

Management Comments

Management welcomes the Independent Evaluation Group's (IEG) study on Bank experience in improving municipal management. The World Bank recently did its own review of experience with urban infrastructure funds that serve smaller cities and towns, and one important finding was the need to understand better what works in building capacity at the municipal level.

More than 90 percent of world population growth in the next decades will be in developing country cities, many of them secondary cities and towns, whose systems are currently ill-prepared to provide services to all of their population. Strengthening management capacity is thus a necessary condition for making cities livable. Improved and sustainable access to services is a key pillar for poverty reduction on the urban agenda.

The main lessons from the study are useful for the Urban Sector going forward: the successful role of municipal development projects' support for strengthening municipal finance; continued support for tightening of municipal financial management, raising of municipal own revenues, and bringing of municipalities to local credit markets when appropriate; the importance of project documentation for measuring results; the relative success of wholesale versus retail approaches; the need for use of cost-benefit or cost-effectiveness analysis to select the best investments and achieve outcomes efficiently; a need to strengthen monitoring and evaluation systems; analysis of local financial markets and demand to encourage private finance; and the potential role that municipal development projects (MDPs) can play in reaching the poor.

The study finding that less than one-third of the projects reviewed cited poverty alleviation as a formal objective of the project is significant and

deserves further attention to understand this better. In particular, it would be useful to explore the extent to which the poverty focus in these projects may not be currently reflected in the formal development objectives of municipal development projects.¹

Poverty reduction is at the core of the Bank's urban work and its forthcoming urban strategy. The Bank directly addresses poverty reduction in cities through a variety of instruments that are designed to address immediate and basic needs of the poor while supporting institutional and management capacity to improve and lay a solid foundation for the sustainability of services. These include slum upgrading, or development policy loans targeting policy reforms to improve access to affordable housing. Typically low-income settlements are informal and thus beyond the reach of formal service delivery. The MDPs studied in this report focus on systemwide improvements in planning, finance, and service delivery and are thus a complementary tool to ensure sustainability and access to services for all, including the poor, over the longer term.

It is important to place the role of municipal development projects in context. MDPs represent only about 35 percent of Urban Development projects prepared by the Urban Sector Board over the same time period. Among the other sector boards covered in the study, the sample includes only 2 percent of the Environmental Sector Board

projects, 7 percent of Water Sector Board projects, 3 percent of Transport Sector projects, and 1 percent of Public Governance projects.

It is also important to note that there may be a reporting issue in capturing the poverty focus of municipal development projects. The determination of poverty focus in the study was based only on the project development objectives of the projects reviewed, not on the actual project content or field review. Projects focusing on systemwide improvements in accounting, planning, and tax collections are those least likely to set specific poverty objectives as the project development objective, because as explained above, impacts are more indirect and long term. Improvements in management municipal systems will help the poor over the longer term as the formal system expands its reach, but these impacts may extend beyond the period under evaluation.

Management looks forward to guidance from IEG regarding best practice on how clearer articulation of the poverty alleviation objectives and activities in municipal development projects can be captured, and on how to monitor the indirect and long-term impacts on poverty, including in smaller cities and towns, which may have limited capacity.

A review of the Bank's recent work indicates that projects with components specifically targeting the urban poor are trending upward and accounted for more than 40 percent of Urban Sector Board lending in fiscal 2008. A number of recent pieces of economic and sector work have also been developed or approved in the Urban Sector, with a strong focus on urban poverty that will help to build the pipeline. That being said, management's aim is to increase this further, reversing, for example, the decline in lending for slum upgrading over the previous two decades.

The release of the IEG report coincides with the launch of consultations on the new World Bank Urban Strategy. This is an opportune time to build on the insights from the report as we engage with clients, development partners, and civil society organizations, particularly in light of the report's call to scale up urban services to the poor. This is an agenda that calls for strengthening our analytical base, mainstreaming urban issues in Country Assistance Strategies and policy dialogue, and expanding the Bank's approaches for reaching the urban poor. Scaling up programs for delivery of services to the urban poor, innovative projects, and responsive instruments will all play a role as the Bank seeks to respond in a rapidly urbanizing world.