestones			
1. Ecological systems and environmental infrastructure constructed 1.1 Implement land acquisition and resettlement (Q1 2019–Q4 2019). 1.2 Construct at least 5.0 km of “eco-dike” (improved flood-control embankment) to comply with the requirement for protection against a 1-in-50-years flood event (Q4 2019–Q4 2024). 1.3 Construct at least 18 ha of sponge city interventions, such as detention basins, to capture stormwater (Q1 2020–Q4 2022). 1.4 Implement wetland area development and protection by rehabilitating at least 25.7 ha of wetland area downstream of the SZHTDZ to improve Yunnan Lake's water quality and enhance the ecological system (Q4 2019–Q3 2024). 1.5 Close the landfill, and implement restoration and transformation (including leachate treatment, landfill gas collection, and total landscaping) into at least 38.6 ha of green park (Q4 2021–Q4 2024). 1.6 Install a green wedge on at least 123 ha of undeveloped hills and gullies as a natural barrier between Ziyang Municipality's old residential and industrial areas (Q4 2020–Q1 2024). 1.7 Implement ecological preservation by restoring at least 0.82 km ² of eight bare hills that are at risk of erosion from wind and water with the hazard of subsequent subsidence (Q4 2019–Q1 2023).			

<p>2. Facilities and programs to support the service industry broadened</p> <p>2.1 Implement land acquisition and resettlement (Q1 2019–Q4 2019).</p> <p>2.2 Procure equipment, and install the R&D center for the light industries (Q4 2019–Q3 2021).</p> <p>2.3 Procure equipment, and install the center for inspecting and testing equipment and materials for the service industry in three phases (Q1–Q4 2020, Q1–Q4 2021, and Q1–Q4 2022).</p> <p>2.4 Develop the design; and conduct the tendering, construction, procurement of equipment, and start-up of the Sichuan Ziyang TVET center (Q4 2019–Q4 2022).</p> <p>3. Urban development planning and management capacity enhanced</p> <p>3.1 Develop the design; and conduct the procurement, installation, and start-up of the SMART information system (Q2 2019–Q2 2022).^b</p> <p>3.2 Recruit consultants, and establish the urban performance M&E system for the SZHTDZ (Q4 2019–Q2 2021).</p> <p>3.3 Recruit consultants; and prepare and conduct the urban green development planning study, including a comprehensive gender study, for the SZHTDZ (Q4 2019–Q3 2020).</p>	<p>Project Management Activities</p> <p>Ensure provision of overall support for the project's final design and implementation, including the support for capacity development and training for the staff of the ZMG and the project management office on ADB's project management procedures, technical design and implementation, and safeguard supervision and monitoring.</p> <p>Inputs</p> <p>ADB (loan): \$200.00 million</p> <p>Government of the People's Republic of China: \$213.54 million</p> <p>Note: The government will finance the design, procurement activities, construction supervision, civil works, project management, land acquisition and resettlement, environmental protection, interest and commitment charges, taxes and duties, and contingencies. The government will ensure that the counterpart funds for the project are provided in timely fashion.</p> <p>Assumptions for Partner Financing</p> <p>Not applicable</p>
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ADB = Asian Development Bank; ha = hectare; km = kilometer; km² = square kilometer; M&E = monitoring and evaluation; Q = quarter; R&D = research and development; SMART = specific, measurable, achievable, relevant, and time-bound; SZHTDZ = Sichuan Ziyang High Technology Development Zone; TVET = technical and vocational education and training; ZMG = Ziyang Municipal Government.

^a Government of the People's Republic of China. 2016. *Outline of the Yangtze River Economic Belt Development Plan, 2016–2030*. Beijing.

^b The SMART information system will be instrumental in setting up a government service system in the SZHTDZ that improves efficiency, transparency, resource sharing, and management. It will be equipped with hardware and software to support a (i) government data management and office system, (ii) economy (one-stop enterprise service platform) to promote e-commerce; (iii) management support system (transportation and/or road traffic, community lighting, surveillance, and emergency response system); and (iv) environmental system (water, air, and noise monitoring).

^c The study will explore options to attract professional women to the SZHTDZ, such as impact of childcare (ages 0–3 years) on the women's willingness to work in the SZHTDZ.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51189-001-3>

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

Supplementary Documents

15. Promoting Inclusive Green Development and Economic Diversification at the Upper Reach of the Yangtze River Economic Belt
16. Sector Assessment for Technical and Vocational Education and Training
17. Procurement Risk Assessment
18. Financial Management Assessment
19. Detailed Economic Analysis
20. Climate Vulnerability Assessment and Management Report