

Banking on *Municipalities*

World Bank Support in Latin America and the Caribbean

Latin America and the Caribbean is the most urbanized of the Bank's Regions. Currently, some 435 million people, 78 percent of the total population, live in cities. The urban population now grows at only half the annual rate of the 1970s.

During the past decade (1998–2008), the World Bank had a portfolio of 36 active municipal development projects (MDPs) and committed \$2.6 billion to them. The Region's MDPs aimed to strengthen the management of 1,098 municipalities in 13 countries. The most active borrowers were Colombia (7 projects), Brazil (5), Honduras (4), Venezuela (3), Peru (3), and Argentina (3). Mexico, Ecuador, Chile, Bolivia, Nicaragua, Haiti, and Belize had 1 or 2 projects each. Half the MDPs were in higher-middle-income countries; the other half—except Haiti (low-income)—were in lower-middle-income countries. The Region's MDP portfolio covered all countries in the Region with large urban populations.

PORTFOLIO PERFORMANCE

The Region's MDP portfolio has a strong performance record, with 86 percent of completed operations rated satisfactory. This Region reports the best MDP performance among the six Bank Regions.

An outstanding performer, rated highly satisfactory, was **Colombia II**. It successfully strengthened the capacity of institutions in charge of planning, managing, and maintaining urban transport infrastructure in Bogotá (population 7.1 million). This MDP lowered sector administration costs from 17 percent in 1996 to 10 percent in 1998, and road maintenance costs were lowered by 77 percent, despite a sevenfold increase in the network between 1996 and 1999.

Venezuela I introduced basic infrastructure on a large scale to low-income barrios in 45 municipalities across the country, benefiting 66,000 poor families; this was 43 percent above target. The project exposed these municipalities to lending operations for the first time, supporting their financial management and revenue growth through detailed technical assistance. **Colombia I** and its follow-on **Colombia IV** together helped create a local credit market among 179 municipalities

around the country, although municipal demand for credit was weaker than expected. Municipalities with conservative financial administrations were reluctant to take on debt, and other creditworthy borrowers had alternative sources of credit. Between them, **Brazil I** and **III**, in the states of Minas Gerais and Bahia, respectively, brought technical assistance for improving financial management to 179 municipalities, each using a wholesale arrangement through their state intermediaries.

Among the most important physical results obtained were improvements in the urban environment that were attained through basic sanitation investments financed by the projects. Valuable results in the form of a nationwide municipal information system came from **Chile**

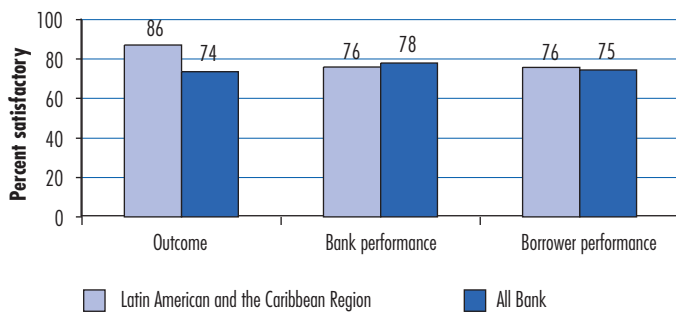
Table 1: Summary of MDP Portfolio, 1998–2008

Completed MDPs (number)	21
Completed MDPs (% satisfactory)	86
Ongoing MDPs (number)	15
IBRD commitments (US\$m)	2,485
IDA commitments (US\$m)	166
Commitments per completed MDP (US\$ million)	86
Commitments per ongoing MDP (US\$ million)	56
Wholesale MDPs (number)	16
Retail MDPs (number)	20
Countries served (number)	13
Municipalities served (number)	1,098

Source: World Bank data.

Note: IBRD = International Bank for Reconstruction and Development; IDA = International Development Association; MDP = municipal development project.

Figure 1: MDP Portfolio Performance, Fiscal 1998–2008



Source: IEG special study.

Note: MDP = municipal development project.

II. A wholesale operation on a larger scale involving 77 municipalities, **Bolivia I** helped strengthen administrative and financial controls. It also focused physical investment on basic sanitation in the poorer municipalities, especially in the Beni region. **Ecuador I** successfully helped make the fiscal transfers to municipalities more transparent, as intended, while helping improve the administrative efficiency of 99 municipalities throughout the country.

In contrast, three MDPs had unsatisfactory outcomes. The **Haiti** operation (retail) failed to expand the water supply to the capital Port au Prince or make it more efficient. Water metering targets were not met, and illegal consumption continued unabated. Most of the loan for **Mexico I** was cancelled, as six municipalities on the U.S. border region were unprepared to meet the project's environmental requirements, in compliance with the norms of the North American Free Trade Agreement. Deteriorating national economic conditions undermined the ability of **Mexico II** to finance the modern municipal solid waste landfills, although there was some progress in improving municipal planning of solid waste management, thanks to project technical assistance that went ahead. The Bank was slow to restructure the project, which resulted in the cancellation of 70 percent of the loan.

BETTER CITY PLANNING

More information

There were few instances in the Region of MDPs generating or using information for planning. Chile was a notable exception. **Chile I** and **II** launched and consolidated the National System for Municipal Information (SINIM), which has reported about the situation and performance through more than 250 indicators for all 345 municipalities since 2000. Available over the Internet, SINIM covers local finances, administration, health and education services, spatial planning, poverty, other social indicators, as well as geographic characteristics of all Chile's municipalities. But **Colombia III** failed to create a national environmental information system based on municipalities, because the Ministry of the Environment did not play the coordination role expected of it. **Brazil I** and **III**, in the respec-

tive states of Minas Gerais and Bahia, implemented similar databases at the state level and helped individual municipalities build their own information systems.

Most progress in compiling information was made by extending and consolidating local property tax registers, or cadastres. **Colombia II** improved these to such an extent that it exceeded its target of updating 4.5 million title registers by 57 percent. At the municipal level, performance in using the additional information for strong taxation flows varied.

Monitoring and evaluation

As in other Regions—and other sectors, too—MDPs in this Region obtained at best modest results in designing, implementing, and using monitoring and evaluation (M&E). The usual culprits were found: focus mainly on outputs rather than outcomes, lack of baseline data to compare against actual achievements, and inadequate collection of data on actual project performance.

Under **Argentina I**, a well-conceived logframe with performance indicators was established at midterm review for infrastructure works, but a similar effort for institutional development was less successful. Under **Brazil II**, the M&E framework to verify the achievement of project objectives was weak. Under **Brazil III**, three years after Board approval, the Bank and borrower agreed to adopt a set of indicators to monitor outputs and outcomes. However, actual outcome data appeared infrequently and seemed inconsistent, providing only anecdotal evidence of increased tax-collection rates, improved health conditions, and improved access to water and sanitation services.

Under **Chile I**, a lack of M&E on outcomes meant that claims of strengthened municipal management as a result of project technical assistance on information technology could not be substantiated. Even **Chile II**, which otherwise excelled in providing information for planning, did poorly on M&E. Its design included 18 performance indicators, but these were mostly about the delivery of outputs, such as the number of municipalities served and the number of technical assistance contracts made. The two indicators that came closest to monitoring achievement of project objectives were those that considered municipal own-source revenues and municipal operational surpluses.

Honduras II also lacked explicit and quantifiable indicators able to demonstrate progress toward sustained coastal tourism in the project region. For **Mexico II**, the logframe developed during supervision was specified only in broad terms. The Implementation and Completion and Results Report cites several examples of project outputs used to justify conclusions on outcomes. **Venezuela II** lacked appropriate performance indicators altogether, but **Venezuela III** paid more attention to the design of the M&E system. However, it was barely used, as baseline data were not collected because of lack of inadequate resources.

Urban and spatial planning

Although nine MDPs had objectives focused on strengthening municipal planning, there is little evidence of what was actually achieved. **Co-**

Colombia III led to the preparation of 17 municipal environmental plans and the incorporation of environmental aspects into land-use plans.

Investment planning and strategies

IEG found limited evidence of achievements in this area. One reported instance was **Argentina I**, which helped many municipalities plan cost-effective investment programs.

STRONGER MUNICIPAL FINANCES

Better financial management

The majority of MDPs in this Region aimed to improve municipalities' financial management, starting with better accounting and financial reporting systems. On balance, the results from these efforts have been positive, sometimes with valuable demonstration effects on municipalities that were not part of the projects. **Bolivia I** helped 77 municipalities strengthen their financial control systems.

Brazil I in Minas Gerais provided technical assistance for financial management to about 50 municipalities, a good number but well short of the ambitious plans to cover all urban municipalities in the state. Under **Chile I**, municipal practices and technical capacity have been improved, and equipment (computers, communications, drivers' license testing) has been updated. Similar improvements were reported under **Mexico I**. In addition, **Venezuela I** provided on-the-job learning opportunities for 45 municipalities to manage credit operations for the first time.

Mobilizing own revenues

Through technical assistance, **Bolivia I** municipalities improved their resource mobilization. **Brazil II** reported that 26 municipalities assisted by the project increased their own revenues more than other municipalities, but IEG found the statistical significance of this evidence questionable.

More significant is that own revenues for project municipalities grew faster than higher-level transfers over the 2001–03 period. Under **Brazil III**, a survey indicated that the majority of participating municipalities increased efficiency in financial management and tax administration and showed a sustained increase in the collection of property taxes and services between 1996 and 2000. Under **Ecuador I**, of a random sample of 99 municipalities, 53 percent had doubled revenues in real terms over the project period.

Municipal creditworthiness and debt management

Several MDPs successfully introduced municipalities to credit operations, providing them with assistance for managing such operations. In particular, **Colombia I** and **IV** effectively established a local credit market with the official Local Development Fund, called FINDETER; this currently has a credit rating of AAA, refinancing commercial bank loans to municipalities to fund their investments in infrastructure and services. One municipality, Pereira (population 0.4 million), was able to issue bonds that were oversubscribed, and another (Barranquilla, population 1.4 million) was able

Table 2: Municipal Management Focus of Region Portfolio

Share of all MDPs with a project design focus on:	Completed	Ongoing
City planning		
In objectives (%)	43	33
In components (%)	24	87
Municipal finance		
In objectives (%)	71	20
In components (%)	43	47
Service delivery		
In objectives (%)	90	60
In components (%)	95	87
Number of all MDPs	21	15

Source: IEG special study.

Note: MDP = municipal development project.

to pay off its short-term debt thanks to project advice on portfolio management.

Brazil I, II, and III enhanced the credit management capabilities of poor municipalities especially, as did **Ecuador I**. But such efforts to consolidate local credit in the Region have been thwarted in recent years by national efforts to control fiscal deficits at the local level. In Chile, borrowing by municipalities is forbidden altogether.

Private finance participation

Progress in this direction was not widely achieved through MDPs. **Colombia IV**, however, helped municipalities increase water, gas, and solid waste tariffs, for instance, making some services profitable for private investors. This situation continues to this day, although services are less affordable to the poor. Average household expenditure on basic sanitation rose by 204 percent between 1997 and 2003. Attempts to stimulate private funding and operation of municipalities made little headway under **Brazil I** and **III**, mainly because of a lack of interest by the municipalities themselves. **Venezuela II** found a similar reluctance toward privatization of urban transport.

IMPROVED SERVICE PROVISION

Investment priorities

About half the completed MDPs reported economic rate of return (ERR) estimates at appraisal and completion. High ERRs (34–42 percent) at completion were estimated for basic sanitation and slum upgrading investments under **Venezuela III** and **Brazil I** and **III**. Strong ERRs (29–34 percent) were also reported for municipal urban transport investments under **Colombia II** and **Venezuela II**. MDPs that did not report internal rates of return at completion included **Mexico I** and **II**, **Ecuador I** and **II**, **Argentina I**, and **Honduras II**. Operations such as these, which included investment in municipal

infrastructure and services, would have been amenable to simple estimates of ERRs that would have informed the evaluation about performance efficiency.

Procurement

With long histories of decentralized municipal responsibilities, many municipalities have significant experience with managing procurement. Nevertheless, **Brazil II** did introduce 49 poorer municipalities in the state of Ceará to handling competitive procurement for works. Similarly, **Venezuela I** helped 45 municipalities learn to manage procurement themselves as decentralization gathered pace in that country.

Operations and maintenance

Although municipalities are typically responsible for operations and maintenance (O&M) of infrastructure and services within their jurisdictions, few MDPs paid attention to this aspect of municipal management. One exception was **Venezuela I's** provision of technical assistance and training to participating municipalities for carrying out urban road maintenance activities, affecting 360 kilometers of pavement. Another was **Venezuela III**, which tried to build up local O&M capabilities but came up against municipalities' unwillingness to curtail investments by allocating more resources to O&M, especially at times of financial crisis in the capital Caracas (population 1.8 million).

Services—Most affected sectors

As in other Regions, the most popular services provided through MDPs included urban transport, slum upgrading, basic sanitation, solid waste management, and other urban environmental improvements.

Municipalities were able to improve urban transport through MDPs across the Region. **Colombia II**, for instance, brought the very successful *Transmilenio* bus-operated public transport to Bogotá (population 7.2 million), leading other municipalities, including Barranquilla (population 1.4 million), Pereira (population 0.4 million), and Cali (population 2.4 million), to plan similar bus projects. There was also interest from other countries. Through financing and training of 250 municipal staff, **Venezuela II** enabled municipalities to make simple traffic management improvements such as road signals, intersection improvements, and rationalization of bus routes to reduce traffic congestion. In **Belize**, street and traffic improvements—including traffic signal systems, improved street drainage, widened sidewalks for pedestrians, and bicycle lanes—had a positive impact on road safety.

According to two surveys made at the completion of **Brazil III**, respiratory and intestinal diseases were reduced in municipalities in Bahia state in low-income areas where street paving had reduced dust particles and basic sanitation had prevented the pollution of the water supply by sewage. In contrast, sewage treatment remains a major challenge in the Region. Pereira is still without sewage

treatment for its 440,000 inhabitants, who live in an ecologically sensitive zone, despite the successful participation of the municipality in several projects, including **Colombia I**. Similar shortcomings in final sewage treatment were evident under **Brazil I**, which nevertheless brought other basic sanitation improvements to 150 municipalities in the state of Minas Gerais. The introduction of the final disposal and treatment facilities for solid waste proved challenging under **Mexico II**, where deteriorating macroeconomic conditions meant that only three of the seven facilities intended were built, and only partially.

Other urban environmental improvements introduced by MDPs included, in **Colombia II**, controls over discarding used tires and batteries, as well as the reduction of noise pollution by urban traffic through the deployment and use of new monitoring equipment. Other MDPs helped reinforce municipal management of the urban environment. Thus, **Colombia III** helped 17 municipalities prepare environmental plans, and the **Ecuador MDP** helped 23 municipalities establish specific Environmental Management Units within their municipal administrations.

Income levels of beneficiaries—Poverty reduction

About one-third of MDPs in the Region had objectives explicitly focused on assisting the urban poor. Even for **Argentina I**, an MDP that was not specifically poverty focused, about one-fifth of the beneficiaries were poor. **Bolivia I**, which emphasized beneficiary participation in the choice of investments, made most investments in municipalities where poor people lived, such as in the Beni region of the Amazon.

Under **Brazil I**, municipalities in Minas Gerais state invested in lower-standard basic sanitation and upgrading only of interest to lower-income groups. **Brazil III** went one stage further in urban poverty mapping of the changes brought about by municipal investment in street paving, provision of drainage, and water supply and sanitation; however, the mapping was discontinued because of lack of resources. The poverty impact of **Colombia I's** work with 179 municipalities can be inferred from national data, which show that service coverage for those in the lowest quintile of income distribution improved significantly between 1993 and 2003, from 80 percent to 91 percent for electricity, 77 percent to 83 percent for basic sanitation, and 18 percent to 33 percent for fixed-line telephones. **Colombia II** survey data showed that most users of the *Transmilenio* urban transport system in Bogotá are within the two lowest quintiles.

CONCLUSIONS

- Doing more wholesale MDPs and scaling them up is likely to yield positive results in a Region where 100 percent of wholesale MDPs obtained satisfactory outcomes.
- More can be done to disseminate the good MDP practices in the Region. Globally, municipalities in other Regions could benefit from this experience in municipal information systems, municipal credit-

Box 1: Key to MDPs Referred to in Text

Argentina: I—Second Municipal Development; II—Basic Municipal Services; III—Subnational Government Public Sector Modernization. **Belize:** Belize City Infrastructure. **Bolivia:** I—Municipal Development; II—Urban Infrastructure. **Brazil:** I—Minas Municipal Development; II—Ceará Urban Development & Water Resource; III—Bahia Municipal Infrastructure Development & Management; IV—Bahia Poor Urban Areas Integrated Development; V—Recife Municipal APL. **Chile:** I—Municipal Development; II—Second Municipal Development. **Colombia:** I—Municipal Development; II—Bogota Urban Transport; III—Urban Environment; IV—Urban Infrastructure Services Development; V—Bogota Urban

Services Project; VI—Integrated Mass Transit Systems; VII—Disaster Vulnerability Reduction Project. **Ecuador:** I—First Municipal Development; II—Environmental Management. **Haiti:** Port-au-Prince Water Supply. **Honduras:** I—Natural Disaster Mitigation; II—Sustainable Coastal Tourism Project; III—Barrio Ciudad; IV—Water & Sanitation Program. **Mexico:** I—Northern Border Environment; II—Solid Waste. **Nicaragua:** Natural Disaster Vulnerability Reduction. **Peru:** I—Lima Transport; II—Vilcanota Valley Rehabilitation & Management; III—Second Real Property Rights. **Venezuela:** I—Low-Income Barrios Improvement; II—Urban Transport; III—Caracas Slum Upgrading.

Source: IEG.

worthiness and financial management, urban transport, and poverty reduction. Within the Region itself, the Bank is poised to share MDP experiences among borrower countries. Finally, within individual countries, national and state authorities have opportunities to share and exchange experiences among municipalities from different parts.

- Successful experience from other Regions can be put to good use in those areas where shortcomings have been noted in the Region, such as in M&E, private financing of municipal services, O&M, and key environmental services, such as sewage and solid waste disposal and treatment.