

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB6636

Project Name	Medium and Small Cities Development
Region	East Asia and the Pacific
Country	Socialist Republic of Vietnam
Sector	General water, sanitation and flood protection sector (40%); General transportation sector (40%); Sub-national government administration (20%)
Lending Instrument	Specific Investment Loan
Project ID	P116398
<i>{If Add. Fin.}</i> Parent Project ID	
Borrower(s)	Government of Vietnam
Implementing Agency	Phu Ly City: Project Preparation Unit (PPU); Vinh City: Project Preparation Unit (PPU); Lao Cai City: Project Preparation Unit (PPU)
Environmental Screening Category	{ X }A { }B { }C { }FI
Date PID Prepared	October 13, 2011
Estimated Date of Appraisal Completion	October 14, 2011
Estimated Date of Board Approval	December 15, 2011
Decision	Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments.
Other Decision <i>{Optional}</i>	<i>Teams can add more if they wish or delete this row if no other decisions are added</i>

I. Country Context

1. *Vietnam's population and economy are rapidly urbanizing.* Vietnam is one of the fastest urbanizing countries in the East Asia and Pacific region with the urban share of the population expected to grow to 50% by 2025 from the current 30%. The urban growth rate during the 1999-2009 inter-census period was 3.4 % p.a. compared with 0.4% for rural areas. Rapid urban growth is largely fueled by significant rural urban migration and urbanization is in turn fuelling economic growth. While the highest rates of in-migration are found in the larger cities (for example, Ho Chi Minh City, 116%; Da Nang, 77.9%; and Ha Noi, 50%), medium cities will also play an essential role in Vietnam's urbanization process, not least in addressing the Government of Vietnam's (GoV's) desire to reduce the rate at which the bigger cities are growing, and to develop a strong network of well-resourced and capably managed urban centers throughout the country. This is line with experience elsewhere: global statistics show that about 50% of urban population increase is taking place in medium and small cities. These cities can play a critical role in supporting regional economic growth networks and, if the cities are well structured and

provide employment opportunities, they can contribute to poverty reduction programs. For Vietnam, the Government projects that the number of medium cities (i.e., cities with 100,000 to 500,000 population) will increase from 55 today to about 100 by 2025. Given the country's relatively low population growth rate, about 1.7% per annum, most of this urbanization process will result from increasing rural to urban migration.

2. *Vietnam is taking a strategic stance on urbanization.* The Government's policy framework for urbanization is the "Framework Master Plan for Urban Development in Vietnam to 2020", recently updated through the "Adjustment of the Master Plan for Urban Development in Vietnam to 2025 and Vision to 2050." This plan sets out a strong emphasis on Vietnam's urban transition, with a well-structured understanding of the role Vietnam's cities are playing in integrating the country's economy into the international economic system, while also propelling growth at a more focused regional scale within the country. The objective of the plan is to achieve balanced and strategic growth, through a national urban system consisting of urban centers of various scales and types distributed throughout the country. Specifically, the plan envisages the development of medium and small urban areas as development hubs within larger urban areas and provinces. The plan notes the speed at which urbanization is taking place, and how the local capacity for urban planning and management is unable to meet increased needs. Reflecting this critical lack of capacity, the plan recognizes the need for comprehensive development of urban planning and management capacity at all levels of the state.

3. *Vietnam is emphasizing the importance of medium-sized cities.* Reflecting the important role that medium sized cities can play in Vietnam's development and urbanization process, the GoV has requested support from the World Bank for infrastructure development and, of equal importance, capacity building, in three medium sized cities: Lao Cai, Phu Ly and Vinh. This is a change from what has been the situation to date, where Bank-supported urban program in Vietnam primarily focused on the largest urban centers such as Hanoi, Ho Chi Minh City and Da Nang. The decision to focus on medium sized cities reflects the importance that both the GoV and the Bank place on ensuring balanced and equitable development throughout the country.¹

4. *The project cities are broadly typical of Vietnam's medium-sized cities.* Lao Cai, Phu Ly and Vinh have populations between 100,000 and 300,000, and are the principal urban centers in their respective provinces. Each has a master plan that emphasizes expansion of existing urban residential areas into surrounding land that is presently rural. All have similar existing road and water supply networks, and at least basic wastewater collection and drainage networks. In locality and function, however, the cities are considerably different. Lao Cai is a border city, providing access to and from China for the rapidly developing trade and transit traffic along the Greater Mekong Sub-region's (GMS's) north east corridor. This links Haiphong and Hanoi in Vietnam with Kunming in China's Yunnan Province. The city is also a tourist center, for the adjacent hill country areas around Sapa. Phu Ly, on the other hand, is only 50km from Hanoi,

¹ Hanoi and HCMC are the two largest cities (special cities) in Vietnam, accounting for 11.3 % of total population and 32 % of total GDP in 2007. In addition to these two growth poles, there are 4 National cities (Class I and with a population between 500,000 - 1.5 million), 55 medium-sized cities (Class II and III with populations between 100,000 and 50,000, and 38 district towns (class IV cities with population between 50,000 - 100,000). By 2025, it is projected that there will be an additional 45 medium size cities.

and will develop over time as an outer urban area of the capital. There are indications already that this is happening, as the expressway link south of Hanoi is extended further. Finally, Vinh is far enough from Hanoi to develop as a regional city, serving a wide hinterland, and is also linked to Laos and northern Thailand through another of the GMS transport corridors. Considered together, the project cities present similar characteristics to most other medium-size cities in Vietnam, so giving the project a sound basis as a pilot for other similar operations throughout the country.

II. Sectoral and Institutional Context

5. *Vietnam's cities are growing but a lack of infrastructure and inadequate planning are having major impacts, particularly on medium and smaller cities with low capacity and little financial resources.* Lack of infrastructure of all types continues to be a major issue for the government. Municipal infrastructure, in particular, has not been developed adequately to meet the demands of a fast developing economy that is rapidly urbanizing. The national budget is focused on national trunk infrastructure needs, leaving cities and provinces to rely largely on and their own budgets for infrastructure investments, complemented by some earmarked funds, including from ODA financed projects. In medium and small cities, with very limited own budget revenue sources, allocations for the construction and maintenance of essential basic infrastructure are therefore extremely limited.

6. *All cities have master plans, but these typically do not reflect modern planning principles, they focus on large scale vehicle-oriented infrastructure, and they do not adequately address important issues such as waste management, road safety, and cost effectiveness.* Despite the lack of resources, every city has a master plan which, at least in principle, sets out how the city is to develop over a medium to long term perspective. These plans tend to focus on large scale infrastructure, are heavily capital intensive, and typically do not reflect the more people- and environment-oriented approach that characterizes modern urban planning. Within the overall master plan framework, sector plans are prepared without adequate cross-sector coordination, and do not address important social issues such as, for example, road safety. Much less attention is paid to operations and maintenance, and to putting in place effective institutional and financial arrangements that would allow the cities to effectively manage their rapidly increasing infrastructure endowments. Financing is seldom available to implement the plans in full, resulting in often partly completed yet over-scaled facilities that are underutilized and that will be challenging to effectively maintain. This situation prevails particularly in the urban road sector, but is reflected in other sectors as well.

7. *Overall, the Government has a clear policy on urban development.* As mentioned in paragraph 2, and notwithstanding the limitations on planning capacity referred to above, the government is clear in its policy for urban development. This is particularly so for the water, wastewater, and drainage aspects of urban development, for which the government has clearly announced its policies, specifically Decision No. 1929 (water) and 1930 (wastewater and drainage). For **water** the Government intends to: (i) increase coverage to 90% by 2020 for cities of classes I to IV and to 70% for class V towns; (ii) increase cost recovery through user charges; (iii) create an environment for the utilities to operate on commercial principles; (iv) modernize the technology used in the sector; and (v) protect water sources and improve the environment.

For **waste water and drainage**, the Government intends to: (i) expand drainage coverage to 80% by 2020; (ii) increase coverage of wastewater collection and treatment to 60% for class I to III cities, and 40% for class IV and V cities; (iii) over time replace subsidies with user charges; and (iv) increase the coverage of wastewater treatment to cities and towns that presently do not have wastewater collection and treatment facilities.

8. For **water and wastewater**, the institutional arrangements are well defined. Delivery of water, wastewater has been decentralized to the provinces, which are responsible for project preparation and implementation. However, while the sector policies and institutional arrangements are clear, both sectors face challenges. For **water**, supply in many cities and towns is inadequate in coverage, is intermittent, and water pressure is often low. Tariffs are low, although usually sufficient for basic operations and maintenance, but not for investments in strengthening and expanding the water supply systems. Water losses are also high, often up to 40%. For **wastewater and drainage**, only about 30-40% of households in urban areas are connected to combined sewer systems, and less than 10% of the wastewater collected is treated properly. Most of the remainder is treated in on-site septic tanks, or discharged directly into waterways. Operations and maintenance costs for wastewater are not fully recovered and are financed through subsidies from the province. Two decrees, 67 for environmental taxes and 88 for wastewater fees are in place, but are not uniformly applied. To be effective, they require clarification, possibly more specific circulars and guidelines, and much greater attention to monitoring and enforcement than has been the case to date.

9. For **urban roads**, which typically account for the bulk of cities' public infrastructure investment, there is no equivalent policy framework. The roads are designed and constructed, in terms of lane widths, pavement structures, drainage provisions, etc, generally in accordance with the standards prescribed by the Ministry of Transport for all roads throughout the country. The designs for urban areas, for which cities and towns have more latitude based on their approved master plans, typically include wide medians and footpaths, but little explicit provision for pedestrian movement, particularly road crossings. They give little or no attention to road safety considerations.

10. In this context, in order to balance the fast speed of urbanization and unbalanced economic and physical development between big cities and medium/small sized cities, the Government requested the World Bank to support a project that focused on three representative medium-sized cities. The proposed project will benefit from the both the Bank's global experience in urban development operations, and from its considerable ongoing portfolio of similar operations in the country, although these have traditionally focused on the larger urban centers. The project draws on on-going and planned AAA work including a comprehensive urban transportation study for 13 medium sized cities, which was completed in early 2010, and the Urbanization Review of Vietnam's cities.

III. Project Development Objectives

11. The project development objective is to increase access to improved urban infrastructure services in Lao Cai City, Phu Ly City, and Vinh City in a sustainable and efficient manner.

IV. Project Description

12. The project consists of three subprojects, one for each city. Each of these subprojects is divided into four components, outlined below and described in detail in Annex 2.

- *Component 1: Urban Basic Infrastructure Upgrading and Service Improvements.* This part will focus on improving the infrastructure and service conditions in existing or newly developed urban neighborhoods, including for Lao Cai and Vinh resettlement areas necessitated by the project's infrastructure investments, primarily through providing basic infrastructure (water supply and sanitation, drainage, lighting, road paving and widening, etc). For Lao Cai and Vinh, this component will also include improvements in sanitation facilities in existing schools.
- *Component 2: Urban Water Supply and Environmental Sanitation.* This component will focus on constructing new, and rehabilitating existing, infrastructure for water supply, drainage, wastewater collection and treatment, and flood mitigation. It will also rehabilitate existing road networks, typically in conjunction with drainage improvements, mainly in the older areas of the cities.
- *Component 3: Urban Roads and Bridges.* This component will construct new urban roads, typically to provide access to the cities' expanding urban areas.
- *Component 4: Project Management Support and Technical Assistance.* This component will typically include for each city: (i) project management support to the PMU and construction supervision; (ii) independent social, environment, and financial account monitoring; (iii) technical assistance for urban planning, asset management, and internal audit capacity building; (iv) provision of essential equipment and facilities; (v) training and study tours for relevant city agencies; and (vi) the PMU's operational costs for the duration of the project.

V. Financing

	(\$m.)
Source:	
Borrower/Recipient	48.9
IBRD	-
IDA	210
Others (specify)	
Total	258.9

VI. Implementation

13. The project's structure and institutional arrangements reflect the provisions of the Government's Decree 131, which defines the decentralized responsibilities of each level of government for donor-supported development projects. For a project of this nature, the provinces are responsible for implementing the investment, meaning that the project consists of three essentially separate parts, one for each city. Specifically, Lao Cai province will be responsible for the Lao Cai City part, Ha Nam province will be responsible for the Phu Ly City part, and Nghe An province will be responsible for the Vinh City part. The City People's Committees (CPCs) of the three cities, under the provincial people's committees (PPCs), will be the owners of their respective parts of the project. Each province has established a PSC chaired by the Chairman or Vice Chairman of the PPC. The PSCs, which include representatives of relevant provincial agencies, such as the Departments of Planning and Investment, Natural Resources and Environment, Finance, Construction, and Transport, will be responsible for overall policy guidance and oversight of the respective parts of the project. The project's feasibility studies, financed by the project cities, have identified all project investments, and have included safeguards-related analyses for each of them. The cities are also providing financing for the detailed design and bidding documents for about 30% of the value of their parts' scope of work, referred to as Phase 1², with this work to be completed prior to credit negotiations. This to ensure that project implementation can proceed immediately Bank financing has been approved and the credit has become effective.

14. For the detailed design and bidding documentation for the remaining 70% of the scope of their parts, referred to as Phase 2, the cities have applied for financing from the Bank-supported Project Preparation Technical Assistance Facility.³ These activities will proceed in parallel with implementation of the Phase 1 works, so that the Phase 2 works can commence as the Phase 1 works near completion.

Each city has established a PMU to manage its part of the project on a day to day basis. The PMU, staffed from and retaining close contact with provincial and city agencies such as the Departments of Planning and Investment, Construction, and Environment and Natural Resources, will be the contracting agency for all project-financed contracts in its city. The PMU Director will be a member of the PSC. The PMU, working with consultants, will be responsible for the detailed design of the works for which designs were not completed prior to credit negotiations, preparation of bidding documents, inviting and evaluating bids, supervising construction, and ensuring compliance with the Bank's safeguards policies. The PMU will also be responsible for the financial management aspects of the project, and for the technical assistance that is included in the project scope. As the PMU completes each project work, it will hand it over to the relevant city agency for subsequent operation and maintenance. For example, the water supply and drainage works will be handed over to the city's water supply company and URENCO, respectively.

² See Annex 3 for a summary of Phase 1 and Phase 2 works.

³ Credit xxxx-VN, approved on June 24, 2010.

VII. Safeguard Policies (including public consultation)

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

VIII. Contact point at World Bank and Borrower

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Borrower/Client/Recipient

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

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IX. For more information contact:

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