1. Country and Sector Background

1. Vietnam is a rapidly developing country. Political and economic reforms launched in 1986 have transformed Vietnam from one of the poorest countries in the world, with per capita income below US$100, to a lower middle-income country within a quarter of a century. Per capita income at the end of 2010 was US$1,130. The poverty headcount ratio has fallen by 80 percent reaching 14.5 percent in 2008, and most indicators of welfare have improved. Vietnam has already attained five of its ten original MDG targets. These socio-economic developments have encompassed fundamental changes in the quality of people’s lives.

2. Transition from a rural to urban society. Vietnam has a low level of urbanization (30% of the population in 2008) compared to most countries in the region. Yet since the 1986 Doi Moi reforms, Vietnam’s urban population growth rate has averaged 3.4% annually. The fastest growth has been in the larger cities, particularly in Hanoi and Ho Chi Minh City (HCMC). With 50 percent of Vietnam’s population estimated to be urban by 2025 – keeping up with the demands of this demographic change is a key government priority and challenge.

3. Cities are the drivers of growth generating more than half of GDP. Overall economic growth is largely from manufacturing and construction sectors. Vietnam’s trend in high growth and industrial concentration in large cities is similar to the urbanization experience in China and India. While economic development is uneven and concentrated in the regions of Ho Chi Minh
City and Hanoi, welfare improvements have been more widespread by the government’s focus on inclusive social development and spillover from the strong growth of core metropolitan cities. Regional income disparities have narrowed over the last ten years. However, there are still large areas of poverty throughout Vietnam, and increasing pockets associated with urban-rural migrants in cities.

4. Vietnam is taking a strategic approach 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.

5. The National Urban Upgrading Strategy and the Overall Investment Plan for Urban Upgrading up to 2020 was financed by the Bank’s Vietnam Urban Upgrading Project (VUUP) and approved by the Prime Minister’s Decision 758/QD-TT in 2009. Besides the physical upgrading of basic infrastructure and housing in Low Income Areas (LIAs) in urban centers, the program aims to institutionalize comprehensive pro-poor planning measures with community participation in the upgrading process. A specific component of the Mekong Delta Region Urban Upgrading Project (MDR-UPP, or Project) will support the Ministry of Construction (MoC) to make a National Urban Upgrading Program (NUUP) operational.

6. The Mekong Delta is a strategic economic region. The Mekong Delta Region (MDR) covers about 12 percent of the country’s land while producing 40 percent of agricultural gross domestic product (GDP) and over half of the country’s agro-food exports. Roughly three-quarters of the population derive their primary income from agriculture. Growing industrial investment, tourism, increases in agricultural productivity, and improved connectivity have led to significant reduction in the incidence of poverty. The poverty rate in the MDR is 12.3 percent (2008), compared to the national average of 14.5 percent – though the absolute number of poor people is higher than any other region. Recent road improvements have cut down the travel time from Can Tho to HCMC from 4 to 2.5 hours; improving economic integration, access to global markets, and regional competitiveness.

7. The Mekong Delta is a rural area starting to urbanize. Roughly 80 percent of the population lives in rural areas, though the area is rapidly urbanizing. The population increase around Can Tho (which grew at twice the national rate from 1999 to 2009) suggests its increased competitiveness and importance as a regional economic hub. The MDR is one of the most densely populated regions in Vietnam – and considering its urbanization trends - there is a high demand for infrastructure improvements and urban upgrading.

8. The project cities have typical characteristics of small and medium-sized cities in Vietnam. Can Tho is the largest city in the MDR, and the regional center for education, trade, and industry. The other five cities are the provincial capitals and also economic hubs for trade, services, and industry. All of the cities have substantial numbers of Low Income Areas (LIAs) with high residential densities, and generally poor water supply and drainage. The cities have had average annual economic growth rates between 13-20 percent (2006-2010). Meanwhile,
between 14 to 30 percent of the population in the Project cities consists of low-income households. Apart from individual septic tanks, there are virtually no wastewater management systems. The poor environmental conditions, coupled with low-quality housing and a lack of social infrastructure, contribute to the generally low living standards and quality of life in the Low Income Areas of the Project cities.

**Table 1. City Profiles**

<table>
<thead>
<tr>
<th></th>
<th>Can Tho</th>
<th>Ca Mau</th>
<th>My Tho</th>
<th>Cao Lanh</th>
<th>Tra Vinh</th>
<th>Rach Gia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (2010)</td>
<td>1,190,000</td>
<td>220,000</td>
<td>214,000</td>
<td>162,000</td>
<td>104,000</td>
<td>223,000</td>
</tr>
<tr>
<td>Area (square kilometers)</td>
<td>1,401</td>
<td>250</td>
<td>82</td>
<td>107</td>
<td>68</td>
<td>104</td>
</tr>
<tr>
<td>Overall Population Density (persons/square km)</td>
<td>849</td>
<td>880</td>
<td>2,610</td>
<td>1,514</td>
<td>1,529</td>
<td>2,144</td>
</tr>
<tr>
<td>Average Annual Economic Growth Rate 2006-2010</td>
<td>20%</td>
<td>14%</td>
<td>13%</td>
<td>20%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Average Monthly Household Income (million VND)</td>
<td>4.9</td>
<td>4.2</td>
<td>3.9</td>
<td>5.3</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Low-Income Households (&lt;0.5 mill.VND / month)</td>
<td>24%</td>
<td>17%</td>
<td>15%</td>
<td>14%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Percentage of Ethnic Minorities</td>
<td>4%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>26%</td>
<td>12%</td>
</tr>
<tr>
<td>Percentage of 'Make-shift'/temporary houses</td>
<td>9%</td>
<td>43%</td>
<td>9%</td>
<td>21%</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Households with access to piped water</td>
<td>83%</td>
<td>85%</td>
<td>95%</td>
<td>88%</td>
<td>69%</td>
<td>61%</td>
</tr>
<tr>
<td>Direct Project beneficiaries, estimated (persons)</td>
<td>45,700</td>
<td>37,700</td>
<td>49,700</td>
<td>102,000</td>
<td>18,800</td>
<td>22,000</td>
</tr>
<tr>
<td>Indirect Project beneficiaries, estimated (persons)</td>
<td>959,000</td>
<td>176,000</td>
<td>167,000</td>
<td>58,000</td>
<td>82,000</td>
<td>134,000</td>
</tr>
</tbody>
</table>


9. **The magnitude and concentration of slums and squatter communities in Vietnam and in the MDR is small relative to other developing countries.** Reasons for this include the government’s permissive and pro-active regulatory approach towards customary and affordable housing development (allowance of low lot sizes and increased floor to area ratio), coupled with an innovative and entrepreneurial informal housing sector. All cities in Vietnam do however have concentrations of Low Income Areas with slum characteristics. In the context of the MDR, these communities are often located along river or canal embankments, and in low-lying areas vulnerable to flooding and at risk to sea level rise.

10. **The Project area is among the most at-risk globally to climate change impacts.** The MDR’s average elevation is less than three meters above sea level, while various model project sea level increases between 30-70 cm by 2050. The Project will utilize the urban resilience work in the region (particularly in Can Tho,) carried out by the Bank and other donors.

11. **Vietnam has experience with urban upgrading and plans to further expand the approach nationally.** This project builds on the success of its precursor, VUUP, which has benefited over 700,000 people in Ho Chi Minh City, Hai Phong, Can Tho, and Nam Dinh. Key aspects of VUUP integrated into this project include: (i.) a focus on community participation throughout the project cycle, (ii.) targeting Low Income Areas, and (iii.) limiting resettlement impacts by adopting flexible technical standards.

2. **Objectives**

12. The Project Development Objective is to improve the infrastructure services in Low Income Areas in the Project Cities in the Mekong Delta Region.
13. **Beneficiaries:** There are an estimated 275,900 direct beneficiaries from the six cities covered by the Project. This comprises the persons living in the targeted Low Income Areas and those located near the project-financed primary and secondary infrastructure. The Project upgrades infrastructure (roads, drainage, water supply and sanitation, public facilities, and power supply) based on the communities’ expressed priorities. People who need to be resettled as a result of the project will be provided with an improved living environment and are also considered direct beneficiaries because in the resettlement sites they will enjoy a better living environment than they had before.

14. Roughly 1,576,000 persons are considered indirect beneficiaries of the Project. These include the residents outside of the Low Income Areas who will benefit from the citywide infrastructure improvements and the new social and economic facilities.

### 3. Rationale for Bank Involvement

15. *The project contributes to Vietnam’s higher-level objectives in the urban sector and for poverty alleviation.* The Government of Vietnam (GoV) has emphasized the need to reduce urban poverty as part of its national economic development and poverty reduction strategies over the past decade, including the *Comprehensive Poverty Reduction and Growth Strategy* of 2003. This strategy included the objectives of “Provision of Basic Infrastructure to Urban Poor People” and “Environmental Sustainability Protection”. The latter included the still unattained target to “Ensure that there are no slums and temporary houses in all towns and cities by 2010”. The *Socio Economic Development Plan 2011-2016* (SEDP) states the government will continue its policies toward a socialist oriented market economy and toward sustained economic growth, linked with continued efforts to alleviate poverty. The target is to reduce poverty to 2-3% by 2015. The goal is for Vietnam to be an industrialized country by 2020.

16. *The project’s objectives and engagements are aligned with the Country Partnership Strategy 2012-16 (CPS) and SEDP.* The CPS supports initiatives and policies aimed at (i.) strengthening Vietnam’s competitiveness in the regional and global economy, (ii.) increasing the sustainability of its development, and (iii.) broadening access to economic and social opportunity. In addition, the CPS addresses three cross-cutting themes; strengthening governance; improving resilience to external economic shocks, natural hazards, and climate change impacts; and addressing gender issues more effectively and improving data collection of gender disaggregated indicators. The Project is also in-line with the pillars of core and transformational engagements outlined in the *World Bank Group Infrastructure Strategy Update, FY12-15*.

### 4. Description

17. The Project has seven parts consisting of six cities (Can Tho, My Tho, Cao Lanh, Ca Mau, Rach Gia, and Tra Vinh) and the Ministry of Construction (MoC). Each city has four components (below), the MoC has one.

**Component 1 – Tertiary Infrastructure Upgrading in Low Income Areas**
18. Component 1 includes provision of support to upgrade tertiary infrastructure in Low Income Areas including: (a) construction, rehabilitation, and upgrading of roads and lanes; (b) construction and rehabilitation of drains; (c) improvements to environmental sanitation by rehabilitating or constructing public sewers, fostering the construction of septic tanks, providing access to septic management services, and house connections to public sewers; (d) improvement of water supply including the installation of metered house connections; (e) provision of metered house connections for electricity and public lighting in residential lanes and streets; and (f) construction and rehabilitation of social infrastructure facilities such as schools, markets, community halls, and green spaces.

Component 2 – Supporting Primary and Secondary Infrastructure
19. Component 2 includes Provision of support to improve primary and secondary infrastructure serving and benefiting LIAs including: (a) roads; (b) water supply lines; (c) drains and sewers; (d) electrical power lines; (e) river and canal embankments; and (f) social infrastructure facilities such as schools, markets, community halls, and green spaces.

Component 3 - Resettlement Sites
20. Component 3 comprises provision of support to prepare resettlement areas for Affected Persons, including construction of tertiary, primary, and secondary infrastructure.

Component 4 – Implementation Support and Project Management
21. Component 4 activities will focus on Provision of support for Project implementation, management, supervision, and monitoring and evaluation, including audits.

Component 5 – Technical Assistance to the Ministry of Construction to Implement NUUP
22. Component 5 includes provision of support to MOC for: (a) development of a national urban upgrading program; (b) designing an operational national urban database on key urban indicators; (c) formulation of climate change adaptation strategies for coastal cities particularly in the Mekong Delta Region; and (d) other support for Project coordination and implementation.

5. Financing

23. The total estimated project cost is US$398 million, which includes investments, land acquisition and resettlement, equipment, and technical assistance (detailed engineering designs, supervision, audits, program management, and capacity building). US$292 million will be financed from IDA; the total counterpart-funding requirement is estimated at US$106 million. The GoV will finance all land and compensation for resettlement. More details are given in the Project Financing Table below.
Table 2. Project Financing

<table>
<thead>
<tr>
<th></th>
<th>IDA</th>
<th>Share</th>
<th>GoV</th>
<th>Share</th>
<th>Total</th>
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<tbody>
<tr>
<td>C1: Tertiary Infra Upgrading in LIAs</td>
<td>80.0</td>
<td>70%</td>
<td>33.8</td>
<td>30%</td>
<td>113.8</td>
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<td>C2: Primary and Secondary Infra</td>
<td>71.1</td>
<td>75%</td>
<td>23.4</td>
<td>25%</td>
<td>94.5</td>
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<tr>
<td>C3: Resettlement Sites</td>
<td>28.9</td>
<td>56%</td>
<td>22.7</td>
<td>44%</td>
<td>51.6</td>
</tr>
<tr>
<td>C4: Implementation and Project Mngt</td>
<td>37.7</td>
<td>65%</td>
<td>20.0</td>
<td>35%</td>
<td>57.8</td>
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<tr>
<td>C5: TA to MoC to Implement NUUP</td>
<td>4.1</td>
<td>86%</td>
<td>0.7</td>
<td>14%</td>
<td>4.8</td>
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<td>Base Cost</td>
<td>221.8</td>
<td>69%</td>
<td>100.7</td>
<td>31%</td>
<td>322.5</td>
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<tr>
<td>Contingency</td>
<td>43.7</td>
<td>91%</td>
<td>4.5</td>
<td>9%</td>
<td>48.2</td>
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<tr>
<td>Physical Contingency</td>
<td>21.5</td>
<td>91%</td>
<td>2.2</td>
<td>9%</td>
<td>23.7</td>
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<tr>
<td>Price Contingency</td>
<td>22.2</td>
<td>91%</td>
<td>2.3</td>
<td>9%</td>
<td>24.5</td>
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<tr>
<td>Taxes</td>
<td>26.6</td>
<td>97%</td>
<td>0.7</td>
<td>3%</td>
<td>27.3</td>
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<tr>
<td>TOTAL</td>
<td>292.1</td>
<td>73%</td>
<td>105.9</td>
<td>27%</td>
<td>398.0</td>
</tr>
</tbody>
</table>

6. Implementation

24. Decentralized implementation. The Project will be implemented in a decentralized manner, with city administrations being the main actors under the supervision of provincial level administrations, with strategic guidance and oversight from the MoC. Cities are the Project Owners.

25. Project Management Units. In each participating city, the respective People’s Committee has formed a Project Management Unit (PMU) whose staff is recruited from the city administration. Their tasks will be to manage the implementation of Components 1, 2, 3, and 4.

26. Project Steering Committees. For each participating city, Provincial People’s Committees have formed a Project Steering Committee (PSC) comprised of the multi-sector departments to guide, support, and supervise the respective PMU.

27. Central Project Management Unit. The MoC Management Division of Urban Development Projects (MDUDP) will have the role of a central project management unit (CPMU) with (i.) coordination, quality assurance, monitoring, and training functions of the Project, and (ii.) to make operational the National Urban Upgrading Program (NUUP).

28. Communities. Based on the experiences of VUUP, the concerned communities are involved in all phases of the project. Intensive community consultations were a cornerstone of project preparation, and the communities will also be involved during the subsequent implementation and monitoring and evaluation stages.

7. Sustainability
29. The project design addresses the issue of sustainability in several ways: (1) intensive consultations with beneficiary communities will ensure that technical designs, especially in Components 1 and 3, present optimum solutions for real needs (2) the project design interlinks Components 1, 2 and 3 closely with one another, ensuring maximum technical complementarities and benefit, and hence sustainability; (3) intensive capacity building efforts at the local level will facilitate the continuation of urban upgrading efforts in each participating city; and (4) capacity building efforts and policy formulation support at national level will facilitate the replication of the project’s approach in other cities in Vietnam. The recurrent costs of the services being provided will be financed so services can be sustained through user fees of government revenue or transfers.

8. Lessons Learned from Past Operations in the Country/Sector

30. The project design (for a multi-sector multi-city project) should find opportunities to reduce the complexity, lessen transactions, and improve efficiency of Bank supervision. Though MDR-UUP has two more cities than its predecessor VUUP, the cities are geographically clustered and the project has two fewer components. Cities will also bundle TA packages to reduce the number of transactions and the complexity of contract management. Further, the introduction of the MoC Central Project Management Unit (with its mandate for top-level coordination, monitoring, quality assurance, and training) will improve the overall efficiency and quality of implementation and supervision.

31. There are strategic benefits to conduct an operation with a regional focus. Focusing the upgrading approach in one region is expected to strengthen the community of practice between cities, and enhance the demonstration effects to neighboring areas. Five of the six cities (all but My Tho) were already involved in such a community of practice under the EU funded Urban Environmental Planning Programme (2004-2009). The cluster approach is also more efficient for operations and supervision.

32. Seek to minimize resettlement through in-situ upgrading (instead of clearance and redevelopment) and by adopting flexible technical standards. The cities’ often rigid application of technical standards and propensity to design strictly per the master plan (irrespective of feasibility and demand) are often counter to the upgrading approach. This Project adapts flexible standards to optimize coverage, reduce resettlement needs and project costs, and better reflect community preferences. This approach is more cost effective, has fewer negative environmental and social impacts, and is a more economic means to service the urban poor. By adopting this approach, the cities reduced estimated concept stage resettlement needs by 75 percent. The project also includes technical support to the MoC to scale-up the upgrading approach nationally.

33. Experience from VUUP showed that quality-resettlement areas are critical to gain the community’s support for the project and avoid delays. Like VUUP resettlement areas, the goal is for residents to live near their original community, with schools, markets, and green space. To ensure resettled households understand their entitlements under the project and grievance mechanisms, the PMUs will conduct an information campaign and distribute a summary of the RPF to all project areas.
34. **Urban infrastructure projects are complex and require strong project management, technical teams, and significant consultant resources.** Urban upgrading requires good coordination among government departments, effective communication strategies, tailored solutions for each investment, and strong interaction with communities. This will be a new way of working for many cities, so sufficient consultant resources are included (FM, procurement, technical, safeguards, etc) to support each PMU, and for programmatic quality assurance and trainings conducted through the MoC.

35. **Quality consultant services are needed given the volume and complexity of transactions, and capacity constraints of local government.** The Project includes plans and allocates sufficient resources for mobilizing comprehensive packages of consultant support to the PMUs and CPMU. The size of the packages is expected to attract international firms.

36. **Community participation is essential and requires sufficient time.** Ownership and active support from communities is a necessity for sustainability. The added time required for intensive consultation has to be considered throughout the project cycle.

37. **Cost estimates should be realistic.** There are risks of future cost overruns if estimates are based on cost norms and do not reflect inflationary trends. In the event of cost overruns – all cities have prioritized their investments and identified those to be omitted in the event of insufficient project financing. A related implementation risk is the possibility of insufficient counterpart budget for land acquisition for resettlement areas.

9. **Safeguards Policies (including public consultation)**

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

10. **List of Factual Technical Documents**
38. TBD

11. **Contact point**
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Senior Infrastructure Specialist, EASVS
(84-4) 39346600

*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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