

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.:

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Program Name	<i>Results-based Northern Mountains Urban Program</i>
Region	<i>East Asia and Pacific</i>
Country	<i>Vietnam</i>
Sector	<i>Urban Development</i>
Lending Instrument	<i>Program-for-Results</i>
Program ID	<i>P143596</i>
Borrower(s)	<i>Socialist Republic of Vietnam</i>
Implementing Agency	<i>Ministry of Construction</i>
Date PID Prepared	<i>07/31/2013</i>
Estimated Date of Appraisal Completion	<i>01/30/2014</i>
Estimated Date of Board Approval	<i>05/30/2014</i>
Concept Review Decision	Following the review of the concept, the decision was taken to proceed with the preparation of the operation.

I. Introduction and Context

A. Country Context

1. Vietnam is entering a crucial period of its urban transition, triggered by the 1986 Doi Moi reforms, as both the population and economy begin to rapidly urbanize. Over 30% of the population currently lives in urban areas, and this is growing by 3.4% annually. Urbanization involves significant changes beyond the national demographic profile and economic structure, including transitions in welfare and basic service delivery needs, the physical form of urban areas and the administrative arrangements for urban management. The Vietnam Urbanization Review (2012) emphasizes the influential and cross-cutting nature of the administrative transition (the overarching policies, institutional and management practices central to urbanization) in ensuring that Vietnam is able to maximize the benefits of the urbanization process. Government has recognized that it has “only one chance to get urbanization right” (Deputy PM Nguyen Sinh Hung, 2009).

2. Globally, this process of urbanization has proved unstoppable and has the potential to generate significant opportunities for growth, poverty alleviation and environmental sustainability. Urban centers provide agglomeration economies that can enable economic dynamism, scale for the financing and development of major facilities, and can provide a growing source of tax receipts. Yet poorly managed urbanization processes can lead to growing inequality, environmental damage and bottlenecks to economic growth as the provision of urban land and infrastructure fails to keep pace with demand. Inadequate or poorly planned land development can create

inefficient urban forms and exclude poor people from effective participation in the benefits of urban growth.

B. Sectoral and Institutional Context

3. The National Urban Development Program (NUDP) of the Government of Vietnam (Decision No. 1659/QĐ-TTg) recognizes the importance of adopting a programmatic approach to managing urbanization to achieve specified outcomes. The NUDP, for the period 2012 to 2020 seeks to promote an efficient, sustainable and equitable process of urban development by improving levels of access to basic urban services (water supply, sewerage and drainage, solid waste management, public lighting, roads and public transport, and environmental services and public space), expanding the provision of serviced land for high-density housing and economic activities, and integrated urban upgrading of low income urban areas. In the latter respect, the NUDP specifically encompasses the National Urban Upgrading Program (established in 2009, in terms of Decision No. 758/QĐ-TTg). The NUDP recognizes the importance of developing effective planning, financing implementation and monitoring systems, particularly at local level to ensure the efficient execution and sustainability of required investments in urban infrastructure. It specifically notes the importance of strengthening urban management authorities through improving mechanisms for investment planning and works management encouraging new mechanisms to finance infrastructure, building capacity of local officials and increasing public awareness of local government roles and responsibilities.

4. The growth of the Northern Mountains cities presents a significant opportunity to support regional growth and poverty reduction. The region is historically important but lagging, and faces significant development challenges, including a rapid growth in the size of urban centers. These urban centers play a key role in local area development, serving as economic and administrative hubs and are increasingly becoming the engines of regional economic growth. However, there is a widening gap between their expanding need for urban infrastructure investments and the financial resources that are currently available. City and provincial administrations tasked with urban development and management functions are currently weak, fragmented and under-resourced. They are unable to respond adequately to changing local needs, are unable to leverage local resources effectively for sustained investment and asset management, and – despite clear evidence of capabilities in some areas - have generally weak capacity and incentives to deliver investments on time and within budget.

5. The strategic challenge facing these cities, as with others in Vietnam, is to establish an effective urban management and implementation model, including a sound framework for predictable financing of their significant infrastructure investment needs. The Government of Vietnam (GoV) identified this challenge as early as 2011, requesting the World Bank to finance a \$250 million “Urban Upgrading Project for Northern Mountain Area” that prioritized the cities of Dien Bien

Bac Kan, Cao Bang and Thai Nguyen. In July 2013, the GoV added three more cities (Hoa Binh, Tuyen Quang and Yen Bai). World Bank support will assist government to develop the implementation framework for its own national program.

6. The NUDP assigns responsibility for program coordination and implementation to the Ministry of Construction (MoC). In working together with the Bank on preparing this operation, it has been agreed that the Ministry of Construction (MoC) will be the lead interlocutor with the Bank both in developing this approach and – together with provinces and cities – overseeing the implementation of the operation. Participating city governments will be the designated “project owners” for the detailed planning and execution of investments that are associated with the program.

C. Relationship to CAS/CPS

7. This operation is consistent with the World Bank Vietnam Country Partnership Strategy (CPS) for 2012 to 2016 on several counts: (i) strengthen ***competitiveness*** through increased investment in urban infrastructure to support urbanization and rural development; (ii) enhance ***sustainability*** through improved planning and management of urban investments for both mitigation and adaptation to climate change; and (iii) broaden access to social and economic ***opportunity*** through improved access to basic urban infrastructure and services. Cross-cutting themes in the CPS include: (i) strengthened ***governance*** through enhanced accountability of local governments; (ii) increased ***resilience*** to economic and climate-related shock through promotion of climate-smart infrastructure services investments; and (iii) priority to ***gender*** issues and the active participation of women in project activities.

D. Rationale for Bank Engagement and Choice of Financing Instrument

8. The Bank’s urban program in Vietnam has been successful but piecemeal. The mostly “retail” approach is no longer sustainable as current engagement spans about 30 cities. It has also been effective at focusing on infrastructure expansion but less so on institutional development and urban management.

9. The government is facing huge demands for urban infrastructure investment, with particularly acute needs from cities in the Northern Mountain region. Government has requested World Bank support to introduce a results-based implementation framework to strengthen arrangements for infrastructure planning, appraisal, implementation and monitoring in selected Northern Mountains cities alongside effective urban management and supervision systems. Key dimensions of this approach are: (i) Rewarding performance through a results-based financing approach that provides an incentive to encourage cities to strengthen their own planning and implementation capabilities; (ii) Clarifying roles and responsibilities for infrastructure delivery; and (iii) Providing a simple and replicable implementation framework.

10. The Program for Results (PforR) instrument has been selected as the instrument to support an operation of these characteristics as it gives the Bank the opportunity to work with government in articulating the implementation modalities of the NUDP, particularly through aligning the provision of finance for strategic urban infrastructure services in targeted cities with incentives for better planning and timely delivery of the infrastructure investments, and at the same time building their technical, managerial and financial capacity. The proposed PforR will add significant value to the government program by:

- Enabling government to implement the first phase of its national program in the Northern Mountains regions as part of a programmatic, national approach.
- Implementing a results-based, performance-oriented approach to urban infrastructure service delivery, based on agreed indicators linked to disbursements, which will create incentives for (i) improved sub-project planning and execution; (ii) institutional strengthening; and (iii) improved sustainability of sub-projects and overall local investment programs;
- Strengthening country systems for appraisal of infrastructure sub-projects, social and environmental systems, fiduciary control, monitoring, evaluation and management that will result in improved value for money in urban infrastructure investments; and
- Addressing key policy and regulatory issues that constrain urban infrastructure investment.

II. Program Development Objective(s)

A. Program Development Objective(s)

11. The proposed program development objective is *to enable participating Northern Mountains cities to effectively plan, deliver and sustain priority infrastructure services through strengthened systems and capacity, with the support of the Ministry of Construction.*

12. The PDO will be achieved by using a results-based approach for financing local infrastructure sub-projects that will incentivize institutional strengthening at the provincial and city level, supported by targeted technical assistance and strategic forms of national and provincial oversight. In addition, the programmatic feature of the PforR, will introduce a national implementation framework to enable the rolling out of the results-based approach on a national scale.

B. Key Program Results and tentative DLIs

13. Progress towards the Program Development Objective will be measured through a set of simple and measurable indicators on the basis of which disbursements will be made:

Table 2: Indicative List of Results and associated DLIs

Result	Disbursement-linked Indicator
<u>1. Infrastructure delivered as per annual city plan</u> Cities develop comprehensive and realistic investment plans and budgets that lead to the effective and timely implementation of desired infrastructure investments	<ul style="list-style-type: none"> • Approved City Investment Plan with list of expenditures • Infrastructure sub-projects completed as per plan
<u>2. Institutional Strengthening at city level</u> Cities have increased capacity and accountability for effective infrastructure investment	<ul style="list-style-type: none"> • Number of qualified technical and managerial staff working full time in key municipal units related to sub-project preparation, planning, budgeting, implementation, supervision and O&M. • Evidence of public disclosure of plans, sub-projects and annual results
<u>3. Investment sustainability</u> Cities have established O&M budgets and overall resources that are implemented and guarantee the good status of the new infrastructure	<ul style="list-style-type: none"> • Infrastructure sub-projects in service 2 years after completion • Increase in own source revenues retained by cities
<u>4. National Policy and Capacity Support</u> Enabling policy environment and technical assistance provided to develop capacity of target cities	<ul style="list-style-type: none"> • Integrated National Urban Development Policy approved • Capacity support to cities provided
<u>5. Strengthened verification systems</u> Oversight of city performance strengthened	<ul style="list-style-type: none"> • Annual external financial and technical audit (verification of results) conducted by SAV

III. Program Description

14. The proposed government program will target seven cities (tbc) in the Northern Mountains Region (Dien Bien, Bac Kan, Cao Bang, Thai Nguyen, Hoa Binh, Tuyen Quang and Yen Bai). The total cost of the program is expected to be in the order of US\$300 million. The government is expected to make a counterpart fund contribution in the order of \$50 million. The Bank will also provide a credit of USD 7 million for program preparation and institutional development through the Project Preparation Technical Assistance Facility (PPTAF) the Bank has established with the Ministry of Planning and Investment (MPI). The implementation period is anticipated to be six years from 2015 to 2020.

15. The program will have four elements that are closely inter-related:

Element 1 – Delivery of infrastructure services in participating cities (\$220 million):

Government will provide results-based financing for infrastructure services to participating cities on an annual basis. Allocations to participating cities will be population-weighted and average about \$6.3 million per city per year, or \$54 per capita. They will form part of a five-

year envelope to support multi-year investment planning. Eligibility to receive disbursements of these allocations will be scaled relative to the achievement of targets, linked to Disbursement-linked Indicators (DLIs). Indicators will relate to: (i) the planning and delivery of targeted infrastructure; (ii) overall institutional capability and performance; and (iii) evidence of sustainability in sub-projects. Disbursements will be subject to minimum requirements, such as acceptable program audit outcomes in each city, but partial disbursement will be possible. Independent verification of performance will be conducted as part of an annual financial audit and technical assessment by the State Audit of Vietnam (to be confirmed)). During program preparation cities and MoC will define the sub-projects to be funded from these transfers, subject to a “negative list” of ineligible expenditures agreed with the Bank. Typical infrastructure sub-projects identified by the four cities include general urban upgrading in low income areas, link roads and small bridges, drainage systems and piped water supply. Larger infrastructure sub-projects will also be eligible subject to appropriate program appraisal.

Element 2 – National Policy Development and Implementation (\$10m). This will support government to develop an Integrated National Urban Development Policy and strategy for rolling out the results-based approach nationally. National and provincial governments will also be supported to strengthen systems of fund management, regulation and monitoring, and support program implementation, monitoring and evaluation.

Element 3 - Technical assistance to cities (\$15 million): This will support national ministries and provinces to provide orientation, capacity support and ‘hands-on’ technical assistance to participating cities. This support will focus on ensuring effective implementation management and the achievement of performance requirements in the program, with the efficacy of this support measured in terms of progress on these indicators (i.e. qualified staff and performance at the city level). Capacity building activities will focus on: (i) infrastructure finance; (ii) planning and delivery management (capital investment planning, project design (including environmental and social management, gender informed design), procurement, financial management and contract/project management); (iii) revenue management, and; (iv) asset management.

Element 4 – Results Verification and Program Oversight (\$5 million): This will strengthen the capacity of the State Audit of Vietnam (SAV) to undertake annual verification of results and program financial audits of participating cities in accordance with international audit practice, through contracts with qualified firms.

IV. Initial Environmental and Social Screening

16. The initial review of the Vietnamese legal and regulatory framework and procedures applicable to the environmental aspects of the proposed operation found them to be consistent with the core principles and key attributes established by the Bank related to sound environmental management. Issues associated with the environmental policy framework and practice in Vietnam can be addressed by: (i) improving the screening criteria for the sub-

projects under the program; (ii) designing specifications including environmental management considerations; and (iii) improving public consultation for EIA, and especially for EPCs using best practices. Significant capacity building is proposed to ensure that the relevant agencies and stakeholders can participate effectively.

17. In relation to social systems performance, the key issues relate to inappropriate compensation for land which is a particular challenge in Vietnam and the need for appropriate strategies to engage with ethnic minority groups. These could be addressed through:

- The use of an independent evaluator to identify the land price at market level. Cities could then use this information as a foundation to develop detailed compensation plans; and
- MoC to develop a brief guideline on appropriate approaches when program interventions affect ethnic minority communities and PPCs to ensure that staff are assigned and available (notably at local level) to oversee adequately implementation of activities related to involuntary land resettlement and ethnic minorities.

V. Tentative financing

Source:		(\$m.)
Borrower/Recipient		50.00
IBRD		250.00
IDA		
Others (specify)		
	Total	300.00

VI. Contact point

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