

# Banking on *Municipalities*

## World Bank Support in South Asia

**Although South Asia is one of the world's less urbanized regions, more than 431 million people, 29 percent of the total population, live in the Region's cities. Through just 12 municipal development projects (MDPs) active during the past decade (1998–2008), the World Bank committed \$1.3 billion. This small portfolio aimed to strengthen the management of 146 municipalities in 6 countries.**

By number of MDPs, the most active borrowers were India (4 projects); Pakistan (3); and Bangladesh (2); Afghanistan, Bhutan, and Sri Lanka hosted 1 each. Thus, all but two of the Region's MDPs were in low-income countries. With an urban population of 4.5 million—16 percent of the total—Nepal was the only large country in the Region not to host an MDP.

### PORTFOLIO PERFORMANCE

Only three of the seven completed MDPs in this Region (43 percent) achieved a satisfactory outcome, making this the weakest of the Bank's Regional MDP portfolios. Only four of them had satisfactory ratings for both Bank and borrower performance.

The only fully satisfactory completed operation in the portfolio was **India II**, which set up a municipal development fund that financed investments by municipalities in the southern state of Tamil Nadu. This operation built on more than 20 years of continuous Bank assistance to the urban development of Tamil Nadu and its capital Chennai. By introducing computerized accounting and modern financial management methods, **India II** helped 45 municipalities in the state prepare "corporative development plans" to help determine their priority investments. This support also helped Tamil Nadu's second-largest city Madurai (population 909,908) successfully issue municipal bonds for the first time, to finance an inner ring road.

Several MDPs performed poorly. Implementation of **Bangladesh I** was hostage to land-acquisition problems and a lack of coordination between borrower agencies, resulting in resettlement not complying with Bank guidelines. In addition, municipal financial management remained weak. **Sri Lanka's MDP** suffered from poor design that did not take into account the public opposition to the project's plans

for solid waste disposal. The design was also based on an incomplete understanding of the baseline water quality of the polluted Beira Lake in the capital Colombo (population 2.3 million) that the project aimed to improve. The municipal management in Colombo barely changed as a result of the project.

**Pakistan II** did not succeed in the Northwest Frontier largely because efficiency criteria for selecting subprojects and financing them were outweighed by political factors that determined the choices made. **Bhutan's MDP** did not succeed primarily because the design overestimated the management capabilities of local municipalities.

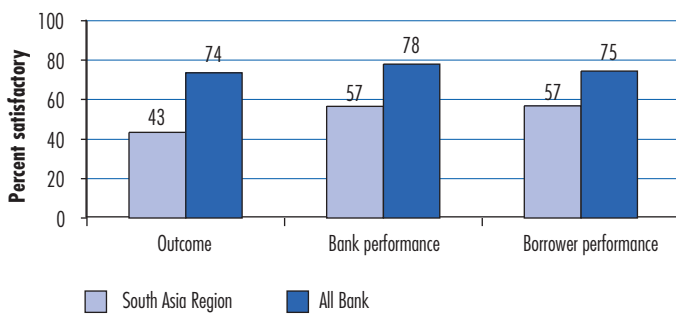
**Table 1: Summary of MDP Portfolio, 1998–2008**

|  |     |
|--|-----|
| Completed (number)                           | 7   |
| Completed MDPs (% satisfactory)              | 43  |
| Ongoing MDPs (number)                        | 5   |
| IBRD Commitments (US\$ million)              | 671 |
| IDA Commitments (US\$ million)               | 673 |
| Commitments per completed MDP (US\$ million) | 88  |
| Commitments per ongoing MDP (US\$ million)   | 146 |
| Wholesale MDPs (number)                      | 4   |
| Retail MDPs (number)                         | 8   |
| Countries served (number)                    | 6   |
| Municipalities served (number)               | 146 |

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.

## BETTER CITY PLANNING

### More information

**India II** provided technical assistance to 50 municipalities, called urban local bodies in Tamil Nadu. As a result, 46 local municipalities have prepared city corporate plans with a mapping of urban infrastructure using important baseline data. However, these plans have yet to become key drivers of local municipal development, even though they have facilitated municipal access to loans by the Tamil Nadu Urban Development Fund, itself established by an earlier MDP project. The need for systematic data collection is now better appreciated; in fact, the State Municipal Administration and Water Supply Department plans to assist local municipalities prepare a human development index for such basic services as water supply, sanitation, health, poverty alleviation, and access to basic needs.

Under the **Sri Lanka MDP**, the Colombo master plan benefited from the project's provision of a geographic information system for the Urban Development Authority, but little expertise was passed on to the Colombo municipality that is responsible for cadastral and land-use applications for the geographic information system.

### Monitoring and evaluation

Monitoring and evaluation (M&E) was weak in MDPs. Its weakness came from too much focus on the delivery of project outputs and too little on project impacts gained through achieving the MDP objectives. This M&E shortcoming was even evident in the otherwise well-performing **India II**, which gave little attention to measuring the achievement of municipal service improvements, let alone the impact on beneficiaries. For instance, a completed bus stand was treated as fully achieved, even though it had not started functioning because it did not have the necessary official permits. Even targets that had measurable goals did not have baseline data to compare against.

However, some evaluation studies carried out at the end of **India II** to inform the follow-up project did provide useful information on

urban environmental indicators. Some of the larger municipalities collect regular and reliable information on service status and achievements, such as water supply per capita per day, though this is still not typical of most municipalities in the state. In **Pakistan II**, too, the M&E system was overly focused on inputs and outputs, and even data that were collected were not used to improve implementation.

Under the **Sri Lanka MDP**, the lack of baseline data on the original condition of the Beira Lake water and the absence of systematic monitoring of changes to it made it impossible to assess properly the results obtained through the project.

### Urban and spatial planning

Apart from the update to the Colombo master plan under the **Sri Lanka MDP**, there was not much evidence of MDP impact on this in the Region.

### Investment planning and strategies

**India II** in Tamil Nadu provided consultant technical assistance to and facilitated exchanges among 45 municipalities to help each prepare corporate plans that set out their investment priorities for the following 10 years.

## STRONGER MUNICIPAL FINANCES

### Better financial management

Significant efforts to improve financial management were mainly confined to India and Bhutan, with positive results in India but less so in Bhutan. **India I** and **II** helped strengthen local municipal capacity in finance and accounting, including computerization. This occurred through training (35 freestanding courses) for finance and accounting officials, as well as for elected representatives. This training helped most local municipalities adopt the accrual accounting system and computerize the collection of municipal taxes and fees. Now the collection performance of several local municipalities can be monitored in real time, making information quickly accessible for decision makers at the municipal and state level. Compliance has become easier to monitor, and users find it easier to pay their taxes.

Under the **Bhutan MDP**, financial reporting during implementation was weak and was made worse by lack of technical support within the country for the computerized financial management system that had been customized for the project. On a related matter, much needs to be done to build financial systems for cost recovery.

### Mobilizing own revenues

Under **India I**, Tiruchirapalli municipality (population 775,484) reported an increase of 60 percent in revenue between fiscal 2004 and 2005. The municipality used the additional revenue to undertake new infrastructure investments of its own, such as the water supply in the Srirangam area. The Madurai municipality increased property tax collections by 20 percent during fiscal 2004–05, compared to 6 percent for the previous year. In terms of direct cost recovery from MDP investment, there is little evidence of significant results in the Region.

Under **India I**, little was done to simplify procedures for revising bus fares or to strengthen the transport corporation in Chennai (population 4.3 million), which continued to be a loss-making entity, unable to invest in or expand services. Under **Bangladesh I**, the cost-recovery component through Agrani Bank loans was cancelled, and the property tax collection system remained unchanged.

### **Municipal creditworthiness and debt management**

**India II** encouraged municipalities in Tamil Nadu to become credit-worthy to have better access to loans awarded by the Tamil Nadu Urban Development Fund (TNUDF). Under this arrangement, local municipalities were given easy access to discuss and access the TNUDF's knowledge base of innovative funding, for which there was a high demand. By March 2005, 39 percent of TNUDF's portfolio related to investments in bridges and roads, 38 percent to sewerage and sanitation, and 17 percent to water supply.

The state's second largest city, Madurai (population 909,908), went one step further. With technical assistance provided through the project, the municipality issued bonds to raise funds to pay for the construction of an inner ring road that today yields \$1.4 million per annum in toll charges.

### **Private finance participation**

MDPs in this Region did little to achieve private financing of projects. **India I** and **II** came closest by encouraging the TNUDF to create near-market conditions for municipal investment that would begin to interest private financiers. But **India I** failed to promote the intended private participation of shelter and land development in the slums of Chennai because of the lack of interest on the part of private developers.

## **IMPROVED SERVICE PROVISION**

### **Investment priorities**

Estimates for economic rates of return (ERRs) were rarely made for MDPs in the Region. One exception was **Bhutan's MDP**, which yielded a 25.8 percent ERR at completion, according to government estimates.

### **Procurement**

As in other Regions, MDPs involved local municipalities more in preparing and sometimes fully managing procurement. Although some shortcomings were still reported, the procurement experience of **Pakistan I** highlighted the effectiveness of spot checks, especially in the municipality of Lahore (population 6.3 million), on the good faith of bids. Such checks helped prevent insider trading and the formation of local cartels.

Under the **Sri Lanka MDP**, both the municipality of Colombo and the national authorities perfected their skills in prequalifying bidders, so that tenders always included high-quality technical solutions. The **Bhutan MDP** introduced competitive procurement for municipal works for the first time in that country, even though municipal capacity in this area remains weak.

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

| Share of all MDPs with a project design focus on: | Completed | Ongoing |
|---|-----------|---------|
| <b>City planning</b>                              |           |         |
| In objectives (%)                                 | 29        | 0       |
| In components (%)                                 | 0         | 67      |
| <b>Municipal finance</b>                          |           |         |
| In objectives (%)                                 | 57        | 60      |
| In components (%)                                 | 43        | 60      |
| <b>Service delivery</b>                           |           |         |
| In objectives (%)                                 | 100       | 100     |
| In components (%)                                 | 100       | 100     |
| Number of all MDPs                                | 7         | 5       |

Source: IEG special study.

Note: MDP = municipal development project.

### **Operations and maintenance**

MDPs in the Region rarely addressed municipal responsibilities for operations and maintenance, and this neglect remains an ongoing concern. Thus, the benefits from physical works under **Bangladesh I**, for instance, are unlikely to be sustained because of continued neglect of maintenance. Despite progress in improving sewerage under **Pakistan I**, there too municipalities' operations and maintenance is adequate. As result, the uncollected waste accumulating in sewers and drains undermines the benefits of the upgrading that was done.

### **Services—Most affected sectors**

MDPs in India, Bhutan, Bangladesh, Pakistan, and Sri Lanka helped improve urban services and related infrastructure. In Tamil Nadu, **India I** and **II** contributed positively to services, infrastructure, and security in slums and made some improvements to urban roads and transport services. The projects improved living conditions in 489 slums (against a target of 590), housing 76,000 people—or 5 percent of the slum population—in the 10 largest agglomerations in the state. This was done by providing paved pathways, drains, streetlights, public fountains and baths, and tenure security. Beneficiaries reported health improvements and greater social acceptance. There were some shortfalls in transport services: only 4 of 10 depots and 7 of 10 terminals were completed. The widening of the inner ring road in Chennai was only partially completed because of difficulties in acquiring necessary land. For the transport corporation in Chennai, 1,595 bus chassis were procured, but they could not all be used because of financial constraints.

Under **Pakistan I**, about 300,000 low-income people in Lahore, Gujranwala, Sialkot, and Multan benefited from slum upgrading. In Lahore, 21 major roads were improved and new street lighting and traffic signals were installed. But the construction of stabilization ponds for sewage treatment in Lahore was deferred for a later project.

**Pakistan II's** upgrading reportedly reached 90 communities with 550,000 beneficiaries and engaged in road construction that saved travel time and improved environmental conditions, but evidence for these assertions was not always clear. They must be in doubt, given the reports of lack of coordination among stakeholders and of failed project infrastructure that had to be rebuilt prematurely.

Following **Bangladesh I**, 90 percent of slum dwellers in three Dhaka slums (Islambagh, Raulpur, and Shaheednagar) reported improved living conditions through construction of 482 latrines. But the project faced implementation shortfalls, again because of difficulties in acquiring land. The **Bhutan MDP** helped improve the quality of life in 10 towns through enhancements to water supply and other urban infrastructure, although the results were short of targets. The project experience enabled municipalities there to participate in the environmental screening of subprojects. Under the **Bhutan MDP**, there was improved interaction between central and local governments on the environmental screening of urban investments. A beneficiary survey revealed that 73–83 percent of respondents in 3 towns considered the water supply to have improved, but this result has to be set against surveys in towns that were not covered by the project that also reported similar improvements.

The **Sri Lanka MDP** did not improve solid waste management in Colombo, despite the city building a large-scale compost operation, which the Bank had initially suggested was not the best technical solution to the problem. The project had greater success in reducing wastewater pollution in the Beira Lake catchment area. An industrial waste system was completed under the project, and several lakeside dwellings were hooked up to the sewerage system.

### **Income levels of beneficiaries—Poverty reduction**

There is evidence that the modest results of the Region's MDP portfolio did nevertheless bring some benefits to the poor. **Pakistan II** aimed to reach low-income groups in the Northwest Frontier Province, but the effectiveness of poverty targeting was unclear because of political interference in beneficiary identification. Improvements in living conditions cannot be attributed to the project.

Under **India I**, a cross-subsidy from the sale of a small number of lots for middle- and higher-income households helped finance a number

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

**Afghanistan:** Kabul Urban Reconstruction. **Bangladesh:** I—Urban Development; II—Municipal Services. **Bhutan:** Urban Development. **India:** I—Tamil Nadu Urban Development; II—Tamil Nadu Second Urban Development; III—Karnataka Municipal Reform; IV—Third Tamil Nadu Urban Development. **Pakistan:** I—Punjab Urban Development; II—Northwest Frontier Province Community Infrastructure; III—Punjab Municipal Services Improvement. **Sri Lanka:** Colombo Environment Improvement.

Source: IEG.

of serviced plots for the poorest households, which included common open spaces that made best use of the land available. Under **India II**, benefits reached the poor through slum upgrading in particular. Also an integrated sanitation program provided public complexes with toilets and washing areas in underserved areas such as slums. Beneficiaries—who are typically poor—reported a substantial improvement in their quality of life. As a result, open defecation was reported to have decreased by 80 percent.

## CONCLUSIONS

- The positive experiences of **India I** and **II**, involving almost 20 years of continuous Bank assistance to urban development in the state of Tamil Nadu, suggest that adapting a wholesale, step-by-step approach to a particular context over a sustained period can yield positive results.
- **India II** has contributed to improving urban infrastructure services in Tamil Nadu, directly through projects funded by TNUDF and indirectly through capacity building in municipalities that have made additional infrastructure investments using their own funds.
- Even in projects that otherwise perform weakly, municipal management can be strengthened by increasing the responsibilities of local government for procurement of works and goods, as experience in Bhutan and Sri Lanka showed. To minimize risks, spot checks can be necessary, such as those made in **Pakistan I**.