1. Key development issues and rationale for Bank involvement

China is experiencing rapid urban growth. Over the next 10 to 15 years, over half of its population is expected to live in urban areas. Rural-urban migration is increasing as demand for farm labor declines and controls on mobility are reduced. Mobility is further facilitated by continuously improving transport links between secondary cities. This increased rural-urban migration means that cities are facing increased pressure to provide employment, housing and other basic infrastructure to the new arrivals. Government policies are directed towards the creating necessary infrastructure and improving environmental conditions in secondary cities to attract investment, to promote economic growth, and generate employment. Cities must compete for the needed investments by offering the strong incentives in terms of quality of life, excellent public and social infrastructure, a clean environment and a capable labor force.

Chongqing Municipality, created in 1997, is the fourth municipality with provincial status. It is the largest economic center in the upper reaches of the Yangtze River in southwestern China, and has a population of about 31 million. Approximately 80% of Chongqing's population is agricultural or rural-based, but like other areas, Chongqing is seeing significant rural-urban migration. With rural incomes significantly below urban incomes and mobility on the rise, rural inhabitants are moving to Chongqing's urban centers at an accelerating pace.

Infrastructure in most smaller cities and towns outside Chongqing City is deficient, and environmental conditions are deteriorating. Water supply systems are inadequate, sanitation is poor, untreated wastewater drains to nearby water courses, and insufficient drainage and flood control result in frequent flooding. Transportation networks are substandard. The policy environment and institutional capacity for delivering urban services are both weak.

Government Strategy. The State’s development strategy for western China supports infrastructure improvements to promote urbanization. Central Government and local officials recognize that the lack of good infrastructure facilities and quality of life considerations have
negatively affected economic development in the Municipality’s small and medium towns, making it unable to compete with other east coast cities, despite Chongqing’s lower labor costs. In response, local governments in Chongqing Municipality have planned a number of projects to accelerate the urbanization process. In order to speed up urbanization, city resources should focus on improving urban services in under-developed areas. Investments should absorb the incoming agricultural labor, create the necessary infrastructure and facilities to promote industrial activity, and aging industries should be reorganized. While this general strategy has been established, implementation details are still being formulated.

A key goal of Chongqing Municipality’s current Five-Year Plan is to enable and support sustained, balanced economic growth throughout the Municipality. To achieve this goal, Chongqing has requested Bank support for the proposed project, which builds on earlier collaboration with the World Bank.

Rationale for Bank Involvement. Addressing urbanization issues in Chongqing presents a unique opportunity to partner with a progressive municipality in western China. The involvement of the Bank could influence the development policies, improve quality of life, and introduce public sector reforms for service delivery. Good opportunities exist for introduction of market mechanisms for infrastructure financing and service provision, to improve the quality of services and efficiency of service delivery by the smaller governments.

Strategic Context. Proposed Bank involvement is closely aligned to CAS priorities including improving the business environment and helping accelerate China's transition to a market economy, addressing the needs of the poor and disadvantaged people and regions, and formulating a more environmentally sustainable development process.

2. Proposed objective(s)

The project objective is to improve basic infrastructure in secondary cities, districts, and counties to foster sustainable growth, enhance living conditions for its citizens, and facilitate urban employment creation through promoting the function and economic growth. This objective would be achieved under a regional framework for urbanization, incorporating environmental protection and improvement of infrastructure and facilities.

3. Preliminary description

The project would support (i) investments in subprojects for the rehabilitation, improvement and expansion of urban infrastructure and services under local government responsibility including water supply systems, waste water collection and treatment, flood control embankments and park areas, roads, bridges, solid waste collection and disposal, public transportation terminals, public markets, and public toilets; and (ii) project implementation and capacity building assistance for participating local governments and Chongqing Municipality to over the costs of consultancies, small equipment purchases, and the preparation and delivery of training materials. The Chongqing PMO in consultation with the main secondary cities, counties and districts has already identified a number of investment subprojects aimed to meet their principal infrastructure needs in response to the expected urbanization and social development trends and policy priorities. A preliminary list of about 40 subprojects in 15 different jurisdictions (located mainly in the western corridor of Chongqing) have been identified to-date.

The project would include a capacity building to strengthen the ability of local governments to prepare, operate and maintain subproject investments in an economically, financially, socially and environmentally sustainable manner. The project would explore opportunities for private sector participation in infrastructure provision. And, it would strengthen the institutional and financial performance of participating public utilities entities.

International and local consultants have been mobilized to prepare feasibility studies and draft subproject proposals. Resources have also been allocated for data collection. As project preparation proceeds, criteria would be developed for prioritization of investments that would form the proposal for Bank consideration.
4. Safeguard policies that might apply

The project investment components are environment improving activities and will have net positive impacts. Though the project is complicated in terms of number of components and geographic locations, the size and characteristics of the investments will not likely generate adverse environmental impacts that would trigger Category A of OP 4.01. But, a final classification of the project will be made once additional information on the proposed investments is available. Frameworks for environmental assessments and resettlement action plans will need to be developed and agreed by appraisal, and followed during implementation. It is yet to be determined whether safeguard policies related to indigenous people and cultural heritage will apply.

5. Tentative financing

<table>
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<th>Source</th>
<th>($)</th>
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<tr>
<td>BORROWER</td>
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<tr>
<td>INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT</td>
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<td><strong>Total</strong></td>
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6. Contact point

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