### Concept Review Decision

I. Introduction and Context

#### Country Context

Under the 11th Five Year Plan (2006-2010), agriculture, rural and urban development policy was driven by two key government programs, a program of sound urbanization, which sought to accelerate the absorption of rural labor in urban markets, and a "new socialist countryside (NSC) policy" seeking to increase farmers income and rural living standards. This dual-track policy reflected China's new development paradigm that emphasizes the building of a well-off and harmonious society with balanced development across regions and sectors.

Despite the massive economic development within the country since the beginning of economic reforms in 1978, China's countryside lagged far behind the cities. Most noticeably, the countryside was at the bottom end of an ever-widening urban-rural income gap. In 1978, for every one RMB the average rural person had, as disposable income, the average urban dweller had 2.57 RMB. In 2007, thirty years later, the average urbanite now had 3.33 RMB to every one RMB of disposable income that a rural person has. The gap had increased by nearly 30%. The call for building up the new socialist countryside was a high priority activity for the government and was listed in the 11th Five Year Plan (FYP) as one of the "main tasks and strategic priorities". This approach was consistent with China's existing approach of addressing the three rural issues (San Nong Wenti) of agriculture, farmers and the countryside.

On the other hand, urbanization is one of the most critical future trends for the development of China. Urbanization is expected to continue and reach 70% by 2030, from a current level of about 50%. China is now facing the overwhelming task of absorbing the migration of 300 million people from rural to urban areas between 2010 and 2030, and creating at least 200 million off-farm jobs. In other words, 10 million people need to be employed and housed in urban areas each year during the first thirty years of the 21st century. Despite the fact that Chinese cities are significantly undersized and agglomeration economies not fully exploited, it is too much to expect China's existing 661 cities to resettle all of these migrants. It is against this background that town development has already played and will continue playing a key role in facilitating the world's largest-ever urbanization process.

#### Sectoral and Institutional Context
Small town development represents a large economic, social, and political agenda in China, and is integral to the PRC’s strategy of inclusive growth and balanced rural and urban development. The PRC’s 11th FYP (2006-2010) emphasized small city and town development as a means to provide a higher standard of living to rural immigrants without exacerbating infrastructure and other problems afflicting large cities. The new 12th FYP (2011-2015) continues this emphasis. Small towns are expected to provide a necessary bridge for the transition from a rural to urban society, absorbing laborers leaving the countryside as well as supporting rural industries that contribute a major share of China’s economic growth. It has been shown that growth in small towns also helps minimize rural-urban income disparities, compared with growth in larger cities.

Small towns absorb 40% of the country’s rural-urban migrants. Economic growth in the Chinese towns has been even faster than that of the whole country. Furthermore, agricultural production in towns represents a significant share of national output for various commodities. For instance, the aggregate share of towns’ production to national output is 60% for grains; 54% for cotton; 62% for oilseeds; 38% for fruits; 67% for vegetables; 73% for meat; and 70% for aquatic products, respectively. In addition, about half of Township and Village Enterprises (TVEs) are located in towns and employ up to 70% of the labour force in these towns.

Limited backwards and forwards linkages. Small towns are expected play a pivotal role in linking rural and urban markets and in stimulating inclusive and rebalanced growth. In this respect, they are expected to constitute the missing link in the development of value chains for different commodities, and to bring together the different stakeholders in these value chains to ensure that the benefits are widely enjoyed.

Poor Planning Capacity. Local governments in small towns often suffer from weak planning capacity, particularly in the less advanced provinces. Many small towns do not have a master plan that clearly identifies sectoral needs and priority investments, based on thorough technical and fiscal analysis. For those that do have master plans, they are usually outdated and no longer adaptable to the fast changing realities. Furthermore, these plans have often been formulated in a top-down fashion and with little consultation with the intended stakeholders.

The Government of China (GOC), through the National Development and Reform Commission (NDRC) requested World Bank support to #develop model towns in Guangdong, Hunan and Gansu, to demonstrate comprehensive economic development approach and promote effective integration of urban and rural development and boost socially, economically and environmentally sustainable development in the demonstration towns#. The three project provinces, located in east, middle and west of China, represent different levels of economic development and scales of urbanization.

Guangdong is one of the most developed and urbanized provinces in China. It has 1038 statutory towns (jianzhi zhen). Population per town averages 59,100, and is increasing 7.2% annually. Town fiscal revenue is as high as RMB 53.7 million annually per town. Small towns enjoy relatively good infrastructure and a strong economic base. Recently, 277 towns have been categorized by the provincial government as #specialized towns#. Featuring #one town, one product#, these specialized towns play important roles such as manufacturing and home appliance centers, transportation hubs or agro-processing sites, and are a major destination for migrant labor.

Hunan is a typical province representing mid-level economic development in China. Hunan’s urbanization rate was 42.2% of its total population of 68 million, about 6% lower than the national average. Hunan has 1100 statutory towns, with population per town averaging 38,100, increasing 3.3% annually. Town fiscal revenue is around RMB 10 million annually per town. Except for those towns located in county seats, many of these statutory towns are basically rural, with agriculture sector representing more than 50% of their economic base.

Gansu is among China’s poorest provinces. Only 32.7% of Gansu’s 25 million people live in urban areas, 14% lower than national average. Gansu has 431 statutory towns. Population per town averages 26,300, with a 3.7% annual increase. Town fiscal revenue is as low as RMB 3.6 million annually per town. Agriculture sector represents 61% of the towns’ economic base.
Relationship to CAS
The proposed project is consistent with the Country Partnership Strategy (2006-2010). The project will support three out of the five Country Partnership Strategy themes: (i) reducing poverty, inequality, and social exclusion; (ii) managing resource scarcity and environmental challenges; (iii) improving public and market institutions. By focusing infrastructure investments, promoting value chain service and capacity building in selected towns, the project will also support the objectives of China's 12th FYP (2011-15) which aim at facilitating sound urbanization, promoting urban-rural integration, and building a more environment friendly, harmonious and Xiaokang society.

II. Proposed Development Objective(s)

Proposed Development Objective(s)
The proposed development objective for the project is: to promote sustainable economic development in selected towns of Gansu, Hunan and Guangdong provinces, creating conditions for increased employment, income generation and improved quality of life, by supporting public infrastructure development and strengthening the capacity of related institutions.

Key Results
A Results Framework, including the formulation of key results and outcome indicators, together with the design of a suitable M&E methodology, will be developed during project preparation. Tentatively, the following key results are expected from the implementation of the project, and other results will be further explored during project preparation:

# Increase in overall level of satisfaction by towns' residents and enterprises from improved infrastructure, environment and services delivery.
# Increase in levels of investment in the targeted activities at the town level;
# Possible increased revenue for local town bodies if tied to project-supported services (local governments, Coops, WUAs).

III. Preliminary Description

Concept Description
Component A: Infrastructure Development (indicative US$ 240 million). This component seeks to enhance rural towns' infrastructure by financing sustainable and high priority public investments aimed at expanding, rehabilitating, and modernizing infrastructure facilities or increasing their operation efficiency. To be eligible, towns need to have adequate financial capacity to invest, operate and maintain these facilities. Selected activities should be part of the towns' Master Plans and should contribute to the overall development strategy of the respective province. They would also aim at improving the overall investment climate in the towns, and facilitate backward and forward linkages across supply chains to enhance productivity, create employment, and increase stakeholders' incomes.

Possible activities may include, inter-alia: rural roads and associated rain, sewer and water supply pipelines and landscaping, rehabilitation or expansion of water supply systems, waste water treatment systems (domestic and industrial), creek rehabilitation and embankments, irrigation and drainage facilities, marketing infrastructure, logistics and extension service centers, etc.

Component B: Institutional strengthening and capacity enhancement (indicative US$ 6 million). This component seeks to improve the institutional capacity for managing modern and efficient infrastructure, and to support services delivery. This may include supporting: (a) technical, managerial and financial training for stakeholders involved (Government, Cooperatives, Water Users' Associations (WUA), private entrepreneurs, etc.); (b) research and development; (c) human resources development; (d) better town planning addressing environmental and social externalities; (e) marketing studies for value chains development; (f) market information and analysis, particularly for tradable commodities; (g) technology transfer; and (h) breeding, feeding, and extension services, etc.

Activities will also be extended to support studies, analysis, stakeholder forums, study tours, and demonstrative pilots. Examples of potential ideas would include innovative approaches for marginal towns' development, sustainable financing mechanisms including public private partnerships, demonstrative value chains, etc.

Funds would also be allocated for training centers and human resources development activities. Equipment for testing, grading and real time monitoring would also be procured, to be used in parallel with infrastructure development, in order to improve the quality and safety of marketable products, and monitor environmental aspects.

Component C: Project managements and M&E (indicative US$ 8 million). The objective of this component is to support the management and coordination efforts related to the project in each province. In particular it will support the PMOs at the various jurisdiction levels, in managing, monitoring, evaluating and effectively reporting on project implementation. It would include the strengthening of the institutions in charge of project implementation (incremental project staff, training and workshops) as well as the investments and incremental operating costs derived from their operations during implementation. An essential part of this component is the implementation of the M&E system during project implementation at various levels.
IV. Safeguard Policies that might apply

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VII. For more information contact:
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