

# Banking on *Municipalities*

## World Bank Support in the Middle East and North Africa

About 180 million people live in cities in the Middle East and North Africa Region, about 57 percent of the total population. During the decade 1998–2008 the World Bank had a portfolio of 18 municipal development projects (MDPs) spanning 8 countries in the Region.

The Bank commitments of \$845 million focused on strengthening the municipal management of 379 municipalities in Tunisia (4 projects), West Bank and Gaza (4), the Republic of Yemen (3), Jordan (2), Lebanon (2), the Arab Republic of Egypt (1), the Islamic Republic of Iran (1), and Morocco (1). More than 70 percent of the projects are in lower-middle-income countries, 17 percent in low-income countries, and 11 percent in upper-middle-income countries. The Region's portfolio covered all countries in the Region with large urban populations (15 million plus) except for Algeria.

### PORTFOLIO PERFORMANCE

Some 63 percent of completed MDPs in the Region achieved satisfactory outcomes. Bank performance was also satisfactory 63 percent of the time. These ratings are below Bank-wide averages. In contrast, 88 percent of MDPs have satisfactory borrower performance, well above the Bank average. The disconnect reflects good efforts by the borrower in West Bank and Gaza, where exogenous factors of conflict prevented commensurate project outcomes.

The strongest performing MDPs in the Region, each awarded satisfactory ratings for their outcomes and Bank and borrower performance, were in Tunisia and the West Bank and Gaza. **Tunisia I**, a wholesale operation assisting 257 municipalities throughout the country, produced excellent results that continue more than eight years after completion. Not only did MDP-participating municipalities increase their own revenues more than other municipalities, but the participants also produced a current surplus that was twice the target. The project helped the remote municipality of Kasserine (population 82,000) upgrade the Ezzouhour district of town and kept it in good condition through careful maintenance, sometimes involving local residents.

**West Bank and Gaza III** succeeded in meeting more modest objectives that focused on repairing municipal infrastructure damaged during the *intifada* rather than providing completely new services. Despite the difficult circumstances of its implementation, the project succeeded in making timely and effective repairs, thanks in part to strong and enthusiastic local leadership.

Weaker performance was turned in by the **Morocco MDP**, which failed to improve the housing stock of the ancient city of Fez (population 964,891) as intended. Public-to-private leverage of investments for the rehabilitation of the Medina is likely to remain at a 1:1 ratio,

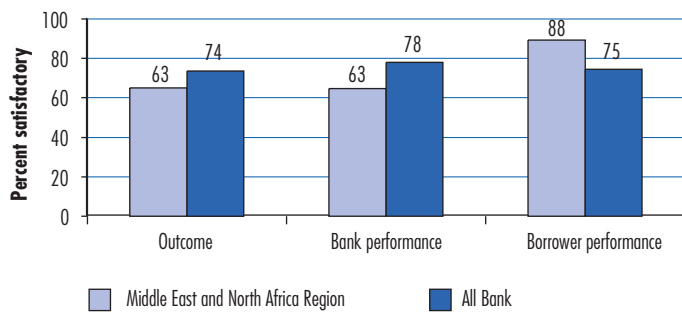
**Table 1: Summary of MDP Portfolio, 1998–2008**

Completed (number)	8
Completed MDPs (% satisfactory)	63
Ongoing MDPs (number)	10
IBRD commitments (US\$ million)	652
IDA commitments (US\$ million)	94
Bank commitments per completed MDP (US\$ million)	37
Commitments per ongoing MDP (US\$ million)	55
Wholesale MDPs (number)	6
Retail MDPs (number)	12
Countries served (number)	8
Municipalities served (number)	379

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.

well below the projected target of 1:13. However, the Fez municipality was consolidated through the amalgamation of six local governments around the time of project restructuring in 2003, and municipal management improved on the technical but not the financial side. **West Bank and Gaza I** also performed poorly. The start-up was at the time of the 2000 *intifada* and the Israeli military response to it. Because of events beyond the control of the project, the MDP was unable to assume any effective role in the national system of central and local government that the project hoped to constitute.

## BETTER CITY PLANNING

### More information

MDPs in the Region rarely set out to make more information available for municipal management. The best results were obtained under **Tunisia I**, although they could have been made more widely available to the municipalities themselves to help them improve their management. Instead, detailed information on municipal financial performance remained in the hands of the national Municipal Funding and Support Agency. A newer operation, **Jordan I** aims to improve information on municipal finances at the national level, as well as information for asset management at the municipal level, too.

### Monitoring and evaluation

There is little information on the extent to which monitoring and evaluation (M&E) frameworks were designed and used in projects in this Region. Wherever performance indicators were available, they mostly related to outputs (in the form of delivery of project components) rather than outcomes (in the form of achievement of project objectives). Even in such cases, baseline data were rarely available.

The **Republic of Yemen I**, for instance, did not have baseline data on before-project conditions to track the impact of new pipelines and household connections on improving water supply. In **Tunisia II's** M&E, the chosen performance indicators measured project outputs, such as the provision of project technical assistance, rather than moving toward the project objective of increasing the efficiency of

public sector management at the municipal level, for which no baseline condition or targets were specified in the project design. IEG estimated that this project alone accounted for one quarter of all municipal investments in the country during the 1997–2003 period of its implementation. Despite this high profile, M&E was unable to show what impact the project had, only the levels of municipal services in the country as a whole.

**West Bank and Gaza IV** operated under the very difficult circumstances of the *intifada*. In the rush to plan and deliver emergency services at the outset, baseline indicators were not adequately set up. Overall, there was a persistent inadequacy of information about government processes, including budget and transfer data that should have improved under the project.

### Urban and spatial planning

Little was achieved in strengthening municipal planning capabilities in the Region. Under **West Bank and Gaza I**, three municipalities prepared three-year development plans for the first time.

### Investment planning and strategies

This too was not a common feature of MDPs in the Region. **Tunisia II** required 76 municipalities to prepare investment plans to be eligible for project funding of municipal infrastructure, but it is not clear how many actually did prepare them.

## STRONGER MUNICIPAL FINANCES

### Better financial management

Under **Tunisia I** and **II** during 1993–2003, financial management by many of the 257 municipalities assisted by the projects improved, which led to better financial results. Stronger financial management was initially the outcome of rapid loan disbursements to finance priority local investments, which then progressed to the adoption of computerized accounting in 32 municipalities for the first time and to three-year budgeting and of outsourcing municipal services.

The municipality of Ariana (population 237,395) became one of the country's top 10 tax-collection districts—it ranks 23rd in population—after making its own tax administration more efficient, following intense training its officials had at the new municipal training center specially created by the project. Altogether, 10,000 local and central government staff received project training that covered more than 50 percent of all municipal staff in Tunisia at the time.

Under **Republic of Yemen I**, municipal management of the local water supply became a reality as the water authority of Sana'a (population 1.9 million) became a fully autonomous corporation able to cover operating costs for the first time in this sector; this also happened in 12 other municipalities. Municipal financial management began to improve under **West Bank and Gaza II**, as local governments began to institute solid waste collection fees, for instance, but the deteriorating security situation after 2000 stalled further progress.

### Mobilizing own revenues

**Tunisia I** produced excellent results that continue to this day. Not only did participating municipalities increase their own revenues more than other municipalities, but the participants produced current surpluses that were twice the target. In the municipality of Monastir (population 64,222), for instance, municipal own revenues as a share of the total rose from 30 percent to 38 percent between 1991 and 1998. Resources for Tunisian municipalities enabled them to finance more investments than initially expected. Under **Tunisia II**, several municipalities were able to use these additional revenues to pay off short-term debts and build up net savings. **Morocco's MDP** helped improve cost recovery and contributed to mobilizing internal and external resources in a nondeficit, noninflationary way to help finance minor investments by the municipality of Fez. This was a positive result for a project that otherwise failed to achieve its objectives.

### Municipal creditworthiness and debt management

**Tunisia I** introduced 257 municipalities to the management of credit. As the agency responsible for implementing the project and collecting municipal debt service, the Municipal Funding and Support Agency saw its own creditworthiness enhanced when it obtained a credit rating of AA+ and successfully issued its own bonds in the local market, to the value of \$23.5 million.

### Private finance participation

Only a few of the Region's MDPs assigned a specific role for private sector funding to help strengthen municipal management. Apart from the bond issue under **Tunisia I**, there is little evidence of a concerted effort by MDPs in the Region to stimulate private funding of municipal services at all. Even under that project, only minor private financing occurred at the municipal level, such as for detailed service design work for historic sites in Monastir. Significant private participation in municipal water authority in Sana'a has yet to occur as the **Republic of Yemen I** had hoped. Under **West Bank and Gaza II**, private financiers on whom the project design had initially relied to fund some municipal investments shied away as the conflict worsened in 2000.

## IMPROVED SERVICE PROVISION

### Investment priorities

Only two MDPs used estimates of economic rates of return (ERRs) to assess the priority of the project investments at appraisal and to measure the efficiency of project achievements at completion. Following careful analysis at completion, the **West Bank and Gaza III** yielded a very high ERR of 55 percent, exceeding even the appraisal estimate of 47 percent.

Project improvements to road and water infrastructure in 10 municipalities that accounted for 76 percent of all project costs generated very strong benefit streams, when compared with the dire without-project counterfactual. At completion, **Republic of Yemen I** yielded a 28 percent ERR (up from 25 percent at appraisal) that demonstrated the significant benefits obtained when municipal water supply shifts from

**Table 2: Municipal Management Focus of Region Portfolio**

Share of all MDPs with a project design focus on:	Completed	Ongoing
<b>City planning</b>		
In objectives (%)	25	20
In components (%)	38	30
<b>Municipal finance</b>		
In objectives (%)	50	20
In components (%)	75	92
<b>Service delivery</b>		
In objectives (%)	100	70
In components (%)	100	80
Number of all MDPs	8	10

Source: IEG special study.

Note: MDP = municipal development project.

high-cost tanker delivery to low-cost network provision. As well as demonstrating the positive results of the projects themselves, these examples demonstrate the feasibility of estimating ERRs even in the most challenging circumstances.

### Procurement

There is little evidence of municipalities taking charge of procurement in a Region where this has largely remained a responsibility of central government authorities. Under **Republic of Yemen I**, delays were caused by the division of procurement responsibilities between the autonomous water authority for the municipality of Sana'a and the Ministry of Energy and Water. The ministry finally oversaw the international competitive bidding for the works, which led to cost savings at the outset, but these were offset by unfavorable foreign exchange rate movements.

### Operations and maintenance

There were mixed results in this Region. Under **Tunisia I**, for example, the remote municipality of Kasserine (population 82,000) upgraded the Ezzouhour district of town and kept it in good condition through careful maintenance, sometimes involving local residents. But performance at the municipal level can vary under the same project. Thus, officials of the municipality of Ariana (population 237,395) saw the advantages of neglecting routine maintenance in upgraded areas. They felt that leaving drains blocked and pavement broken gave them a better chance of receiving central government aid to finance a complete replacement. The main shortcoming of the otherwise successful **Republic of Yemen I** was its inability to provide for adequate ongoing O&M of the facilities built under the project.

### Services—Most affected sectors

Municipal infrastructure and services constituted the most numerous objectives in MDPs of the Region. The sectors for which MDPs sought

strengthened municipal management in the Region included low-income neighborhood upgrading, urban street paving and drainage, water supply and basic sanitation, as well as other environmental improvements such as solid waste management.

MDPs achieved mixed results in upgrading and urban street and road improvements. **West Bank and Gaza I**, for instance, attended to planned rehabilitation work as well as subsequent damage caused by conflict. This would be done through 54 damage repair subprojects in 9 municipalities, sometimes exceeding targets, as in the case of 184 kilometers of roads built against a target of 100 kilometers. However, later border closures prevented the use of physical assets, which would deteriorate through lack of upkeep. **West Bank and Gaza III** successfully completed two road projects (13.2 kilometers) and rehabilitated 67 kilometers of roads. These improvements reduced travel costs and times by almost 50 percent in the project area.

**West Bank and Gaza IV** reached 61 municipalities through 2,200 subprojects in water and sanitation, roads, electricity, and solid waste, but the full extent to which this augmented services is not fully known. Under **Tunisia I**, the number of subprojects financed and their outlay exceeded expectations by 250 percent and 50 percent, respectively, but their impact on service levels was not fully documented. Improved streets gave people better access to their homes and businesses, as well as providing drainage and proper public lighting in central and residential areas of the client cities. A participatory approach adopted by many municipalities encouraged communities to contribute to the costs of some improvements, as IEG saw in Kasserine; there, 50 community leaders met with local officials to identify the priority investments for their own neighborhoods. This dialogue appears to have developed greater understanding of the need for cost recovery. Twice as much in direct taxation was collected in Kasserine after the project as before.

**Republic of Yemen I** helped improve the living conditions in the Akama neighborhood of Sana'a by reducing raw sewage flooding in residential areas, thanks to 7,500 additional households being connected to the sewerage system, seven times the original target. Water supply also increased, though not as much as targeted, because only 5,000 households of the targeted 18,500 were connected. However, despite replacing 21,500 water meters and rehabilitating 30

kilometers of pipelines, the project did not succeed in reducing unaccounted-for water.

**West Bank and Gaza II** constructed or rehabilitated 64 kilometers of water lines (as well as 77 kilometers of roads, which was several times the original targets), but it is not clear if this was due to any dilution in design criteria. **West Bank and Gaza III** expanded the water network in several small settlements that reported 90 percent of their population receiving a 24-hour piped water supply. The extent of this achievement cannot be fully evaluated, however, for lack of baseline data about the level of before-project service, or even data on the population served.

### Services—Private provision

MDPs in the Region did not put much emphasis on increasing the private provision of municipal services, and there was little progress where such attempts were made. Under **Republic of Yemen I**, the intended private management of the Sana'a water agency had yet to be implemented and the government remained uncommitted. Under **West Bank and Gaza II**, renewed conflict in 2000 precluded any increase in private sector participation.

The otherwise very successful **Tunisia I** made little progress in improving the incentive framework for building partnerships with the private sector and municipalities. Under **Morocco's MDP**, both the government's commitments for the rehabilitation process and projections for leveraging private sector investments fell far short of expectations during the project period, and it appears too early to assess whether projections made at project closing will be realized to any significant extent.

### Income level of beneficiaries—Poverty reduction

There was no explicit focus on the income levels of beneficiaries or on poverty reduction in most MDPs in the Region. Even in the few cases where this was directly or indirectly attempted, the results fell short of targets. **West Bank and Gaza IV** managed to create 270,000 person-days of employment for unskilled workers, but this was short of the target of 400,000, after some of the resources allocated to employment generation were transferred to service provision instead.

Under **Morocco's MDP**, only 20 percent of the beneficiaries were classified as poor. Under **Tunisia I**, there was no clear focus on

## Box 1: Key to MDPs Referred to in Text

**Arab Republic of Egypt:** Alexandria Development. **Islamic Republic of Iran:** Urban Upgrading & Housing Reform. **Jordan:** I—Regional & Local Development; II—Cultural Heritage, Tourism & Urban Development. **Lebanon:** I—First Municipal Infrastructure; II—Cultural Heritage & Urban Development. **Morocco:** Fes Medina Rehabilitation. **Republic of Yemen:** I—Sana'a Water Supply & Sanitation; II—Taiz Municipal Development &

Flood Protection; III—Port Cities Development Program. **Tunisia:** I—Municipal Sector Investment; II—Second Municipal Development; III—Transport Sector Investment; IV—Third Municipal Development. **West Bank and Gaza:** I—Municipal Development; II—Bethlehem 2000; III—Second Municipal Infrastructure Development; IV—Emergency Municipal Services Rehabilitation.

Source: IEG.

poverty reduction. Several stakeholders, especially in the municipalities themselves, appeared to be unfamiliar with the Bank's mission relating to poverty reduction and saw no contradiction in project investment being made in higher-income areas.

## CONCLUSIONS

- Development programs in the Region can make more use of municipalities as partners in service provision, even where central governments prefer to retain overall responsibility themselves.
- Robust evidence from the Region shows that MDPs can improve the performance of municipal finance, and the potential for strengthening this dimension of municipal management appears to be under-exploited.
- Frequent claims that M&E and ERR exercises are too complex and costly to implement in volatile country conditions are not borne out by experience in this Region, where a few experiences have been quite successful.