

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

Report No.: PIDA3683

<b>Project Name</b>	Shaanxi Small Towns Infrastructure Project (P133069)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	China
<b>Sector(s)</b>	General water, sanitation and flood protection sector (40%), Rural and Inter-Urban Roads and Highways (60%)
<b>Theme(s)</b>	City-wide Infrastructure and Service Delivery (60%), Water resource management (40%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P133069
<b>Borrower(s)</b>	People's Republic of China
<b>Implementing Agency</b>	Foreign Debt Management Office, Shaanxi Provincial Development and Reform Commission
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	22-Apr-2014
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<b>Estimated Date of Appraisal Completion</b>	17-Apr-2014
<b>Estimated Date of Board Approval</b>	25-Sep-2014
<b>Decision</b>	

## I. Project Context

### Country Context

1. China's urbanization rate increased from less than 20 percent in 1978 to more than 52 percent today. This rapid urbanization has been highly successful in supporting high GDP growth, economic transformation, productivity increases, income, and employment creation. Over the next 20 years, urbanization is projected to reach about 65% to 70%, adding another 300 million urban inhabitants. By 2030, about one billion people will be living in China's cities, seeking jobs, housing, infrastructure, and other services.

2. Although China's GDP growth has been significant over the past two decades, it has been geographically uneven. In 2006, the State Council's Leading Group Office of Poverty Alleviation and Development designated 592 national level poverty-stricken counties based on population living below the poverty line, per capita net income, and per capita government revenue. Most of these counties are located in the mountainous and western regions. With 50 poverty-stricken counties, Shaanxi Province ranks second only to Yunnan Province in number of counties. Special budget allocations are made for provision of food, clothing, access to education, basic medical

services and housing in these poverty-stricken counties. However, without sufficient focus on the quality of infrastructure (a fundamental factor in the development of local industries and jobs), these subsidies may not fully achieve the goals of the Government of China (GOC) poverty alleviation program.

3. To further stimulate growth in the lagging western region, GOC launched the Western Development Initiative in 2000, prioritizing the development of infrastructure (transport, hydropower plants, energy, and telecommunications), enticement of foreign investment, increased efforts in ecological protection (such as reforestation), promotion of education, and retention of human capacity within the target provinces. In 2009, GOC further enhanced the regional development strategy through the designation of two new cross-provincial economic development zones. These zones are the GuanTian Corridor (Guanzhong-Tianshui Economic Area) in northwest China, and the ChengYu Corridor (Chengdu-Chongqing Economic Area) in southwest China, intended to be regional development hubs. There are numerous small and medium towns in these zones that have the potential to create jobs and absorb a new wave of rural migrants.

4. Despite the latent potential of small towns, investments and public resources in China have historically been directed to the highly urbanized cities, leaving the less urbanized towns with far less funding for development: the annual fiscal expenditure per capita in 2006 was RMB 4,000 in cities and just RMB 500 in towns. While towns are home to 60% of the country's total population, they receive a mere 9% of total fixed asset investment. Public services and utilities in towns accordingly lag behind those in cities; hence, the development of infrastructure for basic urban services in towns has been listed as a critical target in the 12th Five Year Plan.

5. The State Council recently issued the National Plan on New Urbanization (2014-2020), which highlights the need to comprehensively improve the 'quality' of urbanization and equalize basic urban service provision to all residents in existing towns, rather than the urbanization of land or construction of new cities that end up with high vacancy rates. Using city clusters as the main form of urbanization, the Plan gives higher priority to the coordinated development of small cities and towns, recognizing their role in linking the cities and rural areas, and their potential to accommodate rural-urban migration. It also promotes the co-building and sharing of infrastructure and public service facilities.

6. This New Urbanization Plan is based on the principles of efficiency, inclusiveness and environmental sustainability. Key features include: (i) agglomeration of smaller cities and neighboring towns, which have sufficient specialization and linkages to other urban areas; (ii) compact urban development to limit low density and encroachment on farmlands and nature reserves; (iii) minimizing scattered and fragmented urbanization, to enable efficient and cost-effective provision of infrastructure and services; and (iv) improved connectivity between cities to facilitate access to local, regional, and global markets for inputs, outputs and jobs.

### **Sectoral and institutional Context**

1. Located in the western part of China, Shaanxi Province covers an area of 205,800 square kilometers and has a population of 37.9 million. Administratively, Shaanxi comprises 10 municipalities/prefectures, 83 counties, 24 cities and districts, and 1,581 towns and townships. Geographically, the Province is further divided into three main regions defined by its topography and natural features: Guanzhong ("Central Shaanxi"), Shaannan ("Southern Shaanxi"), and

Shaanbei (“Northern Shaanxi”). Characterized by a large central plain, Guanzhong region is the core economic region in Shaanxi, which includes 60 percent of the province’s total population, and accounts for two thirds of the province’s GDP and agricultural production.

2. Like all the provinces in China, Shaanxi Province experienced rapid economic growth over the last decade (2002~2012) with an average GDP growth rate of 16.3% per year, substantially higher than the national average growth rate of 12.4% during the same period, and is ranked 16th among all the provinces in China, with the highest growth rate among western provinces. The average GDP per capita in Shaanxi grew from RMB 10,594 in 2005 to RMB 38,557 in 2012. The average annual income per capita for urban and rural residents reached RMB 20,734 and RMB 5,763, with annual growth rates of 13.6% and 14.6%, respectively. Shaanxi’s population living in cities and towns is 50.2%, compared to the national average of 52.5%.

3. Despite its rapid growth, Shaanxi still lags behind the national average in terms of GDP per capita and urbanization rate, due to its low base of economic development. The Shaanxi Province development strategy defines the GuanTian (GT) Corridor as the engine of economic growth and urbanization, enabling the development of industries and jobs that can accommodate rural migrants, particularly from the surrounding poverty-stricken areas. The GT Corridor is expected to contribute over one third of the total regional GDP of northwest China by 2020. The urbanization rate in the GT Corridor is projected to rise, from 50% in 2012, to 60% by 2020, implying rural-to-urban migration of about 4 million people. To accommodate this urban growth target, the GT Plan defines a five-tier urban settlement system, comprising: (i) one metropolitan core as the first tier (Xi’an metropolitan area with planned population of 10 million by 2020); (ii) six sub-regional central cities as the second tier (typically, the seats of prefecture-level cities, with planned population of 0.5~0.8 million for each); (iii) 40 county seat cities (planned population of 0.1~0.2 million for each) as the third tier; (iv) 100 key towns as the fourth tier (key towns of provincial level); and (v) many small towns in rural areas as the fifth tier.

4. Based on current trends of rural-to-urban migration, the carrying capacity of the metropolitan core (first tier) and sub-regional central cities (second tier) to provide additional jobs and urban services of substantial scale is limited. Recognizing the strategic role and potential for the third- and fourth- tier towns to absorb migrants, divert the pressures of urbanization from the first- and second-tier cities, the Provincial Government strategy gives high priority to promoting the development of county seats and selected key towns of provincial level in the GT Corridor. This is supported through a package of policy reforms and incentive policy instruments, such as relaxing hukou restrictions, improving access, supporting industrial development and urban infrastructure investments. Substantial efforts and investments from the central, provincial and local governments have been made or planned, and encouraging outcomes have been achieved under various sectoral programs and initiatives.

5. However, development of small cities and towns in GT Corridor is still constrained by prevailing urban infrastructure deficiencies and service levels both in existing built-up areas and urban expansion areas, deteriorating environmental conditions, and weak finances and city management capacity. The average per capita investment for basic urban infrastructure in Shaanxi’s small cities and towns is only 68% of the national level, the percentage of population with access to water supply, road space per resident, and length of drainage pipes per km<sup>2</sup> of built-up area are substantially lower than the national level (89%, 74%, and 67%, respectively), and operation and maintenance (O&M) is minimal. The poor urban infrastructure services and the lack of expertise

and experience in town management severely hinder small towns' development and expansion.

6. The proposed project will support nine Counties/Districts within the GT corridor and its influence area that have demonstrable potential for economic growth and increase in jobs and incomes, particularly for rural migrants. The project is aligned with WBG's twin goals of ending extreme poverty and promoting shared prosperity among the population living in small towns and lagging areas of Shaanxi Province through: (i) inclusion of five project counties/districts, that are designated as national level poverty-stricken counties (Chengcheng County, Chunhua County, Xunyi County, Yintai District and Hanyin County), and (ii) focusing on infrastructure service improvement in older built-up areas and areas affected by the closing of industries, inhabited mostly by low-income people and rural migrants. The table below illustrates the status of poverty (2013) in the project counties/districts as a whole, and urban and rural poverty in the proposed project areas.

## II. Proposed Development Objectives

The project development objective is to improve the infrastructure service delivery in selected small and medium towns in Shaanxi Province.

## III. Project Description

### Component Name

Infrastructure and Services Upgrading

### Comments (optional)

### Component Name

Town Management Improvement and Implementation Support

### Comments (optional)

## IV. Financing (in USD Million)

Total Project Cost:	256.90	Total Bank Financing:	150.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			106.90
International Bank for Reconstruction and Development			150.00
Total			256.90

## V. Implementation

### A. Institutional and Implementation Arrangements

1. Provincial Project Leading Group (PPLG). The Provincial Project Leading Group (PPLG) has been established, chaired by the Deputy General Director of Shaanxi Provincial DRC, with representatives from all related provincial government departments including the Development and Reform Commission (DRC), Finance Department, Housing and Construction Department, and Audit Bureau. It will provide overall policy and strategic guidance to project preparation and

implementation. It will also be responsible for facilitating inter-agency coordination and resolving any major issues identified during project preparation and implementation.

2. Provincial Project Management Office (PPMO). The PPLG has designated the existing Provincial Project Management Office (PPMO) under the Provincial DRC to coordinate the preparation and implementation activities of the counties/districts' proposed investments. It will have overall responsibility of project management, monitoring and evaluation, and consolidation of project reporting specified in the project legal agreements. PPMO will also help to facilitate the materialization of the counterpart funding agreed by each county/district. The PPMO has had previous experience in implementing projects financed by World Bank and Asian Development Bank (ADB). The PPMO is staffed with competent and committed staff in the field of procurement, financial management, and safeguards and will provide necessary guidance to the counties/districts to make sure they are implementing the project following the right policies and procedures.

3. County PLG and PMOs and PIAs: Each of the nine project counties/districts has established project leading groups (PLG) chaired by the respective county/district governors or vice governors to provide local level policy directions for the implementation of the project in their respective jurisdictions. Necessary arrangements have also been made for county/district level Project Management Offices (PMO) and local Project Implementing Agencies (PIA) within the relevant line agencies. PMOs will be responsible for overall project coordination and facilitation, and local PIAs for project implementation and the operation and maintenance (O&M) for the assets created under the project. More details for the project's institutional and implementation arrangements are provided in Annex 3.

#### B. Results Monitoring and Evaluation

1. The primary tool to monitor and evaluate project results will be the Results Framework detailed in Annex 1. The PPMO will consolidate information and data at project level to measure the project performance and the achievements of the targets set, and prepare semi-annual progress reports, in accordance with a format outlined in the Project Implementation Plan (PIP). The purpose of these reports is to provide Shaanxi Province and the World Bank timely and updated information on the progress of project implementation, achievement of outcome and output indicators, and constraints and obstacles.

#### C. Sustainability

1. The proposed project is aligned with Shaanxi Provincial Government's (SPG) strategy to promote small town development. SPG and participating counties/districts have demonstrated high commitment by establishing project organizations at all levels to oversee and manage project preparation and implementation. Necessary human and financial resources have been identified for project implementation and O&M of the assets created by the project. Project interventions have laid emphasis on rehabilitation of existing infrastructure over new construction, increased coverage of infrastructure and service levels in built up areas through adoption of cost-effective, reliable and replicable technologies and approaches to reduce cost and increase the direct beneficiaries.

2. The Component 2 of the project specifically focuses on Project sustainability, by supporting a number of initiatives to enhance town management. The measures include: (i) introduction of asset management practices, e.g., improved operation and maintenance, the associated budgeting, infrastructure mapping and preparation of asset registers; (ii) formulation of sustainable approaches to manage the rapid urban development and urban-rural integration; and (iii) rationalizing infrastructure planning through service sharing to achieve economies of scale.

**VI. Safeguard Policies (including public consultation)**

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

**Comments (optional)****VII. Contact point****World Bank**

Contact: Guangming Yan  
 Title: Urban Specialist  
 Tel:  
 Email: gyan@worldbank.org

**Borrower/Client/Recipient**

Name: People's Republic of China  
 Contact: Mr. Yao Licheng  
 Title: Director, Int'l Department, MOF  
 Tel: 86-10-68551174  
 Email: yaolicheng@mof.gov.cn

**Implementing Agencies**

Name: Foreign Debt Management Office, Shaanxi Provincial Development and Reform Commission  
 Contact: Mr. Wang Shuangcang  
 Title: Director  
 Tel: 86-29-87294692  
 Email: waidaiban@163.com

**VIII. For more information contact:**

The InfoShop  
 The World Bank  
 1818 H Street, NW  
 Washington, D.C. 20433  
 Telephone: (202) 458-4500  
 Fax: (202) 522-1500  
 Web: <http://www.worldbank.org/infoshop>