

Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 18-Mar-2019 | Report No: PIDISDSA24117



BASIC INFORMATION

A. Basic Project Data

Country China	Project ID P158215	Project Name Gansu Revitalization and Innovation Project	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 21-Mar-2019	Estimated Board Date 21-May-2019	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Financing Instrument Investment Project Financing	Borrower(s) People's Republic of China	Implementing Agency Gansu Provincial Department of Culture and Tourism, Gansu Financing Holding Group	

Proposed Development Objective(s)

The project development objectives are to increase income-generating opportunities, improve the living conditions in the project area, strengthen institutional capacity of participating entities, and disseminate the project's experience globally.

Components

- Component 1: Community Economic Development
- Component 2: Urban-Rural Regeneration and Sustainable Development
- Component 3: Institution Building and Global Knowledge Transfer

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	312.63
Total Financing	312.63
of which IBRD/IDA	180.00
Financing Gap	0.00

DETAILS



World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	180.00
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Non-World Bank Group Financing

Counterpart Funding	132.63
Borrowing Country's Fin. Intermediary/ies	100.00
Municipalities of Borrowing Country	32.63

Environmental Assessment Category

A-Full Assessment

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **As countries increasingly invest in infrastructure connectivity to promote territorial development, with the aim of linking lagging regions with economic growth opportunities, small and medium-sized towns not located at strategic nodes are often left behind.** This project, as part of a joint program with the International Finance Corporation (IFC) focusing on China’s Gansu Province, will provide a global model of how small towns along major infrastructure networks can instead leverage their existing local endowments to benefit from, and contribute to, economic growth. The project will demonstrate how pockets of poverty can be reduced through “last-mile connectivity” between urban and rural settlements, through vital improvements to local infrastructure, and by enabling micro- and small enterprises to connect to the growing service economy. Provinces across China with similar challenges, as well as other developing countries, will learn through global knowledge transfer how to address such challenges effectively.

2. **China is undergoing a major economic transformation from a manufacturing to a service-based economy.** Its old growth pattern, driven by industrial investments, as well as by labor- and energy-intensive manufacturing and construction, is shifting to a new growth model that is slower but more balanced and based on services, consumption, innovation, and private sector participation. In its 13th National Five-Year Plan (2016–20), China has set out a comprehensive reform agenda to facilitate the economic transition to a better-quality and more balanced growth that is of higher productivity, economically and environmentally sustainable, and yielding better social outcomes through greater shared prosperity.



3. **Over the past three decades, China’s economic growth and transformation have been supported by rapid urbanization and expanding private sector investments.** As of 2016, 57 percent of the Chinese population lived in cities, compared with 18 percent in 1978, representing a shift of a large share of the population from agriculture to manufacturing and service sectors. Growing cities with serviced land, inflow of labor, good infrastructure, and improved interconnectivity attract service industries and investment, create jobs, and generate higher incomes. As a spillover, the development of cities and service industries and their agglomeration are injecting growth opportunities into adjacent rural areas and narrowing down the urban-rural income gap. Meanwhile, China’s traditional model of land-based financing for urban infrastructure has become unsustainable and has led to widespread and continuing urban sprawl, with dependence on cars producing air pollution and greenhouse gas (GHG) emissions. Alternative market-facing financing institutions and mechanisms will be crucial to the sustainability and future of China’s cities.
4. **China has also made remarkable progress in poverty reduction, yet some challenges remain.** From 1978 to 2013, real per capita incomes increased by 16 times, lifting more than 850 million people out of poverty. Continued efforts to alleviate poverty remain a high priority on China’s development agenda, as an estimated 3.9 percent of the population (about 54.6 million people) still live in moderate poverty, according to the higher international poverty line of US\$3.10 per day purchasing power parity, and 0.5 percent of the total population still live under extremely poor conditions in remote locations (“the last mile”), with poor access to and quality of infrastructure and public services. In the Outline for a Development-Oriented Poverty Reduction Program for China’s Rural Areas (2011–20), and in a series of recent poverty alleviation policies, the government of China has targeted the elimination of extreme poverty under the current standard by 2020, with specific directions to stimulate development in poor areas.
5. **Despite progress in poverty reduction and economic growth, regional and urban-rural disparities in terms of living conditions and economic opportunities remain wide and persistent, impeding the full realization of poverty alleviation and shared prosperity.** Significant regional, urban-rural, and among-cities disparities are exemplified by Gansu, the poorest province in China and the beneficiary of this project’s financing, which faces severe development challenges and lags behind other provinces of the country significantly. While China’s substantial investments in expressways and high-speed railways have brought appreciable benefits to major nodal cities, small and medium-sized cities in under-resourced provinces across China have been left out and are unable to benefit. Such locations lack mechanisms and strategies, as well as financial avenues, that would encourage the best use of local endowments to address poverty and promote inclusive and sustainable growth. Large, cross-regional connective infrastructure investments in expressways, rail-based freight, and passenger networks are known to benefit specific nodes on such networks while leaving out or hollowing large swaths of “left-behind” small towns along the route.
6. **Fully achieving the goal of reducing vulnerability and regional disparities warrants extra effective measures, not only in terms of time, but also with new models of integrated territorial development and stronger institutions in poor provinces.** Vulnerable groups in lagged regions and provinces, who are just above the poverty line with very low incomes and may fall back into poverty, need such new models of development to improve their physical living conditions and enable economic opportunities to emerge. This



requires support and investments in building stronger institutions for sustained economic growth and the transfer of the latest knowledge and practices of development.

7. **China has initiated policies to reduce regional disparities and address the challenge of inclusive development.** The sustainable and inclusive development challenge of China has evolved from “the contradiction between the growing needs of the people and backward production” to “the contradiction between unbalanced and inadequate development and the people’s ever-growing needs for a better life” (Xinhua News, October 27, 2017). The significant regional and urban-rural disparities constitute one of the three main aspects of this “unbalanced and inadequate development” challenge. Recognizing that the western region is lagging behind its coastal counterpart by far, the government of China has initiated a series of high-level regional development policies since the 1990s, and it launched the China Western Development Strategy in 2000. Recently, “coordinated regional development” has become a main objective of the 13th Five-Year Plan, under which the western region aims to equalize basic services, develop sectors with competitive advantages, promote innovations, and ultimately eradicate poverty.

8. **Moving forward, China needs to make strides to ensure its growth is sustainable and will benefit all segments of its population.** Poor households, especially in rural areas of the least developed regions, such as Gansu, need to tap into the increased productivity and efficiency of service industries that are less resource intensive and more environmentally sustainable and be provided with access to markets, technologies, and finance, which is the focus of this demonstration project. As President Xi Jinping expressed in his report at the 19th CPC National Congress in October 2017, development is the key to addressing China’s challenges; but in lieu of speed, the focus now should be on the quality and equity of development. The report defined the “principal contradiction” for the Chinese society as the tension between “unbalanced and inadequate development, and the people’s ever-growing needs for better life.”

Sectoral and Institutional Context

9. This section comprises the following parts: challenges, opportunities, and project design approach.

Challenges:

10. **Gansu is the poorest province in China. It faces severe development challenges and significantly lags behind other provinces on most economic and social indicators.** Gansu’s per capita income is less than half the national average and a mere 23 percent of that in leading provinces, such as Beijing and Shanghai. Measured by per capita disposable income and access to and quality of infrastructure, Gansu also ranks last among all the provinces. Agricultural development alone has proved inadequate to lift Gansu’s poor out of poverty, and the once-powerful heavy industries are declining. The province is turning to the service sectors to drive its economic growth but so far has had only limited success. In addition, uneven development and significant disparities also exist within Gansu Province, among prefectures, and within cities and towns. Within the province, there are also striking disparities between rural and urban areas, and a wide gap between the capital city, Lanzhou, and secondary cities and towns.



11. **Gansu lags behind in terms of infrastructure and living conditions. While several towns and villages in the province have cultural or natural endowments, they need significant investments in regeneration and income-generating opportunities.** Although the Chinese government has invested heavily in trunk infrastructure across the country, the “last-mile connectivity” between urban and rural settlements is still missing in many poor communities. In Gansu in particular, infrastructure and services have been insufficient in the face of harsh natural conditions, sparsely distributed rural population, and severe underinvestment. Only 82 percent of the villages have access to paved roads, and some of these are substandard in quality. About 20 percent of rural households do not have access to tap water, and nearly 10 percent of the villages do not have access to industrial-grade electricity supplies for irrigation. The proportion of administrative villages that have domestic wastewater treatment systems is only 17.5 percent, well below the national level of 48.2 percent (China Urban and Rural Construction Statistical Yearbook, 2016). The project targets such lagged areas and pockets of poverty in the province with improved connectivity; water, wastewater, and solid waste management; and increased income-generating opportunities. It also aims to support local communities with intangible cultural heritage but decaying traditional houses with immediate urban and rural regeneration to enable local economic development.

12. **Gansu lacks strong financial institutions and capacity to leverage its endowments for economic development.** Micro- and small enterprises (MSEs) are active in the province’s service industry, providing authentic cuisine, art, and performance experiences to visitors, as well as accommodation in homestays or boutique hotels, sightseeing, and local transportation. Such service enterprises provide an important source of employment and income for local residents. Many of these MSEs, however, prefer to borrow from family and friends rather than from the formal financial sector. On the one hand, banks and other financial institutions in charge of microcredit and guarantees in Gansu traditionally have difficulty evaluating the creditworthiness of borrowers of micro- and small loans. On the other hand, MSEs lack the capacity to and are deterred by the high costs and complicated application procedure of getting a credit line. Gansu lacks a sustainable credit market for MSEs and the proper mechanisms to incentivize private sector investments and support MSEs.

13. **Institutional capacity for managing and promoting endowments is also poor in Gansu.** Although the number of tourists has risen significantly in Gansu in the past decade, tourism spending per trip has not increased much. The tourism revenue of Gansu ranks only 27th among all the provinces, making it one of the least developed in China (Gansu Daily, March 14, 2018). Strategies, policies, and mechanisms to guide the development of the service sector, especially the tourism, culture, and creative industries, are still weak.¹ The provincial government does not have much experience in working with the private sector in

¹ The service creative industries are defined as those that produce and distribute cultural goods, services, or activities with intangible cultural content that convey ideas, symbols, and ways of life, irrespective of the commercial value they may have. These include artistic expressions, such as literature, music, radio, photography, audiovisuals, cinema, dance, theatre, sculpture, painting, design, and so on, presented in different formats (live, print, audiovisual, digital). Facilitating access to resources and training and supporting the development of creativity, as well as protecting traditional practices and folk culture, is instrumental to creating jobs in poor communities for sustainable development. The creative industries sector is growing globally—accounting for 6.1 percent of the global economy—and increasingly contributing to GDP and job creation in many countries and cities. It generates



leveraging resources and managing public assets, and public-private partnership in financing and operating municipal assets is still at the test stage. Municipal governments are unable to operate and maintain public facilities and services at many important attraction sites, which are deteriorating.

14. **A new model of partnership with private operators or state-owned enterprises is needed and will be tested under this project.** Despite the rich cultural and natural endowments, the number of international visitors to Gansu and regional and global events held in Gansu is limited, and the world knows little about Gansu. Mindful of such institutional challenges, the national government has recently merged the ministries of tourism and culture, and the merger is now being rolled out at provincial and local levels. The newly merged departments at both levels need to carry out studies and develop sustainable site management plans, improve policies and regulations, design marketing strategies, and organize branding and promotional activities of Gansu. The project intends to accompany the national-level reform at the provincial level and help to build a stronger merged department in Gansu for better policy planning, operation, and partnership with the private sector.

15. **Existing economic challenges are likely to be exacerbated by climate change and extreme weather events.** Gansu is highly vulnerable to climate change, with both slow-onset climate impacts and extreme weather events affecting the province. Between 1960 and 2010, average mean temperatures in northwest China, and especially in arid Gansu Province, increased by 1.4 degrees Celsius. The rate of warming in northwest China is increasing and is higher than both global and national averages. This warming has led to an increase in the number of days with extreme high temperatures, changes in precipitation patterns, including increased precipitation intensity, and more drought episodes.² Land desertification and shrinking water resources are also of growing concern.³ The impacts of climate change and extreme weather were felt acutely in July 2018, when heavy rains and flash flooding killed 15 persons and affected over a million inhabitants of Gansu.⁴ The growing frequency and intensity of events like flash floods and extreme heat will need to be considered in development and poverty alleviation plans, especially since poor populations in Gansu are often the most vulnerable to climate change and extreme weather conditions.

Opportunities:

16. **Gansu has recently undergone a major economic transformation toward a service-based economy, demonstrating significant potential for sustainable development in the future.** In 2014, for the first time in history, the tertiary sector in Gansu overtook the secondary in terms of contributing to GDP,

annual revenues of US\$2,250 billion and nearly 30 million jobs worldwide, employing more people ages 15 to 29 than any other sector, according to UNESCO's *Investing in Creativity* ([UNESCO 2018](#)).

² L.-D. Sun, C.-J. Zhang, H.-Y. Zhao, et al., "Features of Climate Change in Northwest China during 1961–2010," *Adv. Clim. Change Res.* 4, no. 1 (2013), doi: 10.3724/SP.J.1248.2013.012.

³ H.-Y. Zhao, J.-Q. Guo, C.-J. Zhang, et al., "Climate Change Impacts and Adaptation Strategies in Northwest China," *Adv. Clim. Change Res.* 5, no. 1 (2014), doi: 10.3724/SP.J.1248.2014.007.

⁴ Reuters, "China Floods Wreak Havoc, Block Roads and Railways; More Rain Due, July 13, 2018, <https://www.reuters.com/article/us-china-weather/china-floods-wreak-havoc-block-roads-and-railways-more-rain-due-idUSKBN1K402B>.



marking a significant milestone of structural economic change in the province. Since then, the service sector has been the leading economic sector, and it has continued strengthening its leading position. From 2010 to 2016, the value added in the sector more than doubled, rising from CNY 159.9 billion to CNY 334 billion (about US\$48.4 billion). In 2017, the share of the tertiary sector in provincial GDP reached 52.8 percent. The finance and tourism industries, which were the fastest growing in the past five years, had gross value added (GVA) growth of 21.5 percent and 18.2 percent, respectively, in 2015 (Gansu Statistics Yearbook, 2016). The contribution of the culture and tourism industry to GDP was 7 percent in 2018 and is projected to account for 8.5 percent and 11.23 percent of GDP in 2020 and 2025, respectively.

Table 1: Key Statistics of the Culture and Tourism Sector, Gansu

Indicator	2010	2015	2018 (baseline)	2020 (projection)	2025 (projection)
Number of visitors (domestic)	428,445,000	156,329,000	301,909,000	400,000,000	594,941,522
Number of international arrivals (tourists)	70,167	54,508	100,125	200,000	499,251
Number of jobs in the culture and tourism sector	N/A	570,000	840,000	1,100,000	1,610,714
Number of hotel beds	N/A	445,200	582,600	650,000	762,796
Contribution of culture and tourism sector to GDP	N/A	N/A	7%	8.50%	11.23%
Tourism spending amount (in CNY billion)	23.72	97.54	206.00	310.00	544.76
Tourism spending amount (in US\$ billion)	3.50	3.25	30.65	45.59	80.11

*data on domestic and international visitors: the former Gansu Tourism Commission.

*data on cultural industry: from Gansu Culture Statistical Yearbook 2016 and 2017.

*data on the contribution of culture and tourism sector to GDP:13th Five-Year Plan for the Provincial Economic and Social Development of Gansu (2016–20), and 2019 Conference of Culture and Tourism Director (Director General of Gansu Province).

17. **Gansu could leverage rich but underutilized endowments that have huge potential to contribute to local economic development.** Gansu ranks fifth among China’s provinces in the richness and uniqueness of its endowments and its human skills in creative industry. This gives it a unique competitive edge and comparative advantage to develop further its service sector, including its creative industries, as part of the provincial strategy for economic transformation, poverty reduction, and shared prosperity. Gansu Province is an important location with respect to Chinese civilization and has many historic sites. Among its cultural resources are 68 national-level intangible heritage elements, 333 provincial elements, and 60 designated national-level intangible heritage masters. The province’s tourism industry has been growing significantly and is becoming a main pillar for the local economy, poverty reduction, and job creation. From 2010 to 2016, the number of tourists and visitors grew fourfold, revenues from the tourism sector and its related MSEs more than doubled, and its share in the economy grew from 6 percent to 17 percent. Furthermore,



research has shown that developing the tourism industry could help boost rural employment and reduce the urban-rural income gap. It is observed that among Gansu's prefecture-level cities, the more dominant the tourism industry, the smaller this gap in income.⁵

18. **The rapidly growing service and creative industries have been widely recognized as green and sustainable development sectors. They are now mainstreamed by the government as key drivers of growth and poverty alleviation in China and Gansu.** Globally, the service sector, especially tourism and its related MSEs, has evolved into a sustainable engine of economic growth that creates jobs, increases consumption and investments, and drives infrastructure development. The travel and tourism sector contributes nearly 10 percent of global GDP and creates one out of every eleven jobs, with more than half filled by women and youth (WTTC 2016). China has the largest number of people employed in the tourism sector in the world and the second highest contribution to GDP from the sector (WTTC 2016). In 2017, tourism contributed 11 percent of the national GDP and 10.3 percent of total employment (CNTA 2018). The 13th National Five-Year Plan has highlighted tourism and creative industries as key drivers of growth and poverty alleviation, especially for lagging regions in the west of China, including Gansu, where tourism and creative industries have grown dramatically in recent years. In 2017, extreme poverty was alleviated for 122,600 people in Gansu through tourism (Gansu Tourism Development Commission, 2018). Further growth in the service sector is also directly relevant to the bottom 40 percent of the income groups. Sustainable development of the cultural, tourism, and creative industries would reduce the vulnerability of this population to economic shocks and prevent it from falling back into poverty.

Relevance to Higher-Level Objectives

19. **The proposed project is consistent with the strategic themes of the World Bank Group's Country Partnership Strategy (CPS) for China.** The CPS for China was discussed by the World Bank Board of Executive Directors on November 6, 2012. The project supports its Strategic Theme 1: Supporting Greener Growth by enhancing urban environmental services in selected areas in the hub cities along the main transport/trade corridor route in Gansu; and Strategic Theme 2: Promoting More Inclusive Development by providing skill-strengthening programs to local residents close to cultural and natural endowments, for job creation and income generation, and also by enhancing job opportunities in rural areas and small towns adjacent to endowments through targeted intervention. The project also contributes to the Cross-Cutting Theme of Advancing Mutually Beneficial Relations with the World by supporting South-South cooperation and global knowledge transfer.

20. **The project supports China's national policy priorities.** It supports the 13th Five-Year Plan and the Development-Oriented Poverty Reduction Program for China's Rural Areas (2011–20) and the Views on Promoting Rural Poverty Alleviation through Innovative Mechanism. The project is aligned with the solutions for reducing poverty and stimulating local economy proposed in the Development-Oriented Poverty Reduction Program for China's Rural Areas (2011–20), which include (a) expansion of the existing

⁵ "Economic Geographic Analysis of Gansu," commissioned by the World Bank as part of this project's preparation, Washington, DC, 2018.



system of geographical poverty targeting national/provincial poverty counties and adoption of a broader regional development approach for investments; (b) investment by rural businesses in economic activities of comparative advantage in the poorest areas, conducive to environmental rehabilitation; (c) rural tourism; and (d) the complementary roles of the public and private sectors. This project is also in line with Gansu’s provincial strategies and programs for economic and social development, poverty alleviation, and the service, tourism, and creative industries.

21. The project targets the bottom 40 percent of the population and would directly contribute to the achievement of World Bank Group’s twin goals of reducing extreme poverty and promoting shared prosperity. As China has embarked on the path of economic transformation and more inclusive development, revitalizing local economy in the poorest province through tourism development and cultural/environmental conservation has special bearings: (a) it helps redirect investment in a lag-behind region from industries of overcapacity to sectors that are less energy and resource intensive; (b) it bridges economic infrastructure, market, and services across urban and rural areas and promotes urban-rural integration through sectoral synergy and the “hubs and spokes” approach⁶; and (c) it creates livelihoods locally, based on the province’s unique cultural and natural endowments, and absorbs labor surplus at or close to home, which in the mid- and longer runs could reduce not only migration but associated social vulnerability of the rural poor, given the still fragmented social protection and pension system in China.

22. By design, the project intends to assist the least developed province of China in mobilizing private capital and solutions for growth, easing financing pressure of the local government, and reserving scarce public finance for where it is most needed. Internationally, crowding in development finance to complement public spending for sustainable development is a consensus among the development aid community, and it tops the agendas of multilateral development banks (MDBs). In March 2017, the WBG introduced the “cascade approach” as a concept to guide WBG efforts to leverage private sector funding in growth and improve financial inclusion, especially for small and medium enterprises (SMEs) and vulnerable and underserved groups. For China, financial stability has become a top policy priority and will remain so in the coming years. Since China’s major budget reform in 2014, the government has been endeavoring to regulate local governments toward more prudent public finance by reining in subnational debt to reduce the overall fiscal and financial vulnerability. Restricted to borrowing from the capital market through corporate entities of local government funding vehicles (LGFVs), subnational governments need to budget public finance more efficiently and turn to other resources for the funding of large infrastructure investments. The new global and domestic economic conditions warrant responsive mechanisms to expand private sector involvement in development, which this project aims to facilitate.

PROJECT DESCRIPTION

⁶ A “hub” is a node city along the main transport/trade corridor that is well connected and has a concentration of population and an agglomeration of economic activities. Investments in hubs will focus on lower-income communities in dilapidated urban areas with underutilized local endowments. The “spokes” represent a satellite system of attractive destinations as economic hotspots surrounding each hub. Investments in spokes aim to reduce disparities and uneven development within each prefecture. A well-established network of quality hubs and surrounding spokes can form a rich and safe tourism circuit where visitors have good experience and spend more in local economy.



Project Design Approach:

23. The project design adopts an integrated territorial development approach to addressing poverty.⁷

Based on the 2009 World Development Report Reshaping Economic Geography (World Bank WDR 2009) and the flagship report, Competitive Cities, the project seeks to tackle the multifaceted challenges in lagging regions and areas. It aims to improve livelihoods, as well as create employment for lower-income urban and rural residents in Gansu, through three pillars: (a) promoting a more sustainable credit market for micro- and small enterprises in the broad cultural, tourism, and creative industries; (b) regenerating urban centers, small towns, and heritage villages, strengthening creative industry production for job creation, and offering visitors a unique experience; and (c) building stronger provincial and local institutions for sustainability and replicability and to facilitate global knowledge transfer to countries and provinces on similar development paths.

24. The project demonstrates a comprehensive World Bank Group (WBG) approach. The borrower requested support from both the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) as a joint WBG program, to help leverage private sector finance and provide integrated solutions to address the abovementioned challenges. Support for the component on financial services is co-led by the Global Practice of Finance, Competitiveness, and Innovation (FCI) and the Global Practice of Social, Urban, Rural, and Resilience (SURR). The two global practices will jointly support the implementation of the project, which includes institutional strengthening, capacity building, and knowledge transfer. The design of the project is also carefully coordinated with the support provided by IFC and others in the same sector to increase complementarity and synergies and maximize the use of local and private sector resources for development.

25. The project will have a significant ratio between loan amount and leveraging, including maximizing finance for development (MFD). It includes a component that supports development of MSEs by extending microcredits and business startup advisory services to communities, especially to lower-income groups. The IBRD financing of the component (US\$50 million) will leverage US\$350 million from local financial institutions—that is, Bank of Gansu (BOG), the Gansu Finance Holding Group (GFHG), and the Gansu Finance Guarantee Group (GFGG)—to leverage at a 1:7 ratio of the component. In parallel, IFC will provide a senior loan of US\$50 million to the China Foundation for Poverty Alleviation-Microfinance Management (CFPA), a national-level microfinance institution with a good presence and outreach in Gansu, to support micro-enterprises in Gansu Province as a whole. The CFPA is expected to co-invest US\$100 million. The joint IBRD-supported and IFC-supported projects will be prepared in close coordination. Their implementation will complement each other and maximize the development impact.

⁷ The concept of territorial development is to ensure that within a geographical area—at the provincial, municipal, or even neighborhood level—policymakers and stakeholders take an integrated planning approach to prioritizing and sequencing spatially coordinated, multisectoral investments in the territory. A territory here means not just space, but also economy, society, and the built and natural environments related to the space. Essentially, territorial development spans an integrated package consisting of solutions for institutions, infrastructure, interventions, and people.



26. **To help China move toward graduation from the International Bank for Reconstruction and Development (IBRD), this project focuses on building strong institutions and enhancing capacities.** Building on the success of completed and ongoing World Bank–supported projects in the province and on key lessons learned, the project puts strengthening the capacity of Gansu’s institutions of economic and social development at the center. It takes an integrated approach to reduce the last pockets of poverty in participating counties through last-mile connectivity between urban and rural settlements, critical improvements to local infrastructure, enabling micro- and small enterprises to connect to the growing service economy, and addressing underlying institutional and market weaknesses. The project adopts an integrated approach of using local endowments and human capital and traditional/artisan skills as drivers for local economic development and job creation. Additionally, the project invests in the creative industries produced by local communities to create more jobs and focuses geographically on “pockets of poverty”, where urban and rural residents are suffering from dilapidated living conditions and insufficient infrastructure services. The focus on MSEs in the creative industries is appropriate, given Gansu’s rich cultural endowments and the market failure of access to credit to perspective borrowers. The following sections show how this approach will be scaled up and shared.

27. **The project will focus on learning and global knowledge transfer, as well as building replicable development models.** The borrower has brought along international partners, such as the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations World Tourism Organization (UNWTO), and the China-supported World Tourism Alliance (WTA), to benefit from their experience in capacity building and from their well-established global networks, which will facilitate the transfer of Gansu knowledge nationally and globally. The project will develop a replicable model for many other countries that have similar endowments of creative industry and tourism but difficulty in translating them into growth opportunities. It will support the establishment of a Gansu Global Culture and Tourism Knowledge Hub to transfer Gansu knowledge globally. The project will also co-sponsor with the provincial government the well-established Annual Gansu Silk Road (Dunhuang) Expo to bring in and disseminate global knowledge.

28. **The project aims to supplement and build synergy with ongoing programs and investments, focusing on maximizing benefits to local communities in Gansu and using scarce local government resources more efficiently.** The rich endowments and historical role of Gansu in both Chinese and global civilization as the renowned “Golden Passageway” offer the province an unprecedented opportunity for economic development and poverty reduction. Initiated by China’s National Development and Reform Commission (NDRC), Ministry of Foreign Affairs, and Ministry of Commerce and authorized by the State Council, recently prepared provincial strategies of Gansu aim to promote shared prosperity through policy coordination, enhanced connectivity, unimpeded trade, financial integration, and people-to-people bonds (Vision and Proposed Actions, 2015). Located between the Gobi Desert and the Tibet Plateau, Gansu was the only passageway throughout ancient times connecting China’s capital overland with Central Asia and Europe, and thus has been well known as the “golden section” of the Xi’an-Urumqi segment of the ancient Silk Road. The Gansu provincial government launched the Master Plan for Developing the Gansu Golden Section of the Silk Road (2014–20) with a vision of leveraging the province’s unique natural, cultural, and human endowments to accelerate regional economic integration, infrastructure, urban-rural development, and poverty reduction. The project intends to supplement and build synergy with the Master Plan, the 13th



Five-Year Plan, the Chinese Civilization Inheritance and Innovation Master Plan, and the Gansu Poverty Alleviation Plan and synergize with other World Bank–financed projects in Gansu.

29. Table 2 summarizes efforts under the project to build strong institutions, support global public goods, and maximize finance for development, thus meeting Bank’s core criteria in the context of capital increase

Table 2: How the Project Addresses the Bank’s Core Criteria in the Context of Capital Increase

Project Pillars	Design Approach to Address Capital Increase Criteria
Institutional and capacity building	a) Building strong financial institutions to better serve MSEs’ growth. b) Enhancing capacity of the local governments to provide business-enabling environments and strengthening capacity of participating MSEs through business startup advisory service to ensure business success and sustainability. c) Supporting reforms at the national level (the merging of ministries of tourism and culture) and the provincial level by strengthening the capacity of the newly merged department on policy, planning, and regulations.
Transfer of Knowledge Nationally and Globally	Leveraging global knowledge and partnering with other international organizations (e.g., UNESCO, UNWTO, and WTA) to benefit Gansu through advisory services and national and global knowledge exchange forums. Building a replicable model, based on the practices and experience of Gansu, that could be transferred to other countries with similar development challenges. Continuing to ensure the full involvement and championing of NDRC and the Ministry of Finance (MOF) in supporting transfer of knowledge nationally and globally.
Leveraging, Maximizing Finance for Development and Collaboration within WBG	a) This is the first IBRD-supported project in the portfolio of China whose preparation and implementation will be closely coordinated with an IFC-supported project in the same sector and geographical area. The project intends to assist the least developed province of China to mobilize private-sector financing and solutions for growth, ease financial pressure on the local governments, and reserve scarce public finance for critical needs. The US\$180 million– equivalent IBRD loan will leverage a total investment of US\$612 million. Through MFD, the project brings in global, national, and local financial and technical resources to build a sustainable credit market to support small and micro-enterprises in Gansu. b) Collaborating, leveraging, and synergizing expertise among the World Bank Global Practices: SURR, FCI, and Environment and Governance.
Climate co-benefits.	Estimated climate co-benefits are 80 percent. Approximately 80 percent of the capital investments have climate change mitigation or adaptation co-benefits. On the adaptation side, the project will contribute to better water resource management systems and biodiversity protection in an arid and ecologically fragile part of China, as well as introduce best practices in resilient, previous infrastructure to be more adaptive to flash floods and climate change. On the mitigation side, the urban-rural regeneration and new creative industry discovery centers and tourism facilities will introduce energy-efficient bulbs, cooling and heating systems, and electric shuttle buses to save energy and reduce O&M costs. The renovated buildings and newly built centers will adopt green building principles. The project introduces best practice in conserving natural resources to protect the fragile ecosystem, mitigate climate change, and enhance environmental sustainability.



C. Proposed Development Objective

30. **PDO Statement.** The project development objective is to increase income-generating opportunities and improve the living conditions in the project area, strengthen institutional capacity of participating entities, and disseminate the project's experience globally.

31. The project intends to contribute to the implementation of the 13th Five-Year Plan of Gansu Province (2016-2020), and the Chinese Civilization Inheritance and Innovation Master Plan. Anchored in the Gansu Poverty Alleviation Strategy, the focus of the project is to reach pockets of poverty in participating counties with last mile connectivity between urban and rural settlements; support critical improvements to local infrastructure; and enable micro and small enterprises to benefit from, and contribute to, the growing service economy. The project adopts an integrated approach of using local endowments and human capital and traditional/artisan skills as drivers for local economic development and job creation.

32. PDO Level Indicators

- Number of jobs created by project-supported MSEs and new facilities (disaggregated by bottom 40% and gender).
- Amount of commercial capital leveraged as a result of project interventions.
- % of supported MSEs who agree project inputs were beneficial to their business.
- Number of people benefiting from improved living conditions in the project areas (disaggregated by bottom 40% and gender).
- % of beneficiaries who agree that the project improved their living conditions (disaggregated by bottom 40% and gender).
- Increased capacity of financial institutions in credit risk management, corporate governance and Fintech.
- Integrated culture and tourism strategies adopted and budgeted in provincial and local plans.
- Number of global and national knowledge dissemination events completed (conferences, workshops and Expos).

D. Project Description

33. The borrower's integrated project approach is structured around three pillars/components that support development of (a) financial services; (b) targeted interventions in infrastructure and public services, especially targeting the last-mile connectivity between urban and rural settlements; and (c) institution building and transfer of knowledge globally. Proposed investments are interrelated and supplementary to each other to maximize benefits to lower-income communities in Gansu Province, enhance the local economy, and build stronger institutions to sustain local economic development. In addition, the project is designed to reduce and minimize the risks of pollution and flash floods which might be caused by the investments. Pollution control, management, and monitoring facilities are built into the project, and additional resources and efficiency and safety factors are incorporated into the design of



drainage and river systems to mitigate potential flash floods due to climate changes. The scope of these components is summarized below.

34. **Component 1: Community Economic Development** (Total Investment: US\$150 million; IBRD: US\$50 million equivalent; Bank of Gansu: US\$100 million equivalent). This component aims to establish a sustainable credit market for micro- and small enterprises (MSEs) in cultural, tourism, and creative industries in Gansu Province.

35. The component will establish the Gansu Finance Holding Group (GFHG) and Bank of Gansu as the participating financial institutions (PFIs) and a line of credit (LoC). This component will only finance a positive list of micro- and small enterprises (MSEs) in cultural, tourism, and creative industry sectors that fall under Environment Assessment (EA) Category C or B. Relevant capacity building and technical assistance—for example, business startup advisory services for MSEs and impact evaluation and capacity building for GFHG and GFGC—will be provided under Component 3 to increase synergy, success, and sustainability. The component will support the following activities:

36. **Private Sector and Industry Development through the Provision of Financing for Micro- and Small Enterprise (MSE) Development.** The IBRD-financing of this component will be directly on-lent to GFHG, which is the wholesaler financial intermediary and the project implementing unit for this component. Through a subsidiary agreement, GFHG will extend to Bank of Gansu a line of credit to provide sub-loans to eligible MSEs, which are already operating or starting to operate, in culture, tourism, or creative industries in Gansu Province. Bank of Gansu will provide matching funds of US\$100 million equivalent. To maximize the development impact, no less than 40 percent of the component will be invested in micro-enterprises, with each single credit of no more than US\$50,000, whereas the remaining 60 percent of the component will be invested in small enterprises, with each single credit of no more than US\$500,000. To ensure synergy with components 2 and 3 and maximize geographical coverage, no less than 40 percent of the subcomponent will be invested in the project's prefectures of Tianshui, Dingxi, Zhangye, Jiayuguan, and Jiuquan, whereas the remaining 60 percent can be invested in other prefectures of Gansu Province.

37. The impact of this component will be further increased as a result of the provision by IFC of a senior loan of US\$50 million to the CFPA microfinance institution to support the lending to micro-enterprises in Gansu Province in culture, tourism, and creative industries and the provision by CFPA of a co-investment alongside IFC, equivalent to US\$100 million.

38. Also, to increase the impact of Component 1 of the project, it is expected that GFHG will invest US\$50 million as a paid-in capital into the newly established Gansu Financing Guarantee Company (GFGC). GFGC will use the paid-in capital investment to back up guarantees to be extended to financial institutions lending to MSEs, against the risk of payment default of such MSEs, up to an estimated amount equivalent to US\$200 million.

39. **Component 2: Urban-Rural Regeneration and Sustainable Development** (IBRD: US\$114 million equivalent). This component aims to link the lower-income groups and bottom 40 percent to main



transport/trade corridor growth to benefit from, and contribute to, its development. This is done through targeted investments in infrastructure of the last-mile connectivity between urban and rural settlements and providing the missing link. The objective of the component is to improve living conditions and create more income-generating opportunities through regeneration of selected city centers, small towns, and villages and development of the cultural, tourism, and creative industries. The component design adopts a “hubs and spokes” spatial concept of economic clustering and local economic development.

40. **Rationale for selected municipal governments.** Among all the fourteen prefectures in Gansu, five along the Xi’an-Urumqi east-west corridor have been strategically selected by the borrower to benefit from the project based on the results of economic geography and competitive cities analysis. These prefectures are Tianshui, Dingxi, Zhangye, Jiayuguan, and Jiuquan. They were selected on the basis of (a) poverty level and size of the bottom 40 percent of the population (that is, per capita dispensable income lower than the national poverty line and the national 40th percentile); (b) transformation from agriculture or manufacturing to a service-based economy; (c) having underutilized endowments with high potential for local economic development; (d) location (that is, directly located with their hubs and spokes along Gansu’s main tourism circuit); and (e) not having been sufficiently funded before under various government and donor development programs (that is, experiencing inequality).

41. The component will contribute to developing a series of tourism circuits and creative industry products that are accessible (that is, well-connected through transport), productive (that is, leveraging local endowments to develop the creative industry and thus generating jobs and revenues), varied (that is, a series of unique offerings that are not competing or repetitive within the province), attractive (that is, encouraging tourists to stay longer in Gansu and spend more on the local economy), and of high quality (that is, providing good infrastructure and services and authentic tourism experiences). These, together, will strengthen the service and creative industries as a core pillar of economic development in Gansu. In addition, Component 2 will integrate climate-resilient design where possible in order to reduce vulnerabilities to climate change and disaster-relevant shocks, including extreme weather events and slow-onset impacts. This component will support the following activities:

42. **Subcomponent 2.1: Regeneration of Selected Historic City Cores, Small Towns, and Villages.**

- (a) regeneration of old buildings and public spaces to support walkability;
- (b) rehabilitation of municipal services and infrastructure; and
- (c) development of tourism services and facilities

43. Activities under this subcomponent contribute to climate co-benefits, as they integrate climate resilience elements in the design of new and rehabilitated buildings and infrastructure, including retrofitting and renovation of traditional houses, courtyards, and facades; reconfiguration of houses for interested households to operate MSMEs; rehabilitation and upgrading of urban and rural roads; provision of basic services and environmental infrastructure, such as drainage, sewers, electricity, heating, garbage bins, public toilets, firefighting facilities, small wastewater treatment plants, and solid waste transfer stations; upgrading, paving, landscaping, and greening of community public spaces; installation of



streetlights and signage systems; upgrading of public transport to clean-energy systems for residents and tourists; protection of old city walls, trees, and wells; and provision of associated tourism infrastructure and facilities (for example, information centers, toilets, signage, seating, ecological parking, clean-energy shuttle buses, monitoring systems, viewing platforms and towers, birdwatching and protection facilities, small jetties, management houses, and ecological parking lots; clean-energy shuttle buses; and smart site management systems, such as Internet and digital management systems).

44. **Subcomponent 2.2: Development of Creative Industry.**

- (a) development of discovery centers and marketplaces; and
- (b) development of intangible heritage incubation and production centers

45. This subcomponent will support creative industry in Gansu through conserving and promoting intangible heritage, as well as providing clustered and conducive spaces of production, research, presentation, and exchange of knowledge and experience. Investments under this subcomponent include the Majiayao Colored Pottery Discovery Center, the Tongwei Calligraphy and Painting Center, the Tianshui Yellow River Lacquerware Intangible Heritage Center, and the Jiuquan Cultural Research and Exhibition Center. Nearby villages, where artisan masters live and produce, will be regenerated under Subcomponent 2.1 to improve production conditions and enable tourists to visit, experience, and spend on local communities. Some visitors may also stay overnight in homestays.

46. Activities under this subcomponent also contribute to climate co-benefits, as they integrate low-carbon climate mitigation options in the design of all new buildings and infrastructure, including production bases and facilities for creative industry; product exchange markets for creative industry; cultivation spaces for MSEs; training spaces and facilities for communities; intangible cultural heritage research centers; exhibition and performance spaces; and information and management centers, as well as their associated infrastructure, such as signage, ecological parking, greening and landscaping, water supply, electricity, drainage, sewers, solid waste collection and transfer, and small wastewater treatment plants. Innovative revenue-generating elements (from entrance fees, souvenir shops, performance auditoriums, or rental spaces for art exhibitions) are integrated in the design of every facility under subcomponents 2.1 and 2.2. Revenues will cover the O&M cost for sustainability and attract private operators/SOEs to lease and pay annual fees. Such lease fees would help municipal governments to repay the Bank loan.

47. **Component 3: Institution Building and Global Knowledge Transfer** (IBRD: US\$16.0 million equivalent). This component aims to strengthen the institutional capacity in Gansu for economic and social development, using tourism, cultural, and creative industries as a competitive pillar for economic development and poverty alleviation. Proposed activities would incentivize private investments and improve planning, policies, regulations, and institutions' capacity to improve the business environment for the private sector to grow in an equitable and sustainable manner. This includes (a) strengthening local governments and the recently merged provincial Department of Culture and Tourism for better planning, policies, and regulations; (b) building the institutional capacity of GFHG and GFGC as new financial institutions in charge of microcredit and guarantees in Gansu to establish a sustainable credit market for



MSEs and incentivize private sector investments; (c) improving the enabling business environment for MSEs' credit market; and (d) providing advisory services and incentives to MSEs to locate and grow in Gansu.

48. The component includes the following activities:

- (i) carrying out of studies and development of sustainable site management plans, improved policies and regulations, marketing strategies, and branding and promotional activities of Gansu;
- (ii) provision of technical assistance, trainings, and business advisory services to communities, MSEs, participating financial institutions, and local and provincial officials;
- (iii) provision of support for the project management and implementation, including compliance with environmental, social, and fiduciary obligations, design institutes, project management, construction supervision, and monitoring and evaluation of the project impact; and
- (iv) establishment of Gansu culture and tourism knowledge hub and dissemination of knowledge globally

49. The component will build stronger institutions for Gansu and promotes global knowledge transfer on leveraging development of cultural, tourism, and creative industries for poverty reduction. It includes activities such as preparation of circuit tourism development strategies and plans, market demand analysis, microcredit business startup advisory services, community development plans, marketing and promotion of Gansu tourism (including advisory services from UNWTO), technical studies on site management plans, promotion of intangible heritage and creative industry (including advisory services from UNESCO), workforce development, learning exchanges, global and domestic knowledge sharing, safeguards monitoring (environment, social impacts, physical cultural resources), monitoring and evaluation of project impacts, socioeconomic evaluation, construction supervision, project management support, procurement agent, and auditing. Gansu's experience in tourism, culture, and creative industry development, including under this project, will be curated and shared with other countries with similar development challenges.

Project Innovations:

The collective innovation of this project is the approach of using commercial microfinance to tie together cultural and historical endowments, local MSEs, local government institutions, and local infrastructure to create a working and sustainable economic ecosystem and strong sectoral and financial institutions. The possibility to replicate this approach in IDA countries that face similar inclusion and development challenges is a huge learning opportunity for the global development community and for addressing the twin goals of the World Bank Group.

50. **Developing the service industry and enterprises using an integrated territorial development approach.** Gansu has identified services, including tourism and creative industries, as a key competitive pillar for economic development and poverty alleviation. The project provides a package of solutions to enhance the institutional, financial, spatial, and infrastructural aspects for such strategic development. The project's design is underpinned by an integrated territorial development approach, with analytics on



regional and local disparities and economic opportunities in Gansu based on the World Development Report 2009. The project adopts an integrated regional development concept to direct investments along the main transport and trade routes—clustering multisectoral investments based on institutional development, improved connectivity, and targeted interventions for greater impacts.

51. **New model of urban and rural regeneration with community participation.** The project invests in regeneration of traditional but dilapidated urban core areas, small towns, and villages that have suffered decline due to lack of investment and know-how. Global experience has shown that the resultant outward urban sprawl and the loss of cultural values could be a missed opportunity to leverage unique local assets to regenerate the old areas and improve the well-being of urban residents. The project introduces an in-situ regeneration solution that combines spatial and economic interventions, compared with the predominant practice of demolition-resettlement-redevelopment. The concept of regeneration and the approach are innovative in China and can bring lessons to other regions. The project will invest directly in lower-income communities, with a gender focus, adjacent to the main transport/trade corridor and local endowments. The project intends to assist the least developed region of China to mobilize private sector financing and solutions for growth, ease financial pressure on the local government, and reserve scarce public finance for critical needs. The project invests in providing microcredits and incubating micro- and small enterprises to reduce poverty, create jobs, and generate incomes.

52. **Global knowledge sharing and creating a new replicable model of development with international partners.** The project brings along international development partners in the sector, such as the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the United Nations World Tourism Organization (UNWTO). The two organizations will provide advisory services and on-the-job training to Gansu Province and local government onsite management plans; intangible cultural heritage and creative industry development; market demand analysis and tourism strategies development; marketing and promotion; and the sharing of Gansu’s knowledge nationally and globally. Partnership with such international organizations will help with institution strengthening and replicate the model in other countries with similar endowments and challenges. The project will also collaborate with China’s World Tourism Alliance (WTA)⁸ to share globally China’s experience in poverty reduction through sustainable tourism development.

53. **Strengthening institutions for economic and social development in the poorest province.** The project aims to strengthen the institutional capacity for economic and social development, using tourism, cultural, and creative industries as a competitive pillar for economic development and poverty alleviation in Gansu. Proposed activities would incentivize private investments and improve planning, policies, regulations, and institutional capacity to enable the environment for the private sector to grow in an equitable and sustainable manner. This includes (a) strengthening local governments and the expected merging of cultural and tourism departments for better planning, policies, and regulations; (b) building the institutional capacity of GFHG and GFGC as new financial institutions in charge of microcredit and guarantees in Gansu to establish a sustainable credit market for MSEs and incentivize private sector

⁸ World Tourism Alliance, <http://www.wta-web.org/eng/>.



investments; (c) improving the business environment for MSEs' credit market; and (d) providing advisory services and incentives to MSEs to locate and grow in Gansu.

54. **Creating sustainable financial institutions.** Component 1 of this project directly addresses a key institutional challenge for economic development—that is, access to credit by micro- and small enterprises (MSEs). Gansu is traditionally known for its weak institutions. In terms of access to credit, a market survey prepared for this project as well as other research show that family business owners in Gansu tend to borrow from family and friends rather than relying on the formal market, due to complicated procedures and strict requirements by the commercial banks. Although many have plans to expand their businesses, they are constrained by the limited capital they can leverage. By disbursing microcredits targeting micro- and small enterprises in the service industry and enterprises under Component 1 and providing technical assistance, trainings, and business advisory services to communities, MSEs, participating financial institutions, and local and provincial officials under Component 3, this project is creating a much more favorable business climate for these enterprises, greatly lowering their costs of operation and strengthening their capacity. This model can be replicated and scaled up to serve other parts of China and globally.



Box 1: Value Added of IBRD Support to Strengthen Capacity of GFHG and BOG

1- Corporate governance of GFHG. Financial and mixed financial holding company/financial conglomerates are growing rapidly in China. GFHG has formed a basic corporate governance structure, including shareholders, a board of directors, a board supervisor, and a senior management team. As a new financial institution, the overall structure needs to be gradually tested and improved. The technical assistance (TA) provided under the project will examine issues relating to risk management across complex financial holding groups, appropriate regulatory and supervisory frameworks and approaches, and treatment of large and related party exposures, as well as concentration risks. The team will work to incorporate global best practices on corporate governance for such entities in China, and the TA will benefit both the financial holding company and financial regulator.

2- Improving risk management of BOG. The World Bank emphasizes prudent business management and believes effective risk management and internal control are critical to its sustainable business growth. The Bank has implemented comprehensive risk management strategies to enhance risk management systems and has developed different strategies based on the nature and characteristics of major risk categories. By including financial technology (fintech) under TA, the overall risk management framework of BOG can be further improved. The use of fintech can help overcome information barriers, at least partly. Big data and machine learning have the potential to reduce the cost of credit risk assessments. By lowering the cost and applying better digital tools, fintech will also facilitate BOG's extending of a longer-maturity credit.

3- Financial technology. For both GFHG and BOG, the next step is to make good use of fintech to enhance inclusion and access to finance. Again, fintech can help overcome information barriers and improve efficiency in client acquisition and risk management. Working with the fintech company under the TA component to further tap its data resource can achieve both through the use of big data, such as borrowers' online behavioral data, locations, and footprints; demographics; social connections; online payment and transaction data; financial information, mobile device information, and third-party credit scores and reports; and new statistical tools and algorithms to process this larger volume of information. Under the TA component, fintech offers opportunities for GFHG and BOG to leverage innovative and less costly business models to serve this large uncovered or underserved segment of the market; in short, well-designed fintech can change Gansu's financial industry by increasing competition and efficiency. These solutions can also serve as a test case for similar interventions in other parts of the world.

4- Improving safeguards practice. Currently, no Environmental and Social Management Framework (ESMF) is applied to the BOG MSEs credits. The ESMF has been developed for the project by the Bank team to guide the implementation agency, the FI, and future sub-borrowers on consistent and sustainable environmental and social management during the preparation and implementation of activities supported by World Bank loans, providing the principles and approach to be followed to minimize and mitigate any adverse environmental and social impacts resulting from relevant project activities.

5- Providing business startup advisory services to prospective borrowers. Several prospective borrowers of MSEs who fall in the bottom 40 percent of income groups do not have the knowledge to complete a new business plan and complete the application process to get access to funds under Component 1. The objectives of this TA are to (a) design and conduct a community outreach campaign; (b) help interested borrowers who show a minimum level of capacity to complete their business plans and submit applications to BOG; (c) nurture successful applicants during their business startup phase so they do not default or fail in their new or expanded businesses; and (d) carry out socioeconomic baseline surgery and impact evaluation.

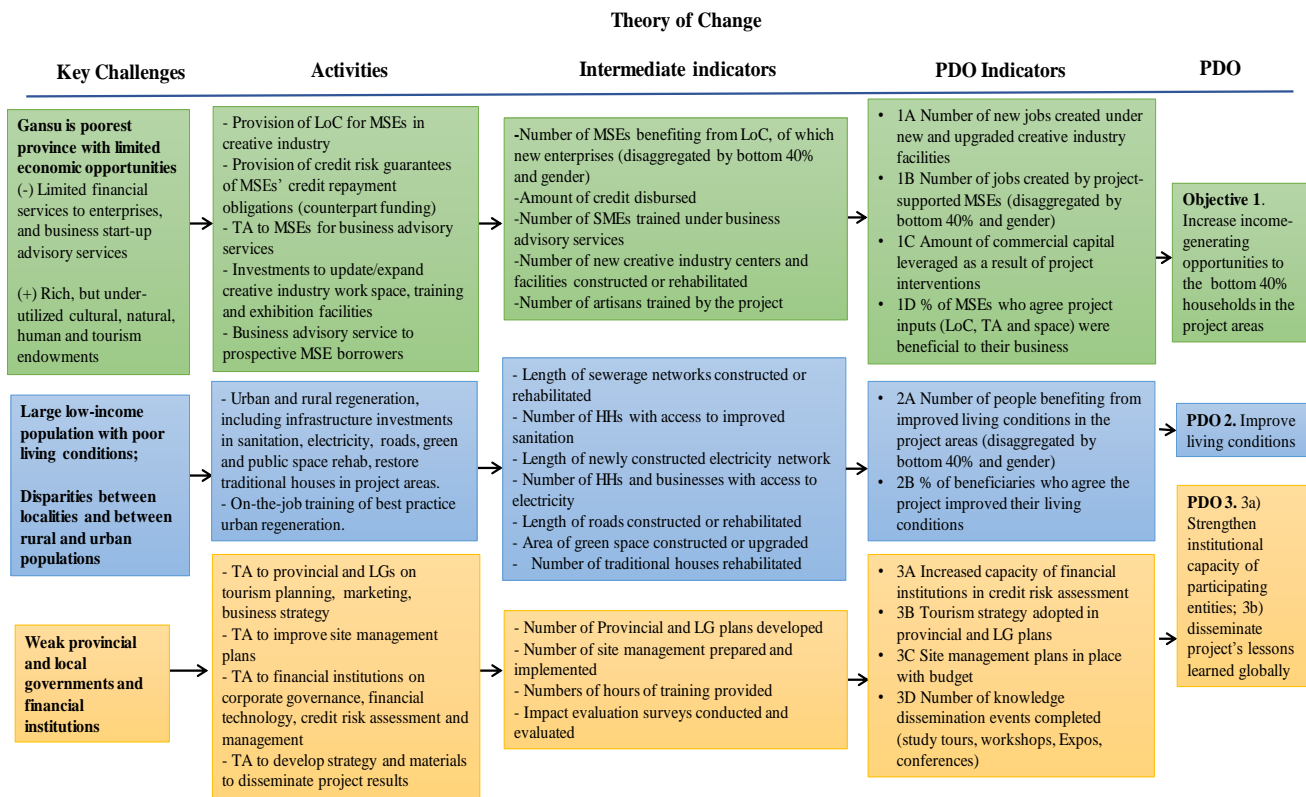
Project Beneficiaries



55. The total poverty population of the five project prefectures is estimated at 1.4 million. The project beneficiaries number is 6,155,600; 30 percent of whom is considered to be among the bottom 40 percent of income groups in Gansu. The beneficiaries fall into three major groups: (a) poor project households (below China’s absolute poverty line) in the five prefectures, who will benefit from improved living conditions and economic livelihoods; (b) lower-income residents (bottom 40 percent) living in project sites, who will be provided with improved living conditions, access to finance, and business advisory services; and (c) public employees, who will benefit from on-the-job capacity building.

Results Chain

56. The results chain and theory of change of this project are illustrated in the chart below.



Rationale for Bank Involvement and Role of Partners

57. **Development of the project is based on a wealth of global expertise and experience gained through similar operations in Gansu.** The WBG has experience with investments, to date, of US\$9.5 billion in over 600 culture and tourism sector projects globally. This includes two IBRD loans in Gansu, approved in 2008 and 2017. This project complements the past operations, incorporates key lessons learned, and aims to help Gansu have much stronger institutions. A more attractive and varied tourism circuit will combine cultural and natural heritage (the focus of past projects) with community-led creative industry and



intangible heritage (the focus of this project). The higher-level objective is far more innovative than just to make a third investment in the province. In response to the evolving development challenges in Gansu, the project aims to reduce the last pockets of poverty in participating counties by improving last-mile connectivity between urban and rural settlements, making critical improvements to local infrastructure, and enabling micro- and small enterprises to connect to the growing service economy. Building on the latest global knowledge, the project adopts an integrated approach that uses local endowments and human capital and traditional/artisan skills as drivers for local economic development and job creation.

58. **Territorial development approach.** Moving beyond the earlier focus of Bank support on site-specific cultural conservation and tourism service delivery, this project adopts a regional development outlook. It introduces an integrated “hubs and spokes” approach to ensure economic clustering and improve economic connectivity between urban and rural settlements, as well as multisectoral investments and institutional development in culture and tourism as a driver of local economy in the project sites.

59. **Public good focus.** The project invests a major chunk of the loan in urban and rural regeneration, improving historic core areas in cities and upgrading small towns and villages with unique endowments. This is an area in which the Bank has global experience, but it is relatively new to China. This project introduces an inclusive and participatory approach that differs from China’s common practice of demolish-resettle-rebuild, in which the lower-income groups are cleared from core areas, leading to large-scale urban gentrification. Moreover, urban and rural regeneration can help local communities achieve multiple benefits with respect to historic conservation, improved living conditions, booming tourism-related businesses, and increased local incomes from new jobs and higher returns from land and assets. Compared with the previous two culture conservation projects in Gansu, the shift from pro-tourism to pro-community investment is quite evident in this one.

60. **Private sector participation.** To support household businesses and SMEs in tourism and intangible heritage sectors, the project aims to crowd in significant amounts of private sector finance and on-lending in the form of microcredit through qualified local financial intermediaries. This design is of special significance to Gansu, which, as the poorest province, has limited liquidity and a relatively low level of financial inclusiveness. By working with the newly established Gansu Finance Holding Group, the project aims to create a longer-term sustainable intervention. GFHG will be acting as a wholesaler institution, and beyond the life of the project it will continue to partner with PFIs to target underbanked segments of the market. The project also will pilot public-private partnership (PPP) at the municipal level to operate and maintain some cultural and tourism facilities.

61. **Value added of doing this project jointly with IFC.** Microfinance companies in China face significant funding constraints due to the low regulatory leverage ratio cap, which limits commercial banks’ lending to them. Most international lenders do not have local currency, which IFC can offer. Meanwhile, very few lenders in the market can provide long-term funding to MSEs. Through the proposed investment, IFC will (a) provide local currency funding to CFP, with tenure of up to five years; and (b) help mobilize funding from international investors and swap their funding into local currency. Working collectively with IFC will ensure that over time a market for such borrowers is created.



62. **Development impact of IFC's contribution:**

- Significantly improve access to finance for MSEs, particularly women entrepreneurs, engaged in cultural, tourism, and creative industries in Gansu. The IFC-supported project is expected to help increase the number of micro-borrowers from CFPA in Gansu from 30,000 (including about 21,000 women borrowers) as of September 2018 to at least 68,000 (including about 47,600 women borrowers) by 2023.
- Demonstrate that CFPA's financing model for MSEs is a viable way to alleviate poverty in frontier regions in China. CFPA's key competitive edge is the combination of extensive networks in rural areas and the application of new technology. IFC anticipates the model will be replicated by other microcredit companies (MCCs) and banks, who will increase their focus on the underserved MSE segment in Gansu and other lagged provinces in the west of China.
- Increase access to finance, particularly for underserved, women-owned MSEs in Gansu, through market-wide adoption of the business model built by CFPA.

Box 2: IFC Financial and Non-Financial Additionalities

IFC financial additionalities include mobilizing long-term funding from international investors and helping them convert foreign currency into CNY and providing longer-term funding beyond what is available to the MCC sector of the market. Non-financial additionalities include catalyzing the MCC regulatory framework in Gansu Province, as well as knowledge sharing and capacity building to support the client's financial literacy education work with women borrowers in Gansu Province.

Financial Additionality

Resource Mobilization: Prevailing domestic regulations on China's MCC sector limit MCC's borrowings to two to three times its shareholders' equity, and financing from banks is limited to no more than two banks. While borrowings from international markets are allowed, most international lenders cannot provide local currency or do not offer local currency funding at a longer tenor, which constrains local MCCs' access to commercial funding from international markets. Through the proposed investment, IFC will provide its structured treasury solutions to mobilize commercial funding from international lenders and offer local currency arrangements for CFPA Microfinance (CFPA MF).

Financing Structure: Very few lenders in the market can provide long-term funding to MCCs in China. According to data provided by IFC's Global Macro and Market Research team, 33 syndicated loans were provided in 2018 in the financial services sector, with a total face value of US\$5.75 billion. About 80 percent total face value of the syndicated loans had a tenor of more than two years. For MCCs in the market, however, local currency funding with a tenor of more than one year is typically unavailable. For CFPA MF, the tenor is up to one year for 79 percent of external local currency funding.^a IFC's five-year funding can help CFPA MF improve its funding structure and strengthen its ability to withstand potential liquidity volatility in the market.

Non-Financial Additionality

Frameworks: Catalyzing Policy or Regulatory Change: With the help of the IFC advisory team, Chinese regulators^b are preparing new national-level regulatory guidelines for the MCC sector. A key change expected in the new regulations



is the lifting of geographical coverage limitations for well-performing MCCs. Some provinces have already piloted policies to effect provincial operation licenses. MCC regulation in Gansu was left behind that of many other provinces, primarily because of the slower development of the microfinance industry in the province. As of January 2019, only two MCCs had obtained regulatory approval to lend across Gansu Province, and both are state owned. No privately owned MCC in Gansu has a provincial-level lending license. CFPA MF currently has a county-level lending license in Gansu and is applying to upgrade it to provincial level. By drawing comfort from CFPA MF’s being an equity investee of IFC and from its good track record, the regulator will allow CFPA MF to use the proceeds of the project for lending across the province as a test case. The provincial regulator has also indicated an inclination to approve a provincial lending license for CFPA MF after the latter’s sound performance, with the support of this project. The project will help speed up formalization of the provincial-wide operation of CFPA MF, creating a good practice example for privately owned MCCs in Gansu and thus contributing to catalyzing the MCC regulatory framework in Gansu.

Knowledge, Innovation, and Capacity Building: Of CFPA MF’s borrowers in Gansu, 70 percent are women. More than 90 percent of them are farmers with education at or below the middle school level, and around 75 percent are first-time borrowers of formal loans. The low education levels of many women in the rural areas of Gansu have led to their low financial literacy and prohibited them from participating in social economic activities or becoming salaried workers in the formal economy. The majority of MCCs and banks in Gansu are reluctant to provide financing to women in rural areas due to their perception of higher credit risk caused by weak financial discipline, unstable income, lack of decision power over family or business matters, and low education levels. CFPA MF has mandatory basic financial literacy trainings for its borrowers before disbursement to familiarize them with concepts of timely repayment, savings accumulation, and better financial planning. This is the first financial education received by a majority of CFPA MF’s borrowers, particularly the women. By leveraging the gender finance experience accumulated globally and regionally, IFC plans to provide advisory services to help CFPA MF enhance its capacity to design and deliver more systematic and broader financial literacy trainings to women borrowers through digital channels.

^aThe remaining 21 percent is with tenor up to five years. Commercial banks, peer-to-peer lending platforms, insurance companies, and international developmental financial institutions account, respectively, for 53 percent, 26 percent, 12 percent, and 9 percent of CFPA MF’s external local currency funding.

^bThese include the central bank, the banking regulator, and local financial supervision and administration bureaus.

Lessons Learned and Reflected in the Project Design

Lessons learned from international experience and previous Bank-financed projects globally, in China, and in Gansu have been incorporated into the project design. The lessons reinforce the importance of mainstreaming the three integrated pillars of the project: improving economic livelihood; improving physical living conditions for livability; and building strong institutions for sustainability and replicability in the province and nationally.

63. **Investments in urban and rural regeneration, livability, and service delivery enhance the competitiveness of a location in attracting businesses.** Experience shows that improving the livability of a destination through basic infrastructure and service delivery development is vital for attracting private investment. Projects successfully implemented in East Asia and the Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), and the Middle East and North Africa (MENA) have also shown that renewal of the historic cores and cultural heritage sites can be part of a spatial transformation that makes these areas more attractive, not only for residents, but also for visitors and businesses. Experience has also demonstrated that urban and rural regeneration should be accompanied by proper



economic livelihood and financial support (that is, microcredit, matching grants, and business startup advisory services) to avoid undesirable consequences, such as urban gentrification, in which residents who are unable to pay the increased rents or property taxes are driven out.

64. **Restoring built assets and reusing underutilized land supports the World Bank Group’s inclusive green growth agenda.** Regenerating city core areas minimizes the need for new development. This process requires a complex, well-integrated mixture of uses, all within walking distance. Despite the investments required to renew buildings, these areas have the potential to stimulate a city’s economy, with the revitalized, more attractive built environment helping to create permanent jobs. The Bank has engaged in a robust practice of supporting the regeneration of heritage towns and villages, with close linkages to natural heritage and sustainable tourism.

65. **Promoting and developing creative industry ensures social inclusion and cultural diversity, while supporting the twin goals.** Experience has shown that the development of creative industry is important, not only from the social perspective of ensuring inclusion and preserving the identity and cultural diversity of people and communities, but also as an economic factor contributing to growth of the economy and supporting the twin goals. The creative industry sector is growing globally—accounting for 6.1 percent of the global economy—and increasingly contributing to GDP and job creation in many countries and cities. The importance of creative industry is also reflected in the growth of the UNESCO Creative Cities Network (UCCN), which was created in 2004 to promote cooperation among cities using creativity as a strategy for sustainable urban development. It now includes 180 cities around the world that put creativity and cultural industries at the core of urban development plans. With limited income-generating options in rural areas of Gansu, creative industries could provide much-needed financial opportunities for people, especially women. In acknowledgment of its importance, creative industry has been highlighted and incorporated into Component 2 of the project, especially as Subcomponent 2.2: Creative Industry Development, the activities for which will provide incubation support to producers in the form of clustered and conducive spaces of production, research, presentation, and exchange, while also providing authentic experiences of intangible heritage to tourists. The World Bank and UNESCO have partnered to write a joint paper on the role of creativity and the creative industries in achieving the two goals. Global case studies will include creative cities from France, Japan, South Korea, and the United States. Knowledge will be transferred globally.

66. **Lines of credit in Bank-supported projects have had mixed success.** The project has taken onboard global best practice in designing this particular component. Elements of success include appropriate targeting of the financial beneficiary, selecting competent participating financial institutions (PFIs), working with a wholesaler institution, providing business startup advisory services, and building the capacity of the PFIs. The line of credit component is also closely coordinated with the IFC loan to maximize impact. The project’s task team includes members from various global practices in the Bank to ensure the Bank team supporting the project has adequate expertise to support the client.

67. **To expedite implementation and disbursement, certain operational measures are already in place in order to accelerate implementation and disbursement once the project is effective.** Experience gained



from supervising the implementation of past projects in Gansu has shown the importance of seven success factors to ensure a smooth start to implementation and expedite disbursement. These are (a) establishing a strong and effective project leading group (PLG); (b) early hiring of a project management company (PMC), procurement agency, and construction supervision firm; (c) early design and tendering of investment subprojects for the first year or two of project implementation; (d) use of retroactive financing to pay for such early service contracts; (e) financing of civil works and goods contracts at 100 percent, due to the limited fiscal capacity of municipal government borrowers, while using their counterpart funding to cover the cost of other designs, studies, resettlement, land acquisition, and overhead expenses; (f) work with a handful of prefecture-level cities for streamlined implementation support; and (g) consolidation of civil works contracts to the extent possible. All such measures have been incorporated in this project's design, implementation arrangements, and cost plan.

E. Implementation

Institutional and Implementation Arrangements

68. **Project institutional arrangements for implementation have been set up at the provincial, municipal/prefecture, and district/county levels.** Responsibilities at each level are summarized below.

69. **Provincial Project Management Office (PPMO).** Gansu Financial Holding Group Co. Ltd (line of credit PPMO) will be responsible for microcredit management under Component 1. The Gansu Provincial Culture and Tourism Department (culture and tourism PPMO) will be responsible for Component 2 and 3. Both PPMOs will report directly to a project leading group (PLG) and coordinate between themselves for common ground and actions on planning, policies, priorities, and ways to implement the project effectively.

70. **The Gansu Provincial Foreign Loan Administration Committee of the provincial government, chaired by the executive vice governor and co-chaired by the vice governor responsible for culture and tourism, will serve as the provincial PLG.** The PLG shall be responsible for ensuring leadership of the project, providing overall policy, financial, institutional, and strategic guidance on project implementation, and facilitating coordination among different implementing agencies within its jurisdiction.

71. **At the local level, the project will be led by municipal-level project leading groups chaired by executive vice mayors at the municipal/prefecture level to ensure effective implementation.** The project will be implemented by eight project implementation units (PIUs) in the respective cities/districts/counties under the five prefecture municipalities. The culture and tourism PPMO will be centrally responsible for overseeing, coordinating, and training its cascaded PIUs at lower levels for subproject management. Both PPMOs will be responsible for liaison with the provincial PLG, municipal PLGs, and the World Bank on all aspects of project management, fiduciary, safeguards, and all other areas.



72. **Financial intermediaries (FIs) and participating financial institution (PFI).** Under the direct oversight and management of the Gansu Provincial Department of Finance, GFHG is designated as the wholesaler FI to handle Component 1. Under the direct oversight and management of the line of credit PPMO (GFHG), Bank of Gansu is designated as a participating financial institution to handle micro- and small credit transactions.

Results Monitoring and Evaluation Arrangements

73. **The results framework serves as a basic tool for the monitoring and evaluation of project achievements.** It includes a selection of specific outcome indicators, at PDO level and intermediate by component, with respective baselines and targets (Section VII). The responsibility for general monitoring and evaluation (M&E), including project progress, outputs, and outcomes, rests with the PPMOs and PIUs at all levels.

Sustainability

74. **Sustainability considerations that have informed project design include the following:**

- i) **Alignment with government strategies and programs for poverty reduction and tourism development.** This ensures synergy and complementarity of investments made. The project will help municipal governments prepare an asset management plan toward the end of the project to ensure sustainability of O&M.
- ii) **Building of stronger institutions to sustain, scale up, and replicate the project's success.** The project will contribute to building strong financial institutions to better serve the MSE growth and scale-up project activities in Gansu. The project will also enhance the capacity of the local governments to provide a business-enabling environment to ensure business success and sustainability. Efforts will be made during project implementation to ensure continued involvement and the championing of provincial leaders, NDRC, and MOF in supporting the replicability and transfer of knowledge nationally.
- iii) **Private sector participation.** The project will leverage financing from local banks and financial institutions and build their capacity to establish a sustainable and efficient credit market. It will provide MSEs with business advisory services to ensure the success and sustainability of their operations, allowing support of required working capital under the microcredit to enterprises that might otherwise fail.



- iv) All project assets are designed to be operated and managed by experienced and specialized private sector companies or SOEs under lease or concessional agreements with, and lease fees paid to, municipal governments. Each center or facility is, therefore, designed with a clear revenue-generating stream, such as entrance fees, souvenir shops, lease of space to art collectors and producers, tickets to folk performances, restaurants, and cafes. Such revenues will enable private leases or SOEs to operate and maintain assets properly and pay lease fees to municipal governments, which are already in fiscal distress.
- v) **Climate co-benefits.** All investments will use energy-efficient equipment and devices to reduce energy consumption and thus reduce operating costs, while contributing to climate change mitigation. The regeneration of old buildings will also reduce energy leakage of heating through substandard roofs, walls, and windows. All such mitigation measures will contribute to sustainability, as well as climate co-benefits.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The project sites are located along the east-west axis of Gansu Province in the upper Yellow River basin in northwestern China, mainly involving five prefecture-level cities. Tianshui and Dingxi in the southeast are located on loess plateau of 1000m above sea level with semi-humid monsoon climate and annual precipitation of 450-600mm. Jiuquan and Zhangye are located in the northwest along the flat Hexi corridor, a stretch of interior drainage bound by the Gobi Desert from the north and Qilian Mountains from the south where the oases and streams are glacier-fed. Featured by semi-arid to arid climate, the annual precipitation in the region is only around 100 mm. In general, the forest area is limited in Gansu, and desert vegetation is widely spread. With diverse landscape, the province is home to 659 species of wild animals, of which over 90 species are rare ones under state protection. However, since most of the proposed subprojects will be in urban or rural built-up areas, no rare, threatened or endangered species or large wildlife will likely be involved. Gansu province is also well known as home of grottoes art, cultural heritage sites and magnificent natural scenery with its key strategic position on the ancient Silk Road route. Gansu, a hinterland province, is one of the least developed provinces among all the 31 provinces in China. The total population was 26.26 million in 2017, 53.6% of which were in rural areas. Han Chinese constitute the main ethnic group in Gansu, and there are 54 ethnic minorities with 2.2 million people, accounting for 8.7% of the total population. Most of project cities have buildings constructed in the 1980s and are in poor conditions. Some of sites targeted for urban regeneration are considered as historic cities, cultural towns or cultural villages.

G. Environmental and Social Safeguards Specialists on the Team

Aimin Hao, Social Specialist
Mauricio Monteiro Vieira, Social Specialist
Xiaodan Huang, Environmental Specialist



SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>The project adopts a multi-sectoral approach that integrates community economic development for job creation and poverty reduction; urban and rural regeneration to improve the living conditions of lower income groups in the last mile; and institutions strengthening for sustainability and transfer of knowledge nationally and globally. Project investments include: (i) provision of microfinancing to Micro and Small Enterprises (MSEs) on cultural, tourism and creative industry sector (Component 1); (ii) urban and rural regeneration of selected historic city centers, small towns and villages where lower-income groups under-utilize their endowments; and (iii) support of the creative industry via 8 subprojects in 4 selected prefectures for job creation (Component 2), focusing on incremental improvements of urban infrastructure, construction of discovery centers, incubations, visitor facilities and landscaping.</p> <p>Considering diverse environmental and social impacts anticipated during project implementation, OP4.01 is triggered. Though the anticipated negative environmental and social impacts are mostly site-specific and temporary in nature during construction, the project is overall classified as Category A considering the types of investments and the sensitivity of some of the cultural sites involved.</p> <p>Full impact assessment was conducted covering the whole project and the safeguards instruments below have been developed following domestic EIA law and Bank safeguard policy requirements: (a) Environmental Impact Assessment (EIA) report and Environmental and Social Management Plan (ESMP) to cover all the subprojects under Component 2 (physical activities), of which the ESMP also includes the Environmental Codes of Practice (ECOPs) and a Physical Cultural Resource (PCR) management plan to specify mitigation measures; (b) Environmental</p>



and Social Management Framework (ESMF) to support the safeguards management of Component 1 and Component 3 (TA activities) since its subprojects can only be determined during project implementation; and (c) Environmental Assessment Executive Summary based on key findings of EIA, ESMP and ESMF. During the preparation of the proposed instruments, WBG’s Environmental, Health and Safety (EHS) Guidelines have been used as the important reference.

In parallel, a set of social safeguards instruments has also been prepared, including: a Social Assessment Report (SAR); a Social Management Framework (SMF); a Resettlement Policy Framework (RPF) including Social Risk Management Framework (SRMF); four subproject Resettlement Action Plans (RAPs); three Resettlement Due Diligence Reviews (DDRs) and a summary RAP for Component 2; and an Ethnic Minority Development Framework (EMDF) for Component 1. All key findings and conclusions were incorporated in the EIA, ESMP and ESMF respectively.

During EA preparation, two rounds of public consultation were conducted following national requirements and the Bank’s policies. The full EA reports have been disclosed locally and at the Bank’s external website.

Performance Standards for Private Sector Activities OP/BP 4.03	No	Though Component 1 will involve private sector, the PPMO will still play a core role in the project implementation. Therefore, the ESMF were prepared by applying the Bank's regular safeguards policy.
Natural Habitats OP/BP 4.04	Yes	The policy is triggered considering river rehabilitation activities (no dredging, mainly slope protection and river banks landscaping) to be supported by the Project. The ecological survey conducted during the EA process identified no critical/sensitive natural habitats and no protected species of plants/animals in the project-affected areas. The EA concluded that the Project would not have the potential to cause significant conversion or degradation of natural habitats. For the construction period, measures have been included in the ESMP to



		mitigate the temporary and site-specific impacts anticipated to a minimum level.
Forests OP/BP 4.36	Yes	Considering subproject possibilities and uncertainties under Component 1, this policy is triggered from precaution perspective. However, the triggering of this policy by specific subprojects remains to be determined during project implementation. Relevant screening procedures and subproject preparation requirements when the policy is triggered have been incorporated into the ESMF for future implementation.
Pest Management OP 4.09	Yes	Considering small-scale farming activities possibly to be supported by Component 1, this policy is triggered from precaution perspective. Screening procedures have been established under the ESMF to determine whether this policy will be triggered by selected subprojects and the policy requirements have also been incorporated into the ESMF for future implementation when applicable.
Physical Cultural Resources OP/BP 4.11	Yes	Activities proposed under the Project involve three national-level heritage conservation units (HCUs), including one UNESCO world heritage site; four provincial level HCUs; one registered site and one unregistered ancient well. Proposed activities have been screened during the EA process to exclude any investments within the control zone (core protected zone) designated by relevant authorities. A PCR management plan has been developed as part of the ESMP to integrate all the mitigation measures for the identified PCRs and chance-find procedures for any relics accidentally uncovered during construction. All the subproject design will be reviewed and cleared by the cultural relics authorities at the appropriate level prior to construction to ensure the compliance with corresponding cultural relics conservation plans and applicable laws and regulations.
Indigenous Peoples OP/BP 4.10	Yes	The Social Assessment did not identify ethnic minority presence in project areas based on the criteria set out by OP4.10. However, since Gansu province is known for having multiple ethnic minorities, there is high possibilities that some microcredit activities under Component 1 will involve ethnic minorities. The OP4.10 is triggered to enable the preparation of an Ethnic Minority



Development Framework (EMDF) preemptively. The EMDF covers all of the project, and provides guidance for component 1. In the case that ethnic minority presence is confirmed during implementation, an Ethnic Minority Development Plan will be prepared to ensure equal benefits of IPs and to assess their free will to participate in project or not.

Project areas do not include activities in autonomous counties, townships and villages.

Proposed project activities will cause land acquisition and displacement- both physical and economic. An overall RAP and four separate RAPs for Wushan county, Tongwei county, Zhangye Prefecture, and Qin’An county have been prepared. Three due diligence reviews were also prepared for Lintao county, Tongwei county, and Tianshui Maiji district. Impact covered by RAPs include residential housing demolition affecting 12 households of 48 persons, permanent land acquisition affecting 34 households of 168 persons, temporary restrictions to land affecting 14 households of 42 persons, and economic displacement affecting 10 persons. Due Diligence Reviews for three counties covered land acquisition affecting 143 households of 568 persons, house demolition affecting 12 households of 48 persons, and enterprises closing down affecting 12 persons.

A Resettlement Policy Framework (RPF) has been prepared to guide further preparation and implementation of RAPs in case future project activities will cause more land acquisition or resettlement.

Considering sub-loans/subproject uncertainties under Component 1, this policy is triggered from precaution perspective. Screening procedures and subproject preparation requirements when the policy is triggered have been incorporated into the ESMF for future implementation.

Not applicable

Not applicable

Involuntary Resettlement OP/BP 4.12

Yes

Safety of Dams OP/BP 4.37

Yes

Projects on International Waterways OP/BP 7.50

No

Projects in Disputed Areas OP/BP 7.60

No



KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Environment:

Environmental Assessment (OP4.01). The project is expected to have overall positive impacts on the environment through urban regeneration of old traditional style urban and rural settlements; rehabilitation and paving of access roads with energy-efficient street lights and adaptation measures for storm water drainage and flood structures; provision of Water Supply (WS), Domestic Wastewater (DWW); Domestic Solid Waste (DSW) services; and construction of new visitor facilities and creative industry discovery centers and incubations with green standards and landscaping works. It is estimated that the investments identified under Component 2 will collect a total of 13,000t/a DSW and 1.04million m³/a DWW for appropriate treatment/disposal, which are currently discharged directly water bodies without any treatment. The pollutant discharge into local rivers will be reduced (416.9t/a for COD, 260.6t/a for BOD and 41.7t/a for NH₃-N) and potential pollution of drinking water sources in relevant project counties (Lintao and Wushan) can be better controlled. The project will lead to an increase of green area by 40,000m² and environmental rehabilitation of small river/canals covering a total area of 24,800m², which would help to improve the climate resilience and ecosystem services in the project areas, particularly considering the location of Gansu Province in an arid and ecologically fragile part of China. In addition, most activities under subcomponent 2.1 and 2.2, including regeneration of traditional buildings and construction of new buildings and urban infrastructure, will be designed as "climate-smart" investments to save energy consumption, maintain water quality, and thus contribute to climate mitigation and adaptation.

Component 1 is to provide credits to eligible Micro and Small Enterprises (MSEs) to support their investments on cultural, tourism and creative industry in Gansu Province (40% of the US\$150 million co-financed amount by IBRD and Bank of Gansu is to support micro enterprises with credit amount not exceed US\$50,000 for each; and 60% is to support small enterprises with credit amount not exceed US\$500,000 for each). Eligible credits are to support homestays, boutique hotels, catering, handicrafts production and souvenir shops, food processing, tour logistics, commercial trading, etc. These small-scale investments are generally anticipated with insignificant or reversible environmental and social impacts, which could be well managed with proper mitigation measures. Environmental and Social Management Framework (ESMF) has been prepared for this component and screening criteria established to ensure the exclusion of any sub-loan/subproject identified as Category A or with high environmental/social risk.

The proposed investments under Component 2 are located in five prefecture-level cities in Gansu. These are Tianshui, Dingxi, Zhangye, Jiayuguan, and Jiuquan. The civil works involved are mostly of small scale. Based on the Environment Impact Assessment (EIA) findings and experience from earlier Bank-financed projects in the province, negative environmental impacts expected are mainly site-specific and limited to the construction phase, including risk of damage to heritage sites, soil erosion, dust, noise, wastewater, solid waste, traffic disturbance, etc. During the operation phase, potential adverse environmental impacts are limited to the generation of noise, odor, effluent and sludge by small-scale Wastewater Treatment Plants (WWTPs) and DSW transfer stations, increase of air pollution and noise from increased traffic on new/rehabilitated roads, and environmental and social impacts induced by increased influx of tourists.



The project is, therefore, classified as Category A given the types of investments and the sensitivity of some cultural sites involved. With design optimization, the EIA report concluded that no significant or irreversible impact is anticipated on identified Physical Cultural Resources (PCRs), as explained below in the paragraph of OP4.11.

Under Component 3, institutional strengthening, capacity building and knowledge transfer activities are proposed to support the achievement of project objectives, including the studies on and development of sustainable site management plans, improved policies and regulations, marketing strategies and promotion in Gansu. This component involves no civil works. The development of site management plans will help cities to manage project sites in a sustainable manner, including visitor management based on carrying capacity analysis and institutional arrangements for effective operation and maintenance (O&M).

Natural Habitats (OP/BP 4.04). For environmental improvements in selected communities, the project will support small-scale river/canal rehabilitation in Qin'an County and Wushan County, focusing on slope protection and river banks landscaping. The policy is thus triggered. Ecological survey conducted during the EIA process found no critical/sensitive natural habitats and no protected species of plants/animals in the project-affected areas. The EIA concluded that the Project would not cause any significant conversion or degradation of natural habitats.

Physical Cultural Resources (OP/BP 4.11). During the EIA process, nine PCR sites have been identified within the project-affected areas, including one UNESCO World Heritage Site, i.e., Dunhuang ancient post-office, three national-level Heritage Conservation Units (HCUs), four provincial level HCUs, and one registered immobile heritage relic site. Related investments include the construction of visitor and discovery centers and the improvements of urban infrastructure, such as regeneration of old buildings and public space, and the improvement of walkability. Project construction may expose the PCR sites to potential risks if civil works are carried out without proper management and application of chance-findings practices. Inappropriate regeneration of old houses and building that does not match the original architecture style may also be a threat. Similarly, renovation of traditional buildings with inferior materials or without expert guidance may result in the irreversible loss of valuable heritage.

For Component 1, the policy of OP4.11 Physical Cultural Resources is triggered since the component is designed to support MSEs investments on cultural, tourism and creative industry. All proposed investments will be screened to exclude any activity within/with direct impacts on the legally protected areas for cultural heritage or registered ancient trees. However, there still could be construction activities allowed, but adjacent to the protected areas/targets, which could bring indirect impacts on the identified PCRs if not well managed during implementation.

Social:

Social assessment conducted and confirmed that land acquisition and resettlement could not be avoided to accommodate some of proposed project activities.

Involuntary Resettlement Policy OP4.12. In three counties, land acquisition and resettlement were completed within the past 24 months in preparation for project activities. Due diligence reviews in these three counties confirmed land acquisition affecting 143 households of 568 persons, house demolition affecting 12 households of 48 persons, and closing down of enterprises affecting 12 persons. Land acquisition and resettlement is expected in four counties, with anticipated impact including residential housing demolition affecting 12 households of 48 persons, permanent land acquisition affecting 34 households of 168 persons, temporary restrictions to land affecting 14 households of 42 persons, and economic displacement affecting 10 persons.



Indigenous Peoples Policy OP4.10. Although social assessment did not identify ethnic minority presence in the project areas, given that i) Gansu province is historically known for trade and interactions among multiple ethnic groups; and ii) some of the project activities may support the creative industry and intangible cultural heritage of ethnic minorities, such as handicrafts, OP4.10 is triggered. An Ethnic Minority Development Framework has been prepared to guide the province in ensuring proper use of ethnic minority intangible cultural heritage under component 1. In case that ethnic minorities presence is identified during project implementation, an Ethnic Minority Development Plan will be prepared and implemented.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: Through the development of creative industry and cultural tourism, the project is expected to increase not only income generating opportunities for rural and urban communities. However, potential indirect or long term impacts on ambient environment may arise from increased influx of tourists. However, proposed Project investments are in full compliance with existing tourism development plans and applicable ecological functional zoning to control the induced development. Site Management Plans will be prepared to sensitive sites to guide investments, visitor management and ensure proper O&M.

The proposed investments are mostly of small scale. No significant cumulative effect is anticipated. All investments are confirmed to be in full compliance with local development plans. The EIA reviewed relevant local development plans to the proposed subprojects and identified three counties for further analysis of cumulative impact. These are Qin'an County, Lintao County and Wulan Town. Based on analysis, the development activities will have no significant cumulative impacts on environmental carrying capacity in the project areas. However, attention should be given to the implementation of planned municipal infrastructure, i.e., sewage collection and DSW, and local traffic management to ensure sustainable development.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

The EA process has played a key role in optimizing the project scope and design to avoid physical activities within the control/buffer zone of protected cultural heritage sites and/or to minimize their impacts to an acceptable level. Some proposals were either dropped, relocated or adjusted to ensure legal compliance domestically. For example, the original proposal of drinking water supply from new borehole for Dunhuang Xuanquanzhi subproject was replaced by water transportation with tankers from Dunhuang City to protect the hanging spring in compliance with the Protection Plan of Xuanquanzhi Relics/ancient post-office (a UNESCO World Heritage Site). For all proposed subprojects, various alternatives, including a "no project" scenario, have been assessed and compared during the EA process to avoid or minimize potential adverse environmental and social impacts. The comparison included subproject sites, sizes and sewage treatment process/strategies. The project design has been optimized based on the results of alternative analysis.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Environmental:

EIA and ESMP for Component 2. Full impact assessment was conducted covering the whole project and the safeguards instruments below have been developed following domestic EIA law and Bank safeguard policy requirements: (a) Environmental Impact Assessment (EIA) report and Environmental and Social Management Plan (ESMP) to cover all the subprojects under Component 2 (physical activities). The ESMP included Environmental Codes of Practice (ECOPs)



and a Physical Cultural Resource (PCR) management plan to design mitigation measures; (b) Environmental and Social Management Framework (ESMF) to support the safeguards management of Component 1 and Component 3 (TA activities) since its subprojects can only be determined during project implementation; and (c) Environmental Assessment Executive Summary based on key findings of EIA, ESMP and ESMF. During the preparation of the proposed instruments, World Bank's Environmental, Health and Safety (EHS) Guidelines were also applied. The ESMP has specified adequate mitigation measures for each subproject under Component 2, including the ECOPs against general construction nuisance and a project-specific PCR management plan to address the PCR issues. The key findings of social safeguards instruments, including RAPs, RDDs and SA, have also been integrated into the EIA and ESMP.

Physical Cultural Resources management plan. Both United Nations Educational, Scientific and Cultural Organization (UNESCO) and United Nations World Tourism Organization (UNWTO) joined in the project preparation and advised the client on best practices on creative industry, safeguarding intangible heritage, cultural heritage site management, community engagement and sustainable tourism development. Proposed activities have been screened during the EA process to exclude any investment within the control/buffer zone (core protected zone) designated by UNESCO or national relevant authorities. All proposals have been optimized to minimize potential impacts on the identified PCRs. In addition, a Heritage Impact Assessment (HIA) and an PCR management plan has been prepared to integrate all the necessary mitigation measures and define chance-finding procedures to be applied in any relics are accidentally discovered during construction. During project implementation, all subproject designs will be reviewed and cleared by the cultural relics authorities at the appropriate level prior to construction to ensure the compliance with corresponding cultural relics conservation plans and applicable laws and regulations. Strict site supervision, following the ESMP, will be conducted. Technical assistance and collaboration between the World Bank, UNESCO, UNWTO and Gansu will continue under Component 3 of the project on technical studies on cultural heritage and promotion of intangible heritage.

For Component 1, MSEs to be financed under the project will be assessed during project implementation based on application process and transparent eligibility criteria defined in an Operations Manual (OM). Since there were not ex-ante known prior to project appraisal, an ESMF has been prepared as the guiding safeguards instrument to ensure adequate environmental and social management in compliance with Bank's policies and domestic regulatory frameworks. Social instruments, such as SMF, RPF and IDF, have been integrated into the ESMF. The ESMF defines a negative list of sub-loans that excludes any Cat. A subproject and any activity with potentially high environmental or social risks. The ESMF defines screening procedures and subproject preparation requirements if any risk is triggered. The requirements on safeguards review and approval, implementation supervision and monitoring, public consultation and disclosure have also been specified from both environmental and social perspectives. According to OP4.11 policy, only investments without significant or irreversible impact on PCRs will be supported. It is required in the ESMF that a specific PCR management plan should be developed to mitigate indirect impacts on the PCRs to an acceptable level.

The ESMP and ESMF detail the environmental monitoring program/requirements for construction and operational phases to track effectiveness, and outline the institutional arrangements and responsibilities of each party. The ESHS requirements, including but not limited to those defined in the ESMP the ECOPs and the PCR management plan, will be integrated into the procurement documents of civil works and supervision plans. The institutional strengthening program has been designed as an integral part of the Project, which will provide supports and guidance to the PPMOs and the PMOs at county/district level to strengthen their environmental and social management capacity. The PMO will hire external environmental and social consulting team for technical support.

Social:



Resettlement Action Plans (RAPs). An overall RAP and four separate RAPs for four counties have been prepared to assess negative impacts caused by land acquisition and resettlement (both physical and economic displacement), and lay out implementation plans for compensation payment at replacement cost before any project activities commence.

Due Diligence Reviews (DDRs). Three DD Rs have been conducted to assess land acquisition and resettlement completed within the past 24 months related to project activities. Due diligence reports confirmed that completed land acquisition and resettlement was in line with local government regulations, and compensation has been paid at a replacement cost in line with World Bank OP4.12 policy.

Ethnic Minority Development Framework (EMDF). An EMDF has been prepared by the client to guide proper use of ethnic minority cultural heritage for income generation, and preparation of ethnic minority development plans in case ethnic minority presence is identified in future.

The borrowers at provincial and county level have limited experience in social safeguard policy management and implementation. As requested by task team, an experienced social safeguards consultancy team has been commissioned by the PPMO to conduct social assessment, develop safeguards instruments, such as RAPs, and conduct due diligence reviews. The same team will be providing external monitoring of social safeguards policy implementation and provide six monthly reports during project implementation.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

Environmental:

During the preparation of safeguards documents, key stakeholders have been identified to ensure the implementation of well-targeted and meaningful public consultation for the project, including project-affected people, relevant authorities, specialists and other stakeholders. Two rounds of public consultation and information disclosure have been conducted locally in January-February 2018 and July 2018. The project information was disclosed at project-affected communities and government websites before each round of consultation. Consultations process included meeting with project-affected people and experts, questionnaires survey, interviews. The EA and ESMP incorporated countermeasures to address the concerns of consulted people. The English version of full EA documents was first disclosed at the Bank's external website on October 24, 2018 and re-disclosed later when the EA/ESMP was updated and revised.

Social:

Residents in neighboring communities where project activities have been planned under Component 2 have been identified as key stakeholders. Small businesses related to cultural tourism, such as homestays and restaurants surrounding key historical relics sites have been identified as key stakeholders for Component 1. The social impact assessment process have engaged with these stakeholders through questionnaires, focus groups discussions and interviews to assess their views of the proposed project activities. People impacted by land acquisition and resettlement have been consulted on their willingness in cooperating with necessary measures provided that they are fully compensated at replacement cost for their loss. Project documents have been disclosed locally, and interested persons have access to all disclosed documents.



B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
19-Oct-2018	24-Oct-2018	

"In country" Disclosure

China
16-Jul-2018
Comments

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank	Date of submission for disclosure
19-Oct-2018	19-Nov-2018

"In country" Disclosure

China
15-Nov-2018
Comments

Indigenous Peoples Development Plan/Framework

Date of receipt by the Bank	Date of submission for disclosure
19-Oct-2018	19-Nov-2018

"In country" Disclosure

China
15-Nov-2018
Comments



Pest Management Plan

Was the document disclosed prior to appraisal?	Date of receipt by the Bank	Date of submission for disclosure
Yes	19-Oct-2018	24-Oct-2018

"In country" Disclosure

China
16-Jul-2018

Comments

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

Two rounds of information disclosure locally conducted, respectively in February and July 2018. Among other, the full reports in draft were disclosed locally during the second round. The full reports were disclosed on October 24, 2018.

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Yes

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?

No

If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?

No

OP 4.09 - Pest Management



Does the EA adequately address the pest management issues?

Yes

Is a separate PMP required?

No

If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?

NA

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?

Yes

Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?

Yes

OP/BP 4.10 - Indigenous Peoples

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?

Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?

NA

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?

Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?

Yes

OP/BP 4.36 - Forests

Has the sector-wide analysis of policy and institutional issues and constraints been carried out?

NA

Does the project design include satisfactory measures to overcome these constraints?

NA

Does the project finance commercial harvesting, and if so, does it include provisions for certification system?

NA



OP/BP 4.37 - Safety of Dams

Have dam safety plans been prepared?

No

Have the TORs as well as composition for the independent Panel of Experts (POE) been reviewed and approved by the Bank?

NA

Has an Emergency Preparedness Plan (EPP) been prepared and arrangements been made for public awareness and training?

NA

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

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