REPORT NO.: RES32162

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
ZHANGHU RAILWAY
APPROVED ON MARCH 15, 2012
TO
INTERNATIONAL DEPARTMENT, MINISTRY OF FINANCE

TRANSPORT & DIGITAL DEVELOPMENT
EAST ASIA AND PACIFIC

Regional Vice President: Victoria Kwakwa
Country Director: Bert Hofman
Senior Global Practice Director: Jose Luis Irigoyen
Practice Manager/Manager: Binyam Reja
Task Team Leader: Martha B. Lawrence
I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>P122319</td>
<td>Investment Project Financing</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
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<tbody>
<tr>
<td>Full Assessment (A)</td>
<td>Full Assessment (A)</td>
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<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<tr>
<td>15-Mar-2012</td>
<td>30-Jun-2018</td>
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Organizations

<table>
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<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
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<td>International Department, Ministry of Finance</td>
<td>China Railway Corporation</td>
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Project Development Objective (PDO)

Original PDO

The development objective of the proposed project is to improve accessibility and mobility by responding to existing and anticipated transport demand along the Hohhot-Zhangjiakou (to Beijing) corridor through the provision of additional railway capacity and reduction of transport time for passengers and freight.

Summary Status of Financing

<table>
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<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Net Commitment</th>
<th>Disbursed</th>
<th>Undisbursed</th>
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</thead>
</table>

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
1. The World Bank received a request from the Ministry of Finance dated April 2, 2018 for an extension of the project closing date for the Zhanghu Railway Project from June 30, 2018 to June 30, 2020. The proposed two-year extension will enable completion of the Zhangjiakou station and the line linking the project line to Beijing (and the rest of the high speed rail network) and will allow full service on the project line to be established. This proposed extension will be the first extension of the Zhanghu Railway Project.

Background

2. The Zhanghu Railway Project became effective on August 2, 2012 with a closing date of June 30, 2018. The Project Development Objective (PDO) is to improve accessibility and mobility by responding to existing and anticipated transport demand along the Hohhot-Zhangjiakou (to Beijing) corridor through the provision of additional railway capacity and reduction of transport time for passengers and freight. The project’s single component is construction of a 286 km-long double-track, electrified, passenger-dedicated high-speed rail line between the Zhangjiakou and Hohhot. The project cost is RMB 29.6 billion (US$ 4.5 billion @ 6.6 RMB/US$), of which US$ 200 million is financed by the World Bank loan. Disbursement is US$ 162 million (81%). US$ 218 million worth of contracts have been awarded.

Project Status

3. Construction of the line started in August 2014, 13 months after the planned start date of June 2013. The delays to the project were caused by delays in finalizing the timing and alignment of the Beijing-Zhangjiakou project that connects the Hohhot-Zhangjiakou line to the rest of the high speed rail network. Until the adjacent project's preparation was completed, the final construction design for ZhangHu could not be completed. During that period, the alignment and design parameters of the Hohhot-Zhanijiakou line were reviewed and significant changes made that reduced the project cost from RMB 34.6 billion (as per FSR approval by NDRC) to RMB 29.6 billion. Construction on the section in the Inner Mongolia Autonomous Region caught up with the original schedule and the line between Hohhot and Ulanqab (West section, 123 km) was opened for commercial service after testing and commissioning, on August 3, 2017. Six train pairs operate daily in this section. Construction of the other section in Hebei province between Ulanqab and Zhangjiakou (158 km) has progressed well and is expected to be completed by June 2018, a one-year delay compared to the original plan.

4. Currently, approximately 90% of land (17,143 mu out of 19,051 mu) along the alignment has been acquired, including all the land needed for construction. House relocation and demolition has been completed for 1,470 of 1,597 households. About 158 enterprises will be relocated: agreements have been reached for 143 enterprises, while negotiations are still underway with the remaining 15 enterprises. The HuZhang company is likely to finalize the remaining land acquisition, which is in the safety zone on either side of the tracks, once testing and commissioning are imminent (i.e., second half of calendar 2019).

Justification

5. The high speed rail line between Zhangjiakou and Beijing, which connects the project line to the high speed rail network will not be completed until the second half of 2019. When the construction of the Zhanghu project ends in June 2018, the project line will end outside the Zhangjiakou station and will not connect to the high speed rail network. If the project is extended, the connecting line to Beijing and the Zhangjiakou station will be completed. The project line will be connected to the high speed rail network through the Zhangjiakou station and high speed train services will commence on the entire project line. This will enable people traveling in the corridor to have fast, convenient transport between Hohhot and Zhangjiakou, and provide them with access to Beijing and the rest of the high speed rail network. At this point the project is expected to fully meet its project development objective.
6. If the project closes as currently scheduled in June 2018, it will not meet its PDO “to improve accessibility and mobility by responding to existing and anticipated transport demand along the Hohhot-Zhangjiakou (to Beijing) corridor” because the eastern section of the line will not be operating. The PDO indicators are:

- Number of train pairs operating daily on the Zhanghu line. This was defined as “all express (or high speed) train passing through a ‘screenline’ on the track between Zhangjiakou and the first station of the new line (Huaian).” The baseline value is 0 and the target is 25. The value of this indicator will be 0 on the current project closing date, and will continue to be 0 until train services are started in the second half of 2019.

- Number of passengers traveling on the Zhanghu line. This was defined as “all passengers passing through the screenline on the track between between Zhangjiakou and the first station of the new line (Huaian).” The baseline value is 0 and the target is 9 million. The value of this indicator will be 0 on the current project closing date, and will continue to be 0 until train services are started in the second half of 2019.

- Reduced transit time for passengers traveling on the Zhanghu line. The baseline value is 411 minutes and the target is 100 minutes. The value of this indicator on the Western section of the project line is 40 minutes. However, since no through trains are operated, the only way to estimate the transit time for the whole route is to add the time of the HSR on the Western section to the wait time for and transit time of the conventional train on the Eastern section. This currently comes to 425 minutes, which is higher than the original transit time. On the project closing date, this indicator will show a similar reduction in service quality. Only when train services are started in the second half of 2018 will this indicator show improvement.

7. To date, construction of the Hohhot to the line between Hohhot and Ulanqab (West section, 123 km) was opened for commercial service after testing and commissioning, on August 3, 2017. Six train pairs operate daily in this section. Construction of the other section between Ulanqab and Zhangjiakou (158 km) is well advanced and is expected to be completed in the second half of calendar 2019.

8. After the Beijing line, including the Zhangjiakou station, are opened in the second half of calendar year 2019, services will be run along the whole line and through to Beijing. At that time, the project is expected to meet its PDO and satisfy all its PDO indicators. Also, if the project closes as currently scheduled in June 2018, World Bank will not oversee the remaining land acquisition and testing and commissioning phase, or provide technical verification of completion of construction and opening to traffic of the Eastern section of the line.

Likely Social and Economic Impact

9. Once opened, the line is expected to reduce the “economic distance” between the project-served cities (Huhehaote, Zhuozi, Wulancabu, Huaian) and Beijing (and the rest of the major cities on the HSR network). Consistent with the ICRs of recently completed Guiguang Railway Project and Jituhun Railway Project, this reduction in “economic distance” is expected to have several effects. First, residents of the project-served cities will gain improved access to services and jobs available in Beijing, and put all cities on the HSR network within ready reach. Second, quicker access will support development of tourism in the project-served cities, by making trips to the region less arduous, time consuming and expensive. (This impact will be on show during the 2022 Olympics, when some events will take place in Zhangjiakou.) The easy access to Beijing and beyond, is also expected to make the project-served cities more attractive for investment. While this impact is difficult to document in the six months following project closing, its side effect—increases in commercial real estate values around stations—is already being seen in project-served cities.
10. The proposed extension complies with the requirements of OP10.00 paragraph 47 to the extent that: (i) following the extension, the project objectives continue to be achievable, (ii) the performance of the borrower has remained MS or better; and (iii) there are no overdue audit reports. The borrower has prepared an action plan to complete the project activities within the extended implementation period.

III. DETAILED CHANGES

LOAN CLOSING DATE(S)

<table>
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<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
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