



DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
ZHUZHOU BROWNFIELD REMEDIATION PROJECT
APPROVED ON MARCH 31, 2016
TO
PEOPLE'S REPUBLIC OF CHINA

ENVIRONMENT, NATURAL RESOURCES & THE BLUE ECONOMY
EAST ASIA AND PACIFIC

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I. BASIC DATA

Product Information

Project ID P147381	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 31-Mar-2016	Current Closing Date 31-Dec-2021

Organizations

Borrower People's Republic of China	Responsible Agency Zhuzhou PMO
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Project Development Objective (PDO)

Original PDO

The project development objective is to reduce public exposure to contaminated land in the Project Area using risk-based remediation approaches.

Summary Status of Financing (US\$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-85870	31-Mar-2016	01-Jun-2016	13-Sep-2016	31-Dec-2021	73.00	39.96	33.04

Policy Waiver(s)

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

No



II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

Background:

1. This Restructuring Paper seeks approval of the Country Director (CD) for a Level 2 restructuring of the Zhuzhou Brownfield Remediation Project (the 'Project'). The proposed restructuring is solely for extension of the closing date of the Project for six months, from December 31, 2021 to June 30, 2022. This will be the first extension of the closing date.
2. A US\$150 million loan from the International Bank for Reconstruction and Development (Loan No. IBRD-85870) was approved on March 31, 2016, for the Project and became effective in September 2016. The Project aims to support the city of Zhuzhou's effort to restore and prepare for redevelopment of the heavily polluted Qingshuitang (QST) Industrial Zone, located in close proximity to residential areas within the city boundaries. This is intended to serve as a demonstration for other parts of China with similar complex site remediation challenges to apply risk-based and cost-effective remediation concepts that can be tailored to future land uses. The Project Development Objective (PDO) is to reduce public exposure to contaminated land in the Project area using risk-based remediation approaches. It comprises four components: Component 1 - Remediation of contaminated plots; Component 2 - Associated treatment and disposal works; Component 3 - Capacity building and knowledge management; and Component 4 - Project Management, Monitoring and Evaluation. The Project was expected to close on December 31, 2021, and has not previously been extended. The Project continues its relevance to the country and sector context for it contributes positively to the ecological civilization construction of China. The Project also aligns well with the on-going Country Partnership Framework (CPF) (FY2020-2025), which includes 'reducing soil pollution' as one of the CPF objectives.
3. The Project was restructured for the first time in June 2021 to (a) cancel US\$77 million from the original US\$150 million loan amount due to substantial cost savings, mainly through the application of lower-cost cleanup and containment solutions, third-party remediation works in the Project area, and lower bid prices due to changing market conditions and (b) change some of the PDO indicators to adjust the actual surface area in hectares that needs remediation under the Project in comparison to that specified in the Project Appraisal Document (PAD) and that a portion of this area that needs remediation is taken over by third-party developers for remediation and redevelopment. Similar to land remediated with Project funds, this third-party remediation is subject to verification and certification of remediation results.

Project Status:

4. The Project is rated Moderately Unsatisfactory (MU) for overall implementation progress and Moderately Satisfactory (MS) for progress toward the PDO, because a majority of the PDO indicators are achieved but the implementation and disbursement are still slow for the reasons described below. Approximately US\$39.96 million has been disbursed, equivalent to 54.7 percent of the total loan proceeds. US\$33.04 million remains undisbursed but has all been committed to currently ongoing contracts and recently signed new contracts as described below.
5. The environment and social safeguards performance is rated MS. An important and until recently not fully resolved safeguard issue related to the resettlement and compensation of 26 households of Project-Affected-People. Compensation was initially only partially paid and full compensation was delayed due to a recent tightening of government hidden debt. However, this issue has been resolved and full payment was received by the 26 households on December 03, 2021. The Project is in compliance with legal and fiduciary requirements.



6. During the June 2021 restructuring, it was foreseen that the Project would be completed and verified by the current Project closing date of December 31, 2021. Since then, several issues delayed implementation:

- Delay in signing of the remediation works contract for Qingshi Residue Waste Cleanup Works (CNY 79.8 million) due to higher bid price than cost estimates which required reconciliation. This contract enables cleanup of the remaining contaminated land in the Project area, to meet the first PDO indicator. The contract needs around six months to be implemented, and the contract was signed on December 16, 2021.
- Equipment supply for one of the Project activities, the construction of the Centralized Soil Treatment Center, was affected by the recent COVID-19 outbreak in Zhuzhou in August 2021. As a result, treatment of contaminated soil from various Project activities in this facility and by this equipment will not be completed before the original Project closing date. The equipment is now scheduled to be delivered in February 2022 and soil is to be treated by April 2022.
- Monitoring and evaluation of the Project's performance toward the achievement of the PDO is ongoing and requires more time. This is specifically related to delays with the technical assistance (TA) consultancy contract to establish and populate the Geographical Information System (GIS) platform. This GIS platform can be completed including the data population by June 2022 such that the platform is fully functional by then for evaluation and reporting of the status of all plots within the Project area in terms of their remediation technology and target, verification result, land use before and after the Project to confirm that the risk-based remediation approach required by the Project is properly implemented. This information is also important to assess the results of the Project in the borrower's completion report and the World Bank's Implementation Completion and Results Report (ICR). This consultancy contract was signed on December 16, 2021.
- Continuing certification of remediation undertaken by third parties which can be completed by the spring of 2022.

Proposed Changes:

7. The Ministry of Finance, on behalf of the Government of China, submitted an official request to the World Bank on December 20, 2021, proposing to extend the Project's closing date by six months from December 31, 2021, to June 30, 2022. This would be the first extension of the Project. No changes are proposed to the PDO, Project scope, or the safeguard category, and no new safeguard policy will be triggered.

Rationale for Extension of Closing Date:

8. While the various matters that caused implementation delays have been resolved, there is insufficient time to complete the abovementioned activities and to monitor and evaluate the achievement of the PDO. Currently, the two related PDO-level outcome indicators are only partially (88 percent) achieved (see Table 1 in Annex 1 for the status of achieving the results indicators).

9. The client and the World Bank have discussed the Project extension in detail and have established that the current PDO is still valid and achievable by the newly proposed closing date (June 30, 2022). In addition, a time-bound plan to ensure completion of the remaining activities by the proposed closing date has been agreed upon (see Annex 1). There are currently no outstanding key safeguards, financial management, or procurement issues, and all legal covenants have been met.

10. The current Project overall risk rating is Substantial, which is expected to remain unchanged with the activities to be completed before the proposed Project closing date. The three substantial risks identified at Project preparation



were (a) inadequate experience and capacity of the Project Management Organization (PMO) and Project Implementation Unit (PIU) in managing and implementing World Bank-financed projects; (b) unintended environmental and social (resettlement) impacts; and (c) stakeholder risk, given the need for significant co-financing and limited fiscal revenues at the city and district level. Various measures have been taken to mitigate these substantial risks during Project implementation, including intensive support from the World Bank’s task team, capacity building for the PMO and PIU, increasing of staffing resources, the hiring of qualified experts, and set-up and implementation of agreed comprehensive action plans. As the Project will reach its closing date in six months, the need for co-financing is limited; therefore, the stakeholder risk is considered largely reduced.

11. In view of the recent delays described above, the potential risk of not completing the remaining activities before the newly proposed Project closing date still exists, as remediation of polluted lands is a complex process that might present unexpected findings and occurrences, including higher pollutant concentrations than measured during the site assessment, weather conditions, COVID-19-related delays, and others. However such risk is expected to be low because (a) the procurement processes for key contracts have been completed and (b) although the remediation works to be completed have associated environmental risks with the excavation, transportation, storage, and disposal of soil contaminated by heavy metal and organics, these risks are similar to that of earlier remediation works. The PIU has adequate capacity to handle these risks, as demonstrated in the successfully completed works of remediation of industrial and legacy sites. Environmental and social risks under the Project can be effectively managed and mitigated through the Environmental and Social Management Plans (ESMPs). To minimize the risk of additional delays, the task team will conduct close supervision and have frequent dialogue with the PIU on Project implementation.

12. The Project closing date extension request is justified and will help the Project fully achieve its development objectives and the loan to be fully disbursed. The Government of China and the PIU are committed to making extra efforts to accelerate implementation and ensure successful completion of the Project by the revised closing date.

13. With the proposed extension of the closing date, the PDO remains achievable, and the performance of the borrower remains satisfactory.

III. DETAILED CHANGES

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-85870	Effective	31-Dec-2021		30-Jun-2022	30-Oct-2022