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R2017-0019/1

February 6, 2017

**Closing Date: Friday, February 24, 2017
at 6 p.m.**

FROM: Vice President and Corporate Secretary

China - Second Gansu Cultural and Natural Heritage Protection and Development Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed loan to China for the Second Gansu Cultural and Natural Heritage Protection and Development Project (R2017-0019), which is being processed on an absence-of-objection basis.

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Report No.: PAD1764

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US\$100 MILLION

TO THE

PEOPLE'S REPUBLIC OF CHINA

FOR A

SECOND GANSU CULTURAL AND NATURAL HERITAGE
PROTECTION AND DEVELOPMENT PROJECT

February 2, 2017

Social, Urban, Rural & Resilience Global Practice
East Asia and Pacific Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective January 1, 2016)

Currency Unit = Renminbi (RMB)
RMB6.50 = US\$1
US\$0.15 = RMB1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

BCR	Benefit/Cost Ratio
CPS	Country Partnership Strategy
CVM	Contingent Valuation Surveys
DA	Designated Account
EA	Environmental Assessment
ECOP	Environmental Code of Practice
EIRR	Economic Internal Rate of Return
EMDP	Ethnic minority development plan
EMP	Environmental Management Plan
ESMP	Environmental and Social Management Plan
FIRR	Financial Internal Rate of Return
FM	Financial Management
FMM	Financial Management Manual
GHATIG	Gansu Highway, Aviation and Tourism Investment Group Co., Ltd
GDP	Gross Domestic Product
GPAO	Gansu Provincial Audit Office
GPCD	Gansu Provincial Culture Department
GPFLAC	Gansu Provincial Foreign Loan Administration Committee
GPFD	Gansu Provincial Finance Department
GPG	Gansu Provincial Government
ICB	International Competitive Bidding
IPF	Investment Project Financing
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
NCB	National Competitive Bidding
O&M	Operation and Maintenance
PDO	Project Development Objective
PIA	Project Implementing Agency
PLA	Project Leading Agency
PLG	Project Leading Group
PMO	Project Management Office
PPMO	Provincial Project Management Office
RAP	Resettlement Action Plan
RMB	Renminbi
RPF	Resettlement Policy Framework
SA	Social Assessment

SACH State Administration of Cultural Heritage
TTL Task Team Leader
UNESCO United Nations Educational, Scientific, and Cultural Organization
WTP Willingness-to-pay

Regional Vice President:	Victoria Kwakwa, EAPVP
Country Director:	Bert Hofman, EACCF
Global Practice Senior Director:	Ede Jorge Ijjasz-Vasquez, GSURR
Practice Manager:	Abhas K. Jha, GSU08
Task Team Leader(s):	Ji You, GSU08

**CHINA: Second Gansu Cultural and Natural Heritage
Protection and Development Project**

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PAD DATA SHEET
China: Second Gansu Cultural and Natural Heritage Protection and Development Project
(P149528)

Basic Information						
Project ID P149528		EA Category A - Full Assessment			Team Leader(s) Ji You, Guido Licciardi	
Lending Instrument Investment Project Financing		Fragile and/or Capacity Constraints []				
		Financial Intermediaries []				
		Series of Projects []				
Project Implementation Start Date 24-Feb-2017		Project Implementation End Date 31-Dec-2022				
Expected Effectiveness Date 20-Jul-2017		Expected Closing Date 31-Dec-2022				
Joint IFC No						
Practice Manager Abhas K. Jha	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Bert Hofman	Regional Vice President Victoria Kwakwa			
Borrower: People's Republic of China						
Responsible Agency: Gansu PMO						
Contact:	Mr. Li Feng	Title:	Executive Vice Director			
Telephone No.:	86-931-8400125	Email:	gansushdk@163.com			
Project Financing Data (in US\$, millions)						
[X]	Loan	[]	IDA Grant	[]	Guarantee	
[]	Credit	[]	Grant	[]	Other	
Total Project Cost:		160.76		Total Bank Financing:		100.00
Financing Gap:		0.00				
Financing Source				Amount		
Borrower				60.76		
International Bank for Reconstruction and Development				100.00		
Total				160.76		
Expected Disbursements (in US\$, millions)						
Fiscal Year	2017	2018	2019	2020	2021	2022
Annual	1	8	24	32	25	10

Cumulative	1	9	33	65	90	100
Institutional Data						
Practice Area (Lead)						
Social, Urban, Rural and Resilience Global Practice						
Contributing Practice Areas						
N/A						
Proposed Development Objective(s)						
To conserve cultural and natural heritage, enhance tourism services and improve community services in selected project sites in Gansu Province.						
Components						
Component Name					Cost (US\$, millions)	
Heritage Conservation and Tourism Services Improvement					117.72	
Community Basic Services Delivery					28.69	
Capacity Building, Institutional Strengthening, and Project Management Support					8.00	
Systematic Operations Risk- Rating Tool (SORT)						
Risk Category					Rating	
1. Political and Governance					Low	
2. Macroeconomic					Moderate	
3. Sector Strategies and Policies					Moderate	
4. Technical Design of Project or Program					Substantial	
5. Institutional Capacity for Implementation and Sustainability					Substantial	
6. Fiduciary					Substantial	
7. Environment and Social					Substantial	
8. Stakeholders					Moderate	
9. Other						
OVERALL					Substantial	
Compliance						
Policy						
Does the project depart from the CAS in content or in other significant respects?					Yes [] No [X]	
Does the project require any waivers of Bank policies?					Yes [] No [X]	
Have these been approved by Bank management?					Yes [] No []	
Is approval for any policy waiver sought from the Board?					Yes [] No [X]	

Does the project meet the Regional criteria for readiness for implementation?		Yes [X]	No []
Safeguard Policies Triggered by the Project		Yes	No
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36			X
Pest Management OP 4.09			X
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37			X
Projects on International Waterways OP/BP 7.50			X
Projects in Disputed Areas OP/BP 7.60			X
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Annual Work Plan	Yes	December 30	Annually
Description of Covenant			
Section I. A. (6), of Schedule to the Project Agreement. Annual Work Plan satisfactory to the Bank shall be finalized and furnished to the Bank no later than December 30, in each year, beginning on December 30, 2016.			
Name	Recurrent	Due Date	Frequency
Consolidated mid-term review		December 15, 2019	
Description of Covenant			
Section II. A.2, Schedule to the Project Agreement. Under terms of reference satisfactory to the Bank, a consolidated mid-term review report for the Project shall be furnished to the Bank no later than December 15, 2019, summarizing the results of the monitoring and evaluation activities carried out from the inception of the Project, and setting out the measures recommended to ensure the efficient completion of the Project and to further the objectives thereof.			
Conditions			
Source Of Fund	Name	Type	
IBRD	Additional Condition of Loan Effectiveness	Effectiveness	
Description of Condition: Article V 5.01 of the Loan Agreement. The Implementation Agreement has been duly executed on behalf of the Project Implementing Entity through its Provincial Finance Department and GHATIG.			

Team Composition					
Bank Staff					
Name	Role	Title	Unit		
Ji You	Team Leader (ADM Responsible)	Urban Specialist	GSURR		
Guido Licciardi	Team Leader	Senior Urban Specialist	GSURR		
Jingrong He	Procurement	Procurement Specialist	GGODR		
Yi Dong	Financial Management	Senior Financial Management Specialist	GGODR		
Jian Xie	Economic Analysis	Senior Environmental Specialist	GENDR		
Meixiang Zhou	Social Safeguards	Social Development Specialist	GSURR		
Xin Ren	Environment Safeguards	Environmental Specialist	GENDR		
Alejandro Alcala Gerez	Legal	Senior Counsel	LEGES		
Zhuo Yu	Disbursement	Finance Officer	WFALN		
Hongwei Zhao	Program Assistant	Document Processing	EACCF		
Extended Team					
Name	Title	Office Phone	Location		
Rufei Zhang	Urban Planner and Institutional Specialist, consultant		Shanghai		
Chuntai Zhang	Economic Consultant		Beijing		
Shen Yang	Senior Cultural Heritage Conservation Specialist		Beijing		
Geoffrey Read	Senior Infrastructure and Conservation Specialist		London		
Jianmin Cai	Senior Tourism Planning Specialist		Beijing		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
China	Gansu	Kongtong District, Jinchuan County, Zhuanglang County, Kang County, Tanchang County, Hezheng County	X		

I. STRATEGIC CONTEXT

A. Country Context

1. Over the past three decades, China's rapid urbanization has facilitated impressive economic and social gains. It has catalyzed China's rapid Gross Domestic Product (GDP) growth, pulling more than 500 million people out of poverty. Urbanization is projected to add another 300 million to China's urban population by 2030 and continue boosting economic growth.¹ With rising living standards, awareness and appreciation of cultural heritage assets have been increasing, leading to an expansion of the cultural tourism sector. Cultural heritage is now considered in China not only to be an essential element of national history and pride, but also an asset for local economic and social development.

2. Scenic areas are key assets for heritage-based sustainable tourism in China. Tourists in China travel to visit cultural and natural heritage sites. Besides being tourism destinations, these areas provide weekend leisure opportunities for the emerging middle class. There have been significant private sector investments in the vicinity of the most scenic areas, including large hotels as well as bed and breakfasts, restaurants and handicraft shops. Small businesses located within local communities provide the largest share of jobs in the sector, showing a promising potential for further development, with significant impact on employment.

3. Gansu is one of the least developed and poorest provinces in China. The province is endowed with unique resources with great potential for local economic development and job creation. Gansu's topography is anchored around the Gobi Desert, the Qilian Mountain range and Hexi Corridor, with large oases, wetlands and rivers, comprising unique and challenging environmental landscapes. Throughout history, Gansu has played a key role in the evolution of China's culture; even today, Gansu features significant portions of the ancient Silk Road. Gansu has also some of the most significant cultural and natural heritage sites in all of China, which have World Heritage status, e.g., Mogao Grottoes in Dunhuang and Great Wall in Jiayuguan, Maijishan near Tianshui, and Bingling Temple in Linxia.

B. Sectoral and Institutional Context

4. **Sectoral Context at the national level.** China's National 12th Five-Year Plan (2010-2015) highlights the conservation of historic relics, listed historic sites, and intangible heritage as ways of enhancing inheritance and expanding the utilization of heritage capital for local economic development. The conservation and development of distinctive historic sites, surrounding landscapes, environmental improvement, and enhanced scenic area management are expected to be among the key goals in the long-term economic development plans across all levels of government, in particular the 13th Five-Year Plan that is currently being prepared.

5. Tourism is a high-priority sector in China's National 12th Five-Year Plan and the draft 13th Five-Year Plan attaches great importance to balancing conservation and development of tourism resources. The government's main measures to promote tourism development include: (i)

¹ World Bank and the Development Research Center of the State Council, P. R. China. 2014. *Urban China: Toward Efficient, Inclusive, and Sustainable Urbanization*. Washington, DC.

strengthening tourism infrastructure; (ii) promoting the development of key tourism regions and travel routes; (iii) facilitating markets and diversifying tourism products; and (iv) designing in-depth cultural tourism experiences. The State Council has recently issued a number of guidance notes to promote tourism reform and development.

6. **Sectoral Context in Gansu.** Tourism is a well-established sector in Gansu, with a strong focus on cultural and natural heritage sites. In 2014, Gansu was visited by about 13 million tourists, mostly domestic, with a 25 percent increase over 2013. Tourism based on cultural and natural heritage sites contributes to 10.2 percent of Gansu's GDP; this GDP share is one of the highest in China, where the national average in 2013 was 5.4 percent.

7. Cultural and natural heritage sites in Gansu are facing rapidly increasing and even immediate threats, including: (i) rapid growth in the number of visitors, affecting site management arrangements and carrying capacity; (ii) conservation, management, and development investments carried out without an overall vision; (iii) uncontrolled soil erosion and landslides; (iv) a largely concrete-focused approach to environmental restoration; and (v) inadequate attention to social aspects, especially linkages to local communities and addressing basic service delivery needs.

8. In 2013, Gansu Provincial Government (GPG) fine-tuned conservation plans, development programs, and investment schemes in cultural, natural heritage and tourism into an integrated initiative founded on the concept of heritage conservation and sustainable tourism. This initiative, entitled the "Innovation Project of Huaxia Civilization Transmitting" (Gansu Huaxia Cultural Heritage Initiative) is structured as a package of conservation and development programs in 13 sub-sectors, including cultural sites, natural areas, intangible heritage, and historic towns. The objective of this initiative is to support sustainability and growth, and to have the sector contribute to another five percent of Gansu's provincial GDP by 2020.²

9. Geographically, Gansu is divided into three main regions defined by its topography and natural barriers: Hexi Corridor (Western Gansu), Central Gansu, and Longdongnan (Southeast Gansu). Each of these three regions possesses a unique stock of cultural and natural heritage, and together forms a spatial layout of Gansu's heritage sites: three clusters of cultural and natural heritage sites connected by the corridor of the ancient Silk Road. This is referred to as "one corridor and three clusters" in the Gansu Huaxia Cultural Heritage Initiative. GPG has requested the proposed Second Gansu Heritage Project to target the region of Longdongnan (Southeast Gansu) as prioritized in the Gansu Huaxia Cultural Heritage Initiative based on the following considerations:

- Covering a land area of about 19 percent of Gansu's provincial territory, the Longdongnan region possesses the largest stock of Gansu's cultural and natural heritage (including 50 percent of Gansu's immovable cultural relics and 22 percent of Gansu's natural heritage). Given the limited fiscal resources that the local county governments in Longdongnan can allocate to conservation of such a large stock of relics, cultural heritage at the city/county level in Longdongnan is facing rapidly

² "Gansu Tourism Development Plan 2006-2020".

increasing or immediate threats of degradation or vanishing. Actions are urgently needed for the preservation of cultural relics at the city/county level.

- With tourism capacity approaching its limits in most sites in the Hexi Corridor and in central Gansu, it is critical to mobilize tourism development in Longdongnan to sustain the growth of Gansu's tourism industry. However, Gansu's priority tourism investments have traditionally concentrated in the Hexi Corridor and Central Gansu, and financial resources allocated to tourism investments for heritage preservation and basics infrastructure for sites in Longdongnan have so far been limited. As a result, the tourism industry in Longdongnan is currently far less developed.
- With over 84 percent of its population living in rural areas, Longdongnan is far less urbanized than the other two regions of central Gansu (where rural residents account for 30 percent of total population) and Hexi Corridor (where the rural population is 16 percent). Urban jobs created from tourism development could make a significant contribution to accelerate urbanization in Longdongnan region, where traditional industrial investments are largely restricted due to its sensitive ecosystems.
- In 2013, about 52.4 percent of Gansu Province's rural poor population lived in the Longdongnan region and it is one of the poverty regions prioritized in China's state poverty reduction schemes. Investments in Longdongnan tourism development will provide significant opportunities to the province's rural poor communities.

10. **Rural Poverty Reduction and Tourism Development.** In November 2015, the Chinese Government announced an ambitious program to eliminate remaining rural poverty in the country by 2020. As part of the new program, China announced a scheme for rural poverty reduction through tourism development in over 6,000 designated poverty villages, including 368 poverty villages in Gansu Province, and 48 poverty villages in the six project counties/district. Nineteen of these poverty villages are targeted by the proposed Project.

11. **Value Added of World Bank's Support.** Bank support for the proposed Project will bring the Bank's considerable global and local knowledge of cultural and natural heritage conservation and tourism development to the province. The Bank has already assisted Gansu through the First Gansu Cultural and Natural Heritage Project, which concentrated on the Hexi Corridor and Central Gansu. In addition, the Bank has supported numerous cultural heritage projects in China (including in Guizhou Province, Shandong Province, Anhui Province, and Hubei Province) as well as in other countries, including Tunisia, Lebanon, Morocco, Bosnia Herzegovina, and Jordan. Continued Bank support will scale-up good practice from the earlier project in Gansu and help the province to further harness the potential of cultural and natural heritage sites for local economic development in a less developed part of the province.

C. Higher Level Objectives to which the Project Contributes

12. The objectives of the proposed project are consistent with the World Bank Group's Country Partnership Strategy (CPS) for China 2013-2016 (Report No. 67566-CN) discussed by the Board of Executive Directors on October 11, 2012. The project is aligned with two of the strategic themes defined in the CPS: Supporting Greener Growth and Promoting More Inclusive

Development. The project would support two outcomes of China's CPS FY2013-2016: enhancing opportunities in rural areas and small towns; and improving transport connectivity for more balanced regional development.

13. The project supports the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity. The ultimate goal of the project is to stimulate job creation and local economic development through sustainable tourism. Global experience demonstrates that investments in conservation of cultural heritage assets and developing tourism support the development of a labor-intensive industry that provides proportionally more income opportunities for low-skilled laborers and the poor. The six selected project sites are located in designated national or provincial level poverty counties; about 7,400 poor people living in rural communities of these counties are expected to benefit from the Project. Project interventions and improved tourism development as a result of enhanced cultural heritage will enable unemployed and underemployed individuals to have greater access to jobs and in turn create the conditions for a sustained and broad-based growth.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

14. The project development objective is to conserve cultural and natural heritage, enhance tourism services and improve community services in selected project sites in Gansu province.

B. Project Beneficiaries

15. Project beneficiaries are 111,000 people, including those from targeted local communities in the proximity of project sites as well as those from nearby areas who will benefit from improved services such as roads and sanitation. These local communities will directly benefit from project interventions, including provision and improved access to basic infrastructure services, and start-up training and support for tourism-related businesses. Tourists visiting the six project sites (estimated at 5.86 million by 2021) will also benefit as a result of project interventions: better conserved and exhibited cultural/natural heritage sites; more tourist products; upgraded facilities; and improved services. Increased spending by tourists would help bring economic benefits to local communities.

C. PDO Level Results Indicators

16. The achievement of the PDO will be measured through the following key performance indicators:

- i.) Direct project beneficiaries (disaggregated by gender);
- ii.) People in project areas with improved access to community services;
- iii.) Tourism related small businesses supported by new community organizations;
- iv.) Increase in spending by tourists in project sites; and
- v.) Improved quality of conservation techniques and visitor management in project sites measured by site management plans adopted and fully funded by county budgets.

III. PROJECT DESCRIPTION

A. Project Components

17. The Longdongnan Regional Strategic Planning Study for the Cultural and Natural Heritage Conservation and Sustainable Tourism Development (Longdongnan Regional Study) provided the basis to screen sites for inclusion in the project. The selected sites have a complete set of planning tools to expedite implementation, including heritage conservation and development plans at both county and site levels, as well as tourism development plans at both county and site levels. Of the sites identified based on the above, sites with higher development potential, including attractiveness for private sector investments, job creation, and income generation for local communities, were prioritized.

18. Six sites have been selected for inclusion in the project (see Table 1). A map showing the location of the proposed project sites vis-a-vis the main urban areas and transportation infrastructure is provided in Annex 6.

Table 1. Project Sites

District/County	Site	Rating*
Kongtong District	Kongtong Mountain Scenic Area	5A
Jinchuan County	Jinchuan Hundred Mile Grottoes Corridor	4A
Zhuanglang County	Yunya Temple Scenic Area	4A
Tanchang County	Guan'egou Scenic Area	4A
Kangxian County	Yangba Scenic Area	4A
Hezheng County	Hua'er Songmingyan Scenic Area and Hezheng Ancient Fossil Museum	4A

**Rating reflects the current classification of each site, which in the Chinese system is a proxy for their attractiveness, value, and relevance to Chinese identity. Sites rated 4A or 5As have the highest rating.*

19. The three project components described below blend investments in sites and communities with capacity building. A more detailed project description is provided in Annex 2.

20. **Component 1: Heritage Conservation and Tourism Services Improvement** (*Component cost US\$117.72 million, IBRD share US\$73.77 million*). This component will support carrying out site conservation and protection activities, construction, upgrading and/or rehabilitation of basic infrastructure and services facilities in Project Sites, consisting of, *inter alia*:

- i.) Protection and conservation of cultural and natural heritage and cultural relics, including studies on Project-related activities and the design of cultural heritage preservation programs;
- ii.) Construction, rehabilitation and/or upgrading of tourist roads, footpaths, pedestrian bridges, and scenic lookouts, including associated equipment;

- iii.) Provision and upgrading of services including water supply, drainage, wastewater collection and disposal, solid waste collection, power, and tourist signage, including associated equipment;
- iv.) Construction and/or rehabilitation of selected scenic areas' administration facilities, museums, heritage and service centers, and parking space associated thereto;
- v.) Implementation of mitigation measures and works for natural heritage aimed at landslides, floods, and other natural hazards, including associated equipment.
- vi.) Development of a tourism information system and website for each of the project sites, which is fully integrated with the province-wide Gansu E-Tourism system.

21. **Component 2: Community Basic Services Delivery** (*Component cost US\$28.69 million, IBRD share US\$17.98 million*). This component will support construction, upgrading and/or rehabilitation of basic infrastructure, and provision of basic services to the communities in the Project Sites, consisting of, *inter alia*: (i) improvement of pavement for village access roads; (ii) provision of water supply, wastewater collection and disposal; (iii) solid waste collection and sanitation improvements; (iv) street lighting; (v) construction of a wastewater collection network in Kongtong Scenic Area, a wastewater treatment plant along with a wastewater collection network in Hua'er Songmingyan Scenic Area; and (vi) construction of village classrooms for teaching and practicing local intangible cultural heritage such as local folk songs and performing art.

22. **Component 3: Capacity Building, Institutional Strengthening, and Project Management Support** (*Component cost US\$8.00 million, IBRD share US\$8.00 million*). This component consists of:

- i.) Provision of training to selected Project-related staff, scenic area administrators and operators, and residents of local communities in the Project Sites, as appropriate, on *inter alia*, cultural and natural heritage protection and scenic area management.
- ii.) Provision of (a) training to residents of local communities in the Project Sites on topics of start-up or expansion of locally-owned and tourism-related small business, business skills for participation in tourism, protection of intangible cultural practices, etc; and (b) technical assistance to local communities for incubating community-level small business associations and cooperatives.
- iii.) Provision of Project management support and technical assistance on, *inter alia*: (a) design review; (b) project management, contract monitoring and supervision; (c) construction supervision; (d) project reporting; and (e) independent monitoring of the implementation of environmental and social safeguards;
- iv.) Carrying out studies on heritage preservation and the culture of local ethnic minorities, as well as on the overall management of scenic sites (including asset management).

B. Project Costs and Financing

23. The proposed lending instrument for this project is Investment Project Financing. The borrower has chosen a US\$ denominated, variable spread loan, based on a six-month LIBOR plus an additional variable spread, with all conversion options, a commitment linked level repayment profile, payment of the front-end fee from IBRD loan proceeds, and a final maturity of 30 years, including a grace period of 5 years. Table 2 provides details of project costs and financing.

Table 2. Project Costs and Financing

Project Components	Project Cost (US\$ million)	IBRD Loan (US\$ million)	Percentage of Project Costs
Component 1. Heritage Conservation and Tourism Services Improvement	117.72	73.77	62.67
Component 2: Community Basic Services Delivery	28.69	17.98	62.67
Component 3. Capacity Building, Institutional Strengthening, and Project Management Support	8.00	8.00	100
Sub-total	154.41	99.75	64.60
Interest During Construction	5.13	0.00	0
Commitment Fee	0.98	0.00	0
Front end fee	0.25	0.25	100
Total project cost	160.76	100.00	62.20

C. Lessons Learned and Reflected in Project Design

24. The Bank has gained substantial experience in supporting cultural heritage conservation and sustainable tourism development across the world, with an increasing focus on the intersection between cultural heritage conservation and local economic development, through sustainable tourism development, employment creation, and poverty reduction. In China, cultural heritage was originally included as a component of larger development projects supported by the Bank, and has subsequently been expanded to dedicated cultural heritage projects in Gansu (2008-2015), Guizhou (2009-2016), Shandong (2011-2016), and Jingzhou (2016-2021). The design of the proposed project builds on the Bank's substantial experience with cultural heritage projects across the globe as well as in China.

Lessons from Cultural Heritage Projects Worldwide

25. **Preserving and revitalizing cultural and natural heritage sites and villages can promote local economic development.** Bank-supported projects in Peru, Jordan, Lebanon, and Georgia, as well as in China, reveal that cultural and historic assets have the potential to stimulate the local economy, foster the place's vitality and attractiveness, and help create jobs. The design and implementation of this project leverages the Bank's multi-sectoral expertise to help realize the dividend of cultural and natural heritage conservation in promoting local economic development.

26. **Blend conservation and service delivery.** Blending conservation and community services to address poverty was successfully piloted, *inter alia*, in the Tunisia Third Urban Development Project where low-income families in the Hafsia Quarter in the historic medina of Tunis were provided with better shelter and improved urban services. Investments in the proposed project promote a mix of conservation of cultural and natural heritage with basic service delivery for local communities to improve their quality of life and livelihoods.

27. **Adopting a practical, integrated approach.** Lessons from Albania, Lebanon, and Tanzania (as well as in China) highlight the need to avoid spreading efforts too thinly in too many locations in order to maximize economic impacts. While project interventions cut across three sectors (cultural heritage, water, and transport), investments under the project focus on a few municipal jurisdictions.

Lessons from Cultural Heritage Projects in China

28. **The lead time for cultural conservation plan approval, particularly for national-level heritage sites, should be factored into implementation planning.** Unlike the earlier project which focused on international and national level heritage assets, the proposed project would focus on cultural and natural sites that are attractive, yet are neither classified at international or national level. These sites are covered by a simplified approval process at the local level.

29. **Soundness of the background analysis.** Key lessons incorporated in the project design include: (i) the need for comprehensive and coordinated planning; (ii) the importance of adopting international standards in heritage site conservation and interpretation; (iii) planning for sustainable tourism development; (iv) prioritizing community benefits and poverty reduction; and (v) understanding local fiscal capacity.

30. **Early interventions in regions with nascent cultural and natural heritage tourism potential can help build capacity to cope with significant future growth in tourism.** China and Gansu have seen an exponential growth in domestic tourism in the last ten years, well beyond what was envisaged at appraisal of the First Gansu Cultural Heritage Project. The proposed project allocates sufficient funds to prepare Site Management Plans for all key sites to enhance the carrying capacity of each site, and prepare appropriate visitor management plans and conservation plans.

31. **Sufficient funding for quality implementation is essential for projects in low-capacity regions.** This is an important lesson from the Eritrea Cultural Assets Rehabilitation Project as well as the First Gansu Cultural Heritage Project. Considering the weak capacities of the six project counties/district which are new to Bank supported projects, adequate resources have been allocated for consulting support in project management and construction supervision, as well as training to enhance the capacity of the local PMOs and implementation agencies.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

32. Gansu Provincial Government has appointed the Gansu Provincial Foreign Loan Administration Committee as the project leading agency (PLA) for high-level guidance for the project and for coordination on policy, financial and institutional issues. A provincial PMO (PPMO) has been established under the supervision of the PLA for day-to-day project management, including monitoring implementation progress, assisting in procurement activities, carrying out financial management, and preparing consolidated project reports. The PPMO is housed within Gansu Highway, Aviation and Tourism Investment Group Co., Ltd, a state owned company fully owned by the Gansu Provincial Government.

33. At the district/county level, a PMO has been established in the district/county Development and Reform Commissions (DRC); however, in Kangxian County, the PMO is located in the Kangxian County Culture and Tourism Bureau. Each PMO is led by a director and is composed of core staff from the district/county government and related implementation agencies. The PMOs are responsible for the preparation and execution of project components within their jurisdiction and for coordination with the PPMO.

34. **Readiness for implementation.** First year project activities have been identified and the associated final engineering designs and bidding documents will be prepared by the involved project counties/district soon after the loan effectiveness. A Project Management Company will be selected/appointed under retroactive financing arrangements to ensure the quality of final designs and bidding documents.

B. Results Monitoring and Evaluation

35. An M&E system has been established to monitor implementation progress and progress towards achievement of the PDO indicators and intermediate results indicators, as well as safeguards compliance. The PPMO, with inputs from the PMOs, will be responsible for data collection and reporting on progress and results. An implementation support consultant team financed under the project will also assist with M&E implementation. Independent specialized monitoring institutes will monitor and report on the implementation of, and compliance with, environmental management plans and resettlement action plans (RAPs). The costs of M&E have been included in the costs of the three project components. See Annex 1 for more details on the Results Framework and M&E arrangements.

C. Sustainability

36. Gansu Provincial Government and the six project county governments are committed to cultural heritage conservation, development of tourism and local communities in the proximity of scenic areas. The project has been designed with the intensive involvement of all implementing agencies and in consultation with the local communities. It is supported by a set of heritage conservation plans, scenic area master plans and feasibility studies. Project design draws on international and local good practices, as well as lessons learned from the Bank's cultural and natural heritage conservation projects, in particular the First Gansu Cultural Heritage Project.

37. Technical, economic, and financial analyses conducted during project preparation/appraisal will ensure that the required institutional arrangements, resources and capacities will be in place to construct, operate, and maintain project investments. Assets built in the scenic areas under the project will be managed by local institutions in the scenic areas, while assets built for local communities will be transferred to the related public services units for operation and maintenance, e.g., the public utility division under the county urban construction bureau for urban roads and drainage/sewage pipelines. Technical assistance and capacity building will contribute to sustainable tourism development at project sites. Continued involvement of the beneficiary communities and stakeholders throughout the project cycle will also contribute to project sustainability.

D. Citizen Engagement

38. Citizen engagement was a key aspect of the project Social Assessment (SA): consultation activities included three rounds of field investigations with 10 relevant government agencies, 37 focus group meetings with project communities, 590 questionnaires, and 390 internet surveys across the six project counties and district. Public consultations were held for the selection of locations for local infrastructure, e.g., access roads, tourist information center, and community cultural exhibition center. Public consultation will continue to draw on local people's views and feedback on project design and implementation. Consultations will continue with local residents (both men and women) on the needs for training and with community-based organizations focusing on providing tourism services and cultural and natural heritage protection. Information on potential social impacts, community development, and planned mitigation measures has been and will continue to be shared with the public. Citizen engagement will be measured through the project's Results Framework with the following indicators: (i) percentage of beneficiaries reporting that project investments reflected their needs; (ii) percentage of registered grievances related to the project activities that are appropriately responded to within two weeks.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

39. The overall implementation risk for the project is rated "Substantial", based on the risk ratings of "Substantial" for: Technical Design of the Project; Institutional Capacity for Implementation and Sustainability; Fiduciary; and Environmental and Social Safeguards.

40. **Project Design.** The project takes an integrated approach to heritage conservation, tourism services improvement, and basic community services delivery. It involves a number of sectors and implementation agencies, posing challenges for implementation, supervision and project monitoring. There is a potential for inadequate or inappropriate development occurring at project sites in parallel with Bank-financed project activities. To mitigate the risk associated with a complex design, some investments that were initially proposed were dropped to avoid additional complexity. The PLA will provide leadership and coordination of the PPMO and the PMOs. Each local government is required to have a consistent conservation plan, a tourism development plan, and a physical layout for every one of its project sites. Both Gansu and the Bank will provide technical assistance and training to strengthen site management and to

improve planning capacity. Project management consultants (to be procured under the Component 3) will review the final engineering designs and bidding documents. Regular Bank supervision will identify potentially inappropriate development for timely action by local government leaders.

41. **Institutional Capacity for Implementation and Sustainability.** Although Gansu has gained experience and institutional capacity through the recently completed First Gansu Cultural Heritage Project, project counties/district are new to Bank financing. The PLA may pay limited attention to the project due to competing demands. Leadership changes and limited technical capacity of the PMOs may cause delays. Project county/district PMOs have committed to fully staff their teams with the required expertise. The Bank has provided targeted training on Bank policies and procedures during project preparation, and will monitor the provision of further training for PMO staff, as needed, during project implementation. The counterpart funding for the first year implementation for all project counties/district have been committed by the corresponding local governments. The PLA and PPMO will cause the local governments to take any necessary and timely actions should the counterpart funding become an issue.

42. **Fiduciary.** The fiduciary risk is primarily related to the weak procurement capacity of the six PMOs. A qualified procurement agent will be engaged by Gansu to help strengthen the PMO's procurement capacity. The PPMO and the Bank will continue to provide training to procurement staff during project implementation.

43. **Environment and Social.** Given the relatively low capacity at the local level, there is a substantial risk that the agreed Environmental and Social Management Plan (ESMP), Ethnic Minority Development Plan (EMDP) and Resettlement Policy Framework (RPF) may not be implemented in a satisfactory manner. Training on safeguards has been provided to relevant PMOs and other staff during project preparation. The Bank will monitor the implementation of the agreed safeguard documents through continued training of concerned staff, field visits, review of reports from the PPMO and external monitoring consultants, and will address issues identified through discussions and appropriate mitigation actions with the various stakeholders, including PLA, PPMO/PMOs, and others.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

44. **Economic Analysis.** The main economic benefits of the Project include enhanced experience or utility of tourists owing to heritage site protection and development, increased employment and income of local communities owing to local tourism development and local skills enhancement, and better accessibility and amenity of local communities. Benefits to tourists were measured by expenditures incurred and willingness-to-pay (WTP). The Project will also increase employment opportunities and income of local people as tourists pay for tourism-related services provided by them; however, since most of the service payments made by tourists were already accounted for as benefits, the increases in income were not included in the analysis in order to avoid double counting.

45. Cost-benefit analysis was carried out for the proposed investments grouped into eight clusters, based on their nature, location, and association; the results are summarized in Table 3 below. The EIRR for the project is estimated at 15.42 percent, with a net present value of RMB2.53 billion (US\$389.1 million), and a benefit/cost ratio of 2.84. Sensitivity analysis at a 10 percent reduction in economic benefits and a 10 percent increase in investment costs indicates that the investments still provide a robust overall EIRR of 13.57. Annex 5 provides details of the economic analysis.

Table 3. Summary of Economic Analysis

Components	NPV (million RMB)	EIRR (%)	BCR	Sensitivity Analysis (EIRR assuming 10% cost increase and 10% benefit reduction)
				EIRR (%)
Kongtong Mountains in Kongtong District	868.99	17.74	2.88	16.30
Buddhist Grottoes Conservation in Jinchuan County	98.05	12.79	2.88	11.99
Silk Road Buddhist History Museum in Jingchuan County	64.87	10.77	1.97	9.87
Yunya Temple and Scenic Park in Zhuanglang County	164.75	11.42	1.75	10.09
Guan'egou Ethnic Cultural and Natural Heritage Conservation in Tanchang County	636.56	16.01	3.07	14.77
Yangba Natural Heritage Conservation in Kangxian County	450.52	15.89	2.82	14.66
Hua'er Traditional Music Conservation and Inheritance and Songmingyan Scenic Park in Hezheng County	121.88	12.23	1.90	10.95
Fossil Museum in Hezheng County	3.92	12.09	2.08	11.03
Overall project	2,529.3	15.42	2.84	14.54

46. **Fiscal Analysis.** Counterpart fund requirements for the project are relatively small, and represent only about 0.8-4.3 percent of the total local fiscal revenues (and 0.1-0.5 percent of total government expenditures) during the project implementation period. The project district/counties have confirmed that counterpart funding for the first year have been included in their budgets, and have also committed to allocate sufficient funds annually during project implementation.

47. Indebtednesses of Project district/counties in 2014 was in the 13.2 - 51.9 percent range of total government expenditures. To better manage debt, local governments are committed to enhanced debt management, including closely monitoring the status of debt, optimizing the debt structure, establishing debt repayment funds, and seeking upper level government financial support, if necessary. With these mitigation measures, project district/counties are expected to have adequate fiscal capacity to service their share of the Bank loan for the proposed project (see Annex 5 for details).

48. **Financial Evaluation.** Financial evaluations of the six sub-projects show that the financial internal rates of return (FIRR) are in the range of 6.49 - 12.3 percent after tax, i.e., are higher than the 5 percent average financial discount rate for the tourism sector in China. The results of sensitivity tests show that the sub-projects continue to be financially viable for most of the tested scenarios. In the worst case of combining a 20 percent increase in costs and a 20 percent decrease in revenue, the FIRRs are in the 4.41- 8.17 percent range tax (see Annex 5 for details).

B. Technical

49. **Heritage site conservation and tourism services improvement.** Project design is based on the Longdongnan Regional Study. A comprehensive assessment of cultural and natural heritage at the sites and survey of market demand and visitors needs to confirm that project activities support a differentiated tourism product that is competitive in local and regional tourism markets. A full package of plans, including heritage preservation, tourism market development, and site master plan, were reviewed for quality and consistency. Investments selected for inclusion in the project are listed as priorities under the tourism and site development plans, and are consistent with the conservation plans; these plans also provide the framework for other developments at the sites over the long-term.

50. **Community basic services delivery.** Investments in infrastructure and services in communities have been prepared with the following priorities in mind: (i) filling in existing gaps in infrastructure and services; (ii) improving service quality and full-utilization of the existing stock of facilities; and (iii) supporting expansion of infrastructure and services for emerging needs in a reasonable time horizon. Project investments in communities focus on improving basic infrastructure services (e.g., village streets, water supply, wastewater collection, drainage, and sanitation) and have been designed in accordance with national and provincial technical standards.

51. The technical feasibility of investments proposed under Component 1 and Component 2 has been appraised and will be reconfirmed by project financed consultants (under Component 3) during the review of detailed designs and bidding documents. All selected infrastructure investments represent least-cost and affordable solutions, derived from an analysis of alternatives, and are sized to avoid excess capacity. Standard design criteria and design principles have been appropriately modified to suit local conditions and requirements. Project costs were estimated using unit rates from recent contracts and market rates.

C. Financial Management

52. The proposed FM arrangements are largely based on those established under the first Gansu Cultural Heritage Project, which has been satisfactory during project implementation. The Bank loan proceeds, including overseeing the DA, will be managed by Gansu Provincial Finance Department (GPFD). The primary FM responsibilities of the PPMO will be coordinating and supervising project implementation, providing guidance to county/district PMOs, and finalizing and submitting financial reports to the Bank.

53. The primary FM responsibilities of county/district PMOs are preparing the annual plan and payment requests, accounting and financial reporting. However, both PPMO and county/district PMOs do not have prior experience managing World Bank financed projects. An action plan to strengthen FM capacity has been agreed with the implementing agencies, including modification and distribution of an FM manual, training, and establishment of a systematic monitoring mechanism. The FM assessment concluded that with the implementation of the proposed actions, the project's FM arrangements satisfy the Bank's requirements under OP/BP 10.00

D. Procurement

54. The PPMO will provide general procurement assistance to the county/district level PMOs. The six PMOs at the respective project county/district will be responsible for project procurement implementation, i.e., procurement document preparation, bid evaluation and contract management. The primary risk is the weak procurement capacity of the PMOs, as most are new to procurement for Bank projects.

55. The following risk management measures have been taken or agreed: (i) hire a qualified procurement agent with experience in Bank project procurement; (ii) provide regular training to PMO staff on Bank procurement policies and requirements; (iii) PPMO staffed with procurement experts familiar with Bank procurement procedures to provide adequate guidance and support to the PMOs; and (iv) close Bank supervision during the initial stages of project implementation.

56. The PPMO and the PMOs have prepared a preliminary procurement plan for the entire scope of the project, dated October 26, 2016 and a detailed Procurement Plan for the first 18 months of project implementation (including contracts for retroactive financing); these are acceptable to the Bank. The Procurement Plan and its updates will be posted on the Project website and the Bank's external website. Further details on procurement are in Annex 3.

E. Social (including Safeguards)

57. **Social Assessment.** A comprehensive SA was carried out in all project counties and district to identify and address social impacts and risks; these are summarized in Annex 3. The SA findings and recommendations have been reflected in the Environmental and Social Management Plan (ESMP) and the ethnic minority development plan (EMDP). In addition to technical assistance on integrated cultural heritage reservation and community management of basic services, the project will support the development of 31 community organizations with a focus on tourism services and products development.

58. **Ethnic minorities.** The Bank safeguard policy on Indigenous Peoples (OP/BP 4.10) is triggered as there are over 1,500 Tibetan, Hui and Dongxiang minority households (about 6,900 people) present in two project sites. An EMDP has been prepared to ensure that project activities are offered fairly to these ethnic communities in a culturally appropriate way and to promote the participation of ethnic minority people (both men and women) in the project. Priority will be given to these ethnic and vulnerable people in the project villages in terms of jobs, income generation opportunities, livelihood development or restoration, and other economic opportunities resulting from the project. In particular, the project will support intangible ethnic cultural heritage protection and promotion via the development of local performing arts and tourism-oriented souvenirs. Implementation of the EMDP will be monitored by the PMOs and independent external consultants.

59. **Involuntary resettlement (OP/BP4.12).** The project civil works will be constructed on public land, with no need for additional land acquisition or resettlement. A resettlement policy framework (RPF) has been prepared to address any future land acquisition and resettlement that might emerge as a result of changes to identified locations of civil works during project implementation. The RPF describes the overall legal framework, planning principles, procedures,

compensation and rehabilitation approach, consultation and participation requirements, grievance redress mechanisms, and organization and monitoring arrangements.

60. **Disclosure of safeguards documents.** The SA report, ESMP, EMDP and RPF were disclosed locally and made accessible to general public on January 20, 2016. They were all disclosed through the Bank InfoShop on January 24, 2016 except for the Environmental and Social Management Plan (ESMP) which was disclosed on January 25, 2016.

61. **Gender.** Gender considerations have been integrated into project design, in particular through the Social Assessment. Women have different needs for training on tourism services, livelihoods and community development, road lighting and safety, paths, rest seats and transport signs in scenic areas. Women indicated a need for improved local transport/bus services, local schools for children, and micro-credit for small businesses. Some of these views have been reflected in the project design, e.g., community development activities under Component 2. Women's opinions and participation will be considered during further public consultations and citizen engagement activities during project implementation, e.g., supporting women's embroidery associations, performing folk arts teams, and community-based organizations. Gender is embedded in the project Results Framework and gender disaggregated information will be included in annual progress reports.

F. Environment (including Safeguards)

62. Given the cultural, historical and natural significance and sensitivity of the sites involved, even the moderate scale of activities proposed under the project might generate sensitive and irreversible impacts. The project is therefore classified as environmental Category A. Impacts during construction mainly include damage to cultural resources by improper repair, noise and dust, wastewater discharge, vegetation loss, and off site impacts on water and soil erosion from borrow and disposal pits, and disposal of garbage and manure collected from the tourism area. Major impacts during operation include air pollution and noise from traffic on new roads, sewage and solid wastes from tourist facilities and home stay, and social and environmental impacts induced by the influx of tourists on completion of the project.

63. **Environmental Assessment (OP/BP 4.01).** An Environmental Assessment (EA) was prepared to consolidate the domestic EAs of the six sub-projects to meet the requirements of Bank safeguard policies and relevant domestic regulations. Based on the EA, an ESMP was developed with general mitigation measures as well as site-specific measures, taking into account the applicable World Bank Group Environmental, Health and Safety (EHS) Guidelines.

64. **Natural Habitats (OP/BP4.04).** Project activities include civil works and other activities in three natural national/provincial level reserves, four national/provincial geological parks, a national wetland, several national/provincial forest parks/scenic areas, and drinking water protection areas for nearby county towns. Most sub-projects fall in the zones (e.g., experimental zone) that allow the types of activities proposed according to applicable regulations in China concerning these protected areas. Activities originally in non-permissible zones/critical habitats were dropped or adjusted during the EA process. Relevant site-specific mitigation measures and monitoring requirements have been included in the ESMP.

65. **Physical Cultural Resources (OP/BP 4.11).** Activities proposed include conservation of provincial and county level cultural relics and other physical cultural resources, e.g., traditional houses. Activities proposed were screened during the EA process to exclude those not allowed in the control zones designated by relevant authorities. A cultural resource management plan was developed as part of the ESMP, as well as a chance find procedure to properly handle and report any relics uncovered during construction. All preliminary designs for related physical work will be reviewed and cleared by the Cultural Relic Bureau at the appropriate level to ensure conformity with conservation plans and applicable regulations and specifications.

66. **Public disclosure and consultation.** Two rounds of public consultations were held during EA preparation as per the Bank requirement for a Category A project: in November 2015 in all project counties and cities, as well as at the provincial level, with project information and a briefing on potential impacts disclosed at all official websites of local government/PMOs and notice boards of affected communities; and during January - February of 2016 with the full draft EA/ESMP being disclosed at the same official websites, with announcements in the local newspaper, TV and notice boards of local communities concerned in all project localities. Public consultations focusing on affected people were carried out using a combination of questionnaire survey, expert consultation, workshops and public meetings. Concerns and suggestions expressed have been incorporated in the EA and the ESMP. The English version of the EA/ESMP was first disclosed to the Bank Infoshop on January 25, 2016 and was re-disclosed on March 29, 2016 when the EA/ESMP was updated.

G. World Bank Grievance Redress

67. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints through existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

CHINA: Second Gansu Cultural and Natural Heritage Protection and Development Project

Project Development Objectives

PDO Statement

To conserve cultural and natural heritage, enhance tourism services, and improve community services in selected project sites in the Gansu Province.

These results are at Project Level

Project Development Objective Indicators

Indicator Name	Baseline 2016			Cumulative Target Values				End Target 2022
		YR1 2017	YR2 2018	YR3 2019	YR4 2020	YR5 2021	YR6 2022	
Direct project beneficiaries (number) – Core Sector Indicator (CSI) Of which female	0	0	13,500 7,500	35,700 20,000	80,000 44,800	99,000 55,500	111,000 62,200	111,000 62,200
People in project areas with improved access to community services (number)	0	3,200	16,000	19,200	28,800	28,800	32,000	32,000
Number of tourism related small businesses supported by new community organizations.	0	0	9	30	55	90	120	120
Increase in spending by tourists in project sites (RMB/visitor)	85	110	130	150	175	200	230	230
Improved quality of conservation techniques and visitor management in project sites measured by number of site management plans adopted and fully funded by county budgets.	0	0	0	0	0	6	6	6

Intermediate Results Indicators

Indicator Name				Cumulative Target Values				End Target 2022
	Baseline 2016	YR1 2017	YR2 2018	YR3 2019	YR4 2020	YR5 2021	YR6 2022	
Cultural heritage sites conserved (number)	0	1	9	18	24	27	27	27
Sites with soil erosion and landslide risks addressed (number)	0	0	0	1	7	20	20	20
Museums established (number)	0	0	0	2	3	4	4	4
Visitor centers established (number)	0	0	0	0	2	2	2	2
Length of pathways improved in scenic areas (kilometers)	0	2.30	8.80	29.20	61.50	87.00	87.00	87.00
Sewage pipelines improved (kilometers) - CSI	0	0	0	18.50	63.50	132.00	139.00	139.00
Rural roads rehabilitated (kilometers)	0	3	3	20.25	30.75	30.75	30.75	30.75
People received skills training (number)	0	0	2,400	3,600	7,200	7,200	7,200	7,200
Consultations held with local communities (number) - CSI	38	60	90	120	200	240	240	240
Percentage of registered grievances appropriately responded within two	40%	70%	90%	95%	95%	95%	100%	100%

weeks								
Percentage of beneficiaries that feel Project investments reflected their needs	60%	80%	85%	90%	95%	95%	95%	95%

Indicator Description

Project Development Objective Indicators

Indicator Name	Description	Frequency	Data Source / Methodology	Responsibility for Data Collection
Direct project beneficiaries	Direct project beneficiaries are people from local communities in the proximity of the project sites. These local communities will directly benefit from project interventions of: (i) provision and improved access to basic infrastructure services (e.g. water and sanitation and road improvements); (ii) support for training and incubation in locally-owned small businesses, such as souvenir sales, restaurants, and home-stay.	Annually	PIAs and relevant statistical agencies	Provincial PMO, in coordination with county/district PMOs, PIAs, and relevant statistical agencies.
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	Annually	PIAs and relevant statistical agencies	Provincial PMO, in coordination with county/district PMOs, PIAs, and relevant statistical agencies.
People in project areas with improved access to community services (number)	Cumulative number of residents with improved access to community services supported by the project.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township government responsible for implementing community components.
Number of tourism related small businesses supported by new community organizations (number)	Cumulative number of tourism related small businesses supported by new community organizations, including small business associations of private home stay, restaurants, local traditional handicrafts and souvenirs, local specialized agriculture products, etc.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township government responsible for implementing community components.
Increase in spending by tourists in project sites (RMB/visitor)	This indicator is determined by statistical surveys on tourist spending conducted by local statistical authorities in collaboration with the scenic area administrations in six project sites.	Annually	PIAs of scenic areas and relevant statistical agencies	Provincial PMO, in coordination with county/district PMOs, PIAs of scenic areas, and relevant statistical agencies.
Improved quality of conservation techniques and visitor management in project sites measured by number of site management plans adopted and fully funded by county budgets (number)	Cumulative number of improved quality of conservation techniques and visitor management in scenic areas supported under the project measured by the number of site management plans adopted and fully funded by county budgets.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and PIAs of scenic areas.

Intermediate Results Indicators

Indicator Name	Description	Frequency	Data Source / Methodology	Responsibility for Data Collection
Cultural heritage sites conserved (number)	Cumulative number of cultural heritage sites conserved under the project.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and PIAs of the six scenic areas.
Sites with soil erosion and landslides risks addressed (number)	Cumulative number of sites with soil erosion and landslide risks addressed under the project.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and PIAs of the six scenic areas.
Museums established (number)	Cumulative number of museums established under the project.	Annually	Project Progress	Provincial PMO, in coordination with

			Report	county/district PMOs and PIAs of the six scenic areas.
Visitor centers established (number)	Cumulative number of visitor centers established in scenic areas under the project.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and PIAs of the six scenic areas.
Length of pathways improved in scenic areas (kilometers)	Cumulative length of pathways improved (in kilometers) in scenic areas.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and PIAs of the six scenic areas.
Sewage pipelines improved (kilometers) -CSI	Cumulative kilometers of sewage pipelines improved in local communities.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township governments responsible for implementing community components.
Rural roads rehabilitated (kilometers)	Cumulative kilometers of rural roads rehabilitated in local communities.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township governments responsible for implementing community components.
People received skills training (number)	Cumulative number of people from local communities who received skills training provided by the project.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township governments responsible for implementing community components.
Tourism related small business supported (number)	Cumulative number of tourism related small business supported by the project during project implementation.	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township governments responsible for implementing community components.
Consultations held with local communities (number) -CSI	Cumulative Number of consultation meetings and workshops held with local communities during project implementation	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township governments responsible for implementing community components.
Registered grievances appropriately responded within two weeks	Percentage of registered grievances appropriately responded within two weeks	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township governments responsible for implementing community components.
Percentage of beneficiaries that feel Project investments reflected their needs	Percentage of project beneficiaries that feel Project investments reflected their needs	Annually	Project Progress Report	Provincial PMO, in coordination with county/district PMOs and town/township governments responsible for implementing community components.

Annex 2: Detailed Project Description

CHINA: Second Gansu Cultural and Natural Heritage Protection and Development Project

A. Project Design Approach

1. **A circuit approach has inspired project design.** The proposed project focuses on a specific cluster of sites in the South East Gansu, which form a series of well-established circuits along the key section of the Silk Road in Gansu.
2. **Community inclusion is a cornerstone of the project.** The proposed project is aligned with the World Bank Group's twin goals of "effectively ending extreme poverty by reducing the share of people living on less than US\$1.25 a day to 3 percent by 2030, and promoting shared prosperity by raising the incomes of the poorest 40 percent of population in every developing country". Project sites have been selected keeping in mind, *inter alia*, the potential for non-farm job creation and income generation for local communities, in particular for the poor people. Project design focuses on two pillars: (i) training to facilitate the creation of new locally owned enterprises, particularly bed and breakfasts, restaurants, and handicraft shops; and (ii) improving basic service provision to further enhance the enabling environment for local enterprises and private sector investment, through localized investments in roads, water supply, solid waste management, wastewater treatment, IT provision, and power/street lighting.
3. **Risk-based technical design.** The targeted project area of Longdongnan Region is exposed to multiple natural hazards, including flooding, earthquakes, and landslides. Project sites are vulnerable to these hazards due to inadequate planning and lack of implementation of risk reduction measures. Although Longdongnan is historically not a region with frequent flooding, a recent flood event in June 2013 caused severe damage to the sites in the Region. In the case of Yangba (a site in Kang County), the flood completely damaged key facilities in the site. The concept of risk-based multi-hazard management will be incorporated in the planning, construction and operation of sites and mitigation measures will be prioritized in project interventions.
4. **Complementarity with other on-going programs.** Two Government programs launched in Gansu can have synergies and complementarity with investments in heritage and sustainable tourism: Alliance of Silk Road Cities; and the New Silk Road National Initiative (one road one belt). These programs aim to enhance connectivity and access, which will contribute to increasing the number of visitors to scenic areas.

B. Project Components and Description

5. Project components blend investments in sites and communities, together with capacity building. The proposed project would include the following three components: Component 1: Heritage Conservation and Tourism Services Improvement (*US\$117.72 million*); Component 2: Community Basic Services Delivery (*US\$28.69 million*); and Component 3: Capacity Building, Institutional Strengthening, and Project Management Support (*US\$8.00 million*).

Component 1: Heritage Conservation and Tourism Services Improvement (US\$117.72 million)

6. Component 1 will be carried out at six priority cultural and natural heritage tourism sites in the Longdongnan Region. This component will enhance site conservation and development, and contribute to the sustainability of tourism. It would target scenic areas directly, within their boundaries, and provide resources for: site management; conservation of assets; enhancing their carrying capacity and tourism access; addressing soil erosion and landslides; creating new pathways to better control visitor flow; and appropriate interpretation of heritage properties. A user-friendly web-based tourism information system and website will be developed and shared across all six project sites, and would be fully integrated with the provincial Gansu E-Tourism system. A balanced program of heritage protection, infrastructure and tourism service development will be financed at each site.

7. **Kongtong Mountain Scenic Area (US\$ 34.27 million).** The Kongtongshan Scenic Area ranges over 84 km² and contains many poor farming communities, undeveloped mountain forest, small and large tourist facilities, and five significant cultural and natural heritage sites – Huangcheng Zhongtai, Xiangshan, Wangjiashan, Tanzhengxia, and Yanzhichuan. Kongtongshan is the cradle of Taoism and the Kongtong Kungfu (one of the five systems of Chinese martial art). The site's development began as early as Qing and Han dynasties (220 B.C.). The cultural heritage of temple buildings, sculptures, murals, and painting stands in the site were rebuilt in Ming Dynasty (1368-1644 A.D.) and early Qing Dynasty (1898 A.D.) Kongtongshan has a cultural heritage stock that includes relics listed at the national level, provincial level, and the municipal or county level. Cultural relics, in particular the significant clusters of historical temples, are concentrated on top of the cliffs in Huangcheng/Zhongtai core area.

8. Located 12 km northwest of Pingliang city, and about 300 km from Xi'an, Kongtongshan Scenic Area is known to tourists for its massive yarden formation, which is a natural geological formation due to wind and sand erosion. The site was designated in 2000 as a National Geological Park under the direction of Ministry of Land Resources. As a unique combination of both cultural and natural heritage, Kongtongshan is one of the two prime destinations on the Silk Road tourism loop in southeast Gansu (the other one being Maijishan Scenic Area in Tianshui Municipality, and supported by the First Gansu Cultural Heritage Project).

9. Proposed investments at this site include: (i) protection and conservation of cultural relics, including seven historical buildings of temples and seven pagodas that are listed as cultural heritage at provincial/municipal levels; (ii) construction and upgrading of 17.2 km of tourist footpaths, including a pedestrian bridge, safety handrails, several scenic lookouts and toilets, in the sub-scenic areas of Tanzhengxia, Yanzhichuan and Xiangshan; (iii) provision and upgrading of services, including water supply, wastewater, power and tourist signage in the core scenic area of the park (Huangcheng); (iv) an administration building (260 m² floor space) and a car park at Xiangshan; (v) mitigation measures and works for geo-hazard risks of landslide, rockslide, and storm flooding identified in the park in about nine spots; and (vi) an inventory and protection fence for old trees in the park.

10. **Jingchuan Hundred Mile Grottoes Corridor (US\$18.64 million).** The site of the Jingchuan Hundred Mile Grottoes Corridor is situated in the Jingchuan's county seat and

dispersed along the Jinghe River Valley. Located 230 km northeast of Xi'an, Jingchuan county seat was the last way-station on the Silk Road, where the traders, monks, and delegations rested and waited for permission to enter Xi'an city. Jingchuan county seat with a long history over 2,100 years has accumulated a rich deposit of cultural heritage, in particular Buddhist Grottoes: over 600 Grottoes are carved on the stone cliffs along the Jingchuan River valley, extending over 100 km. Heritage specialists consider the scale, variety, and value of Jingchuan's grotto corridor at the eastern end of the Silk Road to be comparable to the Dunhuang Grottoes on the western end of the Silk Road in Gansu. Built in the Ming Dynasty (1368-1644 A.D.), the Chenghuang Temple (Temple for the City's God) in city core of Jingchuan county seat is the only Ming Dynasty Chenghuang Temple that remains in Gansu Province today. The Project site in Jingchuan county seat is well serviced by expressways, national highways, and express rail. Neighboring the regional tourism hub of Xi'an city and located on the Silk Road tourism route, the Project site has great potential for developing tourism through heritage conservation.

11. The proposed investments at this site include: (i) an extensive program for stabilization and preservation of priority cultural relics at Luohandong Grotto, Zhangbashi Grotto and Hanwang Tomb, including reinforcement of the cliffs, preservation of the grottoes, drainage rehabilitation and site demarcation; (ii) studies on grotto preservation techniques; (iii) preservation of historical Chenghuang Temple in the city core, rehabilitating it as an exhibition facility for the city's history; (iv) a new museum (4,000 m² floor space); (v) interpretation and exhibitions of Wanyan folk culture at the Wanyan Community Center (about 350 m² floor space); (vi) provision and upgrading of services at Wangmugong Grotto, Luohandong Grotto, and Hanjiagou Grotto, including water supply, toilets, solid waste collection, power, and signage; and (vii) a 260 m² administration building, a parking lot, and 2.9 km tourist footpath at Luohandong.

12. **Yunya Temple Scenic Area (US\$20.22 million).** Located 110 km southwest of Kongtongshan Scenic Area, and 22 km east of Zhuanglang County seat, the project site of Yunya Temple Scenic Area is another historical way-station on the ancient Silk Road, and is well-known for many grottoes built on steep cliffs 80 m above ground. Grotto carving on the site began as early as 384 A.D. (Wei Dynasty) and was continued over the next 1,500 years. A group of Grottoes in this site were carved during the Ming Dynasty (1368-1644 A.D.), which is considered as the end of Grotto carving on the Silk Road. Grottoes in the Yunya Temple Scenic Area are scattered in eight historical temples at the site, including 19 caves, 18 sculptures of Buddha, 55 murals, and 64 m² of Buddhist paintings. Yunya Temple Scenic Area is an important link on the Silk Road tour circuit: Xi'an – Jingchuan Grotto (project site) – Kongtongshan (project site) – Yunya Temple (project site) – Maijishan (site of the First Gansu Cultural Heritage Project) – Baoji (Famen temple in Shaanxi Province) – Xi'an, a loop of about 700 km for tours of two to three days.

13. Proposed investments at this site include: (i) mitigation measures and works for geo-hazard risks of landslide, rockslide, and storm flooding identified in the park in about five spots; (ii) site access roads upgrading (7 km) and construction (15.4 km); (iii) tourist road upgrading (5.5 km); (iv) footpath construction and upgrading (18.23 km); (v) constructing a tourist service center (380m²) and car park (1800 m²) at Fogoumen, and upgrading an existing 200 m² service center at Zhulinshi; and (vi) provision of services, including water supply, drainage, wastewater, solid waste, sanitation (toilets) and security.

14. **Guan’egou Scenic Area (US\$5.84 million).** Located 300 km south of Lanzhou, Guan’egou Scenic Area consists of two river valleys and covers a land area of 176 km². Neighboring the county’s famous tourist destination of Jiuzhaigou in Sichuan Province, the natural landscape, forests, streams and lakes, mountains and cliffs, and waterfalls are very similar to those in Jiuzhaigou. The site was designated in 2011 as a National Geological Park under the direction of Ministry of Land Resources. Guan’egou Scenic Area also contains many poor farming communities of Qiangzang minority. The unspoiled environment, combined with the presence of minority ethnic groups, offers visitors many opportunities to enjoy hiking and to learn more about Qiangzang culture. This site has good potential to promote natural heritage preservation and sustainable tourism development through the active participation of local communities.

15. Proposed investments at this site include: (i) protection and conservation of two historical villages of Qiangzang Minorities, including a protection plan for the historical villages of Luren and Xinpin, rehabilitation of 14 historical wood-framed houses, upgrading historical alleyways and drainage in the villages for local residents’ and tourist access; (ii) interpretation and exhibitions, including facilitating several rehabilitated historical courtyard houses as Qiangzang folk culture museum (1,000 m² of floor space); (iii) mitigation measures and works for geo-hazard risks of landslides, rockslides, and storm flooding identified in the park in about five spots; and (iv) provision of services, including wastewater, drainage, and power.

16. **Yangba Scenic Area (US\$24.70 million).** Situated on the south side of Qingling Mountain (which divides Northern China and Southern China from the climate and geographic perspectives), Yangba Scenic Area has a semitropical climate with high precipitation that differentiates the site from the rest of Gansu Province, which typically have a dry and cold climate. The site is located on a tourist route from Lanzhou to Hanzhong and further to Xi’an in Shaanxi Province. Neighboring the state-level natural protection zones, which are shelters for many endangered species of plants and animals (such as the Chinese Giant Salamander), Yangba Scenic Area has an unspoiled natural environment, ecological system, natural landscape and vegetation. The Project site is an 18 km² tourism area (where the existing local communities are concentrated) within the 506 km² Yangba Scenic Area. The natural and clean environment, pleasant climate, rich bio-diversity, magnificent landscapes of green mountains, waterfalls, streams and lakes offer visitors a unique experience. Road access to the site and connections to the regional highway networks were constructed in recent years and have significantly increased tourist visits and potential for sustainable tourism development at this site.

17. Proposed investments at this site include: (i) interpretation and exhibition facilities, including a folk culture exhibition center combined with a village history library, and signage; (ii) wastewater collection and treatment facility for local communities in the scenic area; (iii) 15.4 km of tourist roads; (iv) 13.6 km of tourist footpath, including four cable bridges for pedestrians and several scenic lookouts; (v) a tourist service center (430 m²) and a parking lot (1,600 m²) at Yinbazhi; and (vi) upgrading a 200 m² administration building at Yangba.

18. **Hua’er Songmingyan Scenic Area (US\$14.04 million).** Hua’er, the traditional folk music and songs favored in northwest China, has a long history of nearly 700 years, dating to at least the early Ming Dynasty (1360 A.D.). Eight ethnic minorities, who have their own language, sing the same “Hua’er” music tone. Hua’er was included into *“the list of representative works of*

human intangible cultural heritage” by UNESCO in 2011. The project county of Hezheng is the cradle of Hua’er. The project site of Songmingyan Scenic Area, a magnificent valley of grassland, has traditionally been the venue of the Hua’er Festival every year, a local tradition that has lasted for hundreds of years. Both the local government and local communities in Hezheng County are keen to explore effective measures for preserving the heritage of Hua’er, which has started to disappear like many other intangible cultural heritage assets, and to leverage the potential of Hua’er and other local intangible cultural heritage assets to facilitate sustainable tourism development in local communities.

19. Proposed investments at this site include: (i) an extensive program for the conservation of Hua’er traditional music, including studies on conservation of Hua’er traditional music, collection of Hua’er music scores, music instruments, compilation of Hua’er operas, research on Hua’er teaching methods, and publishing Hua’er music teaching books; (ii) building and equipping a Hua’er practice and teaching classroom of around 100 m² in each of the five villages that has a well-recognized Hua’er Music Master, ; (iii) provision and upgrading of services at Sonmingyan Scenic Area, a traditional venue for the annual Hua’er festival, including 18.9 km of footpaths, 3.8 km of access roads, solid waste, toilets, signage, and power; and (iv) upgrading storage, interpretation and exhibition facilities at Hezheng Ancient Fossil Museum, including improving existing fossil storage rooms (450 m²) to the required standards of temperature and moisture, and technical assistance to upgrade the interpretation and exhibitions in the fossil museum.

Component 2: Community Basic Services Delivery (US\$28.69 million)

20. This component focuses on enhancing the inclusiveness of local communities in the ongoing development process in Gansu, with the goal of further improving the enabling environment for local enterprises to grow and private sector investment to be leveraged. It will target settlements within and outside the Scenic Areas, in adjacent surroundings, and will finance improvements in service delivery, including roads, water supply, solid waste, wastewater and street lighting. Existing local businesses, which provide the largest share of local jobs, including bed and breakfasts, restaurants and handicraft shops, are all located in areas with better services. If needed, basic services would be further extended, enabling businesses to grow further, in both number and size, creating jobs and generating income for the local communities.

21. **Kongtongshan Scenic Area (US\$1.01 million).** Investments for addressing infrastructure service gaps in three villages located in the Kongtongshan Scenic Area (Xigou village in Wangjiashan sub-scenic area, Zhonghe village and Gaolin village in Xiangshan sub-scenic area) will be supported by the project. Prioritized infrastructure investments in the villages include: (i) improved pavement for the village access road and village lanes; (ii) water supply; (iii) solid waste collection and sanitation improvements; and (iv) street lighting. A total of 445 local households (about 1,848 residents) living in these villages will directly benefit from these investments.

22. **Jingchuan Hundred Mile Grottoes Corridor (US\$1.32 million).** Neighboring the cultural heritage of Hanwang Tomb and Luohandong Grotto (which have the potential to benefit from heritage conservation and tourism development) the villages of Wanyan and Luohandong were selected for support to improve community service delivery. The Project will support

improvement of infrastructure services in these villages, including: (i) improvement of pavement for village access road and village lanes (3.4 km); (ii) solid waste collection and sanitation improvements; and (iii) street lighting. A total of 884 local households (about 3,360 residents) living in these villages will directly benefit from these investments, of whom 421 households (1,617 residents) are classified as poverty-stricken population.

23. Yunya Temple Scenic Area (US\$0.45 million). Located along an access road to the main entrance of the Yunya Temple Scenic Areas, the villages of Shiqiao and Guoman will be supported by the project for improved community service delivery, including: (i) improved pavement for the village access road and village lanes (2.4 km); (ii) solid waste collection and sanitation improvements, 50 garbage cans, and two toilets; and (iii) street lighting. A total of 409 local households (about 1,840 residents) living in these villages will directly benefit from these investments.

24. Guan'egou Scenic Area (US\$15.82 million). This project site has a relatively large group of rural residents living in eight villages dispersed along the river valleys in the scenic area, totaling 1,325 households (6,020 residents). Domestic wastewater from local households and from the increasing number of tourists runs into the creeks and lakes in the scenic area without any treatment. Water pollution has been a constraint in developing tourist services such as home stay and family restaurants. The project will support the construction of a complete wastewater collection network in the scenic area, and transfer the collected wastewater downstream to the County's existing wastewater plant for treatment.

25. Yangba Scenic Area (US\$0.69 million). The project will support investments to address infrastructure service gaps in the six villages (337 households) in the Yangba Scenic Area, including: (i) wastewater collection and treatment; (ii) solid waste collection and transfer facilities, village sanitation improvements, and toilets; and (iii) street lighting.

26. Hua'er Songmingyan Scenic Area (US\$9.40 million). Untreated wastewater from local communities within the scenic area and in the proximity of Hua'er Songmingyan Scenic Area is polluting rivers and lakes in the project site. Construction of a wastewater collection network (21 km of sewer pipes) and a waste water treatment facility (1,000 m³/day) will be supported as priority investments. The project will also support the communities to improve 21.2 km of pavement of the village access road and village lanes. A total of six villages (2,610 local households) will benefit directly.

Component 3: Capacity Building, Institutional Strengthening, and Project Management Support (US\$8.00 million)

27. In addition to supporting project delivery and management, this component will address site management issues, making Scenic Areas Administration more responsive to the environmental and social impacts of tourism development. This component will also target skills training to help local communities in the establishment of small businesses.

28. Staff Training (US\$0.71 million). Training will be provided to PMO staff, scenic area administrators/operators, and other local government officials as appropriate, on: World Bank project procedures; project and investment management; cultural relic protection; natural

heritage protection; intangible cultural heritage preservation; scenic area management; tourism development strategies; and tourism product and market development.

29. **Community Training and Small Business Development (US\$ 1.09 million).** Training and technical assistance, which will be tailored to the needs of each site, will be provided to local residents living in and around the project sites, including: (i) start-up or expansion of locally-owned and tourism-related small businesses, business skills for participation in tourism, and protection of intangible cultural practices; and (ii) technical assistance to local communities for incubating community-level small business associations and cooperatives which serve local residents.

30. **Project Implementation Assistance (US\$4.60 million).** Consultants will be hired by the PPMO for: (i) design review; (ii) project management, contract monitoring and supervision; (iii) construction supervision; and (iv) project reporting.

31. **External Environmental Monitoring (US\$0.50 million).** Independent external monitoring firms will be hired to monitor the implementation of EMPs, EMDP, and social development.

32. **Studies on Scenic Area/Site Management Plan including Assets Management (US\$0.05 million).** The studies will provide a framework and concrete suggestions on development and preparation of modern site management plan based on the best national and international practices.

33. **Incremental Operation Costs (US\$1.06 million)** for PPMO and PMOs of the six project counties/district.

Annex 3: Implementation Arrangements

CHINA: Second Gansu Cultural and Natural Heritage Protection and Development Project

Project Institutional and Implementation Arrangements

1. **Project Leading Agency (PLA).** Gansu Provincial Government (GPG) has appointed Gansu Provincial Foreign Loan Administration Committee (GPFLAC) as the Project Leading Agency (PLA). The PLA is responsible for leading project preparation and implementation, as well as coordination with related provincial government agencies, including the Provincial DRC, the Provincial Department of Finance, Provincial Department of Culture, and Provincial Tourism Bureau etc. The PLA will ensure the availability of counterpart funds and other resources required for project implementation.

2. **Project Management Office at Provincial Level (PPMO).** A PPMO has been established under the supervision of the provincial PLA to assist with day-to-day project management³ The PPMO is housed within Gansu Highway, Aviation and Tourism Investment Group Co., Ltd, (GHATIG) which is a state owned company fully owned by the Gansu Provincial Government. Gansu Province, through its Finance Department, will enter into an Implementation Agreement with GHATIG, setting forth the responsibilities of the PPMO with regard to project implementation. The PPMO is headed by a director (a deputy general manager of GHATIG, who is supported by an executive deputy director and seven permanent staff and a designated external expert team).⁴ The PPMO will have the following major responsibilities:

- Serve as a day-to-day office of the provincial PLA to manage the loan and project implementation.
- Serve as a focal point to coordinate with the central and provincial governments, related district/county governments and agencies, and the World Bank.
- Manage project planning for annual project implementation, and getting the required approvals for project documents.
- Be responsible for financial management, including project fund planning, loan withdrawal applications, debt allocations, financial account management at the provincial level, assistance with financial audits, etc.
- Be responsible for preparation of a consolidated procurement plan on annual basis and carry out consultant selection and contract management of certain consulting services contracts.
- Establish and implement project monitoring and evaluation programs, covering project results monitoring, specialized technical monitoring, and safeguards monitoring.

³ The original provincial PMO was established for the First Gansu Cultural and Natural Heritage Protection and Development Project and it had been responsible for the project preparation through the appraisal till September 1, 2016 when Gansu decided to change the PPMO.

⁴ The provincial PMO has a designated external expert panel with about 35 experienced experts. Most of the experts are located in Gansu Province.

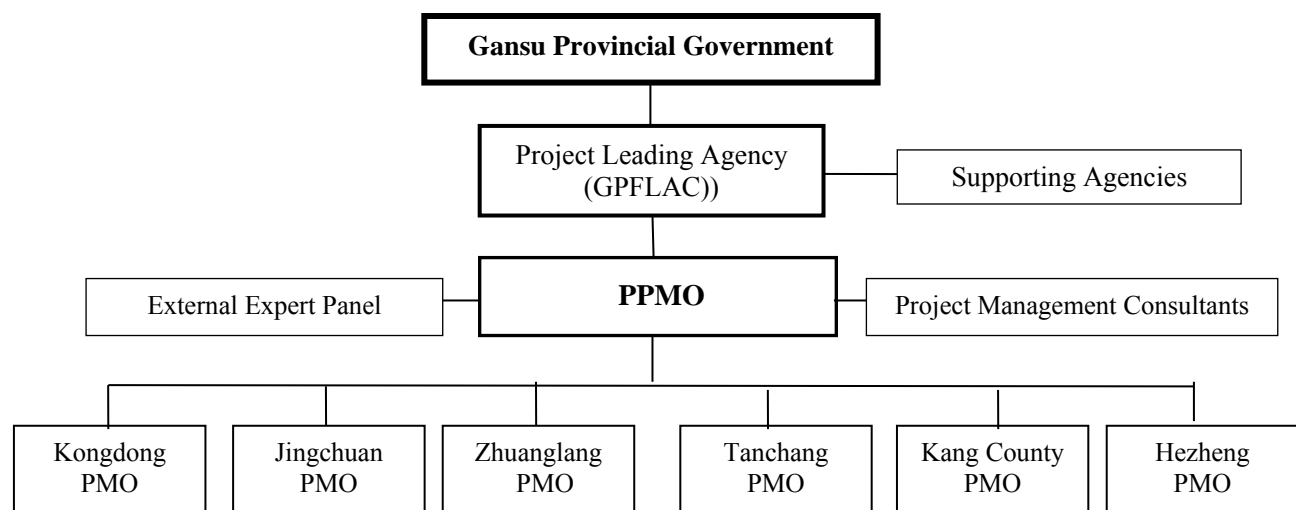
- Organize and implement capacity building and technical assistance activities at the provincial level, including recruiting required consulting services.
- Prepare all reports required by the World Bank with assistance from the project district/counties.

3. **Project Management Offices (PMOs) at the district/county level.** The project district/counties will be the main entities to implement project activities in their territories. Each project district/county government has established a consolidated PMO under the direct leadership and supervision of the district/county Development and Reform Commissions (DRC); the exception is Kang County, where the PMO is under the County Tourism Bureau. Each PMO is led by a director and is composed of core staff from the district/county government and related implementation entities, e.g., scenic area administration bureaus and town/village governments. Each PMO has about 4–8 staff; more staff will be appointed or recruited according to project requirements. The PMOs will be responsible for:

- Design and engineering preparation for project activities.
- Procurement of civil works contracts and some small value consulting services contracts, including preparation of bidding documents and selection documents with the help of procurement agency and project management consultant.
- Contract management, including contract establishment, construction planning and monitoring, and contract variations.
- Financial management, including project fund management, loan disbursement application, payments to contractors/suppliers, and support for financial audit.
- Land acquisition and resettlement, if any.
- Construction progress monitoring, quality control at site, and engineering and quantity variation.
- Compliance with safeguard policies of the government and the Bank.
- Training at the district/county level.
- Assisting the PPMO in report preparation.

4. The diagram below illustrates the project implementation arrangement.

Figure A3.1: Diagram of Project Implementation Arrangement



Financial Management, Disbursements and Procurement

Financial Management

5. The FM capacity assessments were conducted in November 2015 and January 2016, at the provincial and county/district PMOs, in accordance with OP/BP 10.00 and the Financial Management Practice Manual. The assessment identified the principal risk as the lack of knowledge and experience in managing Bank-financed projects by PPMO and county/district PMO staff. This could lead to misuse or inefficient use of project funds. Mitigation measures to address this risk are as follows: (a) modification and distribution of an FM manual (FMM) to standardize project FM coordination and reporting procedures; and (b) provision of FM technical training and knowledge sharing workshops to be arranged by the Bank and GPFD. In addition, the risk of delayed delivery of counterpart funds by the government will be mitigated by preparing realistic financing plans by the local governments and exploring alternative measures if funding from the local governments is insufficient and close Bank team monitoring during project implementation. The FM control risk was assessed as moderate because of the challenge of ensuring that funds are timely raised and paid to contractors and expenditures are adequately recorded.

6. Funding sources for the project include the Bank loan and counterpart funds. The World Bank loan agreement will be signed between the World Bank and the Ministry of Finance (MOF). The on-lending agreement will be entered into by MOF and the Gansu Provincial Government. Except Kongtong district where the Bank loan will be on-lent to the district via Pingliang municipality, provincial government will on-lend the Bank loan to county government directly. The county/district government will be responsible for repayment of the sub-loans and the required counterpart funds will be fully raised by the project county/district governments. Given that local government's revenue from land sales has decreased in most places, timely delivery of the committed counterpart funds to the project may be a challenge to county government. Alternative measures should be considered by county/district government to address this issue. To ensure the counterpart fund will not be a bottleneck during project implementation, a realistic financing plan should be prepared by county government so that the funds delivery could be closely supervised during project implementation.

7. **Audit Arrangements.** Gansu Provincial Audit Office (GPAO) has been identified as the auditor for the project. The annual audit report on project financial statements will be issued by this Audit Office and will be due to the Bank six months after the end of each calendar year (by June 30 each year). GPAO has extensive experience with previous Bank projects and is deemed acceptable to the Bank. The audit report and audited financial statements will be publicly available at both the World Bank and GPAO websites.

8. **Budgeting.** Bank funds will be managed by the government treasury through special accounts set up for the project. County/district PMOs are responsible for preparing the project annual plan and submitting it to PPMO for consolidation. Since the required counterpart funds will be fully raised by county/district government, the PMOs will be responsible for ensuring that the required counterpart funds are committed in county/district government's annual budget. Given the weak financing situation of project county/district, besides allocating additional cash contribution to the project, local governments may consider alternatives, such as mobilizing

domestic projects to address the potential funds shortage problem. Nevertheless, realistic financing plans prepared by county/district government will enable the Bank and government entities to supervise timely delivery of the committed funds.

9. **Funds flow.** GPFD will open and manage a segregated U.S. dollar designated account (DA) for Bank loan proceeds in a commercial bank acceptable to the Bank. The county/district PMOs will prepare payment requests that will be reviewed by the county/district finance bureaus (in Kongtong district, the payment request will be reviewed by Pingliang municipal finance bureau) before submission to the PPMO for its review. GPFD will provide final approval and deliver funds to the county/district finance bureaus (in the case of Kongtong district, funds will be delivered to the municipal finance bureau and then to the district), then the finance bureaus will pay the contractors. Provincial finance department may also pay contractors directly based on PMOs' request if the expenditures incurred have not been paid. For activities to be implemented by PPMO, GPFD will pay the contractors/suppliers directly if the expenditures are not paid, otherwise GPFD will reimburse the PPMO for the expenses paid. For those activities financed by counterpart funds, county/district finance bureaus will pay to the contractors directly based on PMOs' requests. The finance bureaus should inform PMOs timely after the payment so that they can record the payments in their accounting ledgers. Detailed disbursement procedures and funds flow arrangements are described in the project FMM.

10. The proposed funds flow arrangements and related processing periods should ensure that contractors receive payments within the dates stipulated in the signed contracts. The Bank will closely monitor disbursement efficiency during implementation. If material payment delays resulting from slow disbursement are noted, the Bank will guide the project to explore more streamlined funds flow arrangement.

11. **Accounting and Financial Reporting.** The administration, accounting and reporting of the project will be set up in accordance with Circular #13: "Accounting Regulations for World Bank-financed Projects" issued in January 2000 by MOF.

12. County/district PMOs will maintain project accounting records and preparing financial reports for project activities managed by the county/district. All PMOs under the just completed Gansu Cultural and Natural Heritage Protection and Development were recording project activities and preparing financial reporting manually and no significant weaknesses were noted by external auditors on this aspect, so the project will follow the same practice. The PPMO will provide guidance and training to county/district PMOs to ensure project activities are properly recorded in line with the requirement of Circular 13. Given the county/district PMOs do not have Bank-financed project experience, the Bank team recommended PPMO illustrate accounting entries for the main project activities in the manual to minimize improper accounting treatment by local PMOs. After receiving project financial statements prepared by county/district PMOs, and DA information from GPFD, the PPMO will prepare consolidated project financial statements based on the financial statements from the PMOs. The PMOs will also prepare unaudited semi-annual project financial reports and furnish them to the Bank as part of the semi-annual Progress Report no later than 60 days following each semester.

13. **Internal Controls.** The internal control environment of the project is adequate. All transaction processing will use government institutions, processes and systems that provide for segregation of duties, supervision, quality control review, reconciliations, and independent external audits that are considered adequate to meet the needs of the project. There is no separate internal audit function for the project; all payments will follow the official verification and payment routine. A robust internal verification system has been established to ensure that project construction is properly supervised and verified.

14. Project activities implemented by using the community participation approach mainly include the establishment and operation of associations and training to beneficiaries; these account for less than 1 percent of total project costs. Training will be conducted by county/district PMOs. Eligible expenditures to be financed, estimated budget, and required procedures to be followed are described in the FMM.

15. Most project training activities would be implemented by PPMO and disbursements will be made based on expenditures incurred.

Disbursements

16. The borrower has decided that disbursements will be documented via the transaction-based disbursement method. The primary Bank disbursement method will be advances to the DA. GPFD will open a USD designated account and be responsible for converting US dollars to RMB, if the payment request currency is RMB. Withdrawal Applications (WAs) will be prepared by GPFD to request Bank disbursements and to document the use of Bank financing. WAs will include supporting documents in the form of Statement of Expenditures (SOEs) and Summary Sheets (SS) (both of them are prepared on the cash basis) as well as source documents identified in the Disbursement Letter issued by the Bank. Direct payment and reimbursement from the loan account may also be used, provided the withdrawal application value is above the minimum application amount.

17. The Bank loan would disburse against eligible expenditures (taxes inclusive) as in the table below. Counterpart funds of US\$60.76 million are mainly to cover cost of survey, engineering design, construction management and supervision to be provided by local governments, and part of the cost of civil works under this project, i.e. 15 percent of the cost of planned civil works as the Bank will finance these expenditures at 85 percent.

Table A3.1. Eligible Expenditures

Disbursement Categories	IBRD Loan	
	Allocated Amount (in US\$)	Percentage of Expenditures to be financed (inclusive of taxes)
(1) Goods, non-consulting services, consulting services, training and workshops, and incremental operating costs	13,412,000	100%
(2) Works	86,338,000	85%
(3) Front-end Fee	250,000	
Total	100,000,000	

18. The project is expected to be completed by the closing date. However, the project will have a Disbursement Deadline Date (final date on which the Bank will accept withdrawal applications from the borrower or documentation on the use of loan proceeds already advanced by the Bank) of four months after the closing date. This “Grace Period” is granted in order to permit the orderly project completion and closure of the loan account via the submission of withdrawal applications and supporting documents for expenditures incurred on or before the closing date. Expenditures incurred between the closing date and the disbursement deadline date are not eligible for disbursement, except as otherwise agreed with the Bank.

Procurement

19. **Capacity.** The PPMO housed within Gansu Highway, Aviation and Tourism Investment Group Co., Ltd. (GHATIG) is new to Bank’s project procurement. Same as the PPMO, the six PMOs at the county/district level are also new to Bank project procurement and the primary risk is their weak procurement capacity. To mitigate this risk, the PPMO and the PMOs will take the following measures: (i) hire a qualified procurement agent with experience in Bank project procurement; (ii) implement a training plan to provide continuous training to PPMO and PMOs’ staff on Bank procurement policies and requirements; and (iii) the PPMO staffed with a procurement expert familiar with Bank procurement requirements to provide guidance to the PMOs; and (iv) the Bank will closely supervise and assist the PMOs with more emphasis during the initial stages of the project implementation. The overall procurement risk is Substantial. In addition, given that the GHATIG is a provincial state owned enterprise with about 30 holding companies in areas of road, aviation, finance, real estate, tourist facilities, etc. The PPMO is reminded to follow conflict interest requirements in all project related procurement.

20. Good quality technical specifications will be a key input to project success. The PPMO and the PMOs should hire qualified technical experts to assist with procurement document preparation and contract supervision. Invitations for bids and requests for expression of interest (irrespective of value) will be published in chinabidding.com.cn.

21. **Applicable guidelines.** Procurement will be carried out in accordance with: “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” dated January 2011 and revised July 2014; “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” dated January 2011 and revised July 2014; and the provisions stipulated in the Loan Agreement. National Competitive Bidding (NCB) will be carried out in accordance with the Law on Tendering and Bidding of the People’s Republic of China, promulgated by Order of the President of the People’s Republic of China on August 30, 1999, subject to the modifications stipulated in the Legal Agreement.

22. **Procurement of works** will include: protection and conservation of cultural relics; construction of roads and footpaths; provision and upgrading of service facilities, construction of scenic area administration buildings; construction of museums; construction of mitigating measures for geo-hazard risks of landslides, rockslides, and storm flooding; and construction of wastewater treatment plants. Procurement will be conducted using the Bank’s Standard Bidding Documents for all International Competitive Bidding (ICB) and National Model Bidding Documents agreed with or satisfactory to the Bank for all NCB.

23. **Procurement of goods will include:** office equipment, performance facilities, garbage truck and sewage suction truck, etc. Procurement will be carried out using the relevant Bank Standard Bidding Documents for all ICB and National Model Bidding Documents agreed with or satisfactory to the Bank for all NCB.

24. **Selection of consultants.** Consultants will be hired for various assignments including: project management consultant selection, construction supervision company selection and consultant selection for studies of cultural and natural heritage protection subjects. The Bank's Standard Request for Proposals will be used for all consulting selection processes above US\$300,000. Universities and research institutes may be included in shortlists as a source of consultants, provided that such consultants possess relevant qualifications and are not in a conflict-of-interest situation. In such cases, QBS or Selection Based on Consultants' Qualifications (CQS) for small assignments would be used if the shortlist also includes consulting firms that operate as commercial entities. The shortlist may comprise entirely of national consultants (firms registered or incorporated in the country) if the assignment is below US\$500,000.

25. **Training and workshops.** Plans for training and workshops will be developed by the PPMO and the PMOs, and will be included in the project's annual work plan for Bank review. Except for training courses to be provided by the two PMOs, expenditures incurred in accordance with the approved plans for training and workshops organized by the PPMO and the PMOs will be the basis for reimbursement. For training, workshops and study tours to be organized by third-party service providers, the Bank Guidance Note on Planning, Budgeting, Implementing, Reporting and Accounting for Expenditures related to Training and Workshops in Bank-financed Projects in China and Mongolia will apply.

26. **Procurement Plan.** The PPMO and PMOs have prepared a Procurement Plan, acceptable to the Bank, for the first 18 months of project implementation. It will be made available on the Bank's external website. The Procurement Plan will be updated annually or as required to reflect implementation needs and improvements in institutional capacity.

27. **Thresholds for Procurement Methods and Prior Review.** The indicative thresholds are shown in the table below.

Table A3. 2. Thresholds for Procurement Methods

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement/Selection Method	Prior Review Threshold (US\$ thousands) ^{1/2/}
1. Goods and Non-Consulting Services	≥10,000	ICB	All
	<10,000	NCB	First NCB contract regardless of value of each PMO and all contracts valued ≥1,000

	<100	Shopping	First contract
	<3,000	Framework Agreement	First contract regardless of value of each PIU and all contracts valued $\geq 1,000$
	--	Direct Contracting	All
2. Works and Supply and Installation of Plant and Equipment	$\geq 40,000$	ICB	ALL
	<40,000	NCB	First NCB contract regardless of value of each PMO and all contracts valued $\geq 10,000$
	<200	Shopping	First contract
3. Consultant Services	≥ 300	QCBS/QBS	The first contract for each selection method and all contracts valued ≥ 500
	<300	CQS	First contract
		FSB	First contract
	--	LCS	First contract
	--	Individual Consultant	Only in exceptional cases.
	--	Single-Source Selection (firm)	First contract and all ≥ 100
	--	Single-Source Selection (individual)	≥ 50

1/All contracts to be financed through retroactive financing will be subject to prior review. A contract whose cost estimate was below the Bank's prior-review threshold is subject to prior review if the price of the lowest evaluated responsive bid (or, in the case of consulting services, the financial offer of the selected firm) exceeds such threshold at the bid/proposal evaluation stage.

2/ Procurement post review may be carried out by the Bank or its consultants/auditors.

28. Advance Contracting and Retroactive Financing. Retroactive financing of up to US\$20 million would be available for eligible expenditures incurred prior to the date of the Loan Agreement (LA), but on or after May 8, 2016. The procurement plan sets forth the contracts that are expected to be signed in advance of loan signing, together with the relevant Bank review procedures.

Environmental and Social (including safeguards)

Environment

29. The project has substantial positive environmental and social impacts as it supports improving sanitation and the environment and builds facilities for pollution control and treatment in and around the protected areas, natural reserves and scenic parks. Potential negative impacts can be avoided or minimized through proper project design and implementation of the measures proposed in the Environmental and Social Management Plan (EMP). In addition, all mitigation measures in the ESMP and the relevant domestic requirements and codes of conduct for contractors and operators will be included (or referred to) in the bidding documents and contracts for the project's works.

30. **Impacts during construction** of the project mainly include damage to cultural resources by improper repair, noise and dust, wastewater discharge, vegetation loss, and off site impacts from borrow and disposal pits on water and soil erosion. Inappropriate repair and restoration that does not match the original architecture style and color can be a threat to cultural resources too. Similarly, renovation of ancient buildings and traditional houses with inferior materials or without expert guidance may result in the irreversible loss of valuable heritage. These risks will be mitigated through close involvement of the cultural relic bureaus at each level in the design review and approval, and through pre-qualification of contractors for conservation works as well as strict site inspection by specialized supervisors certified by relevant authorities as per domestic regulations. The PMOs will appoint staff responsible for the implementation of the ESMP. Contractors will be required to appoint at least one staff per construction site to ensure that work is carried out according to the ESMP and relevant conservation and engineering codes.

31. **Impacts during operation** include air pollution and noise from traffic on roads upgraded by the project, sewage and solid wastes from tourist facilities and home stay, and impacts induced by influx of tourists. These could have long-term implications on the environment and protected areas, such as natural reserves, drinking water protection zones, and geological formations in geo parks. However, in each protected area, zoning and its enforcement has been in place to help control induced development. Operation of sewage treatment facilities, toilets and associated sludge disposal will have adverse impact on residents and the surrounding environment. Appropriate mitigation measures are detailed in the ESMP.

32. An **Environmental Assessment (EA)** has been prepared to consolidate all sub-projects' domestic EAs. The EA describes baseline natural and social conditions, including current environmental quality, garbage, manure and sewage treatment and disposal facilities in each sub-project, and nearby county seats/towns. The current conditions of all protected and ecologically sensitive areas, as well as that of the cultural resources under the project, have been evaluated and key clauses from relevant regulations for their protection have been compiled. Major environmental and social impacts were assessed for both construction and operation periods. The EA also includes the process and results of public disclosure and consultation.

33. **Alternative Analysis.** The EA process played a key role in optimizing project scope and design. Several activities originally proposed were within the buffer zones of provincial nature reserves and zones of national geo parks/wetland (e.g., in Kang County) where the proposed types of activities are not permitted under applicable national regulations. These proposals were either dropped, relocated or adjusted to ensure compliance with domestic laws and regulations. Activities related to physical cultural resources were also screened during the EA process to exclude those not permitted in the control zone designated under domestic regulations. For

acceptable activities proposed, various alternatives, including a “no project” scenario, have been identified and compared during the EA process in order to avoid or minimize potential adverse environmental and social impacts. Different sites for several sub-projects were compared from environmental point of view. The recommended options are environmentally sounder, economically better justified and are better adapted to local conditions.

34. **Environmental and Social Management Plan (ESMP).** To effectively address identified negative impacts, an ESMP was developed and includes sub-action plans, e.g., cultural resources management plan and social impact management plan. It prescribes common mitigation measures during construction, and site-specific measures for various protected areas involved in individual sub-projects both during construction and operation as well as those for sewage treatment. These measures take into account the applicable World Bank Group Environmental, Health and Safety (EHS) Guidelines. Lessons learned from the recently completed Gansu project informed the design of the ESMP.

35. The ESMP outlines the institutional arrangements and the responsibilities of each party (PMO, contractors, engineering supervisors, external monitors hired by PMOs, monitoring agencies etc.). It includes a detailed environmental and social monitoring plan for the construction and operation phases, with details of parameters monitored, location, frequency, potential monitoring agency, and budget estimates. For work involving cultural relics, specialized supervisors will need to be engaged to inspect on site per relevant domestic regulations. For activities in various ecologically sensitive areas (e.g., natural reserves), mainly forest bureaus and their monitoring agencies will need to be engaged for any impacts on flora, fauna and water and soil erosion during implementation, with the overall responsibility for ensuring the EMP’s implementation on the PMOs. It specifies supervision, monitoring and reporting scheme and requirements for ESMP measures by major parties involved. Each of the PMOs should have at least one staff in charge of ESMP implementation and include or refer to the ESMP in the bidding documents and contracts with the above mentioned parties.

36. A budgeted training plan has been developed to ensure effective ESMP implementation. Apart from environmental training for relevant parties and their staff, awareness raising and education program are planned for tourists and local residents/beneficiaries. The ESMP includes a grievance redress mechanism and procedures for changes in response to complaints. In addition, the newly established PPMO will engage external consultants to assist in the ESMP implementation including training and capacity building to local PMOs in order to meet the World Bank safeguard requirements. The Bank team will continue to provide safeguard training and advice throughout the project implementation.

Social

37. **Social Assessment:** A comprehensive social assessment (SA) has been undertaken in the project counties and district to identify and address social impacts and risks and a consolidated social assessment report has been prepared. An extensive survey and public consultations were conducted, with particular attention given to vulnerable groups and women, including ethnic minority groups. The SA found demand from local communities for project support to improve community infrastructure (such as waste collection, waste water treatment, and connecting

roads). Communities also asked for: enabling facilities and capacity building for ethnic minorities while promoting tourism and natural heritage protection; help with diverse livelihoods and tourism services; mitigation of construction noise (particularly night time construction), dust and emission of gases; better road lighting and safety; convenient traffic lights and signs in scenic areas; support for bed and breakfast homestays; and restaurants run by local residents near scenic areas.

38. The SA noted that the project will have significant positive social impacts: increased job and income opportunities; improved roads and other supporting facilities; accessibility and safety in scenic areas; and better tourism enabling facilities and services. The project will also have significant positive impacts on poverty reduction through the creation of non-farm jobs for the poor and ethnic groups.

39. Negative impacts identified include: (i) possible changes to local livelihoods, as well as culture and value system associated with the influx of tourists; (ii) possible involuntary resettlement, based on changes to the identified location of civil works; (iii) cultural shock to ethnic minorities as a result of the influx of migrant workers during the project construction period and increased influx of tourists; and (iv) construction noise, dust, emission of gas, and temporary blockage of access roads near communities.

40. The SA findings and recommendations have been reflected in project design especially regarding community development, the ESMP on social management part, RPF and EMDP which embrace mitigation measures to address social impacts and risks. This plan will be monitored as part of the overall project monitoring and evaluation.

41. **Ethnic minorities.** The SA noted that there are Tibetan, Hui and Dongxiang minority people present in seven villages of Tanchang and Hezheng Counties, who meet the Bank's definition of Indigenous Peoples (IP). Accordingly, Bank safeguard policy OP 4.10 Indigenous Peoples, is triggered. According to the SA, there are 1,566 households with 6,901 Tibetan, Hui and Dongxiang people present in seven villages of Tanchang and Hezheng counties. In the Guan'e'gou sub-project area of Tanchang County, there are Tibetan minority people in Luren, Xinping and Yuezangfu villages, who constitute 73 to 100 percent of the population of these villages. In the Songmingyan sub-project area in Hezheng County, Dongxiang and Hui ethnic people account for 33 to 86 percent of the population of Dashanzhuang, Cheba, Bianpo and Ketuo villages.

42. An ethnic minority development plan (EMDP) has been prepared to meet the requirements of OP 4.10. The EMDP includes measures and budgets to ensure that project activities are fairly offered to ethnic communities in a culturally appropriate way and promote the participation of ethnic minority people (both men and women) in the project. Priorities will be given to the ethnic minority people in project villages in terms of jobs, livelihood development and other economic opportunities resulting from the project, in particular, intangible ethnic cultural heritage protection and promotion via the development of local performing arts and tourism-oriented souvenirs. The project will also support: awareness raising and skills training; hands-on advisory services for local intangible cultural heritage protection and promotion, tourism-related services and local products development; and the establishment

of community organizations for ethnic minorities. Implementation of the EMDP will be monitored by the PMOs, external independent consultants, and the Bank.

43. **Involuntary resettlement.** The project civil works will not require land acquisition or involuntary resettlement according to the current project design and identified locations of civil works. Nevertheless a Resettlement Policy Framework (RPF) has been prepared according to relevant local laws and regulations, as well as World Bank's OP/BP 4.12 on Involuntary Resettlement, to address unanticipated land acquisition and/or involuntary resettlement as a result of changes to the selected locations of civil works during project implementation. The RPF describes the legal framework, planning principles, procedures, compensation and rehabilitation approach, consultation and participation requirements, grievance redress mechanisms, and organization and monitoring arrangements. A resettlement action plan (RAP) will be prepared based on the RPF to address unanticipated land acquisition or involuntary resettlement as and when required.

44. **Compensation Standards.** Land acquisition compensation will include land compensation, a resettlement subsidy, and compensation for standing crops. Compensation rates for structures will be determined based on replacement costs.

45. **Implementation Arrangements.** A multi-level organization will be established to implement any project RAP. An independent external monitor will be hired for monitoring resettlement implementation and livelihood restoration. The PMO will be responsible for internal monitoring and will provide semi-annual internal monitoring reports to the Bank.

46. **Budget and Funding Arrangement.** The Borrower will prepare an adequate counterpart fund budget to implement the RAP.

47. **Public Participation.** Project-affected persons and organizations were informed about the project and its impacts in meetings during the social assessment and the preparation of the ESMP and the EMDP. Comments and recommendations received from these meetings will be incorporated in RAP, based on the RPF and the feasibility study. Public participation will continue during implementation of the RPF (and RAP, if required). Project information will be provided to affected persons through television, newspapers, bulletins and posters.

48. **Grievance Redress.** A grievance redress mechanism will be established for the project. Grievances may be filed either orally or in writing. Starting at the village and neighborhood committee levels, grievances can be elevated to the county/district or provincial level if the complainant is not satisfied with the resolution at the lower level. The affected people may also file cases in a court of law, if they are not satisfied with the resolution of their grievance by the project authority. All grievances and their resolution will be recorded. The GRM has been disclosed to the local population and will be further disseminated as needed.

49. **Gender.** Gender considerations have been integrated in project design, in particular through the Social Assessment. Women have different needs for training on tourism services, livelihoods and community development, road lighting and safety, paths, rest seats and transport signs in scenic areas. Women indicated a need for more bathroom facilities, improved local transport/bus services, local schools for children, and micro-credit for small businesses. Some of

these views have been reflected in the project design, e.g., community development activities under Component 2. Women's opinions and participation will be considered during further public consultations and citizen engagement activities during project implementation, e.g., supporting women's embroidery associations, performing folk arts teams, and community-based organizations, and compensation and resettlement support if there is any land acquisition and resettlement. Gender is embedded in the project Results Framework and gender disaggregated information will be included in annual progress reports.

50. **Citizen engagement.** Citizen engagement was a key aspect of the project Social Assessment (SA): consultation activities included three rounds of field investigations with 10 relevant government agencies, 37 focus group meetings with project communities and people, 590 questionnaires, and 390 internet surveys across the six project counties and district. Public consultations were held for the selection of locations for local infrastructure, e.g., access roads, tourist information center, and community cultural exhibition center. Public consultation will continue to draw on local people's views and feedback on project design and implementation. Consultations will continue with local residents (both men and women) on the needs for training and with community-based organizations in providing tourism services and cultural and natural heritage protection. Information on potential social impacts, community development, and planned mitigation measures has been and will continue to be shared with the public. Citizen engagement is included in the project's Results Framework through the following indicators: (i) percentage of beneficiaries reporting that project investments reflected their needs; (ii) percentage of registered grievances related to the project activities that are appropriately responded within two weeks.

51. PPMO will train and guide the PMO in each project county and district. Each PMO will coordinate, guide and monitor social safeguards management in their own capacity and scope of authorization with technical support from external social consultants as needed. PPMO will ensure full compliance and implementation of the social instruments including the RPF and EMDP, prepare and provide semi-annual and annual progress report on social safeguards.

52. An experienced external social consultant will also be hired for external monitoring and guiding the implementation of the EMDP, RPF and other social action plan of the project in accordance with the World Bank's policies and domestic government regulations. Semi-annual or annual monitoring and evaluation will be done for EMDP and RPF as well as other such social action plan as needed, and corresponding report will be submitted to PPMO and the Bank team.

53. **Disclosure of safeguards documents:** The SA, EMDP and RPF were disclosed locally and made accessible to general public on January 20, 2016. They were disclosed in the Bank InfoShop on January 24, 2016. The ESMP was disclosed on January 25, 2016.

Annex 4: Implementation Support Plan

CHINA: Second Gansu Cultural and Natural Heritage Protection and Development Project

Strategy and Approach for Implementation Support

1. **Implementation support strategy and plan.** The implementation support strategy for the project has been developed based on the risk profile, with a focus on mitigation measures for the main risks identified in the SORT, i.e., technical design of the project, institutional capacity for implementation and sustainability, fiduciary, and environment and social. Support will be provided in the form of supervision missions, targeted training, and special visits by Bank specialists/consultants.
2. **Implementing agency capacity.** Implementation capacity of PMOs at the county/district level is relatively weak. Bank implementation support will focus on assisting Gansu in strengthening implementation capacity, particularly in technical design quality control, procurement, FM, and safeguards management, immediately following project start-up. Special attention will be given to early recruitment and mobilization of implementation support consultants through retroactive financing and procurement/implementation of priority contracts. Frequent supervision early on during the first half of the implementation period is expected to assist Gansu in compliance with Bank FM and procurement policies and procedures. In addition, the Bank will also provide guidance and support in work programming, results monitoring, and reporting.
3. **Technical guidance.** Specific technical expertise in cultural and natural heritage conservation, civil engineering (roads, drainage and wastewater disposal), geo-hazard management, tourism services and experiences, and community development will be mobilized during regular semi-annual supervision missions. These specialists will provide technical advice to Gansu and the PPMO/PMOs on a regular basis in introducing relevant national and international good practice and techniques, and will help resolve complex technical issues in a timely manner when need arises. Certain technical complicated contracts relating to the heritage conservation and museum construction and display/interpretation of museums will be subject to prior review by the Bank for the quality check to the final engineering design and draft bidding documents. In addition, technical support services for establishing community organizations will start with hands-on guidance and specific training shortly after the project becomes effective.
4. **Environmental and social safeguards.** The Bank will monitor the implementation of the agreed safeguards instruments including EMP, EDMPs and RPF and provide guidance to the PPMO and PMOs on implementation issues. The Bank will also provide training on environmental management and resettlement monitoring and reporting. Bank implementation support missions would include environmental and social specialists, especially at the beginning of the project implementation, in order to set up the mechanisms to ensure safeguards compliance. Timely guidance and advisory services will be given as and when required based on field visits, discussions with PPMO/PMOs and their consultants, as well as reviews of progress reports and external monitoring reports. Major compliance issues, if any are identified, would be resolved through discussions with the PLA.
5. **Financial Management and.** The financial management (FM) supervision strategy for this project is based on FM risk rating and the level of FM supervision provided by the

PPMO. The FMS will join supervision missions to review FM and disbursement aspects of implementation, with special attention to internal control arrangements and counterpart funding. The FMS will provide technical support to project staff on financial reporting and timely resolution of FM issues, including follow-up actions requested by auditors. She will provide training on FM and disbursement at project launch and during implementation.

6. **Procurement.** The project procurement implementation support will focus on: (i) training and mentoring of the procurement staff of the PPMO and PMOs; (ii) hands-on support and close monitoring of the first batch prior review procurement activities; (iii) regular procurement post review by Bank staff, consultant or auditors; and (iv) proactive communications with the PPMO, the PMOs and other key stakeholders concerning procurement issues, when necessary

7. **Resources and skills required.** Formal supervision and site visits covering different aspects of project implementation will be carried out semi-annually. These will be supplemented by need-based visits by missions comprising selected specialists. A mid-term review will be carried out no later than December 15, 2019 to evaluate progress and make necessary adjustments. Estimated inputs from different specialists at different stages of project implementation are outlined below.

Implementation Support Plan

Table A4.1. Annual Supervision Input Estimate

Time	Focus	Skills Needed	Resource Estimate Each Year (In Staff Weeks)
First 12 months	Procurement supervision and training	Procurement specialist	4
	FM and supervision	FM specialist	2
	Social safeguards/resettlement supervision	Social development specialist, Community development specialist	3
	Environmental management and supervision	Environmental specialist	3
	Technical supervision and support	Cultural, natural and non-physical heritage conservation, tourism development, civil engineering and transport, geo-hazard management, tourism services.	16
	Project management	TTL	10
12 to 60 months	Procurement review, supervision, and training	Procurement specialist	2
	FM supervision and training	FM specialist	2
	Social safeguards/resettlement supervision	Social specialist/ community development specialist	2
	Environmental management supervision and support	Environmental specialist	2
	Technical supervision and support	Cultural, natural and non-physical heritage conservation, tourism development, civil engineering and transport, geo-hazard management, tourism services.	12

	Team leadership	TTL	8
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8. The skills mix required for implementation support is summarized in Table A4.2 below.

Table A4.2. Skill Mix Required

Skills Needed	No. of Staff Weeks Each Year	Number of Trips Each Year
TTL/urban specialist	8	2
Cultural heritage specialist/ non-physical cultural heritage specialist	6	4
Tourism development specialist	3	2
Civil engineering specialist (drainage and wastewater)	3	2
Road and transport specialist	3	2
Geo-hazard management specialist	3	2
FM specialist	2	2
Procurement specialist	2	2
Social development specialist	2	2
Environmental specialist	2	2

Annex 5: Economic and Financial Analysis

CHINA: Second Gansu Cultural and Natural Heritage Protection and Development Project

A. ECONOMIC ANALYSIS

1. Gansu's tourism sector is growing at a fast pace, driven mainly by domestic tourism. The number of tourist visits⁵ has grown from 24 million in 2007 to 126 million in 2014 at an average annual growth rate of over 20 percent. Correspondingly, tourism earnings increased by 28 percent per year in the same period and have become a key pillar of the Gansu economy. In 2014, tourism earnings were around RMB78 billion (US\$12 billion), which was equivalent to 11 percent of Gansu's GDP.

Table A5.1. Growth in Tourism Numbers and Revenue

	2007	2008	2009	2010	2011	2012	2013	2014
Tourist numbers (million person-visits)	24.23	24.91	33.94	42.91	58.36	78.34	100.78	126.63
Tourism revenues (billion Yuan)	11.58	13.75	19.28	23.72	33.37	47.10	62.01	78.02
Share of GDP (%)	4.3%	4.3%	5.7%	5.8%	6.6%	8.3%	9.9%	11.4%
Source: Gansu Provincial Statistics								

2. The Project aims to conserve cultural and natural heritage, enhance tourist experience, and improve community services in selected Project sites in the Gansu Province. Investments are grouped in eight clusters, based on their nature, location, and association: Kongtong Mountain in Kongtong District; Yunya Temple and Scenic Park in Zhuanglang County; Buddhist Grottoes Conservation in Jinchuan County; Silkroad Buddhist History Museum in Jingchuan County; Guan'egou Ethnic Cultural and Natural Heritage Conservation in Tanchang County; Yangba Natural Heritage Conservation in Kangxian County; Hua'er Traditional Music Conservation and Inheritance and Songmingyan Scenic Park in Hezheng County; and Fossil Museum in Hezheng County.

Economic Benefits and Costs

3. **Economic benefits.** The beneficiaries of the Project are tourists (both domestic and international), local residents, and tour operators. The main benefits of the Project include enhanced experience or utility of tourists owing to heritage site protection and development, increased employment and income of local communities owing to local tourism development and local skills enhancement, and better accessibility and amenity of local communities.

4. Economic benefits to tourists can be classified as monetized and non-monetized benefits. In the analysis, monetized values are represented by expenses incurred by tourists at a site, which include entrance fees paid by tourists and other expenses (such as money spent on souvenirs, food and lodging). The tourist's total value of enjoying historical and cultural

⁵ Note that the number of "visits" may be larger than the number of different people visiting: visitors who visited more than one site during their trip to Gansu or visited one site more than once within a year are counted separately.

heritage is usually higher than the money spent. The willingness-to-pay (WTP) approach was employed to estimate the non-monetized benefits to tourists.

5. Tourism development also increases employment and income opportunities of local people as tourists pay for tourism-related services provided by local people or tour operators, e.g., shops, restaurants, and local hotels. Since most of the service payments made by tourists are already accounted in the monetized benefits of tourists, increased incomes of local people have not been separately included in the analysis.

6. **Project costs.** Project costs include the costs of capital investment and O&M costs. Capital investment costs include the cost of civil works and equipment purchased, environmental mitigation and management costs, and social and resettlement costs.

7. The economic analysis assumes that market prices for the main elements of costs and benefits are not at much variance from their economic values; therefore shadow prices and conversion factors were not applied. Economic benefits and costs are valued at base year 2014 price levels, net of inflation, duties, and taxes. The discount rate used is six percent. The Project duration of 35 years includes five years of construction (2017-2021) and 30 years of operation (2022-2051). Asset residual was reflected in the end year of the benefit stream.

8. **Projection of Tourist Growth.** Based on historical trends and the carrying capacity of tourist destinations in the Project area, projections were made to forecast numbers of tourists visiting each project site and the contribution of Project investments to the additional growth of tourists. To be conservative, the analysis further assumed that the number of tourists in the main tourism sites would remain the same from 2040 to the end of the Project analysis period or grow at very low rates.

Economic Analysis by Investment Cluster

9. Cost-benefit analysis was applied to each of the eight investment clusters. The results of the analysis for two representative clusters are summarized below; and others are summarized in a table at the end of this section.

Kongtong Mountain in Kongtong District

10. Kongtong Mountain is a national tourism destination site. The number of tourists has grown rapidly from 1.02 million in 2010 to 2.40 million in 2014. Park admission fee earnings were RMB122 million (US\$19 million) in 2013. It was projected that the proposed Project would result in additional tourists as follows: 28,600 by 2023; 198,000 by 2025; 1.18 million by 2030; and 1.88 million in 2050.

11. **Admission fee and other net tourism earnings.** Based on data on revenue and the number of visitors, the average spend of visitors on entrance fees was RMB77.3 in 2014. Spending at souvenir shops and other services provided by the park was RMB15.5 per person. Hence the total average on-site expenditure of tourists was RMB92.8.

12. **Willingness-to-pay.** According to a WTP survey done in Kongtong Mountain in 2005 (Jia, 2009), tourists were willing to pay an average of RMB20.0 for the protection of the historic and natural heritages of the mountain area, in addition to the expenses they had incurred. Although the increase in net incomes of tourists since 2005 will result in a higher WTP, this analysis uses RMB20.0 as a conservative estimate.

13. **Non-quantified Benefits.** The Project will also bring about additional benefits to all visitors (beyond benefits valued above), to local people, and those who may not visit the site but are still willing to protect the site heritage for future generations. These benefits were not quantified in the analysis and hence the estimated economic benefits represent a low end value.

14. **Costs.** The total fixed capital investment is RMB250.3 million, spread over 2016-2022 according to the construction schedule. O&M costs include both regular operating and maintenance costs each year, as well as the costs of major repairs every ten years (estimated at 20 percent of fixed capital investment).

15. **Results of the Economic Analysis.** The results of the economic analysis, indicate an Economic Internal Rate of Return (EIRR) of 17.74 percent, with a Net Present Value (NPV) of RMB869.0 million (US\$133.7 million) and a Benefit/Cost Ratio (BCR) of 2.88.

16. Sensitivity analysis was conducted for the scenarios of a 10 percent decrease in the projected growth rate of tourist visits and a 10 percent increase in total Project costs. The results of the sensitivity analysis (see table below) indicate that the EIRRs are all above the 10-12 percent threshold.

Table A5.2. Summary of Sensitivity Analysis

	EIRR
10 percent decrease in tourist growth rate	16.61 percent
10 percent increase in investment costs	17.64 percent
Combined	16.30 percent

Fossil Museum in Hezheng County

17. This sub-component will complete the construction of a museum for the exhibition of fossils in Hezhen County by upgrading the storage rooms, exhibition hall, and display. The main economic benefits are the willingness-to-pay of tourists for the enhanced services of the museum. No WTP survey was conducted since the number of visitors to the existing facilities is small. Instead, the analysis used the results of WTP from other museums. A WTP survey in Xi'an in 2006 showed that visitors would be willing to pay RMB37.55 for enjoying a museum during their tour. Adjusted by income difference and income increase over time, it was estimated that the average WTP for the fossil museum in Hezheng County would have been RMB53.74 in 2014. Since the Project investment is only 5.21 percent of the total cumulative investments in Hezheng County museum construction and renovation, the WTP value was adjusted to take account of this share. The tourist projection study estimates that there would be 6,200 tourists visiting the site in 2023 and the number would increase to 555,600 in 2050. The economic benefit in present value is RMB15.7 million (US\$2.4 million). It is also assumed that at the end year of the Project analysis period half of the capital investment will remain as asset residual.

18. Capital investments are estimated at RMB3.15 million (US\$0.48 million). Annual O&M costs are estimated at RMB80,000 in 2023 with a three percent annual increase, plus a major repair every ten years at 10 percent of capital costs.

19. On the basis of the above, this sub-component will yield an EIRR of 12.09 percent, with an NPV of RMB3.92 million and a BCR of 2.08. Sensitivity analysis shows that the investment

will still provide an EIRR 11.03 percent under the assumptions of a 10 percent reduction in economic benefits and a 10 percent increase in investment costs.

Summary of the Results of the Economic Analysis

20. The table below summarizes the results of the cost-benefit analysis of all eight investment clusters. The EIRR of these investments is 15.42 percent, which is above the acceptable threshold of both the Government and the Bank. Sensitivity analysis results further indicate that the proposed investments are robust.

Table A5.3. Summary of Cost-Benefit Analysis

Components	NPV (million RMB)	EIRR	BCR	Sensitivity Analysis (assuming 10% cost increase and 10% benefit reduction)
				EIRR
Kongtong Mountains in Kongtong District	868.99	17.74%	2.88	16.30%
Buddhist Grottoes Conservation in Jinchuan County	98.05	12.79%	2.88	11.99%
Silkroad Buddhist History Museum in Jingchuan County	64.87	10.77%	1.97	9.87%
Yunya Temple and Scenic Park in Zhuanglang County	164.75	11.42%	1.75	10.09%
Guan'egou Ethnic Cultural and Natural Heritage Conservation in Tanchang County	636.56	16.01%	3.07	14.77%
Yangba Natural Heritage Conservation in Kangxian County	450.52	15.89%	2.82	14.66%
Hua'er Traditional Music Conservation and Inheritance and Songmingyan Scenic Park in Hezheng County	121.88	12.23%	1.90	10.95%
Fossil Museum in Hezheng County	3.92	12.09%	2.08	11.03%
Overall project	2,529.3	15.42%	2.84	14.54%

Impact on the Poor

21. Most of the Project investment will be shouldered by local governments. Local residents will be provided free or discounted annual passes. Therefore, the Project will result in little burden on local residents, especially low-income residents. The Project will improve living conditions and has the potential to increase employment and income opportunities for local people, including low-income groups in the Project areas.

B. FISCAL ANALYSIS

22. The World Bank loan for the proposed Project will be on-lent to the six project district/counties, who will be responsible for repaying their share of the loan. Fiscal analysis of the project focused on the financial capability and sustainability of the ultimate borrowers, including: (i) general socio-economic development status and plans; (ii) government fiscal revenue and expenditure; (iii) government debt status; (iv) counterpart fund requirements and availability; and (v) measures for ensuring counterpart fund availability and financial sustainability.

Socio-economic Development Status and Plans

23. Gansu Province is a relatively poor province in China with GDP per capita of RMB 24,296 in 2014, which was about 59 percent of the national average and ranked second to last among all provinces and areas in China.⁶ The GDP per capita of the project areas averaged RMB11,305 in 2014, which is only about half of the Gansu per capita GDPe. Table A5.4 below indicates the socio-economic status and plans of the project district/counties.

Table A5.4: Socio-economic Development Status and Plans
(2014)

Indicator	Unit	Kongtong	Jingchuan	Zhuanglang	Tanchang	Kang	Hezheng
Population	Thousand	462	359	451	297	199	213
Gross Domestic Product	RMB million	8,985	5,104	3,557	1,890	1,646	1,400
Annual growth rate	% per year	8.6%	8.8%	8.5%	9.8%	10.6%	17.4%
GDP per capita	RMB per person	18,996	17,999	9,286	7,330	9,128	6,054
Local Fiscal revenue	RMB million	573	463	239	297	143	272
Total Fiscal expenditure*	RMB million	2,219	1,933	2,321	2,060	1,278	1,558
Fixed asset investment	RMB million	11,071	5,974	4,239	5,210	5,935	3,293
Total tourists	person million	5.0	2.0	0.6	1.2	1.1	1.8
Total tourism revenue	RMB million	2,529	300	120	640	480	750
Urban disposable income	RMB per person	17,854	17,158	18,752	16,205	16,123	13,652
Rural net income	RMB per person	6,691	5,480	4,597	3,607	3,730	3,783
GDP growth rate in 12-FYP	% per year	11.2%	12.0%	14.3%	15.0%	10.9%	14.8%
Actual average in 2011-14	% per year	12.2%	12.3%	11.8%	14.9%	14.8%	13.6%
GDP growth rate in 13-FYP**	% per year	11.5%	9.0%	11.6%	10.0%	8.5%	9.0%

* also include fiscal subsidies from upper level governments

** preliminary considerations.

Source: The project district/counties

Government Fiscal Revenue and Expenditure

24. Government fiscal revenues of the project district/counties increased during 2011–2014; however, the level of local fiscal revenue was very low, and could only support the daily operations of the governments and their entities. Of the project district/counties, Kongtong District and Jingchuan County have better fiscal capacities, while Kang County is the weakest in terms of local fiscal revenues. Large fiscal subsidies were provided by upper level governments and sector authorities; these supported 80–90 percent of total fiscal expenditures in 2014. Fiscal expenditures for culture and sports increased at an average of 15 percent per annum during 2010-14. Table A5.5 summarizes fiscal revenues and expenditures of the project district/counties in 2014.

⁶ Guizhou Province was ranked the last in terms of GDP per capita in 2014.

25. In China, most fiscal subsidies are allocated for specific investment projects and public affairs; only a small amount can be re-allocated by district/county governments. For local investment projects, local governments need to explore other financial resources, e.g., revenue from land sales, loans from commercial banks, and private participation. In recent years, fiscal funds for locally financed projects have come mostly from incremental public fiscal revenues and land sales.

Table A5.5: Fiscal Revenue and Expenditure of the Project District/Counties
(RMB billion, 2014)

Indicator	Kongtong	Jingchuan	Zhuanglang	Tanchang	Kang	Hezheng
Fiscal Revenue						
Total Local Fiscal Revenue	573.20	462.51	239.15	297.00	143.27	272.47
Public fiscal revenue	363.67	312.67	96.55	165.00	131.45	118.04
annual growth rate (%)	17.8	104.4	17.1	24.00	18.00	17.42
Fund revenue	209.53	149.84	142.60	132.00	11.82	154.43
among which, land sale	98.93	146.73	115.65	31.12	7.65	152.44
Subsidy	1,646.16	1,470.64	2,082.29	1,763.31	1,135.07	1,285.41
Total Fiscal Expenditure						
Public fiscal Expenditure	1,920.98	1,716.12	2,149.97	1,936.29	1,245.12	1,366.60
1. Public affair	166.68	120.96	152.36	178.98	132.91	445.34
2. National defense	0.00	0.07	0.07	0.07	0.00	0.07
3. Public security	83.54	49.79	56.99	61.63	44.05	31.70
4. Public education	392.21	464.46	523.92	291.21	221.40	238.36
5. Science and technology	3.12	7.57	2.96	3.88	3.47	3.60
6. Culture and sports	18.91	20.11	32.33	31.46	16.41	22.57
7. Social insurance and employment	404.69	235.29	365.38	467.95	170.31	184.75
8. Medical care	253.08	216.38	256.20	190.47	167.67	107.60
9. Environment protection	77.26	70.45	80.67	112.18	48.22	25.13
10. Urban and rural development	101.29	33.77	16.87	8.42	37.92	9.29
11. Agriculture, forest, irrigation	335.01	390.57	384.28	466.25	310.37	231.05
12. Survey, electricity, information	14.99	11.60	6.00	9.35	10.97	6.65
13. Transportation	18.61	43.57	87.36	97.81	28.09	28.12
14. Industrial, commercial and banking activity	8.52	19.75	6.58	6.57	11.33	32.37
15. Others	43.07	31.78	178.00	10.06	42.00	0.00
Fund Expenditure	298.38	217.03	171.47	124.02	33.22	191.28
among which, land development	153.45	206.33	116.00	1.61	0.00	0.00

Source: Financial Bureaus of the project district/counties

Government Debt

26. Project district/counties have borrowed from commercial banks to finance socio-economic and infrastructure development. Government debt includes: (i) direct borrowing; (ii) borrowing by government entities, with government guarantees; and (iii) contingent liability, i.e., borrowed by government entities or enterprises which could become government debt. Table 5.6 indicates the status of Government debt of the project district/counties in 2014. Government debt in Zhuanglang County is higher than in others, at 28.6 percent of GDP and 425.1 percent of local fiscal revenues.

Table A5.6: Government Debt Status
(RMB million, 2014)

Indicator	Kongtong	Jingchuan	Zhuanglang	Tanchang	Kang	Hezheng
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New debt	2.00	117.06	240.00	0.00	2.80	50.00
Debt repayment	95.00	88.53	147.00	0.00	58.80	198.84
Debt balance	1,152.00	676.02	1,016.51	272.87	377.55	276.69
Debt in GDP	12.8%	13.2%	28.6%	14.4%	22.9%	19.8%
Debt in Local Fiscal Revenue	201.0%	146.2%	425.1%	91.9%	263.5%	101.5%
Debt in Fiscal Expenditure	51.9%	35.0%	43.8%	13.2%	29.5%	17.8%
Direct debt to GDP	7.0%	11.1%	24.4%	9.2%	10.0%	19.8%
Direct debt to Local Fiscal Revenue	109.0%	122.8%	362.6%	58.5%	115.0%	101.5%
Direct debt to Fiscal Expenditure	1.9%	0.5%	3.6%	4.5%	16.4%	0.0%

Source: Financial Bureaus of the project district/counties

27. Commercial bank loans have supported rapid infrastructure development in the project areas. To ensure debt repayment, all project district/counties have established debt repayment funds in their fiscal budgets. The proposed World Bank loan will increase the indebtedness of the project district/counties by 17 percent (based on 2014 debt balance). For Tanchang County and Hezheng County, their debt will increase by 41 and 45 percent respectively. Project district/counties will therefore need to enhance debt management, including close monitoring of debt status, optimizing debt structure, and establishing adequate debt repayment funds.

Counterpart Funds

28. Projections were made for the project implementation period (2016–2020) based on the following assumptions:

- Counterpart funds of the project would be provided from the fiscal revenues of the project district/counties.
- Local fiscal revenues of the project district/counties would increase during 2016–2020 at the same pace as GDP.
- The potential counterpart funding sources for the project (50 percent of the fiscal allocation to tourism and culture development, plus 50 percent of fund expenditure) would increase at the same paces as the overall fiscal revenue increase.

29. The results of the analysis are summarized in Table A5.7. The highlights are:

- Counterpart fund requirements for the project would absorb about 2.2 percent of local fiscal revenues during the project implementation period. Counterpart funding requirements for Kang County would absorb about 5.1 percent of its local fiscal revenue, which might exceed its fiscal capacity based on past fiscal allocations. Kang County would need to adjust its financing plan and/or explore other financial resources for the project.
- As “national poverty” areas, project district/counties receive large fiscal subsidies to support their socio-economic development and poverty alleviation. Counterpart fund requirements would absorb only about 0.4 percent of total fiscal capacity of the project district/counties (0.6 percent for Kang County and Hezheng County). Fiscal support

from upper levels of government would thus contribute substantially to counterpart fund availability, if adequate funds are not available from local fiscals.

- Counterpart funds requirements would absorb about 7.5 percent of fiscal allocations for tourism development and fund expenditures (i.e., 50 percent of the fiscal allocation to tourism development plus 50 percent of the fund expenditures), which is generally affordable to the project district/counties; however, it is relatively high for Kang County, at about 29.3 percent. Kang County would therefore need to make appropriate budget arrangements for its fiscal allocations to tourism development under the project.
- Aggregate annual debt service payments is projected to be about RMB32.8 million per year for principle (starting from 2021) and RMB13.1 million for interest for 2021. Debt service payment in 2021 (peak year) would be about 1.6 percent of local fiscal revenue as a whole, and in the 0.7–2.7 percent range for individual project district/counties. In general, such debt service would be within the fiscal capacity of the district/county governments.

Table A5.7: Analysis of Counterpart Fund Requirements and Analysis
(RMB million)

Indicator	Total/ Average	Kongtong	Jingchuan	Zhuanglang	Tanchang	Kang	Hezheng
1. Local fiscal revenue	14,778.99	4,482.38	3,288.65	1,877.22	2,193.99	999.38	1,937.38
2. Total fiscal expenditure	84,537.12	17,355.22	13,745.54	18,222.24	15,219.86	8,917.06	11,077.20
2.1. Related fiscal allocations	4,391.20	1,240.59	843.08	799.87	574.28	173.10	760.28
3. Total Project Cost	986.53	214.71	124.92	139.40	168.37	149.07	190.07
4. Counterpart fund requirements	330.57	70.40	39.64	47.56	56.85	50.67	65.44
4.1. % of local fiscal revenue (4/1)	2.2%	1.6%	1.2%	2.5%	2.6%	5.1%	3.4%
4.2. % of total fiscal expenditure (4/2)	0.4%	0.4%	0.3%	0.3%	0.4%	0.6%	0.6%
4.3. % of related fiscal allocations (4/2.1)	7.5%	5.7%	4.7%	5.9%	9.9%	29.3%	8.6%
5. IBRD Loan	655.96	144.31	85.27	91.83	111.51	98.39	124.63
5.1 Principle repayment per year	32.80	7.22	4.26	4.59	5.58	4.92	6.23
5.2 Interest repayment in 2021	13.12	2.89	1.71	1.84	2.23	1.97	2.49
5.3 Total loan repayment in 2021	45.92	10.10	5.97	6.43	7.81	6.89	8.72
5.4 Repayment (2021) in local fiscal revenue	1.6%	0.8%	0.7%	1.2%	1.3%	2.7%	1.8%

Source: The World Bank task team

Measures to Strengthen Counterpart Fund Availability and Capacity to Service Project Debt

30. From the above analysis, it appears that the project district/counties have the ability to finance project implementation and to service project debt. However, project district/counties rely heavily on fiscal subsidies and fund revenues. The following should be considered by the project district/counties to alleviate risks related to counterpart fund availability and debt service:

- The project district/counties should confirm that their project implementation schedule is consistent with their fiscal capacity. Local governments should include counterpart fund

requirements for the project in their annual fiscal budgets to ensure timely availability of the fund requirements.

- All project district/counties should establish a dedicated financial account to consolidate and manage all project funds, including the World Bank loan and government fiscal allocations.
- Provincial and municipal governments should monitor the financial status of the project district/counties closely and provide timely financial support, as needed.
- The project district/county governments should carefully calculate annual debt service requirements for all of their debts, including the World Bank loan. They should enhance their debt management capacity, including the scale of debt, debt structure, and establishment of adequate debt repayment funds.

Financial Evaluation of Revenue-earning Project Sites

31. Under the project, investments will expand and/or protect 13 historical relics and/or cultural sites in Gansu Province. Local entities will operate the sites as tourist attractions or public facilities. Only a few of these sites will generate revenues from ticket sales to cover the cost of operations and maintenance. Non-ticket revenues would supplement ticket revenues and would contribute to recovering costs; Table 5.8 summarizes the status of each sub-project in terms of ticket revenues.

Table A5.8. Ticket Revenues at Project Sites

District/County	Sub-project/site	Operator	Ticket Revenue
Kongtong	Kongtong Mountain heritage protection	Kongtong Mountain Administration Bureau	Yes
Jingchun	Wanyan folk village development	Wangcun Town Government	No
	Bazhang Temple protection	County Culture and Broadcasting Bureau	No
	County Museum		No
	Wangmu Temple improvement		Yes
	Hundred Mile Grottoes Corridor conservation		Yes
Zhuanglang	Yunya Temple cultural relics protection	Yunyan Temple Administration Committee	Yes
Tanchang	Guan'egou heritage conservation	Guanhegou Tourism Development Co. Ltd.	Yes
Kangxian	Yangba Natural Heritage Conservation	County Tourism Bureau	Yes
Hezheng	Ancient Fossil Conservation program	County Ancient Fossil Museum	No
	Hua'er Traditional Music Conservation	County Culture and Broadcasting Bureau	No
	Songming Town improvement	Songming Town Government	No
	Soming Cliff protection	Songheyan Scenic Administration Bureau	Yes

Source: The Feasibility Study Report (December 2015)

32. **Forecast of Tourist Numbers.** Table 5.9 below summarizes the forecast numbers of tourists at each of the six project district/counties.

Table A5.9: Tourist Forecast
(‘000, induced tourists)

Site	2021	2025	2030	2035	2040	2045	2050
Kongtong Mountain	30	500	1,330	1,610	1,680	1,700	1,700
Grottoes Corridor	30	40	70	130	210	330	460
Yunya Temple	10	180	530	760	860	890	900
Guan’egou Heritage	-	120	490	990	1,590	2,200	2,600
Yangba Natural Heritage	10	220	550	710	710	710	710
Songming Cliff	-	90	300	430	430	430	430

Source: The Feasibility Study Report (January 2016)

33. **Operations and Maintenance Costs.** Table A5.10 summarizes estimated operations and maintenance costs of each project district/county.

Table A5.10: Estimations of Operation and Maintenance Costs
(RMB million)

Project District/County	Routine Maintenance		Management		Operation	
	Annual	Increase	Annual	Increase	Annual	Increase
Kongtong Mountain	6.44	3%	2.39	3%	12.16	8%
Grottoes Corridor	0.41	3%	0.16	3%	0.11	6%
Yunya Temple	4.18	3%	0.50	3%	0.48	6%
Guan’egou Heritage	5.05	3%	0.62	3%	0.30	8%
Yangba Natural Heritage	4.47	3%	0.39	3%	0.42	8%
Songming Cliff	3.02	3%	1.14	3%	0.38	8%

Source: The Feasibility Study Report (January 2016)

34. **Financial Rates of Return (FIRR).** Financial rates of return were computed taking into account revenues from ticket sales at sites, as well as non-ticket revenue through parking fees, tour guide fees, store and restaurant sales, etc. Non-ticket revenues contribute to 20-50 percent of total revenues. Table A5.11 summarizes the results of the financial evaluation. The FIRR are in the 6.49–13.91 percent range after tax, and are higher than the average financial discount rate (six percent) for the tourism sector in China. Sensitivity tests showed that the sub-projects continue to be financially viable for most of the tested scenarios. In the worst case scenario of a 20 percent increase in costs and 20 percent decrease in revenues, the FIRR were in the 4.41–8.17 percent range, after tax. The FIRR were more sensitive to changes in revenues.

Table A5.11: Summary of Financial Evaluation Results

(FIRR percent after tax, RMB million)

Subproject	Base Case		Cost		Revenue		Combination	
	FIRR	FNPV @6%	+10%	+20%	-10%	-20%	Cost+10%, Revenue-10%	Cost+20%, Revenue-20%
Kongtong Mountain	12.3	246.44	11.76	11.21	11.00	9.51	10.41	8.17
Grottoes Corridor	6.49	3.13	6.33	6.16	5.68	4.79	5.51	4.41
Yunya Temple	9.08	69.48	8.82	8.55	8.16	7.13	7.88	6.49
Guan'egou Heritage	9.61	110.25	9.37	9.13	8.75	7.78	8.49	7.22
Yangba Natural Heritage	9.56	75.47	9.28	9.00	8.53	7.39	8.23	6.72
Songming Cliff	9.11	47.50	8.72	8.31	8.04	6.82	7.61	5.86

FIRR = financial internal rate of return, FNPV = financial net present value.

Source: The Feasibility Study Report (January 2016)

Annex 6: Project Map

