

Project Name Bhutan-Urban Development Project (+)

Region South Asia

Sector Urban

Project ID BHPE57570

Borrower Royal Government of Bhutan (RGoB)

Implementing Agency Ministry of Communications
 Contact: Mr. Kinzhang Norbu, Project Manager
 Urban Development & Housing Division
 Ministry of Communications
 Thimpu, Bhutan
 Tel. No: 275-2-24338/9
 Fax No: 275-2-24336/7

Date Initial PID Prepared March 5, 1999

Appraisal Date May 15, 1999

Projected Board Date September 29, 1999

Background

The development experience of Bhutan is unusual in that its present infrastructure was built up from a tiny base in less than forty years. Prior to the early 1960s, Bhutan was isolated from the rest of the world, and its dispersed population was entirely dependent upon subsistence agriculture. Since first embarking upon a process of modernization in the early 1960s, Bhutan has made great progress in improving the standard of living of its people. It has a 1991 population of 600,000. The RGoB's development strategy has focused on striking a balance between, on the one hand, growth in productivity and incomes, and on the other hand, a desire to preserve its cultural and environmental heritage. A major emphasis will be on further development of human resources, the provision of basic services to both urban and rural communities, balanced development among regions, and decentralization and community participation. On the basis of its development strategy articulated in its five-year plans, the latest being the Eighth Five-Year Plan (1997-2002), Bhutan has attracted very substantial donor support to finance its physical infrastructure. At the same time, it has improved education and health services which have greatly improved social indicators across the board.

Although by international standards, Bhutan's urban centers are comparatively small, both in population and land coverage, urban development is an important component of this development strategy. About 15% (90,000) of the 1991 national population is classified as urban. Of these, about two-thirds of the urban population reside in Thimphu and Phuntsholing. Although official figures on urban growth rates are not readily available, there are indications of increases in the order of 5 to 10% per annum, with reliable data for Thimphu recording a doubling of population over the last ten years. With almost 85% of its population still residing in rural areas, Bhutan faces the challenge of continuing rapid urbanization as the labor force continues to exceed the demand for agricultural labor and as primary education spreads

rapidly and job expectations rise concomitantly, the government is confronted with the issue of how to create employment for the rapidly growing labor force outside the agricultural sector; and how to manage the urbanization that will accelerate as the demand for non-agricultural jobs grows.

Since it is likely that much of future population growth will be concentrated in urban areas, the government is placing more importance on the urban sector than ever before. In addition to Thimphu and Phuntsholing, agglomeration economies are starting on a modest scale in district centers. Despite their small size, these towns can develop further because of the enormous efforts involved in travel from one place to another. In this sense, Bhutan is a series of small regional economies, whose linkages with each other are improving; however, in the near term, the cost of transactions between one region and another will remain very high. The government is interested in promoting the growth of these regional economies as part of its policy of balanced regional growth. District centers will play a key role in this effort.

With this in mind, the project will seek to support RGoB's policy of balanced regional growth and to provide essential services to the residents of these urban centers. To achieve this objective, the strategic decision was made to strengthen the institutional, technical and financial capacity of selected urban centers, and to improve the coverage and quality of urban services.

Objectives

The objective of the project is to assist the Royal Government of Bhutan (RGOB) in managing the urban development process by improving the delivery of high priority urban infrastructure services in urban centers outside Thimphu and Phuntsholing. This objective supports the RGOB's policy of balanced regional development and decentralization. Achievement of this objective will be measured in terms of the following key performance indicators: (a) measurable improvements in the management of urban centers, including increase in the number of trained personnel at the district level to implement urban development plans, and to operate and maintain infrastructure investments; existence of a functioning financial management, budgeting and accounting systems; application of modern land management tools, increased effectiveness of urban investments, etc; and (b) improved coverage and quality of basic urban services (e.g., water supply and low-cost sanitation, solid waste management, roads, river bank protection, retaining walls and storm water drainage, and more efficient organization of civic space (including parking). Specific performance targets and service levels will be determined during preparation.

Description

The project will have two major components. The institutional development component will focus at the district level. It will seek to build up capacity in the effective implementation of urban plans and investment programs, and on proper and timely operation and maintenance of infrastructure investments. It will also seek to increase the participation of informal municipal committees, where they exist. Finally, this component will also support studies to strengthen the institutional and financial base of selected urban centers.

The second component of the project will consist of physical investments in selected urban centers identified as potential growth areas in the RGoB Eighth Five-Year Plan. Investments would include: water supply, low-cost sanitation, solid waste management, roads, stormwater drains, retaining walls and river embankment protection, minor infrastructure improvements (e.g. footpaths, street improvements), and more efficient and better designed organization of civic space.

Financing

Total project cost is estimated to be about \$14.5 million, of which the Bank credit would cover an estimated \$12 million. Potential co-financing of \$0.5 million is expected from UNDP/UNCHS for technical assistance.

Implementation

The estimated project implementation period is five years. The Urban Development and Housing Division within the Ministry of Communications would be responsible for overall project oversight, while implementation at the district level will be done with the district administrative and block offices. A separate unit, responsible for the O&M of investments at the district level, is proposed, which would be staffed with suitably trained technical staff with adequate supply and equipment.

Benefits, Sustainability and Risks

Benefits:

The population living in the selected urban centers would benefit from better urban and land use management, and improved provision of urban services and infrastructure (water supply, sanitation, roads, stormwater drainage, retaining walls and river embankment protection, solid waste management, and other essential civic amenities). Government agencies, such as the Urban Development and Housing Division of the Ministry of Communications and the district engineering cells, would also benefit from technical assistance to strengthen their planning, and O&M capacities. Training programs will be coordinated with existing institutions

Sustainability:

[Note: Flag the factors critical for the sustainability of project benefits.] Continuing commitment to a policy of balanced regional development and decentralization will be essential to the success of the project.

Risks:

Success of the project will depend on RGoB's continuing commitment to its urban development policy. There are strong indications that the Government will sustain its support for decentralization and balanced regional development/. Another risk to the project is the adequacy of trained personnel at the central and district levels. The issue is not so much the low levels of training, as it is the actual number of trained staff. In general, existing staff although short in number are of high calibre. Finally, on the cost recovery aspect, continued consultations with the public combined with cost affordability analysis will be necessary to frame a sustainable cost recovery policy within the project which would support RGoB's policy of increasing self-financing for urban investments.

Lessons Learned from Previous Bank Operations

This would be the first World Bank-assisted urban development project in Bhutan. However, Bank experience with project implementation has been excellent, on account of very strong Government ownership and commitment to effective project implementation, and good collaboration with co-financiers, notably the Swiss Development Corporation. The portfolio currently consists of two projects, the third Forestry Credit, for which implementation remains satisfactory, and the Second Education Credit. The recently closed First Education Project and GEF Environment Trust fund were also fully satisfactory, although the education project had to be extended by 18 months because of delays in school construction during the project's first few years. Both projects met or surpassed their major benchmarks, with the exception of teacher training candidates on account of a shortage of applicants up to 1994. The Environment Trust Fund even met its conservation benchmarks in three years rather than the anticipated five.

There are also lessons to be learned from urban projects in countries, experiencing a similar low level of urbanization and weak institutional capacity. These are the need to: (a) keep the project simple in terms of design, scope and institutional arrangements; (b) emphasize the importance of combining capacity building and investments; and (c) set out modest goals which can be achieved within existing constraints. These have been considered in the design of the project.

The experience from the DANIDA water supply and sanitation project in Thimphu and Phuntsholing demonstrate the feasibility of cost recovery for O&M in water supply. These projects introduced meters, a good pricing structure, and most important, separate water accounts so that the little subsidy given is not hidden. The sets an important precedent for other urban centers.

[Note: Lessons learned from completed and ongoing projects financed by the Bank and other development agencies.]
The Environmental and Social Aspects

Social:

Social assessments will be carried out during project preparation, in which collaboration with local social scientists would be encouraged and welcome.

Environmental:

The project category is B. The urban environmental issues are well known and rather straightforward in the context of Bhutan's small towns. The National Environmental Commission (NEC) and RGOB have agreed to prepare simple, easy to implement codes of practice on sanitation and solid waste management. In addition, the project consultants are preparing a detailed EA which includes a summary sectoral assessment.

Royal Government of Bhutan (RGOB) is putting in place an adequate legal framework for Environmental Management and Assessment. In December 1998, NEC issued Bhutan's National Environmental Strategy (an impressive document) aimed for guiding sustainable development in Bhutan. NEC has approved, in February 1999, an Environmental Assessment Process (EAP) which comprises an

environmental assessment manual and sectoral guidelines for the six main development sectors; the guidelines include roads and highways, while the urban sector will be taken up in the future. This has been approved by RGOB and makes the EAP now obligatory. NEC further plans to introduce an Environmental Act for approval by Parliament in July 1999. NEC has highly competent key staff and is developing its institutional capacity further. The project will assist this capacity building through preparation of simple (environmental) codes of practice for the urban development and for the roads sectors. Draft TORs for developing these codes and also for providing training to NEC and sectoral staff during the project have been agreed with RGOB.

No major resettlement is envisaged under the project.

Contact Point: The InfoShop
 The World Bank
 1818 H Street, N.W.
 Washington, D.C. 20433
 Telephone No. (202)458 5454
 Fax No. (202) 522 1500

Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

Processed by the InfoShop week ending May 28, 1999.

ANNEX

Because this is a Category B project, it may be required that the borrower prepare a separate EA report. If a separate EA report is required, once it is prepared and submitted to the Bank, in accordance with OP 4.01, Environmental Assessment, it will be filed as an annex to the Public Information Document (PID) .

If no separate EA report is required, the PID will not contain an EA annex; the findings and recommendations of the EA will be reflected in the body of the PID.