China : China Zhengzhou International Logistics Hub Expansion

1. Project Information

Project ID:	P000386	Instrument ID:	L0386A
Member:	China	Region:	Eastern Asia
Sector:	Transport	Sub-sector:	Multimodal logistics
Instrument type:	☒Loan:132.50 Euro million ☐Guarantee	Lead Co-financier (s):	
ES category:	B	Borrowing Entity:	Ministry of Finance, China
Implementing Entity:	Zhengzhou International Logistics Hub Development and Construction Co. Ltd.		
Project Team Leader:	Runze Yu		
Responsible DG:	Konstantin Limitovskiy		
Responsible Department:	PSC2		
Project Team Members:	Yuyou Guo, Team Member; Liu Yang, Project Counsel; Rui Xiang, SFD - Financial Management Specialist; Chongwu Sun, SFD - Environment & Social Development Specialist; Bo Shi, SFD - Procurement Specialist; Xiaojun Zhou, SFD - Social Development Specialist; Yaxin Yan, Back-up PTL; Yanyang Shi, Project admin		
Completed Site Visits by AIIB:	Dec, 2019 AIIB Mar, 2020 AIIB (Virtual) Aug, 2020 Project Identification Mission Sep, 2020 Fact-finding Mission Nov, 2020 Preparation Mission Feb, 2021 Pre-appraisal Mission Mar, 2021 Appraisal Mission (Virtual) May, 2021 Appraisal Mission,Appraisal Mission Mar, 2023 Kick-Start Supervision Mission Jan, 2024 Project Supervision Mission		
Planned Site Visits by AIIB:	Q1		
Current Red Flags Assigned:	0		
Current Monitoring Regime:	Regular Monitoring		
Previous Red Flags Assigned:	0		
Previous Red Flags	2024/03		

Assigned Date:	

2. Project Summary and Objectives

The project provides long-term Sovereign-Backed Financing (SBF) to Zhengzhou International Hub Development and Construction Co., Ltd. (ZIH) for the expansion of its freight facilities, including Multimodal Cold Storage Facilities, Type-B Bonded Logistics Center, Vehicle Imports Facility, and China Rail (CR) Express Logistics Information Platform Upgrade. These facilities are integral value-added components to the CR Express operated by ZIH, connecting China and European/Central Asian countries.

The project is to facilitate cross-border trade by enhancing freight service efficiency of the containerized CR Express trains connecting Zhengzhou, China to Europe and Central Asia.

3. Key Dates

Approval:	Jan. 26, 2022	Signing:	Jul. 11, 2022
Effective:	Nov. 08, 2022	Restructured (if any):	
Orig. Closing:	Jun. 27, 2027	Rev. Closing (if any):	

4. Disbursement Summary (EUR million)

Contract Awarded:		Cancellation (if any):	0.00
Disbursed:	0.33	Latest disbursement (amount/date):	0.00/Nov. 08, 2022
Undisbursed:	132.17	Disbursement Ratio (%)[1]:	0.25

5. Project Implementation Update

Current Status:

1. **Site Relocation and Progress:**
    - The new project site within the Zhengzhou International Land Port (ZILP) has been finalized. However, negotiations on land acquisition are ongoing, and significant progress has not yet been achieved.
    - ZIH remains the Project Implementation Entity (PIE), continuing efforts on finalizing the Feasibility Study Report (FSR) and Environmental and Social (ES) assessments on the new site.
    - The ES category of the project was officially upgraded to "Category A" due to the substantial resettlement impact involving approximately 45 households.
2. **Leadership Transition and Strategic Decisions:**
    - The most critical impediments to the project's progress are:
        - Uncertainty surrounding the institutional arrangements for the future implementation of the project. Specifically, it remains undecided whether CR Express operations will be 1) simultaneously launched in both Zhengzhou's Economic Development District (the original project site, under Zhengzhou Municipality) and the Port District (the proposed new site, which is directly administered by the Henan Provincial Government, placing it at the same administrative level as Zhengzhou Municipality), or 2) centralized entirely within the Port District.

[1] Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

- This decision could lead to adjustments of ZIH's shareholder composition, currently comprising both a provincial-level entity, Henan Zhongyu Port Group, and a district-level entity, Zhengzhou Economic Development District.
- This undecided institutional arrangements also leads to the unresolved land acquisition issues within the Port District.

- The above decision-making is pending as the Henan Province awaits the appointment of new leadership, including the Party Secretary and Governor. These changes are expected to conclude by the Lunar New Year 2025. ZIH has prepared strategic options to present to the new leadership upon their appointment.

Key Issues:

1. **Land Acquisition:**
   2. ZIH has not yet finalized the negotiations for a good faith deposit with the landowner (the Port District), delaying critical steps in land acquisition.
   3. Land acquisition delays could impact project timelines significantly and hinder compliance with resettlement requirements.
4. **Implementation Framework and Shareholding Adjustments:**
   5. The decision on whether operations will expand to dual districts or remain concentrated in the Port District will influence ZIH's shareholder structure and project implementation arrangements.
   6. Discussions are ongoing between ZIH's largest shareholder, Zhengzhou Economic Development District, and Henan Zhongyu Port Group regarding a potential reduction or exit from ZIH's shareholding.
7. **Provincial Leadership Transition:**
   8. Current provincial leadership changes add further uncertainty to the timeline for resolving strategic and operational challenges.

Follow-Up Actions:

1. **Immediate Monitoring and Coordination:**
   2. Maintain close engagement with ZIH to monitor negotiations on land acquisition and ensure that the Provincial Government provides timely intervention and support.
3. **Stakeholder Engagement:**
   4. Facilitate dialogue among ZIH, Henan Zhongyu Port Group, and Zhengzhou Economic Development District to clarify shareholder adjustments and project framework decisions.
   5. Support ZIH in preparing to present strategic proposals to the incoming provincial leadership.
6. **Supervision Mission and Strategy Finalization:**
   7. Schedule a project supervision mission post-Lunar New Year, contingent on progress in leadership transitions, subsequent strategic decisions, and clarity of land acquisition timelines.
   8. Collaborate with ZIH to finalize the FSR, ESIA, and other required documents to prepare for the government's approval of the material change and AIIB's subsequent review.

By addressing these critical issues and aligning actions with forthcoming provincial strategic directions, the project can regain momentum and advance toward implementation.

Components	Physical Progress	Environmental & Social Compliance	Procurement
Component 1: Multimodal Cold Storage Facilities	0%	No non-compliance identified in this reporting period.	No non-compliance identified in this reporting period.
Component 2: Parallel Vehicle Imports Facility	0%	No non-compliance identified in this reporting period.	No non-compliance identified in this reporting period.

Component 3: Bonded logistics Center	Since March 2022, Client has mobilized counterpart funds for constructing the cross-border e-commerce warehouse and the storage yard. It has been fully completed.	No non-compliance identified in this reporting period.	No non-compliance identified in this reporting period.
Component 4: Multimodal Logistics Information Platform Upgrade	17.14%	No non-compliance identified in this reporting period.	No non-compliance identified in this reporting period.

Financial Management:

The Project's financial management arrangements remain operational despite significant changes in Project activities. The cumulative project assets, financed by counterpart funds, amount at total CNY 112 million, including CNY 9 million in delivered assets and CNY 91 million in assets under construction. However, these assets will be disposed of as they no longer align with the revised Project scope.The Project accounts now primarily reflect the outstanding borrowing from AIIB, total EUR 331,250, along with associated commitment fees. ZIH has submitted the 2023 Annual Project Audit Report in accordance with Chinese accounting standards. The report includes a clean auditor's opinion, confirming that the financial statements present fairly in all material respects. It also provides a few recommendations to strengthen the procurement process and contract management for the project.Since the project was effective, all expenditures have been covered by counterpart funds, representing 6.66% of the total project budget. The 2024 Annual Project Audit Report will be due on June 30, 2025. While the financial reporting system remains established, the Project FM team has undergone significant adjustments, with key personnel transitioning to other organizations.To address these challenges, ZIH is advised to document detailed financial management procedures with guidance from provincial finance departments and former project leads. This documentation should cover funds flow management, accounting, and reporting to ensure continuity andstandardization. AIIB will provide ongoing training to strengthen ZIH’s FM capacity and facilitate the timely and reliable provision of financial data throughout the Project's implementation.

6. Status of the Grievance Redress Mechanism (GRM)

There was no complaint received since project effectiveness.

7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)

The project team will update RMF after the project restructuring.

Remarks:

Project Objective Indicators	Indicator level	Unit of Measure	Cumulative Target Values																	Frequency	Responsibility	Comments
			Baseline		2021		2022		2023		2024		2025		2026		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year	Target	Actual			
Cross-Border Trade - Container volume	Project	TEU	2021	90,200	90,200		94,300		98,400		102,500		110,700		118,900		2027	147,600		Semiannually	ZIH	
Cross-Border Trade - Number of trains	Project	Number	2021	1,100	1,100		1,200		1,300		1,400		1,500		1,650		2027	1,800		Semiannually	ZIH	
Operational Efficiency - Annual average load factor – Inbound	Project	%	2021	80%	80%		80%		80%		80%		82%		84%		2027	90%		Semiannually	ZIH	
Operational Efficiency - Return trip ratio	Project	%	2021	40%	40%		40%		40%		40%		41%		42%		2027	45%		Semiannually	ZIH	

Project Intermediate Indicators	Indicator level	Unit of Measure	Cumulative Target Values																	Frequency	Responsibility	Comments
			Baseline		2021		2022		2023		2024		2025		2026		End Target					
			Year	Value	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Year	Target	Actual			
Component 1: Multimodal Cold Storage Facilities - Cold storage capacity	Project	ton	2021	0	0		0		0		0		0		50,000		2026	50,000		Annually	ZIH	
Component 2: Parallel Vehicle Imports Facility - Area for vehicle imports facility	Project	sqm	2021	0	0		0		0		0		0		89,800		2026	89,800		Annually	ZIH	
Component 3: Bonded logistics center - Area of bonded logistics facilities	Project	sqm	2021	0	0		0		0		0		0		68,000		2026	68,000		Annually	ZIH	
Component 4: Multimodal Logistics Information Platform Upgrade - Quotation time	Project	minute	2021	55	55		55		55		55		55		15		2026	15		Annually	ZIH	

Component 4: Multimodal Logistics Information Platform Upgrade - Booking time	Project	minute	2021	30	30		30		30		30		30		15		2026	15		Annually	ZIH	
Jobs Creation - Total number of new jobs created	Project	number	2021	0	0		0		0		0		0		145		2026	145		Annually	ZIH	
Jobs Creation - Total number of female employees newly hired	Project	number	2021	0	0		0		0		0		0		74		2026	74		Annually	ZIH	