1. Country and Sector Background

On May 12, 2008, an earthquake of magnitude 8.0 struck southwestern China, centered in Wenchuan County, Sichuan Province. As a result of the Wenchuan Earthquake and the 30,000 significant aftershocks, more than 47 million people have been affected; over 69,000 people have died, 374,000 have been injured, and 18,000 remain missing. Losses include: 34,000 km of highway destroyed; 1,263 reservoirs damaged; 7,444 schools and 11,028 hospitals and clinics collapsed, and 5.5 million rural houses and 860,000 urban houses destroyed or significantly damaged. Direct losses are estimated at RMB 844 billion (US$123 billion).¹

In the period since May 2008, the Government of China (GoC) has taken a strong leadership role, organizing the initial relief, conducting the damage and needs assessment and carrying out

¹ The data in this paragraph are quoted from the Government of China’s National Masterplan for the Rehabilitation and Reconstruction of Wenchuan Earthquake.
the initial reconstruction planning which included nine sectoral plans to address urban development planning, housing, rural development and agriculture, infrastructure, public services (such as social protection, health and education), land use planning, market and financial services, enterprises, and disaster risk reduction and ecological restoration and an overall National Masterplan for the Rehabilitation and Reconstruction of Wenchuan Earthquake (the Masterplan). The Masterplan was approved by the State Council on August 27, 2008, following public consultation. The Masterplan estimates the reconstruction costs will be approximately RMB 1 trillion (US$147 billion), with key rehabilitation works to be completed within about 3 years.

The reconstruction needs of the two provinces that have been hardest hit in terms of damage and losses – Sichuan and Gansu - are significant in proportion to the total program. In Sichuan Province, thirty nine counties, mainly in the south west, suffered the highest losses from the Wenchuan Earthquake and account for 91.3% of the total direct economic losses, estimated at US$112.2 billion.\(^2\)

Sichuan Province comprises 181 counties across 485,000 sq. km. This province accounts for one-third of China’s western region population and GDP, and is considered the “rice bowl” of China due to its high levels of agricultural and industrial productivity that supports a densely populated area. Its strategic geopolitical location, size, availability of natural resources, and potential for economic growth make Sichuan Province an integral component of GoC’s Western Region’s Development Program.

Gansu Province has a total population of 26 million, and it is the second poorest province in the country, as measured by per capita GDP. This is mostly due to difficult topography and a lack of sufficient infrastructure. While Gansu Province comprises 86 counties and geographically encompasses 454,000 sq. km, the earthquake mainly affected eight counties in the south eastern part of the province, bordering Sichuan. The earthquake damage in Gansu Province accounts for 5.8% of the total direct economic losses, estimated at US$7.1 billion.\(^3\)

The recovery of affected counties in the provinces of Sichuan and Gansu following the Wenchuan Earthquake is critical to securing the long term development targets for the area and preventing people from lapsing back into poverty. Estimates indicate that after the disaster occurred, more than 10 million people in earthquake affected areas remain vulnerable to falling back below the poverty line, according to the Chinese Ministry of Commerce.\(^4\)

Under the Masterplan, the GoC has approved a plan to borrow from international financial institutions (IFI) in the range of US$1.5 billion. Of this total, about US$1.2 billion would be used for reconstruction efforts in Sichuan Province, US$200 million in Gansu Province, and US$100 million in Shaanxi Province.

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\(^2\) Wenchuan Earthquake Panel, Mr Shi Peijun, reported in Xinhua News, 09/04/2008
\(^3\) Wenchuan Earthquake Panel, Mr Shi Peijun, reported in Xinhua News, 09/04/2008
The emergency Project proposed for IBRD financing will address specific reconstruction needs for infrastructure, health and education, as identified by provincial and county governments in Sichuan and Gansu, in line with the Masterplan guidelines and framework.

2. Objectives

The objectives of the Project are to restore essential infrastructure, health, and education services to at least levels existing prior to the Wenchuan Earthquake, and where appropriate, to provide for expansion of services while reducing the vulnerability to seismic and flood hazards.

3. Rationale for Bank Involvement

The Bank has decades of global experience in post-disaster reconstruction, management, and prevention and is uniquely placed to provide large-scale assistance to the GoC during the reconstruction process, especially working at the provincial level to assist the local governments in overseeing this unprecedented task of reconstruction in China.

In addition, with its large and stable portfolio of IBRD loans in China, the World Bank has experience in all sectoral areas specified for international borrowings in the GoC’s Masterplan. While GoC has welcomed other financial institutions to participate in the reconstruction effort, the request for World Bank financing under the recovery program is expected to be the largest and broadest in both sectoral and geographic scope. The proposed Project, the first large-scale programmatic loan that the Bank has financed in China, will introduce innovative project features.

Another advantage of the Bank’s engagement is its ability to package recovery efforts as a strategic program, comprised of a range of technical assistance grants and investment lending as based on global best practice knowledge and lessons on post-disaster recovery programs worldwide. As part of the support provided by the international community to the Government since May 2008, the Bank has secured US$2.925 million in trust fund resources from the Global Facility for Disaster Reduction and Recovery (GFDRR), the Global Environment Facility (GEF), and the Italian Trust Fund for Culture in Sustainable Development. The Bank has also provided considerable support to the GoC on the knowledge side, including a June 12, 2008 an international workshop, Earthquake Recovery and Reconstruction: International Experience and Best Practice, co-organized with the Ministry of Finance. Immediately following the workshop, the Bank provided 17 sector-specific good practice notes to support reconstruction planning that informed the development of the Masterplan.

The recently approved Operational Policy on Rapid Response to Crises and Emergencies (OP/BP 8.00) will facilitate accelerated Project processing using streamlined procedures.

4. Description

The project uses a framework approach, which is a flexible project design used when the principles of a project and the criteria for sub-project selection are determined before appraisal, but not all individual investments can be identified and appraised before Board approval. Three
general types of sub-projects are likely to be included: (a) those eligible for retroactive financing under the project, (b) straightforward reconstruction/rehabilitation projects, and (c) more complex investments that require a longer timeframe and more detailed preparation.

The project is divided into two provincial parts: one for Sichuan and one for Gansu. In addition to civil works and goods required for the reconstruction and appropriate enhancement of infrastructure, health and education services, financing of sub-project design, procurement support, safeguards compliance, implementation support, construction supervision, quality control and monitoring will be included.

Part 1 – Sichuan Recovery Program (Total US$532.8 million, Bank loan US$508.725 million)

1.1 – Infrastructure (Bank loan US$440.05 million) - This component will finance civil works, goods and necessary capacity building required for the reconstruction and appropriate expansion of infrastructure, specifically, roads and bridges, water supply and sanitation, municipal solid waste management collection and disposal, drainage, flood control, slope protection and stabilization, and restoration of waterways and canals, in approximately 16 counties in the five municipalities of Mianyang, Guangyuan, Bazhong, Nanchong and Ya’an.

1.2 – Health (Bank loan US$58.675 million) will finance civil works, goods and necessary capacity building required for the reconstruction and appropriate expansion of health services, including township health centers, Maternal and Child Health (MCH) centers, and county hospitals and Community Disease Control (CDC) Centers in about 21 counties in the seven municipalities of Mianyang, Guangyuan, Bazhong, Nanchong, Ya’an, Chengdu and Deyang.

1.3 – Project support (Bank loan US$10.0 million) will finance the engineering costs of sub-projects such as feasibility studies, environmental and social assessments, design, procurement support, safeguards compliance, implementation support, construction supervision, quality assurance and monitoring.

Part 2 – Gansu Recovery Program (Total US$207.2 million, Bank loan US$199.5 million) will finance infrastructure, health and education sub-projects in 7 counties in Longnan Municipality with a focus on Cheng, Hui, and Xihe Counties.

2.1 – Infrastructure (Bank loan US$130.0 million) - This component will finance civil works, goods and necessary capacity building required for the reconstruction and appropriate expansion of infrastructure in the same sectors as named above.

2.2 – Health (Bank loan US$32.26 million) will finance civil works, goods and necessary capacity building required for the reconstruction and appropriate expansion of health services, including township health centers and clinics, and county hospitals and supporting services.

2.3 – Education (Bank loan US$33.24 million) will finance facilities, equipment and selective capacity building for the rehabilitation/reconstruction of primary schools, secondary schools, and vocational/technical school (kindergarten if needed).
2.4 – Project support (Bank loan US$4.0 million) will finance the engineering costs of sub-projects such as feasibility studies, environmental and social assessments, design, procurement support, safeguards compliance, implementation support, construction supervision, quality assurance and monitoring.

5. Financing

Due to the extensive damage caused by the earthquake, and the related fiscal gaps for reconstruction faced by the provincial governments, the Ministry of Finance has requested US$710 million in financing from the IBRD. In line with OP 8.00 provisions, 100% of project investment costs would be eligible for financing under the proposed project. It is anticipated the actual amount of retroactive financing under the proposed project will be minimal, although OP 8.00 allows for retroactive financing of up to 40 percent of the loan amount.

The total financing for the project is expected to be:

<table>
<thead>
<tr>
<th>Source:</th>
<th>($m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>30</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>710</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>740</strong></td>
</tr>
</tbody>
</table>

6. Implementation

The international financing program for reconstruction within Sichuan and Gansu Provinces is coordinated at the national level by the Ministry of Finance and the National Development and Reform Commission, both of which participate in the State Council’s committee that coordinates implementation of the Masterplan. At the provincial level, each province has established a Provincial Program Leading Group (PPLG), chaired by a Vice-Governor and including Directors of relevant agencies. The PPLGs will set project policy and guide implementation. In Sichuan, the provincial government has established a coordination office to act as a secretariat for the PPLG. In Gansu, the Provincial Finance Bureau will assume this role.

For detailed project implementation, and to utilize the capacity and experience of existing Project Management Offices (PMOs) within the Sichuan Provincial Government, Sichuan will utilize two existing PPMOs, each headed by a Director, one reporting to the Provincial Construction Commission and the other reporting to the Provincial Health Bureau. County level PLGs and Project Implementation Units (PIUs) are being established in the project counties, in a similar manner to the provincial level. In Gansu, as there are no existing PMOs within Longnan Municipality in the project sectors, the Longnan Municipal Government has established one multi-sectoral Municipal PMO, responsible for all three sectors within the project.

Under the framework approach, the county and municipal governments will propose investments under the Masterplan for inclusion as sub-projects. The PMOs will undertake the first level of screening of sub-project proposals. This screening and development of the project pipeline will be subject to the confirmation of the provincial and national governments and the Bank.
Detailed procedures for this process are included in the project’s Operations Manual, which is currently under development.

7. Sustainability

The proposed Project is aligned with the objectives of the Masterplan and adheres to the guiding principles of ensuring rapid restoration of basic services and infrastructure built to appropriate quality standards. It also seeks to ensure overall balance between reconstruction and providing the foundation for the longer-term, sustainable economic recovery of project areas. By using existing government institutions from the national to the local level, the capacity to manage the reconstruction process and coordinate across sectors will be enhanced and reinforced. The Bank has secured trust fund resources to support the provincial/municipal/county officials in procurement, safeguards application, monitoring and evaluation, and establishing and overseeing technical standards compliance.

By using existing government institutions from the national to the local level, the capacity to manage the reconstruction process and coordinate across sectors will be enhanced. Technical assistance through the project complementary trust funds will be provided to support the provincial/municipal/county officials for procurement, safeguards, monitoring and evaluation, and technical standards compliance.

8. Lessons Learned from Past Operations in the Country/Sector

The International Bank for Reconstruction and Development remains the largest financier of post-disaster recovery and reconstruction worldwide and brings to bear a range of lessons based on these experiences across regions.

*Technical codes and standards utilized should reflect the affected area’s natural hazards risk profile.* Previous projects have shown that upstream (design phase) consideration of technical standards in order to rebuild to higher standards that adequately factor in seismic and other hazard risks is important. China’s newly issued national seismic building codes, standards and specifications, which are appropriate to local conditions and consistent with internationally recognized standards, will be applied throughout the proposed project, and as needed, global best practices and experiences of seismic engineering will be introduced into the design of sub-projects. Technical assistance and international expertise in this area will be provided as necessary to ensure enhanced understanding and compliance.

*The capacity of existing government institutions should be utilized and enhanced as necessary to manage the reconstruction program.* As the project design, appraisal and implementation timeframes are shorter than normal investment programs, it is essential that existing implementation systems and PMOs be utilized and strengthened as much as possible. The project provinces have functional PMOs that manage Bank financed projects, and their staff members are knowledgeable about Bank processes and guidelines for lending. However, the capacity may be strained due to human resource losses following the earthquake as well as the magnitude of the new activities envisaged under the proposed Project resulting in gaps in capacity in the provincial PMOs. Significant capacity building training and technical support will be provided by the Bank on topics identified during appraisal, such as procurement.
Emergency projects often are slow to disburse during implementation. From 1984-2005, the World Bank has financed more than US$26 billion of disaster related projects, of which US$12 billion was in the form of Emergency Recovery Loans (ERLs). Past emergency loans and credits in other countries have tended to be slow to disburse after Board approval. To mitigate this risk, the proposed Project takes a programmatic approach building in a mechanism for packaging and approving eligible investments to facilitate quick disbursement and to ensure subprojects that take longer to prepare do not delay implementation of subprojects ready for implementation.

More intensive supervision is required during implementation. The preparation period for emergency loans is shorter than for normal investment programs, with many details left to be determined during the implementation phase. This project would address this concern through a well conceptualized programmatic framework approach and through the provision of appropriate financial and human resources during project implementation.

Emergency operations should focus on measurable results and outcomes tied to the short implementation timeframe. The results framework under the proposed Project will follow this approach.

9. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>[X]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
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<td>[ ]</td>
</tr>
<tr>
<td>Pest Management (OP 4.09)</td>
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</tr>
<tr>
<td>Physical Cultural Resources (OP/BP 4.11)</td>
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<td>[ ]</td>
</tr>
<tr>
<td>Involuntary Resettlement (OP/BP 4.12)</td>
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<tr>
<td>Indigenous Peoples (OP/BP 4.10)</td>
<td>[X]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Forests (OP/BP 4.36)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Safety of Dams (OP/BP 4.37)</td>
<td>[X]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
<tr>
<td>Projects on International Waterways (OP/BP 7.50)</td>
<td>[ ]</td>
<td>[X]</td>
</tr>
</tbody>
</table>

To guide the compliance of sub-project identification, screening, preparation and implementation with environmental and social safeguards policies, laws and guidelines, an Environmental and Social Screening and Assessment Framework (ESSAF) has been prepared. The ESSAF is intended to ensure that, for all activities financed by the project, all efforts are made to avoid and minimize environmental and social impacts; and where they cannot be avoided, that these impacts are identified and necessary mitigation measures are developed and implemented following relevant Chinese laws and regulations and Bank policies. The ESSAF will form part of the project’s Operations Manual and is referenced in the project’s Legal Agreements. It will also be publicly disclosed prior to Board approval of the project.

A preliminary sample of possible sub-projects has been visited by the provincial governments and Bank team. On the basis of this, it is expected that most of the potential sub-projects will

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas
require environmental and social studies and approvals for compliance to Chinese laws and regulations. In addition, the following Bank policies will or are likely to be triggered by the potential sub-projects:

- **OP/BP 4.01 Environmental Assessment:** Given the nature of the proposed program, this policy will be triggered. Individual sub-projects will be screened and assigned the appropriate environmental categorization and environmental due diligence will be conducted in accordance with OP 4.01.

- **OP/BP 4.04 Natural Habitats:** Field visits and the location of potential sub-projects in urban areas indicate that natural habitats are unlikely to be adversely affected. Nevertheless, all sub-project proposals will be screened for potential adverse impacts on critical and non-critical natural habitats and suitable mitigation measures if any needed will be prepared as part of the sub-project specific EA and EMP.

- **OP/BP 4.11 Physical Cultural Resources (PCR):** This policy may be triggered if any sub-projects include reconstruction or preservation of historic or archeological sites.

- **OP/BP 4.37 Safety of Dams:** Given the damage to existing dams and the possible need for additional water storage capacity in certain localities, local governments may propose repair works on existing reservoirs or propose new investment in water storage facilities. In case of such request, it is anticipated that OP 4.37 will be triggered.

- **OP/BP 4.12 Involuntary Resettlement:** Land acquisition and involuntary resettlement are anticipated under the project, particularly for sub-projects involving service expansion or reconstruction at new sites. For this reason, OP 4.12 will be triggered.

- **OP/BP 4.10 Indigenous Peoples:** Field visits, initial discussions with experts of ethnic minorities in the region and desk review, have indicated that communities of ethnic minority people are unlikely to be present in the project areas and therefore this policy is unlikely to be triggered. Nevertheless, all sub-project proposals will be screened as required by OP 4.10 to confirm these findings.

The final determination of all policies to be triggered by each sub-project will only be determined during screening of the sub-projects.

10. **Contact points**
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