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***World Bank Experience with
the Provision of Infrastructure Services
for the Urban Poor:***

**Preliminary Identification and
Review of Best Practices**

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GENERAL OPERATIONAL REVIEW

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Abbreviations

CBO	Community-based organization
CR	Cost recovery
KIP	Kampung Improvement Program (Indonesia)
LGU	Local government unit
MCI	Municipal Credit Institutions
NGO	Nongovernmental organization
O&M	Operation and maintenance
OED	Operations Evaluation Department
PPAR	Project Performance Audit Report
PCR	Project Completion Report
R&R	Resettlement and rehabilitation
SAR	Staff Appraisal Report
S&S	Sites and services
SIF	Social Investment Fund
SSP	Strategic Sanitation Plan
UDP	Urban Development Project
WSS	Water supply and sanitation
WTP	Willingness to pay

Foreword

This “Issues Note” is based on a desk review of some 70 Bank-supported urban projects and a dozen water/sanitation projects with components aimed at the provision of basic infrastructure services to low income urban communities. The review was prepared as an outcome of a task group, appointed by Anthony Pellegrini (Director, TWU), that included Fitz Ford, Vijay Jagannathan, Christine Kessides, and Alcira Kreimer. Views of sector staff and consultants were solicited by means of an E-Mail questionnaire, and through interviews. Thanks are due in particular to the following individuals who provided guidance and comments on earlier drafts: Messrs./Mmes. Annez, Briscoe, Campbell, Carroll, Faiz, Garn, Gattoni, Gouarne, Hammam, Jimenez, G. Lee, Pantelic, Read, Sara, V. Serra, Solo, and Unger. Useful information and suggestions were also obtained from Messrs./Mmes. Alfaro, Bakalian, Banes, Beardmore, Beenhakker, Bertaud, Brook Cowen, Burns, Canel, Chandler, Codato, Couzens, Cuenco, Dasgupta, Dice, Diou, Farvacque, Gross, Grover, Halfani, Harth, Hoornweg, Kalbermatten, Katakura, Keare, Kirke, Lumsden, Mayo, Mejia, Mekan, Moser, Nankman, Owusu, Peters, Rotner, Sengupta, Shalizi, Silverman, Sivaramakrishnan, Skytta, Solo, K. Taylor, Tewari, Tin, Vergara, Vetter, Veuthey, Viloría, Whitehead, Whittingdon, Williams, and Wright. An earlier draft was presented at the TWURD Urban Retreat in January 1996 and some of the present material was incorporated into the Bank’s presentations at Habitat II in Istanbul in June 1996.

Kavita Mathur conducted the search of relevant projects in the portfolio and prepared summary data on the sampled projects (in Annex). Mary Abuzeid assisted with document production.

Overview

1. Over the next 25 years, more than half of the developing country population will become urbanized. In many countries the number, and even the share, of the poor living in cities, and especially in the periurban areas, is increasing. Almost by definition, the urban poor lack basic infrastructure services—safe water, sanitation, solid waste collection and disposal, storm drainage, public transport, access roads and footpaths, street lighting, public telephones, and often other neighborhood amenities (safe play areas, community facilities), electricity connection, and social services. The proliferation of slums, often composed of squatters without legal recognition or secure tenure, translates into squalid and unhealthful living conditions and reduces residents' productivity and employment options. Communities themselves are becoming less tolerant of their exclusion from basic services, and both central and local governments are increasingly aware of the economic, political, and environmental issues created by such inequities.

2. Drawing upon a desk study of a large sample of completed and ongoing projects that the World Bank has supported in the urban, water and sanitation sectors, the present review seeks to inform and stimulate the debate about future efforts to address the growing needs. The following questions motivate this analysis:

i) what kinds of projects appear to be most effective in providing infrastructure services to the urban poor?

ii) under what conditions have these services been sustained beyond the project duration?

iii) in what ways can Bank operations best influence non-Bank-financed activities in the sector to achieve broader impacts on larger numbers of beneficiaries--that is, increase the potential for "scaling up"?

Alternative project types and their evolution

3. **Integrated urban development projects.** The Bank's urban development projects (UDPs) in the first decade (mid-1970s to mid-1980s) could be characterized as providing a largely predefined package of multisectoral investments; generally to preidentified geographical areas or neighborhoods; mainly through central government agencies or special area development authorities (in some cases created by the projects); and implementing preappraised subprojects. Slum upgrading projects at the time typified this approach.

4. The integrated type of projects succeeded in their objective of demonstrating low-cost designs for services that were feasible to replicate on a wider scale. The experience confirmed that the provision of basic infrastructure and tenure security led to substantial private investment in home construction and contributed to a vitalized local economy. Low income households also showed a willingness and ability to pay for the services they valued, thus undercutting a common premise of the traditional subsidies. In many cases, however, the necessary policy and

regulatory reforms were not made to permit more widespread use of affordable design standards or to restructure subsidies to a more efficient and fiscally sustainable level. The initial projects were often too complex for the public agencies charged with their implementation, and other potential partners—the communities themselves, utility companies and private developers—were offered only limited roles. In all but a few countries (Indonesia, Jordan, Tunisia), the projects were not replicated as citywide or national programs as central governments lost interest while local governments and sectoral agencies lacked the incentives and capacity to carry on.

5. By the mid-1980s, when the Bank's growing emphasis on structural adjustment took precedence over the earlier poverty orientation, urban assistance shifted to a greater focus on the institutional and financial constraints impeding effective local service delivery. This reorientation in the urban lending was a logical response to the shortcomings apparent in the targeted area investments, which stemmed from: inconsistent and counterproductive policies—especially concerning land regulation and the persistence of regressive subsidies; and weak institutions—local governments without clear mandates or reliable revenues, and utility companies that lacked incentives to reduce costs or to serve new clients among the poor. While much of the Bank's urban lending in the 1980s emphasized policy and institutional development rather than direct interventions addressing poverty, a new type of project emerged with an open-ended and flexible design that could support such activities.

6. **Programmatic urban projects.** Both in urban and other sectors, the “programmatic” operations feature a line of credit or grant fund that supports subproject proposals from municipalities, other agencies, or communities for a variety of investments, based on predefined criteria for eligibility including low income and infrastructure deficiencies. Many of these projects identify institutional development and capacity building as their primary objective; some include a focus on municipal management, reform of center-local fiscal relations, or environmental frameworks. The programmatic design permits local authorities and other stakeholders (community groups, NGOs, private contractors) to take more responsibility for project identification and implementation and has been popularized through social investment funds—although most of the latter do not address municipal or sectoral institutional reform. As political reforms in many countries in the past several years have transferred new responsibilities for service provision to municipalities, and the local populations have become more activist in organizing to provide their own services and demanding support from the public agencies, programmatic financing mechanisms have become a responsive instrument to be used by all these stakeholders in their new roles.

7. **Programmatic water/sanitation projects.** A somewhat similar, but later, evolution in the water and sanitation lending program was stimulated by the failure of many earlier projects to extend water and sanitation coverage to the urban poor in ways that meet their demands and can actually be sustained over time. The poor performance of the WSS portfolio in this regard has fueled both the transition to private sector management and incentive systems for formal sector agencies, as well as experiments with alternative institutional approaches in cases where

the conventional service networks cannot be extended to all the poor even in the medium term. The new style of project was inspired by indigenous innovations in several countries (most notably, Brazil's PROSANEAR and Pakistan's Orangi programs) at the initiative of low income communities, NGOs and reform-minded governments. Building on this experience and that of rural water programs, a cohort of new water/sanitation projects in the last several years focuses on providing poor urban (especially periurban) communities with a set of basic or intermediate services in response to signals of effective demand. This third group of projects reviewed here emphasizes an adaptive design, with a programmatic financing mechanism. A central aim of the projects is to reform the practices and incentives within the sectoral institutions to make them responsive to the poor as customers and willing to adapt their practices to the technical and social requirements of periurban settlements.

8. Many of the programmatic operations, both urban and water/sanitation, have tended to be somewhat slow at start-up and to encounter initial problems with local-level consultant supervision, procurement, and construction quality, because the subprojects are highly decentralized and community-based in their inception and execution. In addition, more time and effort is often required than planned at the outset to educate all parties to the project approach. This lead-time should have a payback in stronger sustainability of the subprojects in the longer run. Where well-managed with clear rules and detailed manuals of implementation, these projects have proven capable of good implementation progress.

9. **Evaluation criteria.** Only the integrated urban projects have been formally evaluated in any significant number, and the performance and impacts of the programmatic multisectoral and single-sector projects are subject to the test of time. The available information on operations of each type, however incomplete, is reviewed in light of the following criteria for "successful" projects or components:

- (i) they are able to reach the urban poor, even if not exclusively;
- (ii) they meet the "effective demand" of the target beneficiaries (provide services for which users are willing to pay);
- (iii) the services can be sustained, meaning that there is an institutional arrangement to cover recurrent costs and to carry out required operation and maintenance (O&M) during the active life of the investments;
- (iv) the approaches are capable of replication to serve larger numbers of the target population than covered by the original projects.

Issues of design and implementation

10. **Targeting the poor and detecting demand.** Most of the integrated urban development projects were reasonably effective in reaching mainly poor households through geographic targeting, especially in slum upgrading components which covered all residents in the designated area. The programmatic approach, on the other hand, merges the problems of targeting and demand identification by making willingness to contribute a central criterion for

eligibility in the project—that is, communities self-select on the basis of their interest in taking an active role.

11. Designing “demand-based projects” requires, first, unbundling demand for urban services that range from mainly public goods (access routes, street lighting and drainage) to mainly private goods (land title, housing improvements). The water/sanitation sector runs the full gamut of service types. The appropriate arrangements for decision-making, and the main responsibilities for financing the various types of urban infrastructure and services will therefore vary—the major rule being that the level of authority should correspond to the location of the benefits.

12. The public good and communal-type infrastructure requires institutional mechanisms to structure public choice. In addition to mobilizing communities’ awareness of shared interests, demand-based infrastructure programs offer the communities alternatives with understandable consequences in terms of their required financial contributions and participation in project activities, both for the investment and operational phases. Pakistan’s North-West Frontier Province Project for Community Infrastructure (NWFP) and the low-cost water and sanitation projects in Uganda and Zambia are recent examples of such arrangements for community choice of services.

13. A demand-based approach therefore implies that beneficiaries choose services from a menu of alternatives having “price tags” (or specific opportunity costs) associated with them. For example, several of the newer programmatic water projects and urban projects specify a maximum per capita subsidy for the basic level of service (or set of services), and require communities to finance the incremental costs of any higher technical option they choose. In addition, the projects do not guarantee that a community will receive even the minimal funding unless it meets other participatory requirements. The effectiveness of any subsidy design can be undermined if governments and donors make the conditions more elastic over time or introduce competing programs with softer terms.

14. **Developing partnerships for preparation and implementation.** Developing services for the urban poor depends on creating adequate *incentives* for the formal agencies to respond to demand as expressed, and ensuring *coordination* across services and jurisdictions. Periurban areas that fall outside existing municipal boundaries and often lack legal status pose a particular challenge, as they are seen by the formal providers as high cost/low profit, disorganized and difficult to service, and unsafe.

15. Initiating and sustaining services in these areas depends on partnerships among levels of government, sectoral agencies, private sector entrepreneurs, and NGOs. The early UDPs often relied on special implementation agencies at the cost of weak ownership by the local governments. The programmatic urban projects aim to increase local governments’ decision-making functions and capacities through a line of credit or grant mechanism, often within the context of decentralization of fiscal and political authority.

16. Involvement of the sectoral agencies is essential to provide the higher service standards when these are demanded, and to integrate services with citywide networks. Most engineering-oriented utilities are ill-equipped to deal with poor informal settlements, however, which requires unconventional tactics of negotiation with communities and willingness to try alternative technologies. The regulatory or contractual framework for utilities should provide a clear mandate for extending service to new users and remove disincentives, such as arise from many common tariff structures. The rules governing service concessions should also be made sufficiently flexible to encourage growth of services in poor communities by a variety of means, not constrained by a formal service monopoly. Communities should be able to get services by regular connections to the utility network, by negotiating bulk sales from the utility, or by arranging for their own feeder systems under technical supervision by the utility and integrating these into the network service area.

17. In addition to providing utility services, the private sector can be encouraged to take a greater role in developing land and housing through changes in zoning practices, easing of building standards, and reforms in mortgage financing. Upgrading of *existing* slums and squatter areas through public good-type investments, such as paved roads or drainage, is not often attractive to the private sector because of the limited cost recovery potential, high transactions costs, and legal issues involved. Such improvements require explicit *contractual arrangements* between either a community association or local government and the potential private developers to resolve these issues. The nongovernmental contract management agencies (AGETIPs) in Africa, which have a very positive record of undertaking small contracts, could potentially be used more in the future as area developers for slum upgrading.

18. **Institutional arrangements for project finance.** Some of the programmatic urban projects work through legally independent agencies as financial intermediaries for subprojects; others use a loan or grant fund as an integral part of intergovernmental budget transfers. Municipal credit schemes have been found to perform best when commercial banks manage the funds and make the subloans; this kind of arrangement also helps prepare the ground for involving private capital markets in local infrastructure investment.

19. Sustainable financial policies are a prerequisite for delivering and expanding reliable services, and for attracting private partners, in urban investment programs. A first step is to identify the appropriate level and mechanism of cost recovery from beneficiaries—for both investment and O&M, including debt servicing—mainly through a combination of:

- (i) payment of tariffs or user charges for utility services (by households or by the community in the case of bulk supply);
- (ii) financial contributions from the community for public-type goods;
- (iii) mobilization of local fiscal revenues from increased property taxes or “betterment” taxes to cover the costs of communal or public good-type improvements.

20. There have been good results in cost recovery when governments and project managers have a firm commitment to consistent application; the revenues are used to actually improve services, promptly and as promised, for the beneficiaries; and when the user community is involved to provide joint security for repayment, as in microcredit schemes managed by communities themselves.

21. Programs for poor communities often also require a commitment by the central and/or local government to subsidies that are well-targeted and provide incentives for efficient services. As long as a subsidy program keeps the costs of a basic service package sufficiently low and requires beneficiaries to pay for any higher-level services they demand, experience suggests that the public finance burden of extending improvements to all of the population need not be unmanageable.

22. **Land-related issues.** While formal land registration and titling have been a component in many Bank-supported projects and often a source of delay in implementation, experience has shown that infrastructure improvements providing less than legal title can create a sufficient informal *security of tenure* to permit residents to invest and acquire other services. Obtaining a water connection, for example, provides a measure of official recognition to a settlement and to an individual household. In some cases, tenure legalization should be pursued separately from (and not made a condition for) other project activities which improve the living conditions of the poor by strengthening their right to the use of property, the ability to trade and collateralize land, and to acquire infrastructure services with minimal transactions costs.

23. Well-designed projects can often avoid involuntary dislocation of households and in the past have provided effective alternatives to official slum clearance practices. Satisfactory resettlement arrangements are, however, a critical condition for the resolution of citywide infrastructure problems such as public transport, for effective service delivery in very densely populated cities, and for protection of environmentally vulnerable zones. Resettlement needs to be undertaken with regard to citywide (or land market-wide) sector policies and conditions, not as enclave activities. The cost and availability of alternative housing sites, and access to employment, are key considerations for the welfare of resettled households and therefore for the design of systematic resettlement programs.

24. Programs to upgrade existing informal settlements should be supported by a complementary and effective strategy for managing new growth in medium-sized cities and towns, to head off the excessive costs of service provision resulting from unchecked squatting and urban sprawl. Minimal upfront planning would consist of mapping the basic network (e.g., main transport rights of way) to guide periurban growth. Government policies could then focus on creating a supportive regulatory framework for private land development, by removing obstacles to competition and other factors constraining the access for low income residents.

Preliminary conclusions and lessons for the Bank

25. **Drawing lessons from past projects.** Evaluations of the Bank’s past slum upgrading activities under the integrated urban development projects reveal that the completed physical works brought about real improvements in the immediate environment of residents and stimulated considerable private investment, thereby raising the quality of life and local economic activity. The provision of infrastructure and tenure security also yielded broader benefits by regularizing the status of communities in the eyes of municipal and other authorities and empowering residents to seek other services from their local government. Slum upgrading and other urban service improvements are activities that the Bank should certainly continue to support, both as consistent with the mandate of poverty reduction and environmental sustainability and to strengthen local governance and democratization.

26. Even granting these achievements in the integrated project portfolio, there has been less success in those components—especially, sanitation and to a lesser extent, water supply—that require fine-tuning of technical approaches and service options to meet variations in community demand, and that depend on communal organization of O&M for sustained benefits. Experience has also made clear that neighborhood-specific investments are insufficient to ensure citywide environmental improvement (especially in solid waste and wastewater disposal, traffic management, and protection of water sources) and must be pursued in concert with activities that address broader service networks.

27. The evidence from this review indicates that the obstacles to wider national replication of programs have not been mainly financial (the affordability of basic service provision to either the households or to the public budget), although availability of fiscal resources was certainly a supporting factor in many countries. The crucial ingredients are rather political and institutional. Scaling-up requires policies and institutions that promote innovation and mobilize initiative and resources to meet expanding and changing needs. Trends in many countries over the last several years have made it more likely that these conditions can be met. The objective need for expanding such services has been growing but more importantly, the effective demand by the population is perhaps stronger and more capable of articulation and action than in the past. The enfranchisement and increased participation of local populations in their own governance; the unshackling of intermediaries such as NGOs and private developers; and the assignment of new powers and responsibilities to local governments have all created a fertile ground for new approaches to service provision for the urban poor and a favorable context for projects and programs which the Bank can support.

28. The Bank’s current “toolkit” of operations can be adapted to the demands of these circumstances. While the basic design of the early integrated urban projects permitted rapid physical investments in many cases, it was less well suited to building indigenous capacities and responding to the diverse interests of local governments, utilities, and communities. Where integrated approaches are still desired, a more flexible (less “prepackaged”) design will be appropriate. It is also preferable that such projects be implementable by municipalities and

utilities as part of their normal functions rather than left to an enclave agency, although contracting-out slum upgrading to a private developer could be a viable alternative. The programmatic type of multisectoral urban projects is already consistent with capacity-building as a *process*, and requires clear rules allowing communities to express their demands for investments across the sectors. Similarly, the new single-sector water/sanitation projects with an adaptive programmatic design provide a good framework for clarifying the implications of specific service demands *within this sector*, experimenting with alternative technologies, and changing the attitudes and practices of sector institutions.

29. From the experience with all of these project types, certain elements can be identified for sustainable, replicable, demand-responsive projects or programs to provide a range of infrastructure facilities and services:

***(i) Design elements and institutional arrangements
to ensure demand-responsiveness--***

- Beneficiaries may be targeted initially through a geographic or poverty mapping exercise; however, the actual recipient communities should be required to indicate their effective demand for improved services and willingness to support the project by contributing resources (in cash or in kind) and by participating in decision-making.
- Target beneficiaries should be enabled to express their demands and priorities in a multisectoral framework. However, supply-side capacity (actual service delivery) may be developed either through a multisectoral or single-sector project or program.
- Households and communities should be offered technically feasible service options and be required to face real opportunity costs of any service options they choose. In offering choices, full information should be provided about tradeoffs: i) between investment vs. O&M implications; ii) between doing one improvement at a time vs. doing several at a time (e.g., water supply only vs. water plus street drainage plus road improvement); iii) between doing some improvement now vs. doing it later. Both female and male beneficiaries need to be fully involved in these decisions.
- Assessing the costs and benefits of each option and weighing their merits requires an iterative, multi-layered process of decision-making among the different social units affected (including households, block-level or neighborhood-level associations, elected municipal officials, sectoral agencies, and even provincial or national governments for some financing or regulatory issues). Each of these various social units can best weigh the costs and benefits that accrue at its level from different types of infrastructure service improvements. Development of urban services therefore needs to involve an array of users, planners and policy makers, but with *decisions taken at the lowest appropriate level*.
- Communities may need assistance—from local government, utilities, CBOs, NGOs, or private entrepreneurs—to articulate their needs and make commitments. In addition, information should be disseminated impartially and aggressively to the public about investment options and program rules.
- Formal institutions (governments and utilities) need to adapt themselves to be open to community demand and initiative, with collaboration among engineers and community workers.

(ii) Design elements and institutional arrangements to promote sustainability of services and broad access (scaling-up)--

- Flexibility of design standards and of land regulations is important to keep costs of services low, reduce bottlenecks in supply, and let households make their own tradeoffs between convenience and affordability.
- The municipalities and sectoral agencies have direct responsibilities for the production of “primary” (trunk-level) investments and services and for the citywide urban environmental conditions. These entities should also understand a clear mandate to extend “secondary”(feeder) services for which residents are willing to pay.
- Regulation should encourage utility owners and managers (public or private) to work with communities to facilitate service expansion, whether through conventional connection, bulk sale to a communal collection point, or technical supervision of self-help and of other private sector suppliers. As well as providing services, the private sector should participate as land developers, contractors for specific works, and managers (and sources) of loan funds. Financial (including tariff) policies should avoid disincentives to extending services to the poor.
- In addition to clear rules promoting cost recovery from beneficiaries and financial contributions from communities, governments should commit to financing a resource envelope of capital subsidies adequate to ensure a basic service standard for secondary infrastructure.
- Community groups need to be legally constituted to be accountable for their decisions regarding service provision and financing, and to facilitate enforcement.
- As part of the programs for neighborhood services, households could be encouraged and helped to mobilize their own private capital for “tertiary” (on-plot) investments through microcredit components or through savings cooperatives.

30. These elements can be incorporated into both multisectoral and single-sector projects of various designs (integrated or programmatic) to foster local initiative, mobilize public and private resources, and encourage innovation.

31. **Implications for Bank activity.** The Bank needs to develop ways of working through in-country counterparts and with other external partners to support community initiatives proactively. In some cases, basic services programs may evolve organically with the Bank helping at various stages: from *incubation* as a small-scale, purposeful initiative in a specific community, to *transition* into a more rule-based and formalized program that interacts with municipal and sectoral agencies, and finally, to *institutionalization* serving more cities and towns on the basis of clearly established funding arrangements and eligibility criteria. While the Bank can respond through a variety of instruments and modalities at each stage, the challenge will be to encourage countries to begin and accelerate this evolutionary process. A proactive strategy to promote basic urban services would involve:

- Identifying countries where central and local government leaders in at least a few urban areas are committed to expanding services for the poor and willing to take a financial and political stake over the medium term.

- Reaching an understanding with these governments—and with other concerned groups such as utilities, NGOs and donors—on a basic framework of sectoral and financial policies and institutional arrangements that will permit sustainable service development and will be applied consistently in these urban areas. Such a framework could be based at least in part, for example, on the program design elements listed above.
- Combining this sectorwide perspective with an “opportunistic” portfolio. Every project need not (and in most cases, probably should not) have a citywide or multiservice scope. Both adaptive, targeted interventions and sector investment-type operations may be appropriate.

32. The right approach will likely vary among countries and even among urban areas, depending on the nature of local needs and institutional capacities. For example, in cases where the settlements without basic services are few and not growing rapidly and where the sectoral institutions are reasonably capable, the most efficient strategy may be to address whatever barriers in the incentive system impede the connection of these residents to the formal networks. This scenario is most pertinent to middle-income countries. In such cases, an appropriate stance of the Bank would be to promote tariff reforms, correction of regulatory factors that deter new connections, improved access to financing for new investment where needed, and greater openness of the utility to consumer inputs. On the other hand, in urban areas where the unserved population is rapidly growing or in the majority and the formal institutions are weak and unresponsive, these sectoral policy reforms are still relevant but they are not likely to have a sufficient impact for the poor, even in the medium-term. In these cases—more typical among the low-income countries—a combination of approaches would be needed. Appropriate responses by the Bank in such circumstances could include direct financial support to community initiatives through programmatic arrangements; targeted projects for upgrading of certain areas, perhaps as demonstrations to test particular technical or institutional designs; and/or capacity-building of formal and informal institutions that are interested in facilitating access of the poor to services. In both of these urban scenarios, experience suggests that results will be strongest where the Bank can remain involved over a number of years.

**World Bank Experience with the
Provision of Infrastructure Services for the Urban Poor:
An Issues Note**

I. INTRODUCTION

1. **Background.** Urbanization is expanding rapidly in developing countries—within the next 25 years, more than half of their total populations will reside in urban areas. This growth will entail vast increases in the urban poor, who already number an estimated 400 million in the developing world and are expected to reach one billion by 2020. Almost by definition, the urban (and especially, periurban) poor lack basic infrastructure services—safe water, household sanitation, solid waste collection and disposal, storm drainage, public transport, access roads and footpaths, street lighting, public telephones, and often other neighborhood amenities (safe play areas, community facilities), electricity connection, and social services. In the 1980s, the number of people in urban areas without access to sanitation actually increased by about 20 million due to population growth, even as the share of coverage expanded. Slum-type settlements comprise 40-70 percent of the urban populations of most Sub-Saharan African cities, and a similar share in India (although not all of the slum residents are necessarily poor). In Metro Manila alone, 1.6 million people live in several identified squatter colonies, 95 percent of them subsisting on less than the city's poverty income threshold.¹

2. As has been documented many times, the urban poor not only have less access to infrastructure services than the nonpoor, but also pay more heavily for informal sources of supply in both money and time. Repeatedly, surveys reveal that the urban poor pay far higher prices and shares of their income for water than do the rich, and that poor women and children devote large amounts of time to obtaining water from standpipes or various informal sources.² Residents of slum communities often depend on walking as their main means of mobility, which exposes them to serious traffic risks. When public transport is available it is very costly—absorbing 14 percent of the income of the poor in Manila, for example.³

3. The proliferation of unserved settlements in urban areas, often squatters without legal recognition or secure tenure, translates into squalid and unhealthful living conditions and reduces residents' access to earning opportunities that require a minimum quantity and quality of infrastructure services—especially electricity, water, transport and public telephones—as

¹ *Urban Age*, Winter 1993, p.9.

² For one collection of such examples, see Box 2-3 in World Bank, *Water Resources Policy Paper*, 1993.

³ World Bank, *Sustainable Transport: Priorities for Policy Reform*, Development in Practice Series, 1996.

productive inputs.⁴ Social assessments of poor communities reveal that residents are starkly aware that the lack of infrastructure services contributes to their economic marginalization and loss of personal security. The deteriorated environment of poor neighborhoods also degrades citywide natural resources and quality of life. Both national and local governments are increasingly concerned about the expansion of unserved settlements because of the economic, social, and political issues they pose, especially as local populations become better informed and mobilized to express their dissatisfactions.

Perceptions of infrastructure in distressed communities in Jamaica

A social assessment was undertaken in late 1995 in several low income urban communities to identify residents' perceptions about the poverty and violence affecting them. The study revealed that physical infrastructure issues are high on the list of concerns of these communities suffering economic and social distress. In four out of five communities surveyed in Kingston and a secondary city, respondents ranked the category of "productive assets/physical infrastructure" (including housing, drainage, transport, and utilities) as one of their main problem areas, on par with or closely behind employment, human capital, crime and violence. Reliable public lighting and access to working public telephones in neighborhoods prone to violence were identified as important for personal safety and to permit mobility. Respondents also saw the inability or unwillingness of transport providers (public or private) to operate in their neighborhoods as a factor reducing their access to work and other activities.

Source: "A Participatory Study of Urban Poverty and Violence in Jamaica", Caroline Moser and Jeremy Holland, TWURD, December 1995 draft.

4. **Purpose of review.** Since the World Bank has been lending for basic urban services for over two decades through a variety of modalities, it is worthwhile reflecting on this experience to draw out lessons for future efforts to address the growing needs. The Bank's experience is admittedly a small slice of worldwide activity in this area, however, and the present review is only a first step towards distilling some of the major issues, best practices, and ultimately, guidelines.

5. The following Note summarizes an informal desk review of some 70 completed and ongoing projects of the World Bank, drawing from interviews with operations staff, OED reports (where available), appraisal and supervision reports. As a first step, a search of the Bank's urban, water/sanitation, and environment portfolios up to FY95 revealed 135 completed and 60 ongoing projects as relevant for this review. These projects are self-described as providing (in full or through specific components): (i) "low cost", "basic" or "intermediate" infrastructure services, to (ii) urban or periurban low income communities, sometimes pre-

⁴ Recent research on coping strategies of poor urban residents in Ecuador, the Philippines and Zambia confirmed that the success of home-based enterprises is linked to the availability of assets such as housing ownership, electricity and water supply, as well as skills and credit. (Moser, 1996)

identified as specific neighborhoods or geographic areas.⁵ This definition covers roughly 50 percent of all urban projects and about 30 percent of all water/sanitation projects that were completed and evaluated by end-FY95.⁶ In the FY96-97 pipeline of urban, water/sanitation, and environment projects, about 60 (40 percent) also qualify of interest to this review.

6. From this “universe” of relevant cases, a sample of projects representing salient Bank experiences—both old and new, successful and not-so-successful—was then examined in more detail to seek answers to the following questions:

(i) what kinds of projects are most effective in providing infrastructure services to the urban poor?

(ii) under what conditions have these services been sustained beyond the project duration?

(iii) in what ways can Bank operations best influence non-Bank-financed activities in the sector to achieve broader impacts on larger numbers of beneficiaries--that is, increase the potential for “scale up”?

7. Brief descriptions of a few of the more instructive and interesting project prototypes are provided as boxes in the Annex, and basic data on the sampled projects are summarized in an Annex table.

8. Section II below provides a very rough categorization of the basic services projects supported by the Bank, outlining their features, evolution and (to the extent possible) performance. Section III offers some observations concerning key elements of project design: targeting and assessing the demand of beneficiaries; the roles of public institutions and the private sector in preparation, implementation, and financing of these programs; financial policies; and land issues. The final section draws upon this review of past and current experiences for some reflections about future interventions.

⁵ Urban projects defined mainly as housing or housing finance were excluded, as were urban transport projects. Water and sewerage projects were only counted if service to low-income urban or peri-urban users was listed as an explicit objective. This inventory of relevant projects does not include the large number of projects supporting social investment funds or municipal credit institutions which also finance some basic infrastructure for the urban poor, although these are discussed in the text and Annex.

⁶ Of these urban projects with a poverty orientation, 79 percent have received “Satisfactory” ratings from completion or audit evaluations, and 65 percent of the water/sanitation projects were rated “Satisfactory”. In OED’s 1992 retrospective review of 120 water/sanitation projects completed between 1967-89, 57 percent were found to have some explicit poverty focus (urban or rural); of these, 54 percent were deemed to have achieved some success in meeting this objective. (World Bank, 1992)

II. PROJECT SCOPE AND DESIGN ALTERNATIVES

1. Across the urban, water/sanitation, and (recently) environment portfolios of the Bank, projects that address urban services for the poor can be loosely grouped into three categories, as summarized in Table 1.

A. “*Integrated*” urban development projects

2. When the Bank started lending for urban infrastructure and shelter services in the early 1970s, an explicit effort was made to demonstrate that it was financially and economically feasible to provide services to the lowest income segments of the population. The first generation of these operations (often called the “shelter” projects) consisted of two approaches: (i) sites and services (S&S)—provision of a minimal core house and infrastructure on vacant land secured for *new* settlement, and (ii) slum upgrading. S&S introduced affordable service standards to permit cost recovery, and incremental housing improvement through self-help construction, as a basis for wide-scale replicability of services. Slum upgrading extended basic standards of infrastructure—typically, on-site sanitation (private or public latrines), water supply (usually standpipes), access roads and footpaths, street drainage, public lighting, solid waste collection, some community facilities—and usually tenure regularization, to *already-settled* low income neighborhoods. The “classic” shelter operations supported by the Bank were typified by the early-to-mid 1970s projects in Botswana, El Salvador, Senegal, and Tanzania, which focused on sites and services; and by the first urban development projects (UDPs) in Indonesia, Upper Volta (Burkina Faso) and Zambia, which emphasized slum upgrading. The first four Indonesia UDPs (FY75-81), which consisted mainly of the kampung (slum) improvement program (KIP), are profiled in Annex Box A.1.

3. The sites and services approach was a clear advance over the prevailing practices of high-cost public housing provision, and slum upgrading was both more cost-effective and socially acceptable compared to the slum clearance and relocation policies of some countries (for example, India and the Philippines) at the time. Sites and services were designed to be fully cost-covering through plot sales and the El Salvador projects, which supported an innovative participatory program already under operation by a local NGO (Fundasal), were a notable instance where this was achieved. Slum upgrading was usually not intended to achieve direct cost recovery from beneficiaries, although communities and households were expected to make contributions in cash or in kind as

Features of Lending Instruments for Provision of Infrastructure Services to Urban Poor			
Characteristics	Types of projects/programs or project components		
	(A) "Integrated" urban development projects	(B) "Programmatic" urban projects	(C) "Programmatic" water/sanitation projects
Scope	Multisectoral	Multisectoral	Single-sector
Generic example	Slum upgrading	Municipal development or investment fund; other line-of-credit or grant transfer arrangements.	Periurban community-based water and/or sanitation project
Types of subprojects (investments supported)	Potable water, sanitation, solid waste disposal, storm drainage, roads, sidewalks, footpaths, street lighting, tenure regularization; sometimes also markets, other income-generating activities, clinics, schools.		Potable water, sanitation (liquid, sometimes solid waste), sometimes drainage
Process of subproject selection	Subprojects (interrelated set of investments for given neighborhood) identified, prepared, appraised and selected during project appraisal or by main project implementation team.	Subprojects proposed by sponsors (local govts., NGOs, CBOs) from menu of possibilities defined by eligibility criteria; selected by project funding unit during project implementation.	As for Type B. Subproject menu offers different technical options and service levels.
Targeting of beneficiaries	Geographic area identified based on poverty and service deficiencies	Eligibility for funding defined by poverty, service deficiencies, community size, etc., but approval of subprojects depends on evidence of beneficiary demand and commitment.	
Financing of subprojects	Mainly grant transfer to local govt. or other implementing agency; local govt. may contribute 10-20% of investment costs; community contributes in kind, sometimes also 5-15% of investment costs in cash.	Similar to Type A, but with more loan element to local govts; grant sometimes transferred directly to local community; community usually required to make some cash contribution as specified share of investment costs.	Similar to Type B, but investment subsidy set as per capita cost ceiling, with community required to pay incremental costs of any service option chosen above this cost ceiling.
Cost recovery and O&M arrangements	Repayment expected through property taxes, tariffs and user charges for WSS components. Line agencies and local govt. responsible for O&M.	As in Type (A), but more emphasis on formal community group taking responsibility for O&M of communal services.	Cost recovery from tariffs and user charges; responsibility placed on formal user groups for O&M of communal services, and on utility for networked services.
Roles of CBOs and NGOs	Communities consulted; NGOs in some cases mobilize communities.	Both active in subproject identification, preparation, implementation, cofinancing, and community mobilization.	
Roles of private sector entrepreneurs	Mainly construction; in few case as area developers.	Construction; contract mgmt. and funds. mgmt; some scope for market-based fund mobilization.	Construction, O&M of communal services; privatized utilities for networked services.

well as pay utility tariffs.⁷ Because they covered all families living in a geographic area, slum upgrading tended to reach poorer households than sites and services.⁸

4. In the late-1970s—early 80s, the urban development projects expanded further to include components financing not only S&S and slum upgrading, but also many other services including transport, business support and credit, employment and training, revenue-generating activities (markets, slaughterhouses), and even childcare. These additional interventions were seen as necessary to address the multiple dimensions of poverty and constraints to urban growth. This second generation of very broad-gauged urban projects includes virtually all of the city-based and state-based UDPs in India and Pakistan in the late 1970s-1980s; Brazil's Medium-Sized Cities and Recife Metropolitan Region Development (FY79 and '82); Colombia's first two UDPs (FY78 and 79); the first four urban projects in the Philippines' (FY76-83); and the contemporaneous UDPs in Jordan, Morocco and Tunisia.

5. These integrated operations, like the earlier shelter projects, were characterized by the provision of a largely *predefined package of investments*; generally to *preidentified geographical areas* (neighborhoods); mainly through *central government agencies or special area development authorities* (in some cases created by the projects); and with *preappraisal of subprojects*. Although all of the projects had components of institutional development, the objectives were first and foremost physical improvement through targeted area investments with low capital costs. The economic benefits from these improvements were expected to lead to high fiscal returns that would fund replication to other areas.

6. **A retrospective.** The Bank's assessment of the first decade of urban lending (*Learning by Doing*, 1983) observed that the "shelter projects" completed to that time each benefited directly on average 25,000 households. The projects succeeded in reducing plot sizes and unit costs for infrastructure, as well as introducing government agencies to the principal of cost recovery. Rates of return on sites and services and slum upgrading components were relatively high,⁹ especially when tenure security was provided.¹⁰ The projects generated greater

⁷ Solo (p. 61) reports that in Cameroon's First UDP of FY80, full cost recovery was obtained from residents of upgraded slums even before the works were completed. The first Jordan UDP (FY80) also achieved close to full cost recovery from residents of upgraded squatter settlements. (Project Completion Report, June 1989).

⁸ An informal analysis of 23 completed urban projects in 1988 found that the *variance* in economic rates of return (both those calculated at appraisal and at completion) was much lower for slum upgrading projects than for S&S; this may reflect the reduced risk involved in upgrading of existing settlements as compared to new property development. (Internal memorandum by Steven Malpezzi, February 24, 1988).

⁹ The economic rate of return (ERR) *ex post* (recalculated at the time of completion) on all completed shelter projects (defined as S&S and/or slum upgrading) between 1972-92 averaged 18.8 percent, only two percentage points below the appraisal (*ex ante*) estimate. In comparison, the average *ex post* ERR for Integrated projects (referring here to the cohort of projects with multiple investments in addition to slum upgrading) was higher—21.7 percent—but less predictable (5 points below the appraisal

than anticipated private investment in housing—in Senegal, for example, each IDA dollar was estimated to have stimulated about eight dollars in home construction and improvement, as well as considerable employment in the informal construction industry.¹¹

7. The early shelter and integrated urban development projects generally met their main physical objectives—especially for the slum upgrading components. The projects revealed that the poor were willing to pay for services and to mobilize their own savings; and that reasonable design standards and flexible regulations could keep costs low. Despite the demonstration of approaches that could be replicated nationally, however, only a few countries (Botswana, Burkina Faso, Indonesia, Jordan, Tunisia) actually expanded the initial programs to achieve a significant coverage. Annex Box A.2 contrasts the experience in Morocco and Tunisia in this respect. The domestic political commitment to alleviating urban poverty through such efforts weakened in some countries (Morocco, the Philippines), while economic crises in others (e.g., Zambia) that had embarked on national programs derailed these efforts.¹² Many other countries did not pursue supportive policies—for example, land market regulations in India impeded regularization of slum settlements or acquisition of land for new housing sites. Financial sustainability was undermined when governments reverted to unaffordable high design standards and ill-targeted subsidies.¹³

8. The second generation of integrated urban development projects (often called “Christmas trees” because of their many disparate components) fell out of fashion in the Bank around the mid-1980s. Their reputation suffered because some of the tangential activities (such as the employment generation schemes) were poorly prepared and did not command sufficient commitment from the expected beneficiaries or the counterparts. In addition, some of these projects (such as Morocco’s first UDP) involved a plethora of implementing agencies without

estimate). For the whole urban portfolio, the average ERR on completion was 21.4 percent. (World Bank, 1994)

¹⁰ Some form of tenure security is generally a prerequisite for households to make private investments in housing improvements. Evaluation studies of four of the first sites and services projects (El Salvador, the Philippines, Senegal, and Zambia) during 1975-80 also revealed that shelter projects produced significant increases in rental income, and that cost recovery was not linked to the income level of beneficiaries. Douglas H. Keare and Scott Parris, “Evaluation of Shelter Programs for the Urban Poor: Principal Findings”. World Bank Working Paper 547, 1982.

¹¹ World Bank, PCR, Senegal: Sites and Services Project (Credit #1458).

¹² (Solo, p. 26) By the same token, the strong economic growth and buoyancy of fiscal revenues enjoyed by Indonesia and Botswana in the 1980s facilitated the continuation of their upgrading and sites and services programs, respectively.

¹³ In a sample of early sites and services projects in seven countries, subsidies amounted to about two-thirds of total resource costs, mainly due to below-market charges for land and interest rates. (Mayo and Gross, 1987)

an adequate structure for coordination,¹⁴ or were simply too complex for the entities that were charged with execution.¹⁵ The integrated urban development projects that largely avoided these faults, such as in Bolivia, Colombia, India (e.g., Madras and Tamil Nadu), Indonesia, Jordan, and Tunisia, achieved more satisfactory outcomes, according to the evaluations both by OED and the respective governments. The neighborhoods covered by these projects not only enjoyed physical improvements but also received a stimulus to their local economic activity.

9. By the mid-1980s, the Bank's increasing concerns with the overall institutional and policy context of municipalities led to a turning away from area-based, poverty-oriented urban development operations. Although *Learning by Doing* had given a generally positive assessment of these projects, the document stressed the need to also address the structural distortions in housing markets, institutional finance, and urban management to create the underlying conditions for greater replicability of basic services. The focus of Bank operations therefore turned from supporting the direct delivery of services to the poor towards creating the institutional conditions for this outcome—"shifting from retailing to wholesaling" of urban development finance—on the grounds that as long as regulatory and financial constraints limit the supply of services, the poor will inevitably stay at the end of the queue.

10. The message giving priority to structural reforms was reiterated in the *Urban Policy Paper* of 1991 and the *Housing Policy Paper* of 1993. The *Urban* paper also highlighted the growing environmental problems that neighborhood-specific investments had not been able to address or forestall—especially regarding solid waste management, wastewater disposal, traffic management, and protection of water sources—and that required citywide or sectorwide solutions. However, both of these documents explicitly affirmed the continued relevance of basic infrastructure improvements as a core element of urban development strategy, especially through slum upgrading, to address the needs of the poor.

11. Investments in basic services have remained in the Bank's portfolio, but in a low key—the term "slum upgrading" has rarely appeared in Bank projects since the late 1980s. A few recent projects (e.g., Sierra Leone's Freetown Infrastructure Rehabilitation Project, FY93, and Ghana's Urban Environmental Sanitation Project, FY96—both described in Annex Box A.3) are returning to an integrated package of multisectoral services with a geographic focus on slum neighborhoods. The Cote d'Ivoire Municipal Services Project (FY95) includes both slum

¹⁴ According to OED's retrospective review of 103 completed and evaluated urban projects between 1972-92, Shelter projects—the largest category—had one of the highest success ratings (88 percent Satisfactory), while Integrated urban development projects (comprising slum upgrading plus other investments) averaged only 63 percent Satisfactory. This relative ranking of the categories contrasts with that based on average ERRs (Footnote 9), and indicates that the Integrated projects involved more ambitious development objectives. (World Bank, 1994)

¹⁵ OED, *Integrated Urban Projects: Experience in Ecuador, India and Brazil*, October 1992; "Lending for Urban Development in India: 1974-1995", Cuenco, 1996.

upgrading with the introduction of programmatic lending for urban investments as discussed below.

B. “Programmatic” urban projects

12. The diverse projects in this grouping are characterized by less predetermination of which services will be provided and where, and thus are more open-ended and flexible in their design than the earlier project types. The institutional mechanism is a line of credit or grant fund that supports subproject proposals from municipalities or communities for a variety of investments, based on predefined criteria for eligibility. In principle, communities can request service improvements in any combination or sequencing based on perceived demand, and compete for funds. Many of these projects identify institutional development as their primary objective, through a focus on building capacity and appropriate policies for municipal management, fiscal reform, resource mobilization and allocation procedures, and (more recently) frameworks for environmental management. Indeed, effective use of programmatic financial arrangements requires a minimum capacity in subproject appraisal and adherence to the eligibility rules. The creation of fixed investments is a secondary objective of many of these operations, albeit the vehicle for practicing the new financial arrangements. Not all of the projects attempt to target the poor explicitly, although the criteria for use of funds can be designed to facilitate such investments.

13. Brazil’s Parana Market Towns Improvement Project (FY83), described in Annex Box A.4, was the prototype of these “programmatic” urban projects. The Parana Project, which eventually developed a revolving fund mechanism, benefited from: (i) a strong coordinating function exercised at the state level; (ii) active cooperation of sectoral departments in providing the necessary technical support and evaluation of subprojects; (iii) a system of technical assistance and detailed operational guidelines to support municipalities in their responsibilities for subproject planning and implementation; and iv) a strong political commitment at the State level to give local governments both real responsibility and greater capacity for mobilizing fiscal resources for local infrastructure investments.

14. Other operations with programmatic elements include: Tunisia’s Fifth UDP (FY89) and the Municipal Sector Investment Project (FY93); the Municipal Development projects in the Philippines (FY84 and 90); Brazil’s combined urban development and environmental management projects in Minas Gerais (FY94), Ceara (FY95), and Bahia (FY96); and Venezuela’s Low Income Barrios Improvement Project (FY92). Annex Box A.5 explains the transformation of the KIP in Indonesia into a more programmatic project design under the Third Jabotabek urban project, JUDP III (FY91), while Box A.6 describes the rules and rationale underlying Pakistan’s Northwest Frontier Province Community Infrastructure and NHA Strengthening Project (FY96, hereafter “NWFP”) and Brazil’s Ceara project.

15. In countries where the Bank has maintained its urban assistance over several operations, projects have gravitated towards the programmatic design which permits the local authorities and other stakeholders (community groups, NGOs) to take on more responsibility for project

identification and implementation, with less direction from Bank staff. The approach has been adopted in particular in contexts where decentralization has transferred responsibilities for local investment and services, and local revenue mobilization, to municipalities. The experience in some of these projects (e.g., Venezuela and JUDP III) has shown that the assignment of functions to local officials and communities, often implying a radical change in approach and expectations, can result in slow start-up. Reducing these risks requires clear guidelines and detailed procedures at the start, close supervision in the initial phases of the project, and a realistic approach to timetables.

16. Programmatic projects that aim to support investments mainly sponsored by municipalities typically need to include elements of training and technical assistance for them. In addition, projects that foster proposals from beneficiary groups incorporate activities to mobilize the communities, informing them of their rights and responsibilities under the project—as well as careful preparation to develop understanding among intermediaries, notably NGOs, whose involvement is often critical to the success of community-based subprojects. Programmatic financing approaches can also pose a greater risk than area-specific projects of dispersing funds too widely through unrelated small projects, potentially reducing their economic development impact; this risk can be reduced, however, by the upfront criteria for choice of projects and eligibility area. The programmatic approach has been popularized since the late 1980s through social investment funds, SIFs (see Annex Box A.9), which finance some urban services subprojects through an enclave agency but generally lack the emphasis on municipal or sectoral institutional reform.

C. “Programmatic” water and sanitation projects

17. Around the mid-1980s, a number of countries (including Brazil, Jordan, and the Philippines) shifted their attention in urban areas towards subsectoral projects in water/sanitation, housing, urban transport, or solid waste management, although as noted, the Brazil portfolio has retained projects with a more multifaceted design. Only the projects focusing on water and sanitation are reviewed in this Note.

18. Alongside the evolution in urban assistance, the Bank’s water and sanitation lending up to the late 1980s had two main tracks—support to urban utilities, and rural basic services. The work on utilities included conventional piped water supply and sewerage with only minor, pilot components for alternative sanitation services in urban areas. A more specialized and dedicated focus on accelerating water supply and sanitation improvements for the urban poor has only gotten underway in the 1990s, in response to the low level of coverage and weak performance achieved by the traditional projects in peri-urban areas.¹⁶

¹⁶The changes in focus of Bank lending for water and sanitation in response to the demonstrated problems of low sustainability and lack of responsiveness to user demand are documented in World Bank, 1996b.

19. The pivotal program that set the pattern for these new-style water/sanitation operations was Brazil's PROSANEAR, which the Bank supported with the Water Project for Municipalities and Low-Income Areas (FY88, described in Annex Box A.7). Many low cost sanitation schemes in the past had difficulty achieving user satisfaction or sustainability, both within the context of urban development and traditional water utility projects.¹⁷ Ex post evaluations of water supply components found that the absence of system maintenance or of effective sanitation often resulted in the deterioration of water quality even where neighborhoods had nominal service. PROSANEAR and other indigenous initiatives, most notably the Orangi project in Pakistan (supported by a local NGO but not financed by the Bank), experimented with technical and institutional alternatives falling between the conventional piped water/sewerage connections and very basic offerings of handpumps and latrines. These operations also reflect experiences with rural WSS projects, but are adapted to serve the conditions of periurban settlements.¹⁸

20. Operations or project components in this category include the low cost sanitation pilots in Kumasi, Ghana and Ouagadougou, Burkina Faso (supported by the UNDP-World Bank Water and Sanitation Program); Sri Lanka's Community Water Supply and Sanitation (FY92); Indonesia's Water Supply and Sanitation for Low Income Communities (WSSLIC, FY93); Uganda's Small Towns Water and Sanitation (FY94); Bombay Sewage Disposal (FY95); and Zambia's Urban Restructuring and Water Supply (FY95). The Burkina Faso, Uganda and Zambia projects are profiled in Annex Box A.8.

21. The feature that distinguishes these projects from earlier water/sanitation lending is the emphasis on providing poor urban communities a choice of technical options for sanitation, with an array of costs and maintenance requirements. A central intention of the projects is to transform the formal sector institutions so that the planning of service expansion is made responsive to the communities' preferences and willingness to pay. Strategies for eliciting the communities' demands are varied according to local conditions, and the technical options themselves are adapted during project implementation based on experience. Since the new-style water/sanitation projects emphasize a framework of rules by which funding may be provided to eligible subprojects, they represent the programmatic approach as do the urban projects discussed earlier, even though focusing on a more limited menu of services. As with those urban projects, the programmatic WSS projects have tended to be slow to take-off and to encounter problems with local-level consultant supervision, procurement, and construction quality because the subprojects are highly decentralized and community-based in their inception and execution. In addition, more time and effort is often required than planned at the outset to educate all parties to the project approach—as experienced by both the PROSANEAR and

¹⁷ Examples have been documented by OED in Brazil, India, and Indonesia, among others. E.g., see World Bank, 1996c.

¹⁸ These experiences and the resulting principles for low cost urban water and sanitation are summarized briefly in Briscoe and Garn, 1995.

WSSLIC projects, for example. When managed with clear rules and detailed manuals of procedures, programmatic projects can achieve good implementation results.

D. Assessing project success.

22. In a number of countries, e.g. Brazil, the Bank is supporting both programmatic urban projects and programmatic water/sanitation projects at the same time, as well as (in a few countries) the integrated type of urban projects. In the overall Bank portfolio reviewed here, programmatic multisectoral projects are the most common of these three designs currently under implementation. The performance results (at least as reflected in supervision findings and OED reports) do not suggest one model design—particularly since relatively few projects outside of the integrated UDPs have been completed and formally evaluated. Moreover, the various projects have different weightings among their objectives, which include sectoral institutional development and citywide environmental improvements, in addition to improving service delivery to the poor.

23. For the present review, projects or components may be deemed “successful” insofar as:

(i) they are able to reach the urban poor, even if not exclusively—in fact, experience suggests that urban development programs may be more politically acceptable when they provide benefits to unserved segments of the middle class as well;

(ii) they meet the “effective demand” of the target beneficiaries (provide services of the type and quality for which they are willing to pay). As discussed below, defining and eliciting demand in practical ways is one of the toughest challenges;

(iii) the services can be sustained, meaning that there is an institutional arrangement to cover recurrent costs and to carry out required operation and maintenance (O&M) during the active life of the investments;

(iv) the approaches are capable of replication to serve larger numbers of the target population than covered by the original projects. This criterion is difficult to confirm ex ante, however, since actual replication is vulnerable to many factors outside the project, such as macroeconomic and political developments.

24. The next section discusses some of the issues involved in designing projects to be consistent with these criteria, and in evaluating whether these criteria have been met once projects are completed.

III. ISSUES OF DESIGN AND IMPLEMENTATION

A. *Targeting beneficiaries and determining their demands*

1. **Targeting the poor.** The early UDP projects tended to identify their intended beneficiaries geographically, as neighborhoods with mainly low income residents lacking basic services. OED evaluations of the first generation of KIP in Indonesia and of projects in Brazil, Jordan, and Tunisia, for example, have judged that this approach did a reasonably good job of reaching predominantly poor residents. Subsequent gentrification of the improved areas (displacement of the initial poor beneficiaries by higher income residents) is *not* identified as a significant issue in most of the OED audits reviewed here. It has been suggested that one reason displacement of the poor was not a serious problem in the KIP is that the program was known to be expanding systematically to all unserved kampungs, which reduced the motivation for nonpoor households to crowd-out the poor in project areas. Neighborhood transition is a normal dynamic of urban growth, but becomes a concern if it occurs in such a way that the original target population is unable to benefit from increased real estate values (“cashing-in”)—which links to security of tenure and access to land assets (see section D below).
2. The analysis of the “poor” or “low income” target groups, and of their initial access to infrastructure service and likely ability to benefit from projects, is often not sufficiently documented to permit before-and-after analysis. Some conventional sewerage projects, for example, claim substantial benefits for the urban poor as a result of environmental improvements; however, the assessment of these benefits tends to be fairly loose (e.g., one sewerage project appraisal report proposes to benefit 250,000 lower income residents, but without offering any specific evidence). Likewise, many urban transport projects claiming benefits for the poor have not involved explicit analysis of potential beneficiaries by income group, nor investigated whether the poor are likely to be able to use the facilities or services provided.¹⁹
3. The more recent operations reviewed here (notably, Ceara and NWFP urban, and PROSANEAR, Uganda and Zambia water projects) specify criteria by which communities may become beneficiaries. These criteria typically include: (i) a maximum threshold of per capita income and infrastructure service availability; and (ii) evidence of the beneficiary community’s willingness to contribute to capital costs and to cover O&M costs. By making willingness to contribute a central criterion for eligibility in the project, the approach merges the problems of targeting and demand identification—that is, communities self-select on the basis of their interest in taking an active role. Eligibility for financing does not imply a guarantee, however, since communities must still compete through the degree of initiative they exert. The very poorest and marginalized communities risk being left out of such a funding mechanism. For this reason, these

¹⁹ Based on informal review of transport portfolio by TWUTD, December 1995.

projects typically include proactive efforts of community mobilization, as well as a specific subsidy when even the most basic improvements would be unaffordable.

4. **Identifying user demand.** To operationalize the concepts of “demand” and “demand-oriented projects”, three problems need to be addressed: (i) how to interpret demand for urban infrastructure services ranging from mainly public to mainly private goods; (ii) how to organize the expression of demand for these varied services and technologies, by stakeholders who are differentially affected—the problem of “public choice”; and (iii) what kind of financial or other resource commitments must be made by households to accurately reflect their intensity of demand.

5. **“Unbundling” demand.** Many of the services provided in slum upgrading are of a communal or public good nature (access routes, footpaths, storm drainage, street lighting, environmentally safe waste disposal, marketplaces and community centers)—that is, the benefits are consumed jointly by all the residents in at least a local area. This implies that individual demand for such amenities cannot be expressed through willingness to pay in a market context. Public preferences for these services have to be reflected either through a communal organization, such as a neighborhood association, or a formal governance process such as elective representation. These services also have a network character, which requires coordination across spatial areas. On the other hand, land title, electricity connection, garbage removal, and housing improvements are private goods and the value placed on them by households and providers can be mediated through a market.

6. Water and sanitation present a very wide spectrum of potential service types. Private facilities (on-site or in-house—also called “tertiary” services) for individual households can be provided entirely through a market mechanism; feeder or “secondary” systems (e.g., standpipes and public toilets, condominium sewers, small decentralized septic tanks and treatment facilities) serve groups of households (neighborhoods) in one community; and trunk or “primary” facilities serve multiple communities. At the neighborhood level, water and sanitation options have a mixed private-public character and imply greater downstream externalities, such as pollution of groundwater and public health impacts, than do individual facilities; therefore, combinations of private actions and neighborhood associations are needed to organize the expression of demand as well as the provision for feeder systems. Trunk facilities are larger scale, mainly public goods linked to broader citywide networks and must be subject to formal sectoral planning and investment. However, provision of trunk sewerage should follow from assessments of demand at the household and the neighborhood levels—rather than the reverse order as has been traditionally the case—so that users’ service preferences and willingness to pay can be taken into account in the location, sequencing, and financing of trunk investments.²⁰ This approach implies a radical cultural change on the part of most sector professionals.

²⁰ Memorandum from Vijay Jagannathan, “Demand-Based Approach to Urban Sanitation,” to the Informal Institutions Group of TWUWS, January 5, 1996.

7. These distinctions by type of service imply that the appropriate locus of decision-making will vary: specifically, those services with mainly private impacts should be left to households to choose and finance; those affecting distinct neighborhoods should resort to communal decision-making; while agencies with municipal- or metropolitan-wide jurisdictions will be needed to plan investments and organize financing for activities that have (positive or negative) impacts at the citywide level.²¹

8. To illustrate such variation in the management of different levels of urban services, consider the common scenario of a city where financial resources to provide infrastructure for expanding periurban settlements are grossly inadequate in the medium-term. In contrast to the traditional approach whereby public sector entities produce all levels of infrastructure, resulting in limited coverage and few service options, the alternative strategy would only plan for public investment in the roads, bulk water supply, and sewerage mains up to the boundaries of the new unserved settlements. The neighborhood groups would organize themselves to provide the local infrastructure within their area—through various technical options for communal or privately connected water and sanitation, and access roads, depending on members' collective preferences and willingness to pay. The neighborhoods could contract for service extensions from the utility or other private contractors under minimum technical standards set by the utility. Where and when the investments would be made in the trunk facilities would depend on signals of effective demand and initiative from these neighborhoods. Both the PROSANEAR and Orangi projects represent variants of this scenario.

9. ***Institutional mechanisms for eliciting and responding to demand.*** Broadly speaking, community participation is the best means of identifying and serving community demand. Most of the early urban development projects referred to community participation as a mechanism to gain beneficiary support for operations and maintenance, and were ahead of many other development efforts at the time in this respect. However, the typical practice was for residents to be consulted on particular design or locational questions once the planners had decided what to provide, and then asked to maintain the works once constructed. OED evaluations (e.g., of Pakistan UDPs, and of Indonesia UDP I-IV) noted that the lack of “structured” methods of participation limited its actual practice and efficacy.

10. The public- or communal-type infrastructure services require institutional mechanisms to structure public choice. This may require explicit efforts to build a community's perception of shared interests (e.g. regarding health and environmental impacts from poor sanitation), their understanding of the technical and financial implications of specific options, and their capacity to act on this information. Among the Bank-supported projects, substantive participation was achieved in those that gave a central role to community development workers and built a

²¹ Mike Garn, “An Institutional Framework for Community Water Supply and Sanitation Services”, Note prepared for the Collaborative Council, TWUWS, July 1995. This “subsidiarity” principle is enshrined in the Dublin Statement, endorsed by 100 countries, of the new global consensus on management of the water sector.

process of community mobilization into the planning and preparation of investments (e.g., the first Jordan and Philippines UDPs). Many projects with very strong, active beneficiary involvement have had ongoing community-building by NGOs or community-based organizations, such as a slum-dwellers' association, for many years prior to the project (e.g., El Salvador's Sites and Services, FY75; the Novos Alagados component of Brazil's Salvador project, FY86; the slum upgrading component in Guatemala's Municipal Development Project, FY88; and the Freetown project). The water/sanitation projects that have had significant achievements in low cost sanitation have either built on strong NGO involvement (e.g., Gujarat Water Supply and Sanitation Project, FY86; Sri Lanka's Community Water Supply and Sanitation project) or like PROSANEAR, devoted considerable time and resources to community mobilization even before initiating preparation of subprojects.²²

11. The ways that communities and households are confronted with specific choices is also important for their ability to articulate preferences. For example, projects that involve a line of credit or partial grant funds for multisectoral investments can respond to the diverse needs of individual communities, whose priorities may vary from water supply to roads, or solid waste management, or even social services. This flexibility is clearly superior to the prepackaged design of some integrated urban development projects. At the same time, for households and neighborhoods to understand complex alternatives in a particular sector, including the implications for cost, service quality, and operation and maintenance requirements, a subsequent and more detailed process of technical assistance and negotiation is required. The choice of sanitation options is particularly complex because much is still not known regarding the feasibility of different schemes under different population densities, environmental conditions, and institutional arrangements. More experimentation is therefore needed in this subsector than for the other services.²³

12. The periurban sanitation projects have proposed a detailed strategy for eliciting demand and generating participation, to allow for different kinds of associations among the households

²² There are many more non-Bank supported examples, e.g. a successful low cost sanitation program in Hyderabad supported by ODA and UNICEF since the 1980s also relied heavily on a local NGO for implementation.

²³ UNDP-World Bank Water and Sanitation Program, "Proceedings of Workshop on Sanitation for Poor People in Urban Areas", London, January 12, 1996.

and contractual agreements with the sectoral agencies.²⁴ The process would be broken into steps such as the following:²⁵

(a) *Group identification and mobilization*: Small groups of households (e.g. 50 individuals) that are located in a potential service area for feeder infrastructure are invited to assemble and discuss their sanitation problems and needs with facilitators who represent both engineering and community mobilization skills;

(b) *Information dissemination and discussion*: If the group members express interest in having some feeder improvement, they are informed about the technical options the project can offer, the costs and financing arrangements available, and rules for participation in the project;

(c) *Proposal and decision*: The facilitators help the group to reach a decision on a preferred option, if any, and to understand the detailed implications (including maintenance implications, organizational requirements and procedures);

(d) *Commitment*: The roles and responsibilities of the community and of the operating agency are defined, negotiated and agreed; the group registers itself and signs an agreement with the agency.

13. This approach reflects institutional features that experience has shown to be important in getting group decisions on local public-type goods such as intermediate sanitation, namely: (i) **keeping the group as small as is relevant to the type of service being considered**—that is, limited to those households likely to experience the potential benefits and externalities of feeder systems;²⁶ (ii) **using intermediation teams of both engineers and social scientists** to help users express and understand the implications of their demands; (iii) and **requiring the group to be formally structured**, as a legal association, to be accountable for its decisions and commitments. Specific provisions to ensure the participation of women beneficiaries may need to be built into these arrangements. The NWFP and Ceara projects represent recent attempts to relate this type of participatory planning to multisectoral urban development.

²⁴ “Report of the Second Meeting of the ‘Think Tank’ on Slum Sanitation,” Organized by the UNDP/World Bank Water and Sanitation Program, Regional Water and Sanitation Group in New Delhi, August 7, 1995; Memorandum from Vijay Jagannathan, “Demand-Based Approach to Urban Sanitation,” to the Informal Institutions Group of TWUWS, January 5, 1996.

²⁵ From Annex 4.2, “Technical Assistance for Sewerage and Sanitation Investments in Secondary Cities in the Philippines”, in Memorandum from V. Jagannathan, A. Altaf, H. Unger, S. Banerji, and Raul Toro, on “Special Water Mission to the Philippines”, January 2, 1996.

²⁶ The greater efficiency of small groups in decision-making is supported in theory as well as broad experience. (Mancur Olsen, *The Logic of Collective Action*, Cambridge: Harvard University Press, 1965.)

14. ***Financial implications of “effective demand”***. A demand-based approach implies that consumers choose a level of service from a menu of choices having price tags associated with them. In practice, most urban and water/sanitation projects have not required households or beneficiary groups to pay more than about 20 percent of the capital costs of community-level investments—and most often, a much lower share or nothing—as a financial contribution. (See section C below.) Contributions in kind (construction labor, materials, land) are more common, and time spent in organizational activities for project identification and preparation can be significant. Exactly what degree or nature of burden-sharing by beneficiaries is necessary to elicit a real indication of demand for services is an open question. Requiring communities to put up a minimum share of project costs does not encourage choice of low cost alternatives and can be burdensome to the poorest groups. Even if communities do not make substantial cash or in-kind contribution to a particular investment, the project rules should be such that the community perceives a significant *opportunity cost* of opting for one investment rather than another.

15. At least four approaches are possible, and currently being tested in different projects, to create such an incentive framework. *First*, the newer periurban water projects (e.g., in Uganda and Zambia) specify a maximum per capita subsidy for the basic level of service and require communities to finance the incremental costs of any higher technical option they may choose. The projects also do not guarantee that any community will receive even the minimal funding unless they meet other participatory requirements. This structure provides a good test of demand for the higher service levels and promotes the choice of low cost investments. A *second* and similar approach is illustrated by the urban development projects in Ceara and Pakistan’s NWFP. A budget ceiling is specified for a set of investments in multisectoral services; this ceiling is adjusted prorata for communities choosing less than the full set of improvements. The group must pay a specified minimum share of capital costs within this budget ceiling as well as the incremental costs if they choose higher technical options. This approach has the added advantage of enabling communities to express their demands and preferences across both sectors and service levels.

16. A *third* approach to demand elicitation can be seen in some recent programs of block transfers to localities. Although these resemble social investment funds, they differ in an important respect. In the case of SIFs, the decisions both as to fund availability and subproject approval are made by an autonomous centralized agency,²⁷ while in block transfer programs such as Mexico’s Municipal Investment Fund, investment resources are allocated to a local jurisdiction, leaving the residents to evaluate their highest priority uses across a wide range of competing sectors. Indonesia’s Village Infrastructure Project, VIP (FY93) depends only on this process of community choice to determine demand, whereas matching grant transfer programs such as Mexico’s require cash contributions by the local governments and beneficiary

²⁷ World Bank Portfolio Improvement Program, “Review of Social Funds”, Phase II report, draft, November 22, 1996.

groups (varying with the type of subproject). *Finally*, line-of-credit programs may be considered even more directly demand-based in that subproject sponsors commit to repayment, although the revenues need not come from the target beneficiaries. Measures to develop the creditworthiness of municipalities will permit broader use of onlending for urban investments, but the poorest local governments in many countries will continue to require grant assistance.

17. Whichever of these project rules are used, what is most important is that they be consistently followed. Incentives are distorted when subsidies are expanded to soften the trade-offs facing the communities and competing donor projects offer weaker terms. Even with such rules as described, it is possible that program managers and other intermediaries could bias the choices among subprojects, such as by providing more technical support for certain kinds of investments or by favoring local labor contributions which are more relevant for some subprojects than others. Programmatic projects also risk entertaining investment proposals that are not what beneficiaries really want but what they believe is most likely to be approved. Giving communities complete and unbiased information about expenditure alternatives and about program rules will increase the chances that they can make choices without undue influence or manipulation by other interest groups.²⁸

18. As a final point, ensuring that public expenditures reflect demands of all user groups depends ultimately not on project designs but on democratic processes for public choice. Giving all potential beneficiaries the chance to understand options and declare preferences requires various opportunities for the sharing of information and expression of “voice”, through public gatherings, use of media, surveys, formal and informal associations, etc. More fundamentally, developing urban services in response to demand requires good governance--representative decision-making, responsible tax and expenditure practices, and accountable leadership.

B. Developing institutional partnerships for project preparation and implementation

19. Most of the issues concerning the formal institutions involved in infrastructure projects for the urban poor boil down to two elements of successful performance: creating **incentives** for agencies to respond to the poor, and ensuring **coordination** among the different sectoral and jurisdictional agencies responsible for these services. Providing services to the expanding periurban fringe, which often falls outside or between existing municipal boundaries, and to settlements without legal status poses particular problems for the formal institutions. Agreements among several municipalities and the utilities (which may have a metropolitan-wide jurisdiction) are needed if such settlements are to be served. More importantly, projects must

²⁸ For specific illustrations of how government officials and private contractors can influence community choices, see “Who knows what’s best for the poor? Demand-driven policies and rural poverty in Northeast Brazil,” Rodrigo Serrano Berthet, Masters thesis, Department of Urban Studies and Planning, Massachusetts Institute of Technology, May 1996.

overcome the initial inability or disinterest of the formal service providers to enter these areas which are perceived as high cost/low profit, disorganized and difficult to service, and unsafe.

20. Projects that focus on the periurban and/or squatter communities have typically come about only after some distinct change in the perceived incentives facing the formal providers, whether municipality or utility: for example, **a shift towards democratization** and new interest in the residents as voters (a factor in Brazil in the mid-1980s);²⁹ a **widespread perception of common environmental or public health threats** arising from the lack of services (the typhus epidemic that catalyzed Guatemala's El Mezquital program - see Annex Box A.10); or after the community itself mobilizes sufficient internal organization and seed funding to command the attention of the city and **reduce the transactions costs**. NGOs, particularly those with a long-term stake in the country's urban development, can play a pivotal role by stimulating a community's own capacity and initiative—helping the poor “find their voices” to challenge and assert their rights before the formal institutions—and fill the vacuum of support from formal providers in periurban areas.

21. Even with maximum initiative by the communities themselves and NGOs, sustainable services at a scale matching the needs require partnerships among: (i) the relevant levels of government—central, provincial or state-level, and municipal; (ii) agencies with multisectoral (often political) mandates—such as the municipal governments and area development authorities—and the professional sectoral agencies, such as the roads authority or water utility; and (iii) these entities and other private sector groups.

22. **Strengthening local government involvement.** A frequent issue for the early UDP projects was the split between an executing agency for infrastructure investments (typically federal or provincial, and sometimes established by the project), and the agencies responsible for operations and maintenance of the completed works (usually municipal). In India, Pakistan and the Philippines, for example, as well as in many of the Africa projects, the latter agencies resisted taking over facilities because they felt insufficiently involved or capable. However, the few cases of slum upgrading programs which have been sustained and expanded as national programs—notably, in Tunisia and Indonesia—benefited from particularly strong coordinating agencies (e.g., ARRU-Agency for Urban Upgrading and Renewal in Tunisia). The coordination function needs to entail buy-in by other responsible parties, not just a firm hand; the project

²⁹ Gabrielle Watson, “Water and Sanitation in Sao Paulo, Brazil: Successful Strategies for Service Provision in Low-Income Communities”, MIT, June 1992. Mobilized squatter settlements, supported by reformist state government, worked with innovative subgroups in the municipal agencies to develop low cost service options; they then put pressure on the utility company to apply the service approaches once these were proven viable. Democratic reforms during the decade were critical in allowing the communities to mobilize and in persuading reform-minded politicians and agency staff to press for change.

implementation units created as enclaves often served to marginalize local authorities rather than foster an effective hand-over of investments.³⁰

23. The Indonesia KIP has experienced a tension to the present day between strong central government leadership and guidance of the KIP program nationwide (particularly from the central ministry of public works), which permitted it to reach virtually all of the needy kampungs over two decades, and the necessity for local authorities to acquire full ownership and the capacity to tailor upgrading to their particular needs. The Third Jabotabek Project illustrates the evolution of the KIP to give it greater responsiveness to local demands and conditions. Many of the recent programmatic urban projects aim to rationalize central-local government relations in the context of decentralization, using a line of credit or grant mechanism as a key instrument for giving local authorities real decision-making responsibility for urban investments. In the Philippines, for example, the Bank is helping in the definition of a comprehensive local government financing system that will include grant funds to poor municipalities for social/environmental projects, as well as access to market-oriented funding for creditworthy local governments, as part of the recent decentralization process.³¹ Building viable municipal governments, with a reliable fiscal resource base, is the indispensable condition for sustainable urban services.

24. **Changing the sectoral agencies' attitudes and approaches.** Involvement of the sectoral agencies is also essential to ensure that services can be integrated with citywide networks and to sustain operations and maintenance. In upgrading projects where service standards and technical designs have been very basic (e.g., standpipes, latrines, and simple road designs), the works have often been contracted and supervised by a non-sectoral authority with relatively little involvement by the water utility or roads department—as in the early KIP projects in Indonesia. This approach may be expedient, particularly where the sectoral agencies are resistant to working in slums, but it becomes problematic if programs are to expand in scale. The KIP projects did manage to provide a basic services package to a large coverage area, but it is significant that their sanitation components, for which the utility companies were not responsible, have been the least successful items in the KIP program. As indicated in OED reports on the early KIP projects and on Madhya Pradesh UDP, for example, low cost sanitation components of the integrated urban projects often proved to be of little interest to the agencies responsible and were relatively neglected during implementation, except in cases where communities or NGOs were heavily involved. The particular facilities provided (especially, public toilets) frequently suffered low acceptance by users as well, perhaps because they were not the level of service demanded.

³⁰ John Kirke, GHK International, Note of discussion on urban projects, London, June 5, 1996.

³¹ "LGU Financing of Basic Services and Development Projects in the Philippines", Presentation by Tom Zearley at the World Bank, 1996.

25. The formal providers of infrastructure services are most familiar with—and best equipped to offer—standardized and relatively modern technologies based on networked facilities, for individual households as the client/customer. In many cases, low income households prefer standard piped connection, especially for water supply, when offered and are even willing to pay full tariffs. This type of service is often the most economical when both capital and O&M costs are considered. It is a particularly viable option in lower-middle income countries where urban growth is modest and the unserved settlements are few relative to the existing network. However, where the unserved population is unable to afford these service packages and resides in fast-expanding, often irregular settlements, the utilities need to change both their traditional attitudes towards the clients and their methods of operation.

26. When the utilities (whether privately or publicly owned) face clear commercial incentives for efficiency, this can be sufficient to encourage them to extend the standard service as far as is profitable, given the existing primary and secondary infrastructure. A minimum condition is a tariff policy that does not discourage the utility from providing service to the poor. Other elements of regulation or contract provisions may affect incentives/disincentives for service to the poor, particularly where new investment is required. The private leaseholder in Guinea increased coverage from 15 to 52 percent of the urban households in the first five years of the lease—but growth in coverage stagnated thereafter despite substantial tariff increases and nonpaying accounts have become a serious problem. The private concessionaire in Buenos Aires undertook operational improvements and investments in the first three years of the contract that achieved a 9.5 percent increase in number of residents with water connections and 6.8 percent increase with sewerage; however, the concessionaire is not anticipated to give priority to poor neighborhoods in investing for further system extensions.³²

27. Meeting the service requirements of poor, informal settlements often requires that providers be able and willing to undertake nonconventional approaches to service delivery—such as by offering users choices among alternative service levels (some of which could be upgraded over time, in line with changes in demand and incomes); negotiating with neighborhood groups rather than interacting with individual customers; experimenting with innovative technologies; engaging the community to facilitate collection of payments, for example, for metered supply of water distributed in bulk to a neighborhood collection point; and collaborating with the communities in shared production of some services.

28. A task for the future will be to make the processes of utility reform and privatization, and the mobilization of communities to meet their own service needs, mutually consistent and reinforcing. Local governments have an important role to play as intermediaries with the population and as the regulators or supervisors of utilities. The government can help by

³² Daniel Rivera, *Private Sector Participation in the Water Supply and Wastewater Sector. Lessons from Six Developing Countries*. Directions in Development. World Bank, 1996

providing credit to poor households to spread out the costs of a house connection, and utilities should educate consumers on how to reduce their monthly bill through conservation.

29. In designing plans for sectoral development, the aim should be to promote service coverage by whatever means appropriate for the population groups, and specific performance targets for the formal providers should encourage them to be flexible and innovative in responding to demand. One implication is that lease or concession contracts should not be construed as conferring a rigid monopoly right to serve customers within the utility's service area. The regulatory or contractual framework for the sector should allow new communities to be added to the formal networks in either of at least two ways: (i) by the direct expansion of regular connections by the utility, or (ii) if the community arranges to provide its own tertiary services or obtains them from an independent developer, then negotiates to be added to the utility's formal service area.³³ In the latter case the utilities would still need to exercise oversight of technical standards for local extensions to ensure consistency with the network, and an important role for government is to see that these standards are economical and realistic for the country. For example, residents of the Orangi community in Pakistan first invested in their own tertiary sewerage system, then requested and obtained connection to the citywide network. Under the Menprosis program in Mendoza Province, Argentina (Annex Box A.10), communities contract with private companies for local services, including water, gas or sewerage; the utility companies verify technical quality of the works during construction; and then the facilities are turned over to the utility or local government (with appropriate compensation) to become part of their network.

30. **Engaging the private sector.** The private entrepreneurial sector had little explicit role in most of the early urban projects reviewed here. Private land developers can be relied upon to provide a whole range of infrastructure facilities in *new settlements* (especially for the upscale market), as long as they are not impeded by regulation and direct cost recovery from residents can be assured. Some governments have attempted to create incentives for the private sector to upgrade low income areas or develop new serviced settlements for the poor by associating them with more profitable real estate. Explicit cross-subsidies from sites and services schemes and commercial land development to finance slum upgrading was a design feature of early urban projects, and in some cases (Jordan, Tamil Nadu and Madras UDPs) this worked fairly well. In Jordan, the cross-subsidization occurred within a cohesive community (former refugees), whereas the two India schemes combined large and economically diverse areas together under a public financing umbrella. Cross-subsidization within area development schemes, as an approach to promoting service for the poor, is most relevant where there are large public lands to be made available or where private land development is still highly regulated -- not conditions to be encouraged, however.

³³ Penelope Brook Cowen, "Basic Urban Services for South Africa: The Reform of Service Delivery", Draft memo, April 1996.

31. In Jordan, where the principal public sector agency (Housing and Urban Development Corporation) has functioned in the past as *producer* of serviced land for lower income households, under the Housing and Urban Sector Reform Project (FY97) the agency will shift to becoming a *facilitator and promoter* of private sector development of land and housing.³⁴ This transformation will include changes in zoning practices, easing of building standards, and reforms in mortgage financing to reduce the policy distortions that have constrained the private sector's capacity to respond to demand for low income housing developments.

32. In contrast to the development of *new* sites and individual housing investments, upgrading of *existing* slums and squatter areas requiring public good-type investments, such as paved roads or drainage, is not often done spontaneously by the private sector because of the limited cost recovery potential, high transactions costs, and legal issues such as eminent domain. Such improvements require explicit *contractual arrangements* between either a community association or local government and the potential private developers to resolve these issues and specify the work demanded. Under the AGETIP-type projects in Africa (described in Annex Box A.11),³⁵ local public works have been carried out successfully by private contractors on behalf of municipalities and with financial support from donors and central governments. Smooth and timely implementation of many small subprojects by private contractors requires a combination of transparent contracting procedures, straightforward and flexible rules for procurement, simple but reliable information management systems, and clear accountability for all parties involved in the contracts. The AGETIPs could also be used more in the future as area development agencies for slum upgrading in specific neighborhoods at the request of local governments and community groups.

C. *Institutional arrangements for project finance*

33. **Intermediary institutions.** Many of the programmatic urban projects work through legally independent agencies (quasi-financial institutions) such as FUNDACOMUN (Foundation for Community Development and Municipal Growth) in the Venezuela Low Income Barrios Project. The agency is responsible for project implementation, supervision and monitoring, enters into subproject agreements with municipalities (who actually execute the investments), makes the subloans and handles collections. Cote d'Ivoire's Municipal Support Project uses a municipal bank—one of the only such functioning credit intermediaries in that part of Sub-Saharan Africa—to appraise and finance revenue-earning subprojects. Other projects provide grants as an integral part of intergovernmental budget transfer systems, while social investment funds select and finance local subprojects on behalf of public or private sponsors. Any of these arrangements for “wholesaling” project finance which are intrinsic to

³⁴ Memorandum of the President, Jordan: Housing Finance and Urban Sector Reform Project, July 9, 1996.

³⁵ AGETIP is an acronym for a private, nonprofit agency for delegated contract execution and management, set up under a number of Bank-financed projects especially in West and Central Africa, to carry out small-scale, mostly urban, infrastructure investments.

the programmatic approach work best where other institutional arrangements are in place for good subproject planning, preparation and implementation capacity at the municipal level.

34. The Bank has had a relatively long experience with supporting public sector municipal credit institutions (MCIs) to meet gaps in the market for medium- and long-term funds for urban investment. The history of MCIs reveals that such mechanisms, even when intended to be fully self-financing, can become highly politicized and that availability of soft money does not easily promote sound prioritization of investments or sustainability of services. MCIs have been most effective when they serve as transitional arrangements that foster the development of appropriate resource mobilization and allocation policies, and creditworthiness, on the part of the municipal agencies.³⁶

35. Experience has been much better with municipal credit arrangements that work through the private financial sector, although there are few lasting examples that have also tried to fund investments for the poor. Colombia's Findeter has for two decades provided a model financial institution that facilitates commercial bank lending to municipalities by acting as a rediscount facility. Findeter supplements the banks' project appraisal capacity and thus improves the technical quality of their lending, but the banks take the commercial risk. Unlike some other MCIs, Findeter has a poverty alleviation mandate which it has tried to fulfill by giving particular attention to institutionally weak small towns and by favoring investments in essential services (water and sanitation mainly).³⁷

36. The recent restructuring of a component of the Tamil Nadu UDP suggests a direction in which existing municipal funds in some other projects may evolve to draw the private sector into small-scale urban investments. This project, which included slum upgrading for 72,000 households among other components, set up a loan and grant program as the Municipal Urban Development Fund (MUDF). In a restructuring of the project in 1996, the MUDF was converted into a new financially and legally autonomous financial intermediary with participation of private capital and management—the Tamil Nadu Urban Development Fund (TNUDF). This entity will be managed by an Asset Management Company, a joint venture between the TN government and private investment companies. The new arrangement is expected to bring private sector management expertise to the selection and financing of subprojects sponsored by either public or private agencies, and to facilitate access for creditworthy municipalities to the private capital market. It is expected that the government's share would be reduced in time through sale to interested investors, and that onlending interest rates would be made to conform to market rates. A separate grant window for poverty-oriented investments such as slum upgrading and costs of resettlement would also be managed by the Asset Management

³⁶ World Bank, 1995a.

³⁷ O. Alvarado and V. Gouarne, "Findeter: Financing Municipal Investment in Colombia", World Bank *Infrastructure Notes*, No. FM-7, October 1994.

Company, and would provide technical assistance to help municipalities in preparing such investments and improving their own financial management.³⁸

37. Financial policies. Sustainable financial policies for urban investment programs are a prerequisite for achieving adequate maintenance, scaling-up, and attracting private partners. Poor cost recovery is a theme cited with tiring consistency in OED evaluations of urban infrastructure projects. Poverty-oriented programs should not necessarily aim to achieve full cost recovery from beneficiaries, however; rather, the objective should be financial sustainability from clearly-identified (usually multiple) sources, including beneficiaries.

38. *The contributions of beneficiaries.* Cost recovery can take various forms:

(i) consumers' payment of tariffs or user charges for private goods and utility services, including water, sewerage, electricity, etc. Overall tariff revenues should cover investment as well as current costs, including debt service;

(ii) up-front financial contributions from the community for investment in public-type goods, and community responsibility for operations and maintenance;

(iii) mobilization of local fiscal revenues from increased property taxes or "betterment" taxes to cover the (capital and/or O&M) costs of communal or public good-type improvements. If the incidence of these taxes falls on those households that are the primary beneficiaries of the investments, then such "benefit taxes" constitute an indirect form of cost recovery;

(iv) in the case of new site development, sale of plots can recoup infrastructure investment costs; and

(v) specific components that involve private investment, such as home improvement loans or credit to households for on-site sanitation investments, are recovered through normal loan repayment.

39. The onlending and repayment conditions between levels of government (e.g., between the municipality or utility executing the project, and the agency borrowing the World Bank loan) is yet another dimension of financial sustainability of investment programs. References to "cost recovery" of projects often confound these various sources of financing which are appropriate to different aspects of urban infrastructure, adding to frequent confusion about what the financial policies of projects are or should be. The sources (i) through (iii) are most relevant to investment in urban services for the poor and are the focus here.

³⁸ "India: Restructuring of Tamil Nadu Urban Development Project and Tamil Nadu Urban Development Fund", Presentation at the World Bank by Hiroaki Suzuki, November 1996.

40. There has been well-documented reluctance of government in many countries to impose necessary tariff increases for water or electricity, but there is often an equal degree of resistance to introducing or enforcing betterment levies and collecting property taxes.³⁹ In projects in Indonesia, Pakistan, and India, among others, OED reports cite governments for taking insufficient advantage of the potential fiscal gains from increased land values. Brazil's Parana Market Towns Improvement Project was a notable exception, where two years into the project, 200 out of 287 municipalities were using betterment levies as a source of revenue.⁴⁰ One obvious incentive in the case of Parana was that such levies were necessary for municipalities to repay their loan funds under the project, and the project could enforce repayment by withholding other revenues (such as transfers from central government) at source through the state development bank.

41. A variety of factors besides formal rules can influence the success of cost recovery. A frequent problem (e.g., in urban projects in Jordan and the Philippines, in Indonesia's WSSLIC and the sanitation component of India's Hyderabad water project) is that users resist direct user charges and community co-payments because of conflicting sectoral policies—neighboring communities receive services at lower cost from other government or donor programs. Cost recovery from beneficiaries also may fail when there are unacceptable delays in the delivery or improvement of services as promised—a risk especially when revenues are collected by other levels of government—or in setting up the payment mechanism. In an early urban project in Tunisia, for example, repayment contracts with households became unenforceable due to a multi-year lag in the granting of land titles.

42. In programs where the communities themselves have a major role in the selection and implementation of investment, they can also enforce loan repayments and other agreed contributions among their members. In the Menprosif program in Argentina (Box A.10), this collective security reduces credit risks sufficiently to permit members to obtain funds from the provincial bank at a reduced rate of interest. The Burkina Faso Urban Environment Project is reinforcing the existing system of local credit unions through a guarantee mechanism. Given the good experience with microcredit programs in many countries and past evidence that upgrading stimulates private investments, it is likely that the parallel availability of microenterprise credit (as in Cote d'Ivoire's Municipal Support Project) would significantly enhance the economic benefits from basic urban services projects. This outcome would also contribute to their potential for cost recovery from both direct and indirect mechanisms.

43. ***Designing subsidies.*** In the few past cases where localized projects were extended into national programs, direct cost recovery from households was either negligible (Botswana, Indonesia's KIP) or partial (Tunisia). The key to financial sustainability was the central government's commitment to subsidies that were manageable--a condition that requires keeping

³⁹ World Bank, 1995a.

⁴⁰ Summary of TWU seminar by Eleoterio Codato on this project (February 20, 1996).

investment costs low. The financial impact on government of such a commitment need not be unreasonable. Estimates based on project experience suggest that an upgrading program covering minimal water, sanitation, access roads and drainage improvements for the projected unserved urban populations in LAC, East and South Asia, and Sub-Saharan Africa, based on policies permitting high settlement densities, might require only 0.2 - 0.5 percent of GDP annually on average over a fifteen year period.⁴¹ These levels would be feasible as reallocations of existing urban investment in some countries without necessarily claiming additional public resources for the urban sector.

44. In addition to the political commitment, the specific design of a subsidy and its impact on incentives is critical for a program's effectiveness. As described in Section B, several of the recent urban and water/sanitation projects have specified subsidies as a fixed amount on a per capita basis, calibrated to the estimated costs of a very basic service level. This design keeps the total subsidy budget within a predictable limit while ensuring that the poorest households and communities will be able to obtain at least minimal services.

45. Probably the best example of effective subsidy design for water and sanitation is found in Chile, which already has virtually universal coverage for these services but provides a targeted subsidy (a voucher scheme) to ensure that all households can afford the basic consumption level. The program, introduced to replace tariff cross-subsidies in 1990, features an efficient partnership among levels of government and the utility to direct the subsidy to the target population of urban poor. The central government provides the subsidy funds and transfers them to the local government, which also administers the means testing. The utility charges the municipality for the subsidized portion of the water/sewerage bill of its eligible customers. Between 25-80 percent of the costs of a minimum monthly consumption level is covered by the subsidy, and households are held strictly accountable for paying the remainder of the bill, up to 5 percent of their monthly income.⁴² This scheme requires a high quality of administration and has not been replicated to date in other developing countries.

⁴¹ Based on a basic level of service (standpipe water, latrine, gravel access road, unlined storm drainage channels) for densities of 360-500 persons/ha. Adding the estimated requirements for incremental trunk (primary) infrastructure investment would bring this range to about 0.3-0.7 percent of GDP per year. This does not include technical assistance or community mobilization, rehabilitation of deteriorated installations, O&M, or treatment of wastewater. See Christopher Banes, John Kalbermatten, and Piet Nankman, "Infrastructure Provision for the Urban Poor: Assessing the Needs and Identifying the Alternatives", TWUDR draft, May 1996.

⁴² Raquel Alfaro Fernandois, "The Introduction of Competition into a Natural Monopoly and of Social Considerations into Entrepreneurial Management: The Case of EMOS", Paper presented at Regional Seminar on "Public and Private Cooperation Alternatives for Urban Development in Latin America and the Caribbean: The Privatization of Basic Urban Services", Quito, Ecuador, February 15-17, 1995.

D. *Land-related issues*

46. **Tenure security.** Provision of formal (legal) land tenure is an objective in perhaps less than half of the urban projects reviewed here, but most of the projects aim to provide some informal, *de facto* land rights. The Bank's slum upgrading activities usually involved unserved neighborhoods with some degree of traditional tenure. In numerous cases, such as the early generation of KIP projects, OED reports noted that more formal security of tenure would have given poor residents a better chance of realizing land market gains after neighborhood improvements. Secure tenure also enables households to use housing as an asset to earn rental income.⁴³ For municipal governments, regularizing land occupancy facilitates property taxation, although it has not been sufficient to overcome many governments' reluctance to use such taxes.

47. There is widespread recognition among urban sector professionals, however, that infrastructure improvements providing less than legal title often create a sufficient informal security of tenure to permit residents to invest and acquire other services. Legal registration of land ownership is almost a foreign (colonial) concept in many developing countries, especially in Africa, and can be virtually irrelevant to the actual land and housing market.⁴⁴ In Pakistan and India, residents in some projects have refrained from seeking tenure regularization when they perceived that their existing status provided adequate security to enjoy the private benefits of land use (and, possibly, less cost in terms of potential taxation). In PROSANEAR, residents of favelas valued the usufructory rights accorded through the provision of a house connection. Getting into the water company's cadaster bestows the squatter with the first documented right of occupancy on the land, and this provides a strong incentive to participate in a condominium association. There may be cases where squatters or tenants of squatters are less willing to reveal their demand for infrastructure services such as sanitation because of the absence of secure tenure, but it is also clear that acquiring infrastructure services strengthens residents' ultimate claim to tenure.

48. Although the Bank has often promoted tenure regularization as an integral part of urban infrastructure development, there are reasons why titling and land registration should sometimes be delinked from infrastructure improvements (i.e., not made a prior condition) and pursued separately. The desirability of improving conditions for large numbers of families in a reasonably short period of time often suggests that the major bottlenecks in public services should be addressed first, with titling to follow as demand permits.⁴⁵ Improving the living conditions of the poor depends most directly on their having the right to the use of property, the freedom to trade and collateralize land, and to acquire infrastructure services with minimal transactions costs.

⁴³ The importance of this advantage to the poor is discussed in Moser, 1996.

⁴⁴ Farvacque and Godin, 1996.

⁴⁵ Summary of TWU seminar by Alain Bertaud, March 5, 1996; see also Farvacque and Godin, 1996.

49. **Resettlement.** Satisfactory resettlement arrangements are a critical condition for the resolution of citywide infrastructure problems such as public transport, as well as for effective service delivery in very densely populated cities. Slum upgrading projects, for example in Morocco, were conceived as an alternative to wholesale resettlements (bulldozing) of informal communities and succeeded in discouraging this practice in many countries. Many other Bank urban projects have been able to provide facilities in ways that minimize or eliminate entirely the need for involuntary resettlement. One project reviewed here where resettlement has been very successfully carried out (the Novos Alagados component of Brazil's Salvador project) relies heavily on NGOs and reinstates residents in their original neighborhood after temporary displacement.

50. Involuntary resettlement in urban projects has been made an issue since the adoption of the Bank's operational guideline (OD 4.30), and the application of this has not been examined here. It is sufficient to note the widespread view among urban task managers that the common interpretation of the Bank's official policy is excessively rigid and costly, and discourages potential attempts to introduce slum upgrading activities in new projects. The Bank's commitment to poverty alleviation should promote the improvement of low income urban settlements, which often requires addressing resettlement directly. The need for resettlement has also increased in many cities as households have encroached on environmentally vulnerable lands. Resettlement should be undertaken with regard to citywide (or land market-wide) policies and conditions, not as enclave activities, since displaced households will often return to squatter status. The cost and availability of alternative housing sites, and access to employment, are key considerations for the welfare of resettled households and therefore for the design of workable resettlement programs.

51. The proposed Mumbai (Bombay) Resettlement and Rehabilitation (R&R) Project takes a forthright, comprehensive approach to resolving the resettlement implications raised by the urban transport investments needed in the city. The Bank's first free-standing urban R&R project would establish a framework for R&R management in Mumbai through policy change, capacity building, and implementation within selected demonstration sub-projects, thereby setting the stage for responding to the needs of future infrastructure investments in the metropolitan area.⁴⁶ In the new open-ended urban projects such as Ceara that define subprojects during implementation, resettlement requirements cannot all be determined and accounted for upfront; this underlines the importance of an appropriate policy framework to handle resettlement as it arises, and a flexible attitude on the part of the Bank.

52. **Managing new urban growth.** There is also a widely-held view among many experienced urban staff that some "preventive" planning or "guided" land development, in towns that are growing from a still-manageable size, is needed to head off future problems of squatting and excessive costs of service provision due to urban sprawl. It might also be easier

⁴⁶ Draft IEPS, Bombay/Mumbai Resettlement and Rehabilitation Project, March 1, 1996.

to convince governments to support the upgrading of existing informal settlements if a complementary and effective strategy for managing new growth could be adopted at the same time. In West Africa, for example, Bank staff are proposing that very simplified approaches of mapping the broad outline of future development of major transport, drainage and water routes in periurban areas should serve as guidelines for the programming of public investment and granting of development rights to the private sector.⁴⁷

53. The lessons of experience from many countries (recounted in the *Housing Policy Paper*) is that attempts at master planning and direct involvement by governments in land development often lead to constrained supply and increased costs. Governments should therefore focus on creating a supportive regulatory framework for private land development, by removing obstacles to competition and reducing transactions costs in the land markets. In cities which already face very rapid growth and intense pressures for redevelopment of well-located, low-income neighborhoods—as in parts of Jakarta, for example—it is probably impossible for any government program of slum upgrading “to stay ahead of the market”. In such conditions, governments might best assist poor households by enabling them to engage in a competitive and open land market, and by making any neighborhood improvement program very flexible and adaptive to change.

IV. PRELIMINARY CONCLUSIONS AND IMPLICATIONS FOR THE BANK

1. **The lessons from the past.** Evaluating the Bank’s operational experience is hampered by the paucity of quantifiable evidence regarding the linkages between infrastructure services and urban poverty alleviation, and the lack of a clear analytical framework relating these outcomes to institutional performance. In the absence of a more rigorous model, the present Note reflects the view that “what benefits poor households most” is indicated by their effective demand (in response to a price), and the best test of “what works” is whether services that users demand can be sustainably provided over the longer term.

2. Most formal evaluations of the Bank’s past upgrading activities provide relatively little information about residents’ actual demand, and what is known about financial sustainability is often rather negative. However, based on physical achievements and the actual expansion of programs to a national scale over many years, the best examples—the longest-lasting good practices—of the “integrated” urban development projects are clearly seen in Indonesia, Jordan and Tunisia. Individual urban projects of this type have produced good results in a much larger number of countries (in Bolivia, Brazil, Burkina Faso, Colombia, Guatemala, India, Morocco, Pakistan, and the Philippines, to name the more obvious ones). Evaluations indicate that the physical works completed under such projects brought about real improvements in the immediate environment of residents in the formerly unserved areas, thus raising their quality of

⁴⁷ Farvacque and Godin, 1996, Chapter 5.

life and promoting local economic activity. According to the Impact Evaluation of the KIP projects, for example, kampung investments achieved a 12 percent rate of return even in cases when their useful life was limited to five years. As reported for Indonesia, Jordan, and the Philippines, the provision of infrastructure and tenure security was also found to yield broader benefits in terms of stimulating private investment, regularizing the status of communities in the eyes of municipal and other authorities, empowering residents to seek other services from their local government, and generally contributing to local civic pride. In other words, such projects have the capability to build communities, not just infrastructure. These findings suggest that slum upgrading and other urban service improvements are activities that the Bank should certainly continue to support, both as consistent with our mandate of poverty reduction and environmental sustainability and to strengthen local governance and democratization.

3. It must also be recognized that certain components of the Bank’s projects for the urban poor are easier to characterize as “successful” than others. In particular, components such as access roads and paths, street drainage, street lighting, markets and community centers have been straightforward to implement. Communities were consulted in these projects but not expected to finance the costs themselves and there was little need for technological innovation. Outcomes that depended on private investment and initiative, such as incremental housing improvement, also have been quite positive. However, components that require fine-tuning of technical approaches and service options to meet variations in community demand, and that depend on communal organization of O&M for sustained benefits—especially, household sanitation, solid waste management, and to a lesser extent, water supply—have remained problematic in many countries. Experience has also made clear that neighborhood-specific investments (in access, drainage, garbage collection, or WSS) are insufficient to ensure citywide environmental improvement and must be pursued in concert with activities that address broader service networks.

4. The difficult question remains why so few programs have “scaled-up” beyond initial target areas or pilot schemes to cover more cities within the same country, and sustained over time to at least keep pace with the growth in numbers of the urban poor. The evidence from this review indicates that the obstacles to scale-up have not been mainly financial (the affordability of basic service provision to either the households or to the public budget), but rather political and institutional. The required political support implies both high-level leadership and commitment from central governments, as well as active involvement by local authorities that have a fiscal base of their own and a stake in satisfying the electorate. Viable institutional arrangements are those that encourage partnerships, assign functions and responsibilities to those parties best able to carry them, and give all participants the incentive to deliver sustainable services.

5. The three different types of projects as reviewed here do not measure up equally to these criteria. Table 2 lays out their main strengths and weaknesses as discussed in the preceding sections. The basic design of the early integrated urban projects permitted rapid physical investments but was less well suited to responding to the diverse interests of local

governments, utilities, and communities. Where integrated approaches are still desired, a more flexible (less “prepackaged”) design will be appropriate. It is also preferable that such projects be implementable by municipalities and utilities as part of their normal functions rather than be left to an enclave agency, although contracting-out slum upgrading to a private developer could be a viable alternative. The programmatic urban projects are more consistent with capacity-building as a process and, with appropriate rules, allow for communities to express their demands for investments across the sectors. Similarly, the programmatic water/sanitation projects provide a good framework for clarifying the implications of specific service demands within this sector, experimenting with alternative technologies, and increasing the responsiveness and capacity of sector institutions. As indicated in Table 2, to achieve their benefits all three project types need to include elements of capacity building and policy reform aimed at making the local governments and utilities accountable and responsive to users.

6. While the growth in numbers of urban residents without infrastructure services indicates an apparent need for slum upgrading investments, few local governments have initiated such programs in recent years or proposed such subprojects under available municipal fund channels. A lack of awareness by officials of the potential economic returns to such investments may be one deterrent. However, in cities where decentralization and electoral reforms have made the local governments sensitive to their constituents, and the communities themselves have mobilized to start addressing their own service requirements, there is real potential for progress in closing service gaps through partnerships among the community, NGOs, government and utilities at the local and central levels.

Strengths & Weaknesses of Alternative Lending Instruments for Infrastructure Services to Poor			
	(Page 1 of 2)		
	Types of projects/programs or project components		
	(A) "Integrated" urban development projects	(B) "Programmatic" urban projects	(C) "Programmatic" water/sanitation projects
Main problem addressed (objective)	Targets infrastructure improvements to specific settlements with worst service and environmental deficiencies.	Provides funding for investments on competitive "first come, first served" basis, according to rules and eligibility criteria	Tailors technical options and service levels to specific demands of low income (peri-) urban communities.
Additional advantages and benefits	Comprehensive, cross-sectoral coverage of service deficiencies in given geographic areas.	Flexibility -- can respond to shifts in demand and priorities of subproject sponsors and adapt criteria based on experience.	Permits direct, focused attention to service deficiencies in areas where utilities often unwilling or unable to extend services.
	Reaches all residents, including poorest, within target neighborhoods.	Permits demand to be expressed across range of subsectors and service levels.	Permits detailed experimentation with alternative technical and institutional approaches within WSS sector.
	On-the-spot coordination and planning of investments across sectors (re. installation of pipes, roadworks, drainage channels, etc.).	Encourages various intermediaries, incl. NGOs and community groups, to sponsor subprojects and implement in partnership with formal sector agencies.	Assists training & reorientation of intermediaries (formal and informal sector) in strategies of demand assessment and alternative technologies for WSS.
	Creates high visibility improvements across targeted settlement area.	Supports decentralized authority to local govts. by providing funding for local investments/services prepared and prioritized by them.	Can address sectoral policy and institutional reform issues of WSS as well as specific service interventions targeted to poor communities.
		Can set stage for eventual shift to funding local investments through financial market intermediaries	
Weaknesses, disadvantages, risks and problems	Trade-off between emphasis on comprehensive package of investments, and responsiveness to variations in community demands and priorities.	Approach biased against communities lacking capacity to identify priorities and prepare proposals.	Does not address communities' demands for non-WSS services.
	Does not address linkages of infrastructure beyond neighborhood boundaries.	Does not address linkages among investments within neighborhoods of city, nor across sector networks (e.g., possible efficiencies of coordinating WSS, roadworks, resettlement, etc.).	
	Use of special implementation unit facilitates investment coordination, but local gvt. & sectoral agencies need to be involved for sustained O&M.	Sustainability of subprojects is only as good as the rules/criteria for determining demand and establishing responsibility of sponsoring agency for O&M.	
		Requires institutional capacity for selecting subprojects against criteria and supervising disparate subprojects.	
			Promotion of technically diverse, community-initiated WSS schemes within same service area poses challenge to utility to coordinate network hook-up and maintenance.

Strengths & Weaknesses of Alternative Lending Instruments for Infrastructure Services to Poor			
	(Continued p. 2 of 2)		
	(A) "Integrated" urban development projects	(B) "Programmatic" urban projects	(C) "Programmatic" water/sanitation projects
Design features to mitigate risks and protect benefits	Give communities choice in contents of investment package and detailed designs.	Establish independent, professional, central management unit and clear manual of procedures to ensure efficient, transparent and easily monitorable subproject selection, contracting and funding.	Incorporate change in policy & institutional (regulatory) environment of utilities to create incentives (and coverage targets if needed) to serve the poor as part of their regular business.
	Give priority to neighborhoods with greater expression of demand and commitment to participate in planning, subproject design, and cost recovery.	Provide technical support and training/mobilization to strengthen communities' ability to identify demands and prepare viable subprojects.	
	Involve both municipalities and sectoral agencies in subproject planning, design, implementation and O&M.	In same or separate operations, strengthen institut'l capacity, revenue generation, creditworthiness, and planning/budgeting in local govts. and sectoral agencies to eventually access financial market for local investments.	
	Set clear, consistent rules for subproject eligibility and requirements for community copayment.		
	Subsidy element should leave incentive for beneficiaries to reveal WTP; for utilities to keep costs low; and to permit wide-scale replication.		
	Establish clear responsibilities and funding sources among municipalities, utilities, and communities, for respective components of infrastructure and services.		

7. Ingredients of future projects. From these indications of what has been more and less successful in the past and from evidence to date on the performance of newer operations, certain elements can be identified for sustainable, replicable, demand-responsive projects that can provide a range of infrastructure facilities and services. These points represent an emerging outline of what constitutes best practice at the present time; however, the results have not been established robustly from impact analyses so these points should be subject to continual review as experience with the new projects evolves. For example, we know with reasonable certainty that the sustainability of programs depends on the incentives imbedded in the program rules. However, we do not know enough yet about what specific rules (e.g. different forms/levels of burden-sharing) work best in different circumstances.

Design elements and institutional arrangements to ensure demand-responsiveness:

- Beneficiaries may be targeted initially through a geographic or poverty mapping exercise that identifies populations with low income and low service coverage. Within these broad criteria for eligibility, however, the actual recipient communities should be required to indicate their effective demand for improved services and willingness to support the project by contributing resources (in cash or in kind) and by participating in decision-making.
- Target beneficiaries should be enabled to express their demands in a multisectoral framework (to declare priorities among sectoral/subsectoral alternatives including

WSS, transport, other improvements/amenities). However, supply-side capacity (delivery of services) may need to be developed either through a multisectoral or single sector project or program, depending on what is most appropriate for the specific local circumstances.

- Households and communities should be offered technically feasible service options and be required to face real opportunity costs of any service options they choose. In offering choices, full information should be provided—both financial and organizational/institutional requirements—about tradeoffs: i) between investment vs. O&M implications; ii) between doing one improvement at a time vs. doing several at a time (e.g., water supply only vs. water plus street drainage plus road improvement); iii) between doing some improvement now vs. doing it later. Both female and male beneficiaries need to be fully involved in these decisions.
- No one stakeholder can process all these alternatives easily and many of the trade-offs impact on other locations and future periods. Therefore, assessing the costs and benefits of each option and weighing their merits requires an iterative, multi-layered process of decision-making among the different social units affected—including households, block-level or neighborhood-level associations, elected municipal officials, interjurisdictional authorities (utility companies, river basin authorities, area development authorities), and even provincial or national agencies (for some financing or regulatory issues). As a general principle, each of these various social units is in the best position to weigh the costs and benefits that accrue at its level from different types of infrastructure service improvements. Development of urban services therefore needs to involve users, planners and policy makers at all these levels, but *with decisions taken at the lowest appropriate level*. It is therefore important that programs correctly assign decision-making powers concerning various program elements to the respective stakeholders.
- Communities may need assistance to articulate their needs and agree on financing and O&M arrangements. This mobilization and intermediation can be provided by local government, utilities, CBOs, NGOs, or private entrepreneurs. To avoid the risk that these interest groups might manipulate community decision-making and undermine true demand expression, information needs to be disseminated impartially and aggressively to the public about investment options and program rules.
- Formal institutions (governments and utilities) need to adapt themselves to be open to community demand and initiative, both in activities of long-range sectoral planning and detailed design of specific investments. This requires close collaboration among engineers and community workers.

Design elements and institutional arrangements to promote sustainability of services and broad access (scaling up):

- Flexible design standards are important to keep costs of services low, reduce bottlenecks in supply, and let households make their own tradeoffs between convenience and affordability. This flexibility should extend to land regulations, to permit density levels in urban settlements that make optimal use of land and to reduce transactions costs that impede the poor's access to land.
- The formal institutions in the urban sector—municipalities, sectoral agencies, and state or other levels of government—are indispensable for replicability of programs, and for linking neighborhood improvements to broader networks. In addition to having direct responsibilities for the production of “primary” (trunk-level) investments and services and for the citywide urban environmental conditions, these agencies should understand a clear mandate to extend “secondary” level (feeder) services for which residents are willing to pay. In some cases, the agencies may best meet this mandate by creating a framework to stimulate and nourish local initiatives, providing (partial) financing and technical support.
- Regulation should encourage utility owners and managers (whether public or private) to work with communities to facilitate service expansion in whatever ways are most practical: conventional connection, bulk sale to a communal collection point, self-help with technical supervision, etc. In addition to involvement in direct service provision, the private sector should participate as land developers, contractors for specific works, and managers (and providers) of loan funds. Financial (including tariff) policies should remove disincentives to provide services to the poor.
- There should be clear rules governing the availability of resources to support community infrastructure initiatives. Governments should commit to financing a resource envelope of capital subsidies adequate to ensure a basic service standard for secondary infrastructure. Eligibility criteria should give communities the incentive to reveal their willingness to pay and to live up to their commitments. A revolving fund or line-of-credit type financing mechanism allows local authorities to make allocation decisions in response to local priorities and to match communities' own resources.
- The communities may need to be supported in obtaining their desired local services, whether through technical assistance from the sectoral agencies for self-help efforts, or through contracts with private sector suppliers under oversight of these agencies. To facilitate communal action as well as expression of demand, groups need to be legally constituted (as cooperatives, neighborhood or block-

level associations) to be accountable for their decisions and to facilitate enforcement.

- As part of the programs for neighborhood services, households could be encouraged and helped to mobilize their own private capital for “tertiary” investments (on-site: latrines, housing improvements), through microcredit components or through savings cooperatives.

8. These elements can be incorporated into both multisectoral and single-sector projects of various designs--and even municipal development fund-type operations--to foster local initiative, mobilize fiscal and other resources, and promote innovation. They are consistent with the growing consensus regarding the need for a “process” or “learning” orientation to institutional development⁴⁸ and represent a definitive departure from the “one size fits all” tendencies of some past projects. Along with these design elements for projects and programs, reforms in governance to decentralize resource allocation decisions about local investment and increase opportunities for “voice” will contribute to the quality of public choices regarding urban services

9. **Implications for Bank activity.** Given that community initiative provides the basis for sustainable and replicable services, then the question becomes how the Bank, working through in-country counterparts and with other external partners, can best support local efforts. In some cases, basic services programs may evolve organically with the Bank stepping in to help the transition along through each stage--for example.⁴⁹

- ◆ Phase I -- *Incubation* (e.g., the El Mezquital slum upgrading program in Guatemala, pre-Bank involvement):
 - A community organizes for a specific need or purpose (e.g., clean water);
 - On a very small, localized scale (neighborhood-specific);
 - Facilitated by action of a CBO or NGO;
 - May involve experimentation with new technical solutions;
 - Based on grant (if NGO) or self-financing;
 - The initiative has no linkages with formal sector institutions.

⁴⁸ Such as the “adaptive” project design adopted by the World Bank-UNDP Water and Sanitation Program; OED’s proposed learning-intensive project cycle (R. Picciotto and R. Weaving, “A New Project Cycle for the Bank”, *Finance and Development*, December 1994); ODA’s “process” orientation to projects (J. Kirke, GHK memo, 1996).

⁴⁹ Based on discussion at World Bank Urban Retreat, January 1996, as summarized by rapporteur Jean Doyen.

◆ Phase II -- *Growth and Transition* (e.g., the above Guatemala component as expanded under the Bank project):

- Conditions now established to permit broad political consensus and support for program;
- Scale enlarged to wider area and encompasses communities of similar character and need;
- Objectives of program broaden and activities multiply in type (e.g. more services beyond initial sectors);
- More formal processes adopted for management, training, procurement and contracting of investments, and technical assistance expanded as necessary;
- Financial resources go beyond grant to include loan components;
- Community associations become formalized as more groups form and interact, and to permit greater resource mobilization (e.g., legal constitution of water user groups or mutual savings clubs);
- Formal linkages established with municipalities, utilities, financial institutions, and possibly with other sectoral programs.

◆ Phase III -- *Institutionalization and "Take-Off"*:

- Scale expands further to encompass multiple cities within state or country;
- Eligibility criteria (access to program resources and activities) broaden and become more formally rule-based;
- Overall targets for impact, coverage may be adopted;
- Program becomes formally linked to sectoral networks for water, transport, land and environmental management, etc. and integrated into sectoral policy reform processes (e.g. to establish consistency with other subsidy and cost recovery mechanisms).

10. This framework does not describe the actual evolution that most programs (even the "success stories") have gone through; in fact, many good pilot schemes have ended in Phases I or II. The early KIP program virtually started in Phase III and in some respects, that program is turning back under its most recent manifestations to deepen the roots of community initiative. These three phases do describe a conceptual outline of how community initiatives could develop into full-scale programs--relatively rapidly in some countries, and over more years in others.

11. In Phase I, the Bank mainly provides support in a catalytic and indirect way, for example through pilot and informational activities under the UNDP-World Bank Water Program and through support to NGO umbrella organizations and social investment funds. The Bank becomes more fully involved in the transitions to Phase II and Phase III, especially to assist municipal and sectoral agencies that are committed to establishing the incentives and institutional arrangements that will nurture and build on community initiatives.

12. The challenge for the Bank is to become more proactive in encouraging countries along this evolutionary process, not merely responding to already-proven efforts. A proactive strategy to promote basic urban services would involve:

- Identifying countries where central government and local government leaders in at least a few urban areas are committed to expanding services for the poor and willing to take a financial and political stake over the medium term.
- Reaching an understanding with these governments--and with other concerned groups, including NGOs, utilities and donors—on a basic framework of sectoral and financial policies and institutional arrangements that will permit sustainable service development and will be applied consistently in these urban areas. Such a framework could be based at least in part on the design elements listed earlier.
- Combining this sectorwide perspective with an “opportunistic” portfolio. Every project need not (and in most cases, probably should not) have a citywide or multiservice scope. But site-specific investments and pilot schemes should fit within an agreed policy and institutional structure that can ensure replicability and linkages to the broader urban networks. Both very flexible, targeted interventions and sector investment-type operations may be appropriate.

13. The right approach will likely vary among countries and even among urban areas depending on the nature of local needs and institutional capacity. For example, in cases where the settlements without basic services are few and not growing rapidly and where the sectoral institutions are reasonably capable, the most efficient strategy may be to address whatever barriers in the incentive system impede the connection of these residents to the formal networks. This scenario is most pertinent to middle-income countries. In such cases, an appropriate stance of the Bank would be to promote tariff reforms, correction of regulatory factors that deter new connections, improved access to financing for new investment where needed, and greater openness of the utility to consumer inputs. On the other hand, in urban areas where the unserved population is rapidly growing or in the majority and the formal institutions are weak and unresponsive, these sectoral policy reforms are still relevant but they are not likely to have a sufficient impact for the poor, even in the medium-term. In these cases—more typical among the low-income countries—a combination of approaches would be needed. Appropriate responses by the Bank in such circumstances could include direct financial support to community initiatives through programmatic arrangements; targeted projects for upgrading of certain areas, perhaps as demonstrations to test particular technical or institutional designs; and/or capacity-building of formal and informal institutions that are interested in facilitating access of the poor to services. In both of these urban scenarios, experience suggests that results will be strongest where the Bank can remain involved over a number of years.

14. **Furthering the analysis.** The present review has highlighted the considerable range of Bank experience in providing infrastructure services to the urban poor across two or more sectoral traditions. It would be useful to reevaluate more of the pivotal operations of the past to

investigate their demand responsiveness and institutional sustainability in the light of today's understandings of these issues. The economic benefits of past investments in services for the poor need to be documented and disseminated; and, the relationships between these outcomes and alternative project design and incentive arrangements should be examined. In addition, the potential lessons to be gained from ongoing projects need to be accelerated through active monitoring and sharing of results-in-process. An essential next step would be to seek views and experience from other agencies and stakeholders who have been involved in and affected by the kinds of projects reviewed here.

Annexes

- Table 1: Evolution of “Prototype” Projects Reviewed in Annex
- Box A.1: The Kampung Improvement Program (KIP) of Indonesia: The “Grandfather” of Urban Upgrading Programs
- Box A.2: Morocco and Tunisia--Local vs. National Scale of Urban Upgrading Activities
- Box A.3: Integrated Urban Upgrading in Sub-Saharan Africa: Sierra Leone and Ghana
- Box A.4: The Parana Market Towns Improvement Project, Brazil: Lessons from the first “programmatically” urban development project
- Box A.5: Evolution of the KIP in the 1990s: A New Generation
- Box A.6: “Programmatically” Approaches to Multisector Infrastructure Provision: Brazil’s Ceara Project and Pakistan’s Northwest Frontier Province Community Infrastructure Project (NWFP)
- Box A.7: Water and Sanitation for Low Income Periurban Settlements in Brazil: The PROSANEAR Program
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- Box A.9: Social Investment Funds and Block Transfer Programs
- Box A.10: Community-Initiated Basic Infrastructure Programs: El Mezquital, Guatemala and MENPROSIF, Argentina
- Box A.11: AGETIPS as a Vehicle for Providing Infrastructure for the Urban Poor
- Table 1a: Projects Reviewed with Components for Basic Infrastructure Service Provision to Poor Urban Communities (Urban Projects)
- Table 1b: Projects Reviewed with Components for Basic Infrastructure Service Provision for Poor Urban Communities (Water and Sanitation Portfolio)

Evolution of "Prototype" Projects Reviewed in Annex

Year (FY) approved	Multisectoral scope				Single Sector (Water and Sanitation)		
	Integrated Design		Programmatic Design				
1975-81	Indonesia UDP I-IV (KIP)						
		Morocco UDP I,II					
1982-84			Tunisia UDP III	Parana Mkt Towns Improvemt.			
1985-88				Tunisia UDP IV	Social Investment Funds, 1988-on		PROSANEAR
1989-91			Guatemala MDP- (el Mezquital)	AGETIP projects, 1990-on			
				Indonesia JUDP III			
1992-94	Freetown Infra. Rehab						Uganda Sm. Town Water
1995-96		Ghana UESP			Pakistan NWFP Commun. Infra.	Burkina UEP	Zambia Urban Rest./Water
				Mauritania Urb. Infra			
					Ceara Urban/Water		

Notes: **Integrated** = Subprojects preappraised as coherent set of investments, generally in predefined geographic area.

Programmatic = Financing based on criteria for eligibility and procedures for identification of subproject during project implementation.

ANNEX: PROJECT PROFILES

Box A.1 The Kampung Improvement Program (KIP) of Indonesia: The “Grandfather” of Urban Upgrading Programs

Origins and aims. The Kampung Improvement Program, or KIP, started in earnest in Jakarta in 1969 (building on experiences dating from the 1920s) as an almost unique effort of that era to upgrade poor, deteriorated and unserved urban settlements through the provision of basic infrastructure—in contrast to concurrent efforts in many countries to either physically rebuild or raze such communities. Kampung are inner-city neighborhoods lacking infrastructure services and occupied predominantly by low-income residents. The Jakarta City Council conceived the program to introduce or upgrade basic services—vehicular access roads and drainage, footpaths, potable water supply (public taps), sanitation (public toilets, washing facilities, and solid waste collection facilities), public lighting, primary schools and health clinics—which the residents found difficult to provide themselves. The KIP was targeted to the poorest third of urban communities which also suffered from the worst environmental conditions, and it was designed from the start to be sufficiently low-cost to permit rapid expansion throughout these targeted settlements in a limited time frame.

Institutional arrangements and financing. From its start in Jakarta, the KIP was provided strong technical direction and coordination by the national Directorate General of Human Settlements (Cipta Karya) of the Ministry of Public Works. Detailed planning and implementation of the physical works remained the responsibility of local KIP units, comprised by seconded staff from the respective local governments and infrastructure sector departments. The emphasis of this organizational structure was on *wide and rapid coverage* of the target areas by an integrated package of improvements across the sectors. Strict planning (staff were held to a firm annual timetable of outputs), engineering designs, construction and cost standards, together with budget allocation procedures, were developed to ensure least-cost development, with no one sector permitted to receive a disproportionate share of investment.

The KIP was financed one-third from central government, with the remaining two-thirds provided by the local governments who could add own funds to the programmed area if they wished. Cost recovery was intended to be indirect, through increases in property taxes as property values increased following the improvements.

KIP units consulted with community organizations and neighborhood associations regarding practical elements of construction (e.g., location of footpaths), not regarding which Kampung or components should be selected—which was decided centrally. The roles of residents varied across Kampung, ranging from passive consultation to participation in construction work. According to beneficiary surveys undertaken for the Impact Evaluation

Report, 73 percent of respondents said they participated in the implementation of KIP in their area. In Jakarta, 50 percent of these participants contributed labor, and in Surabaya, 50 percent contributed money. Those who were consulted tended to participate, and those who participated reported greater satisfaction with the results.

Outcomes and impacts. Nationwide, between 1969-89 the KIP succeeded in extending improvements to some 50,000 hectares, reaching an estimated 15 million beneficiaries. By the end of the 1980s, the KIP had spread to almost all of the 300-some local government units in the country. The Bank's support of the program through four projects (Urban Development Projects (UDPs) I - IV, 1975-1988) accounted for approximately one-fourth of this coverage (about 13,000 ha and 4.7 million persons served) and helped the KIP to reach its countrywide scale. In the Bank's projects, unit costs per person for the physical improvements (housing and infrastructure components) ranged from US\$118 in Jakarta to US\$23 in smaller cities (1993 dollars), averaging about US\$100.

The 1995 OED Impact Evaluation Report (IER) of the first four projects concluded that the most positive impact of the KIP was the enhanced quality of life of Kampung residents due to the infrastructure improvements and reduced housing densities. Moreover, with the government's acknowledgment of the permanence of Kampung (even though the KIP did not confer legal land titles), the population's own resources were unleashed to invest in further upgrading of their housing and infrastructure over time. The IER observed that, given the generally favorable macroeconomic environment that prevailed throughout the implementation period and the positive demonstration effect of the KIP, improvements in non-KIP Kampung have caught up with those in the KIP areas. The IER found little evidence that the poorest residents had been pushed out of Kampung with redevelopment and noted remarkable residential stability; this in part may have reflected the rapid expansion of the program across the unserved settlements, which reduced the perceived need for households to move elsewhere to get services. Although many Kampung, especially those adjacent to commercially valuable real estate, are undergoing redevelopment, OED estimated that the KIP investments yielded an economic rate of return of about 12 percent even when their useful life was limited to five years. Sustained operation and maintenance of the KIP investments has been a consistent problem across most of the Kampung, however.

Challenges to the program. The KIP encountered increasing challenges to its institutional design and relevance by the late 1980s. The World Bank sharply reduced the proportion of its urban lending devoted to the KIP (from about 70 percent in the first UDP to less than 10 percent in recent projects), and shifted into a series of second generation urban projects emphasizing broader objectives of public expenditure management and capacity-building at the local government level. By 1990, shortcomings of the largely centrally-directed model of KIP were becoming widely recognized within the country. The insufficient involvement of the sectoral agencies led to problems in coordinating the Kampung-specific improvements with the citywide infrastructure development for flood control, water distribution, solid waste management, and public transport. The sanitation component of the traditional KIP

package was seen as particularly unsatisfactory, as it suffered from very limited or no technical options, no incentive for innovation, and low acceptance of the communal facilities by users. Community commitment to maintenance was low, and many Kampunges needed to be “re-KIPped”. The central government also became less able or willing to finance its original share of the KIP investments, so that the lack of beneficiary cost recovery became an issue. Perhaps most unsettling of all, the increased pressures from the real estate market for redevelopment of Kampunges into upscale commercial properties was challenging the assumption of Kampunges’ stability. The demand grew for greater flexibility in the KIP, leading to its further evolution as described in Box A.5.

Sources: World Bank, *Indonesia: Impact Evaluation Report--Enhancing the Quality of Life in Urban Indonesia: The Legacy of the Kampung Improvement Program*, Operations Evaluation Department, Report #14747-IND, June 29, 1995; Box 1 in Christopher Banes, John Kalbermatten and Piet Nankman, “Infrastructure Provision for the Urban Poor: Assessing the Needs and Identifying the Alternatives”, TWUDR, May 1996 draft.

Box A.2 Morocco and Tunisia-- Local vs. National Scale of Urban Upgrading Activities

In **Morocco**, the record of the Bank’s early urban development projects was quite typical of that in many other countries at the time. The Rabat Urban Development Project (FY78-84) and the Second Urban Development Project (FY81-89) aimed to demonstrate the viability of low-cost urban upgrading and sites and services as an alternative to the Moroccan Government’s policy at the time of eradicating the *bidonvilles* (slums) and replacing them with heavily subsidized, high standard housing. Without formally rejecting its anti-*bidonville* stance, the GOM accepted to have small pilot activities in the capital city. Both of these classic “integrated” urban development projects consisted of neighborhood upgrading (basic infrastructure services, as well as community and health centers, traditional public baths, and fire fighting facilities); development of sites and services plots for residential, industrial and commercial use; loans for home and businesses; and improvement of municipal services, along with technical assistance. The Rabat project also included training and employment creation activities oriented especially to women, and the Second UDP provided a component to build the municipalities’ maintenance capacity.

The physical achievements of the projects were significant, benefitting appreciable shares of the populations in the participating cities (Rabat, 6%; Meknes, 10%; Kenitra, 12%). The first project targeted about 60,000 inhabitants in three low income neighborhoods of the capital, and the second project improved housing conditions for 160,000 slum inhabitants in the two latter cities alone. The physical works proceeded despite management problems that plagued both projects. Some nine different agencies were very loosely coordinated by a project unit under the Ministry of Housing for the first project, an arrangement that led to

persistent conflicts among the participating agencies. Although the MOH was given firmer control of these agencies in the second project, it did not succeed in engaging the municipalities and local banks, which were supposed to become integral partners for the follow-up maintenance and credit components, respectively. The provision of land tenure suffered bureaucratic delays and in part for this reason, the credit scheme for home improvement largely failed to be implemented. Despite this lack of formal long-term credit, residents mobilized considerable private savings once their neighborhoods were improved.

The institutional development and policy reform objectives of the projects proved overly ambitious. While the projects succeeded in demonstrating the viability of slum upgrading approaches and some subsequent housing schemes with similar designs were undertaken beyond the initial project areas, the Government refused to accept the legitimacy of *bidonvilles* and continued to call for their elimination as national policy. The Bank, for its part, did not continue to press the issue and instead shifted the focus of urban assistance in the country into housing finance. The projects nonetheless managed to bring cost recovery to the fore of urban policy debates in the country. Households proved willing to pay for serviced plots and showed themselves creditworthy, and the rapid rise in real estate values in the project areas (up to 400 percent) provided a potential source of property tax revenues to finance such developments. However, the required increase in local tax mobilization did not follow. Many households benefited privately from the increase in property values, by subletting parts of their dwellings or cashing out their properties and moving elsewhere. Because the projects underachieved their institutional and policy reform objectives, OED's Performance Audit Report rated the sustainability of both projects "Unlikely", and their institutional development impact "Negligible".

In sum, while the two first urban development projects were not widely replicated in Morocco as originally envisaged, their impacts reverberate at least in the immediate areas served. In Kenitra, where the growth of slums had been most rapid, the operations contributed to a substantial decrease in the share of the total population living in *bidonvilles*. In Rabat, a consolidated low income residential neighborhood has grown out of the former slum upgraded under the first project. The project design successfully devoted attention to maintaining local Islamic traditions in housing design, construction, and layout of urban space, so that the resulting scenes in some areas retain the character of the old medinas. Commercial activity has been drawn to the project sites and one of them (Douar Maadid) is now the fourth largest retail center in Rabat. Considerable private investments have been made by households and business owners in all the sites, and the original industrial zone of the first project has doubled in size. All residents now benefit from direct water and sewerage connections, electricity, and paved roads and walkways throughout the sites. Not all of these investments are directly attributable to the early projects, of course. However, residents interviewed for the project audit in 1991 reported the view that project investments did improve their neighborhoods and upgraded their living conditions more generally.

In **Tunisia**, the Bank financed a series of four urban development projects and one municipal development project approved between FY79-93, all but the first of which including rehabilitation of low income settlements. As in Morocco, the UDPs were intended to develop and demonstrate alternative approaches for providing shelter and urban services for the poor; in Tunisia, the projects aimed in addition to establish an institutional framework to use this approach on a larger scale over the long term. Unlike in Morocco, the Tunisian projects were grounded from the start in a firm political commitment to the program by both the central government and the municipalities involved.

The Third Urban Development Project (FY82) best illustrates the series of the UDPs, each of which expanded the area covered and built on the institutional experience gained by the agencies involved. The project rehabilitated 1500 ha of underserved (essentially squatter) settlements, for 220,000 low-income inhabitants, regularizing and integrating these communities into the urban service networks. The upgrading actually reached three times the number of beneficiaries planned at appraisal as a result of redesign, observance of low cost standards, and savings from devaluation. Resettlement was largely avoided by improving conditions on the sites of original settlement. Serviced lots were also developed (1,866), and components included the restoration of the old medina of Tunis (Hafsia) and a special sewerage extension. The Hafsia component is considered very successful in integrating historic renovation and architectural integrity with urban upgrading.

The main institutional outcome of the project was the creation of an organization for urban upgrading and renewal, ARRU, as the executing agency operating autonomously under private law. ARRU has strengthened its capacities and human resources through repeated projects and is able to provide technical support to the municipalities, regional departments and private developers with which it works. The municipalities had major responsibility for road maintenance, drainage, street lighting, and solid waste disposal; the sewerage authority, ONAS, executed the special sewerage component; and ARRU executed the remainder of activities as well as provided overall coordination.

The upgrading program received strong financial support from the central government, which financed as much as 70 percent of the investments. Under UDP3, local taxes were to be levied on beneficiaries to recover most of the loans from the state to the municipalities, but these taxes were not put in place and there was in fact a general resistance of residents to cost recovery for what were perceived as public programs. The Hafsia component did achieve cost recovery and a measure of cross-subsidization: upgraded sites were sold at market prices to developers, which generated profits used to capitalize an account within the municipality for additional rehabilitation works (although these works were not targeted for low income residents).

The program of upgrading informal settlements was extended as a nationwide program on the basis of the successful experience replicated under UDP4 (FY87). The Implementation Completion Report on this project noted that ARRU had demonstrated its capacity to

undertake upgrading in governorates across the country, and the number of sites rehabilitated was expanded almost by half during the project. The upgrading reached the target population and directly benefited about 134,000 persons.¹

Following upon the UDPs, the Municipal Sector Investment Project (MSIP, FY93) concentrates on local government capacity-building and fiscal issues, while sanitation for low income households continues as a component of the Water Supply and Sewerage Project (FY95). The Bank's sustained involvement in the urban sector through this series of projects strengthened ARRU sufficiently that it became able to take over the identification, preparation, and appraisal of upgrading subprojects. In the MSIP, this activity is financed as a line of credit through a municipal development fund, which will require the municipalities to mobilize tax revenues from the enhanced economic activity and property values resulting from the projects.

In short, the Tunisian government revealed a major political and financial commitment during the last 15 years to integrate poor informal settlements into the urban landscape, and provided an institutional framework that encouraged a partnership between the lead urban development agency and private developers. The Bank's consistent participation and sector dialogue with the Tunisians throughout this period has undoubtedly been a factor contributing to the strong local capacities in upgrading, and the increasing willingness of municipalities to borrow for upgrading along with other investment activities with high returns.

Sources: Operations Evaluation Department, Project Completion Reports (Nos. 8687, 6184) and Project Audit Report (No. 9729) on Rabat Urban Development Project (Loan #1528) and Second Urban Development Project (Loan #1944), Morocco; "Rabat Urban Development Project: The Record", Note by Hans Peters, TWU, March 5, 1996.

Operations Evaluation Department, Project Completion Report (SecM94-983) on Tunisia Third Urban Development Project (Loan #2223); Implementation Completion Report (SecM96-0637) on Tunisia Fourth Urban Development Project (Loan #2736); Bernard Veuthey (personal communication).

¹ Although supervision reports of this project noted that the upgrading component was Highly Satisfactory and the ICR concurred, the ICR gave UDP4 as a whole unfavorable ratings because of the failures of the other components (mainly sites and services, and policy and institutional reforms related to housing, to be implemented by another agency).

Box A.3 Integrated Urban Upgrading in Sub-Saharan Africa: Sierra Leone and Ghana

Several countries are returning to integrated urban slum upgrading, as components of broader urban projects that address the ongoing process of decentralization and community involvement in local governance, the need for extensive capacity-building of municipalities and sectoral agencies, and the citywide scope of urban environmental problems. In their broadness of scope, these projects resemble some of the earlier urban development projects supported by the Bank, but with a much stronger emphasis on local institutional development.² Two examples are profiled here.

Sierra Leone. The Freetown Infrastructure Rehabilitation Project (FY93) aims to improve the infrastructure in the capital area, with special attention to the most disadvantaged poor communities. It will also improve the sustainability of infrastructure by strengthening the technical and financial capacities of the agencies (the Freetown City Council, FCC; the Guma Valley Water Corporation, GVWC; and the Sierra Leone Roads Authority, SLRA) responsible for operating and maintaining new facilities, and for planning and managing future investment programs.

Almost half of the project funds are directed to upgrading of six slum areas, through the provision of water supply and sanitary facilities, drainage, roads and footpaths, and solid waste disposal; and to the upgrading of six of the busiest center-city markets which were very unhygienic and dilapidated. Although the project was prepared very rapidly to meet perceived urgency for upgrading, the detailed design and construction of both the neighborhood and market upgrading components have been modified by inputs received from the communities, market traders and users through town meetings and other consultation. The preferences of the market women regarding this component--in particular, their demands for additional storage facilities and day care centers—led directly to significant changes during implementation.

The GVWC executes the water and sanitation activities (including a separate bulk water supply component) and SLRA executes the upgrading and other road activities as well as provides the project unit. GVWC is also concurrently executing the Bank-supported Urban Water Supply Project, which includes a low-cost sanitation component involving local NGOs. The City Council oversees the slum and market upgrading and solid waste elements, and has responsibility for their subsequent maintenance. This implantation arrangement which fully integrates the sectoral agencies is proving very effective, reflecting the fact that GVWC and

² Neighborhood upgrading components comprise 46 percent of Côte D'Ivoire's Municipal Support Project (FY95) and about 15 percent of both the Benin Urban Rehabilitation and Management Project (FY92) and Togo/Lome Urban Development Project (FY94). The planned Urban Environmental Rehabilitation Project (FY97) in the Central African Republic, and the proposed Parish Infrastructure Project in Jamaica (FY97) also feature integrated area upgrading components.

SLRA are among the best-run water and road agencies in Africa. An NGO (Plan International), which is operating in some of the six slum areas to be upgraded under the project, collaborates through its community development program to sensitize and train community residents in hygiene and environmental sanitation and in the use and maintenance of sanitary facilities.

Capital funds for the upgrading activities of the project are being provided to the SLRA and FCC as a grant from the central government, but the water component is expected to be recovered from tariff revenues (domestic metering and tariff reform are included in project conditions). Other user charges are not required under the project, even for the market centers. Since FIRP is the Bank's first urban project in Sierra Leone, it does not address the underlying issues of poor fiscal revenue mobilization by the local government but finances a study of the problem, as well as plans for extending the priority upgrading activities to other urban areas.

The FIRP's design is thus opportunistic, as it takes advantage of the available pockets of institutional strength in the capital city with the aim of achieving a rapid improvement in physical facilities serving the poor. The project was initiated at a time when Sierra Leone was emerging from a long period of isolation and rupture in Bank relations, and it is currently in the throes of a refugee crisis. Despite this difficult context, the project has succeeded in rapid implementation and is over 90 percent disbursed by the end of its third year. The market component, among the most visible and earliest outputs of the project, has received a highly positive response in feedback from the user population and the Government. This positive perception of the project, as well as the presence of two strong counterpart agencies, should enable future urban projects to replicate these upgrading activities in ways that incorporate further elements of beneficiary or communal cost recovery as well as fiscal contributions by local government.

Ghana's Urban Environmental Sanitation Project (FY96) provides for primary and secondary investments in storm drainage, sewerage, and solid waste disposal to be implemented by the central Ministry of Local Government and Rural Development; and for upgrading of low-income urban communities, household and public sanitation, and solid waste collection (about 25 percent of project costs) to be implemented by metropolitan and municipal assemblies (MAs). Thus, larger and more complex components benefitting several local governments will be the responsibility of national government, while smaller works with narrower benefit areas will be carried out by local authorities.

The upgrading component will improve seven communities in Accra, Kumasi, and Sekondi-Takoradi, the three largest cities. These communities were selected by the MAs from longer lists of infrastructure-deficient, lower-income areas which had already demonstrated some initiative and interest in improving their environment. Approximately 530 hectares in which about 265,000 people reside will be upgraded with basic access, stormwater drainage, water supply, sanitation, solid waste containerization facilities, and streetlighting. In contrast to the upgrading programs under the three earlier urban projects in Ghana, which were largely

centrally-directed because of the weak local structures, under the new program the municipalities will take the lead in implementation and residents will choose their requirements from a menu of options, within maximum cost targets. Besides physical upgrading, the community infrastructure component aims to promote the use of participatory planning and design procedures to identify levels of service for which the beneficiaries can afford to finance operations and maintenance. The component is also designed to strengthen the ability of the municipal governments to collaborate with residents in the planning and implementing of upgrading, and to set up sustainable arrangements for O&M.

Details of the facilities to be upgraded, implementation, and financial implications will be set out in a “Facilities and Management Plan” to which each community (through a community association agreed upon with local leaders) and the relevant public agencies would formally commit. These parties form a Management Committee to oversee implementation. Residents are also involved directly through surveys, workshops and focus groups at all stages of planning and design. A small “environmental infrastructure fund” (about 5 percent of the total upgrading component) is being made available for each community to support construction of additional minor works identified by the residents in the course of the project, with the community paying half of the costs.

The sanitation component will provide further household-level, school, and public sanitation facilities in five cities for a total of 400,000 beneficiaries (15-20 percent of the unserved population). This component will help to implement the Strategic Sanitation Plans (SSP) already prepared for each municipality with technical support from the UNDP-World Bank Water and Sanitation Program. As in Burkina Faso (See Annex Box A.8), these plans tailor technical options to users’ preferences and willingness to pay, and involve a variety of technical solutions that can be implemented independently and progressively to provide full coverage over an urban area in the medium term. The project would support the construction of on-site facilities (mainly ventilated improved pit latrines, VIP, or pour flush toilets for individual households in medium-density areas) by private entrepreneurs and the franchising of public latrines to private operators.

The MAs will receive training, equipment and technical assistance to increase their capacity to manage basic services; the technical assistance will focus on cost accounting, contract management, and municipal finance. The municipalities are expected to contribute 10 percent of the upgrading costs from their own funds (with central government providing the remaining 90 percent on a grant basis) and 50 percent of the (already privatized) solid waste collection. Beneficiaries are expected to pay half of the household sanitation (latrine construction), as well as user charges covering varying proportions of capital costs and O&M costs for water supply, public toilets, sewerage, solid waste collection and disposal, and streetlighting (the latter from electricity tariffs). The remaining upgrading works that cannot be subject to user charges (roads and storm drains) will be maintained out of increased property tax revenues of the MAs. Since Ghana has little tradition of collecting user fees and local taxes

in exchange for effective urban service, this explicit emphasis on cost recovery is a relatively radical departure for all parties concerned.

Sources: Staff Appraisal Report, Republic of Sierra Leone: Freetown Infrastructure Rehabilitation Project (FIRP), Report #11791-SL, May 11, 1993; BTOR of Second Annual/Mid-Term Review of FIRP, February 7, 1996.

Staff Appraisal Report, Republic of Ghana: Urban Environmental Sanitation Project, Report #15089-GH, March 4, 1996.

SAR, Burkina Faso: Urban Environment Project, Report #13802-BUR, April 20, 1995; Saidi-Sharouze, Mina, 1994, *Ouagadougou and Kumasi Sanitation Projects: A Comparative Case Study*. UNDP-World Bank Water and Sanitation Program, Regional Water and Sanitation Group, West Africa; C. Farvacque-Vitkovic and L. Godin, “Projets de Developpement Urbain en Afrique Francophone: un Agenda pour le Futur”, AF5IN, June 1996 draft.

Box A.4 The Parana Market Towns Improvement Project, Brazil: Lessons from the first “programmatic” urban development project

Origins. The Parana Market Towns Improvement Project (PMTIP) in **Brazil** was the first urban project supported by the Bank which set rules for allocation of funds to subprojects, with decentralized identification of investments—in contrast to preselection and preappraisal by the Bank.

A major motivation for the project was to correct the unfavorable intergovernmental income distribution that resulted from the greater availability of fiscal resources and loans for large cities and towns in Parana. Since this resource allocation method was considered too politically sensitive to change at the time, the project aimed to compensate for it by directing investment resources to the smaller municipalities (including their rural areas), which were generally also poorer. By allowing municipalities to propose investments of a wide variety, responding to whatever local priorities were perceived, the project supported the reemerging democratization in Brazil (following two decades of military regimes) and enabled mayors to act upon their multisectoral mandate. This broad, open-ended design was very appropriate to the felt needs at the time; and, by having one central focus for project coordination and interaction with the Bank (through the State Secretariat of Planning), the project avoided the management problems that have given “Christmas tree” projects a bad name elsewhere.

Implementation arrangements. PMTIP built upon and improved an existing program at the state level for “special capital improvement grants” to municipalities. Although the project was managed at the State level, it took advantage of the decentralized structure of an existing institution for technical assistance to municipalities, FAMEPAR, which had local offices in all districts of Parana and provided detailed supervision (visiting all subprojects once/month). The sectoral departments of the State government also provided technical review of subprojects,

e.g. the department of health approved requests for health outposts; this ensured that necessary technical support would be provided and that the investments fit into a sectoral framework.

The project implementation was further aided by the existing financial system--in particular, local offices of the state bank handled payments to contractors and repayments at source (i.e., deducting the municipalities' subloan repayments from their share of tax transfers). Under the second governor's term, a formal revolving fund was created from the repayments of the subloans. The project also benefited from the relatively good infrastructure and logistics in the state, e.g. all municipalities had telephone communications with the state offices. To facilitate the municipalities' performing their responsibilities (investment planning and budgeting, project design, contract bidding and execution, supervision of works), the Project Implementation Unit prepared very detailed manuals or guidelines on each function. The actual construction work was contracted-out to the private sector in most cases.

Allocation of funds and subproject selection. The project funds were allocated to each municipality initially through a transparent formula (mainly based on population size); this shift from ad hoc to formula-based resource allocation was considered one of the greatest benefits of the project and was valued by the mayors and governor as important in the transition from military to democratic governance.

There were no formal rules for consultation with beneficiaries, but it was practiced as part of the local democratic process. Beneficiaries were expected to contribute financially to cost recovery, and were told the cost implications of alternative investments. Municipalities revealed a high demand for investments (such as road paving) that were subject to quick cost recovery through user charges or betterment levies.

There was no specific effort by the project to favor investments that were oriented to the poor, except insofar as the designs and standards were kept simple and most investments were intended to cover unserved areas. Smaller municipalities (which were generally also poorer) were given a higher per capita allocation in the basic formula.

Results and sustainability. The project elicited an enormous response by the municipalities, which had newly elected mayors. The Governor (the first democratically elected in 20 years) strongly supported the project, held town meetings to mobilize public interest, and aggressively encouraged all municipalities to participate. All of the above features of the institutional arrangements for the project enabled it to sustain a high turnover (1000-2000 subprojects each year).

The features outlined above, which contributed to the success of the PMTIP, also served its sustainability. The project received a second Bank loan and a third was requested (financed by the IDB, not the Bank). A similar project design was replicated in several other Brazilian states. The revolving fund set up under PMTIP, which maintained real interest rates despite inflation, is still underway.

Source: TWUDR seminar by Eleoterio Codato, February 20, 1996.

Box A.5 Evolution of the KIP in the 1990s: A New Generation

In the late 1980s after the fourth Bank-supported Kampung Improvement Program (KIP - see Annex Box A.1) project had been completed, the GOI prepared a policy statement on the KIP and outlined a new phase which called for a "community-based and participatory approach" to incorporate more bottom-up planning. The Bank supported this new phase through the Third Jabotabek Urban Development Project (FY91) in the Jakarta area. This involved changes in the organizational approach to achieve greater decentralization. For both Jakarta City and the rapidly growing peri-urban fringe (Botabek) areas of Jakarta, the "new style" KIP was therefore developed with stronger emphasis on community contributions to complement KIP funds, and community participation in all stages (e.g., including monitoring of contractors' performance). NGOs, which were practically nonexistent in the early days of KIP, are integrated into this new phase as full partners.

The Bank's expectation was that Jakarta City, given its lengthy experience with the earlier KIP, would be better able to adopt the new approach than the adjacent local governments having little familiarity. In fact, it appears to date that Jakarta's long practice of the traditional KIP and engineer-dominated staff created rigidities which have limited change. An adjustment was needed in 1994 to bring in more NGOs, giving them key roles in community development and implementation in place of some of the previous KIP consultants. By contrast, the Botabek governments have been more open-minded to the new style of operation, and more innovative in involving the beneficiaries integrally in defining program priorities and implementation plans, with the assistance of these NGOs. These less experienced municipalities have kept up a good pace of implementation, despite the relatively time-consuming process, and the Botabek officials have expressed the belief that the community involvement will lead to more socially-accepted and better-maintained investments. Building community organization and participation ("empowerment") is now being seen as a more central objective of the Program, to continue after the project investments are completed. This greater community involvement is also expanding the scope of the KIP to include a wider variety of activities, such as income-generation, small credit schemes, or land tenure, where these are identified as primary local concerns.

Since 1992, the Bank project alone has covered some 1.7 million people, and unit costs continue to decline. Residents have made substantial private investments in housing and neighborhood amenities (e.g. landscaping). An independent local NGO has recently surveyed the status of community participation and given it a positive evaluation.

The 1990s “new style” of KIP therefore is less tightly coordinated from the center, more participatory, and “looser” in its focus, embracing community development activities as well as physical improvements. Certain issues remain, indicating that the framework of multisectoral activities cannot alone address all of the urban infrastructure development needs. The “macro” linkages between KIP areas and citywide environmental conditions have still not been adequately addressed, however, and the KIP program and the metropolitan water utility are still not well integrated. The water and sanitation component continues to be the most problematic, and real impacts in this area have not been achieved as hoped.³

Why has water and sanitation lagged behind? This component was never handled by the water utility as part of the KIP organizational structure. The utility sees little incentive in promoting standpipes, while local authorities have little incentive to offer service choices to households. The construction contracts and funding associated with public goods such as standpipe water are difficult for the agencies to forego, even when these services are no longer what users want. More advanced options, e.g. citywide distribution of piped water, cannot be executed through the KIP, however. The KIP framework works better to deliver public-type goods with a site-specific (neighborhood) focus, rather than private goods. The very low unit costs of KIP, which permitted wide replication, reflected the very basic sanitation offered—higher technical options (e.g., yard or house connections) would at least double unit costs. The least cost approach is not always the most amenable to cost recovery by beneficiaries, however. To provide a greater range of service alternatives for water and sanitation, as well as to address sectoral issues such as citywide water resources, sector-specific projects may also be needed to engage the utility professionals in confronting the institutional and financial issues of the sector.

In brief, the KIP has proved capable of restructuring and redirection to remain relevant in the face of many of the changed circumstances and new challenges of urban Indonesia. The basic model of area-specific, multisectoral service provision has been effective in providing public-type goods and relieving some of the worst environmental problems facing poor neighborhoods. Cities need a variety of instruments to meet different problems, however, and

³Although 78 percent of the urban population in Indonesia is estimated to have access to safe drinking water, almost half of this group (as well as the 22 percent “without access”) continue to depend on sources other than house or yard connection, public standpipe, or borehole. Equally, 78 percent of the urban residents are said to have access to sanitation, although septic systems only serve 58 percent and the remainder use “other” (not sewerage). (Data Table A.1, *World Resources, 1996-97: A Guide to the Global Environment: The Urban Environment*, The World Resources Institute/UNEP/UNDP/World Bank, New York: Oxford University Press, 1996).

the need to further expand and modernize water and sanitation services and achieve integrated water resources management in urban areas calls for more direct attention to this sector as well. As the Indonesian municipalities become better able to mobilize their own fiscal resources and the communities become more organized themselves with NGO support, it can be expected that KIP-type activities will continue even if the formal structural umbrella fades over time.

Sources: “Indonesia’s Kampung Improvement Program (KIP): Then and Now” (Summary of TWU seminar by Alcira Kreimer, OED, and Stuart Whitehead, EA3IN, February 27, 1996); “Kampung Improvement Project in Jakarta”, Note prepared for Habitat II by Suhadi Hadiwinoto, EA3RS; SAR, *Indonesia: Third Jabotabek Urban Development Project (JUDP III)*, Report No. 8397-IND, June 1990.

Box A.6 “Programmatic” Approaches to Multisector Infrastructure Provision: Brazil’s Ceara Project and Pakistan’s NWFP

Brazil and Pakistan have each developed indigenous programs for the provision of periurban low-cost sanitation involving extensive community involvement: the PROSANEAR program in Brazil (Box A.7), and highly-publicized Orangi Pilot Project in Kurachi. Drawing upon the lessons of these programs and the experiences under rural and periurban water supply projects such as the Sri Lanka Community Water Supply and Sanitation Project, as well as of the numerous urban development projects that have aimed to provide sustainable services to the poor, two recent projects attempt to carve out a new design for their countries and potential models for the regions.

The Ceara Urban Development and Water Resources Management Project (FY95) in Ceara State of **Brazil** encompasses very broad and ambitious objectives: i) to improve living conditions for the very poor through targeted improvements in basic infrastructure; ii) to increase the efficiency of water resources use and river basin management; and iii) to strengthen local governments, the state-level urban development agency, and water resources management agencies.

Combining elements of the series of municipal development projects in other Brazilian states in the 1980s, PROSANEAR, and the recent focus on environmental management (as demonstrated by the Minas Gerais Municipal Management and Environmental Infrastructure Project, FY94), the Ceara project includes an explicit component for urban infrastructure investments in low income neighborhoods within a broader environmental project. The urban infrastructure component (42 percent of base costs) aims, first, to benefit 50,000 poor urban families (10% of the State’s urban poor) through upgrading as part of an existing program, *Habitar*. Investments in paving, drainage, self-help housing construction, street lighting, community facilities, water and sanitation would be directed to about 140-150 “micro-areas” (neighborhoods) of the state’s small towns and medium-sized cities. Second, this component will provide water supply and sewerage connections in low-income areas, installed by the state water company, CACEGE.

Micro-areas were selected, first, on average incomes and the extent and seriousness of infrastructure deficiencies. In addition, each micro-area community is required to plan its investments within a “budget ceiling” of costs for on-site investments; this ceiling would be prorated for communities choosing less than the full package of investments. To promote a participatory planning process, the respective municipality provides technical and community development advisors who help the communities to consider their priorities for service improvements, and present alternative solutions within the per capita budget ceiling specified in the project. These technical and social affairs staff also will train and assist the community to participate in the supervision and in some cases, construction of works.

The project employs an “adaptive” and programmatic process of implementation to incorporate feedback from subprojects (similar to PROSANEAR), with the aim of ensuring appropriate demand-based designs and low unit costs. To date, work has started in seven micro-areas on a pilot basis to test the participatory upgrading approaches.

The project will also use the World Bank funds to capitalize a municipal development fund at the State level for onlending to municipalities and state agencies for up to 85 percent of investment costs under the *Habitar*, water supply/sewerage, and institutional development components. The subloans would be guaranteed by the municipalities’ own tax revenues and transfers; the remaining investment costs would be provided by the beneficiaries.

The municipalities thus play the key coordinating role in preparation and execution of the urban infrastructure component, in consultation with the water utility, NGOs and CBOs, and the State secretariat of urban development and environment, which advises on least cost technical options. In the first year of implementation, the State government agency managing the overall project has proposed to direct the subproject funding more towards municipalities with high economic development and urban growth, which would possibly reduce the relative priority given to the provision of basic infrastructure in the most deprived areas of the state. This issue raises the need for clearer weighting among the multiple criteria used for selection of municipalities to be involved. The separate structure under the project for management of the micro-area upgrading investments and the water supply/sewerage investments is also seen to pose potential coordination problems at the local level, and consideration is being given to grouping these works under a single contractor.

Pakistan’s NWFP (North West Frontier Province) Community Infrastructure and NHA (National Housing Authority) Strengthening Project (FY96) departs from earlier urban development and water/sanitation projects in Pakistan by elaborating a comprehensive policy framework for the provision of basic infrastructure services to the rural and urban poor.

The urban development and upgrading projects supported by the Bank in Karachi, Lahore and Punjab in the 1980s succeeded in their physical objectives but had persistent problems with financial sustainability and O&M, attributed to unclear policies on cost recovery, weak commitment by the entities responsible for O&M, and insufficient organization of the

communities' involvement. The new project aims to increase the productivity and well-being of poor settlements by sustainable provision of basic infrastructure, through: (i) upgrading and community development activities, (ii) promoting the use of participatory design procedures and affordable standards for infrastructure, (iii) strengthening the ability of provincial and local governments to collaborate with low-income communities to implement these infrastructure programs, and (iv) promoting sustainable arrangements for O&M of basic services.

The project includes upgrading of basic infrastructure in about 55 urban slums and rural settlements in the NWFP (for an estimated 420,000 beneficiaries)—including water supply, stormwater drainage, flood protection, streets and footpaths, sanitation and solid waste management, community development, health and hygiene education (with support of UNICEF) and, where requested by the community, social facilities, markets, and improved land registration. The trunk infrastructure (25% base costs) needed to ensure efficient functioning of secondary/tertiary infrastructure improvements (42% of base costs) is also included. Institutional development assistance will be provided to the Province's Local Government, Elections and Rural Development Department (LGERDD), the main implementing agency, and technical assistance will also be made available directly to the communities. The project includes an extensive monitoring, participatory evaluation, and dissemination component to provide for feedback and adaptation during implementation, and the implementation plan is divided into three phases so that experience learned at each stage can be integrated into the next.

The project uses a Provincial Government agency as the lead coordinator (in the absence of an effective local government or NGO alternative) for the community infrastructure component, working through project implementation units (PIUs). Local councils are expected to develop a stake in the process through their required financial contribution to capital costs (10%). The PIUs hire NGOs and contract staff to assist the communities (organized into CBOs or user associations) in activities of community mobilization and health education, subproject planning and implementation (such as hiring and supervision of construction contractors).

Communities to be selected under the project must meet specific criteria including low income, infrastructure deficiencies and investment potential, minimum size, location (for geographic balance across the province), and potential for community participation. Preidentification of communities does not guarantee their involvement, however, and the project would allow different communities to be selected in place of any that proved unwilling to fulfill their obligations under the project. Thus, priority would be given to communities that were more committed and organized to participate actively.

Local (secondary) infrastructure subprojects are to be identified during implementation based on the following criteria: i) community and local council participation and contribution—the community must be willing to participate in all stages of the subproject, to contribute at least 20 percent up-front to the capital costs as well as finance O&M costs; ii) resource availability; iii) environmental sustainability; iv) technical viability; v) economic viability—schemes must fall

below a cost limit per household, net of the community contribution. Communities desiring more elaborate service levels must contribute the full incremental costs, and if a community chooses only part of the service package, the cost limit is adjusted pro rata (similar to the Ceara project); vi) sustainability—agreements must be in place for the provision and financing of O&M. The per-household cost ceiling thus puts a brake on the amount of subsidy to be allocated to the community infrastructure; in addition, incentive grants towards the costs of on-plot sanitation facilities (representing 25 percent of the capital costs of improved latrines) will be provided to households. Related primary (trunk) infrastructure investments needed for the new secondary/tertiary facilities would be financed through general government revenues.

In general, the Pakistan experience indicates that upgrading is one of the most successful mechanisms for providing infrastructure for low income communities, but that earlier efforts need to be augmented to include: more community participation in selection and design—with a commitment to be responsible for subsequent O&M; upfront capital cost contributions; and better coordination with primary infrastructure providers. Most important is the development of an overall strategy for the process, which should facilitate Government scaling-up individual efforts into a full program. The NWFP project aims to provide such strategy.

Sources: SAR, Ceara Urban Development and Water Resources Management Project, Report #12836-BR, August 15, 1994; Aide-Memoire, Supervision Mission, March 14-22, 1996.

SAR, Pakistan: NWFP Community Infrastructure and NHA Strengthening Project, Report #12024-PAK, September 5, 1995; Seminar by K. M. Minnatullah (RWSG-SA) on NWFP Project, TWUWS, May 9, 1996; Implementation Completion Report, Pakistan: Karachi Special Development Project, Cr. #1652-PAK, Report No. 15591, April 25, 1996.

Box A.7 Water and Sanitation for Low Income Periurban Settlements in Brazil: The PROSANEAR Program

In 1986, the federal Ministry of Housing, Urban Development and Environment (MHU) was given the responsibility to formulate sector policies in water and sanitation, including by effectively decentralizing sector decisions to municipalities, and to extend water and sanitation service to the urban poor using government grants. In that year, the MHU launched the Water and Sanitation Program for Low-Income Urban Populations (PROSANEAR) and began preparing what became the Bank-supported Water Project for Municipalities and Low-Income Areas (PROSANEAR project), approved in FY88. The project was designed as a pilot, the first stage in a national program for PROSANEAR to introduce technical, financial, and institutional mechanisms for extending water, sewerage and solid waste services to periurban communities, including among the most difficult slum neighborhoods (*favelas*) in Brazil's cities. The project was intended to reach 200,000 beneficiaries with clean water, and 700,000 with sanitation; this represented only 1 and 3 percent, respectively, of the estimated target

population, but the aim was to test and demonstrate workable technical and financial approaches that could be replicated over time with less reliance on federal subsidies.

Any city was permitted to submit sub-project proposals for PROSANEAR funding, provided they met the following selection criteria: i) located in marginal areas of cities with populations of more than 50,000 people; ii) at least 40 percent of households to be served having a monthly income less than one minimum salary; iii) subprojects representing the least-cost alternative for water, sewerage, drainage or sanitation services and complying with technical and environmental standards; iv) water and sanitation subprojects having per capita construction costs below US\$ 98 and \$140, respectively (including costs of local wastewater treatment); v) recipients agree to pay in accordance with tariff schedules established by the water utilities; and vi) investments for in-house sanitary installations, drainage and solid wastes not exceeding 10 percent of total costs of the low income services component.

In at least three respects, the PROSANEAR program was innovative at the time --not only for Brazil but for water and sanitation projects supported by the Bank and other donors in many countries. *First*, the project fostered low cost technologies: notably, the use of small diameter water pipes in many cases which reduced the cost of water delivery, and the condominial form of sewerage which was developed in Brazil. Under the latter system, a sewerage network is built up to the entrance to a block of houses and the residents decide on the internal routing, which can be in the back or front of the lots, or in the street. The program also led to innovations in the use of small neighborhood treatment facilities to handle the wastewater locally. *Second*, PROSANEAR developed partnerships among residents for the selection and management of water and sanitation systems; this involvement by beneficiaries is intrinsic to the functioning of the condominial network, which requires intensive participation and cooperation among the residents to keep the narrow, shallowly-laid pipes in working order. The program in fact created new partnerships at all levels: among the community groups and the utilities, among engineers and social scientists, and among the utilities, municipalities, state and federal agencies. *Third*, PROSANEAR encouraged ongoing evaluation of each community's experience for feedback to the next subproject, in an "adaptive learning" approach. This emphasis on rapid evaluation and iterative design has enabled the program to monitor costs and technical innovations, and to derive lessons from the use of various participatory and contracting techniques as they happen.

The community mobilization and group decision-making were carried out through different approaches in each community, depending for example on the existing levels of social cohesion and the extent of residents' initial interest in water and sanitation improvements. In communities with little prior organization, intensive mobilization activities began months before specific preparations for the project could take place; during this time, sanitation education and appropriate maintenance practices were explained to the population. In some settlements, the Project went beyond water and sanitation services and contributed to general community development, including education, health and local job creation.

The investment in participation paid off—engineers and community development experts were encouraged to work with communities to devise the most appropriate low-cost solutions, and the actual capital costs per beneficiary for water and sewerage were lowered an average of 54 and 50 percent, respectively, relative to the estimated cost ceilings. Approved subprojects were generally between US\$12-60 per capita for water supply and between US\$15-120 per capita for sanitation. Even taking into account the costs of community mobilization activities, which ranged between US\$2 to \$20 per capita, the project achieved substantial savings. In part due to these economies, PROSANEAR I has expanded its reach in more than 100 low-income settlements in seventeen cities—with the largest subproject benefiting nearly 500,000 residents of 36 favelas in Rio de Janeiro. By the end of 1995, the number of persons served by water more than quadrupled over the appraisal estimate to a total of 900,000, and a 40 percent increase in the number served by sanitation (to about one million), relative to the initial plans, was achieved.

The benefits of PROSANEAR have extended beyond these direct services. The communities involved in the project have developed a sense of identity; settlements that had been considered transient were given official recognition, and residents acquired a postal address and entered into the water company cadastre. Many of the community associations formed for the project became permanent and turned their attention to the resolution of other demands, such as for street pavement, electricity, social services, and income-earning activities. The water companies and private construction contractors have learned to adapt their practices to the provision of low income technologies and have developed new links with community groups.

Because of its innovative approach, the PROSANEAR project was slow to “take off” at first. But based on the results and momentum now underway, a follow-up project, PROSANEAR II, is currently under preparation to scale-up the program to the national level. Two major challenges must be addressed in this next stage: developing effective arrangements for community participation in operation and maintenance; and designing more efficient cost-sharing, with transparent criteria for investment subsidies. The first project did not systematically incorporate arrangements for operations and maintenance in the preparation of each subproject; yet the low cost technologies employed (shallow and small diameter pipes) are particularly dependent on regular maintenance. In PROSANEAR I, requirements for cost recovery through tariffs and connection fees were not clearly and consistently established, leading to mixed signals among the communities, local governments and water agencies. The reliance on internal cross-subsidies to finance service expansions for the poor is also not sustainable and could constrain future replication of the program.

Sources: SAR, Brazil: Water Project for Municipalities and Low-Income Areas, June 19, 1988; John Briscoe and Andrew Steer, “New Approaches to Sanitation--A Process of Structural Learning,” *Ambio*, Vol. 22, No. 7, November 1993, p. 456-459; Alexander Bakalian, “PROSANEAR I - A Pilot Project in Brazil”, informal note (draft), 1996; Yoko Katakura, draft note on PROSANEAR, December 1996.

Box A.8 Water and Sanitation Services for the Urban Poor in Sub-Saharan Africa: Burkina Faso, Uganda and Zambia

Three recent projects in Burkina Faso, Uganda and in Zambia use water supply as an entry point for testing and demonstrating new approaches in these countries for participatory involvement of urban and periurban communities in the improvement of basic services. The broad objective of these projects is to build capacity for effective local management of urban services in the context of an ongoing decentralization process. The immediate task addressing this objective is to give the user communities a significant voice in the preparation and implementation of water supply and sanitation, so as to break the cycle of non-payment and inadequate, unresponsive service provision.

Burkina Faso. In Burkina, one of the first countries to implement a Bank-supported sites and services project, the Government has long been concerned about urban growth (over 8 percent annually in the 1980s). During the past decade, it pursued a highly directive policy of urban planning and public housing subsidies that were ineffective in stemming the increase in informal, unserved settlements in the capital and second major city. More recently, the Government has aimed to reform the institutional, planning, and financial policy in the urban sector in the context of trends to more democratic and decentralized governance, growth of community participation, and revision of the state's role in the economy.

The Bank's third urban operation in Burkina, the Urban Environment Project (FY95), finances mainly rehabilitation of primary infrastructure in roads, drainage, solid waste and sanitation, but has the broader aim of laying the groundwork for decentralization of management, operation and control of urban environmental services to the local governments of Ouagadougou and Bobo-Dioulasso. The project includes a component to demonstrate and help replicate approaches for mobilizing community participation and payment for drainage, on-site sanitation, and solid waste collection. During preparation, a demonstration project (covering about 20 percent of the population in both cities) was initiated, aimed at identifying the specific services desired by the low income communities, testing willingness to pay, and determining cost effective means of providing them. About 10 percent of the total project costs will be used to finance priority infrastructure investments and services identified through this participatory approach; of these investments, municipalities and beneficiaries are expected to each contribute about 10 percent on average. The sanitation component of the project (about one-fifth of total costs) will include NGO-supported activities in Ouagadougou to test and promote technologies for low cost, on-site sanitation involving beneficiary cost recovery and production by small entrepreneurs. This component follows-up the Strategic Sanitation Plan (SSP) for the capital prepared with technical assistance from the UNDP-World Bank Water and Sanitation Program. The project also finances the elaboration of a SSP for Bobo-Dioulasso.

The Burkina Faso project builds upon the Government's willingness to consider sectoral policy reforms and experiments (in urban land policy, urban taxation and municipal financial management, solid waste management, and low cost sanitation) initiated under the Second Urban Project. The operation also reflects a relatively heavy Bank experience in the sector-- through the two earlier urban development loans, as well as an AGETIP-type project (FY92) which set up a contract management agency for small investments, and through the established collaboration with the UNDP-World Bank Water Program in low cost sanitation.

Uganda's Small Towns Water and Sanitation Project (STWSP, FY94) aims to provide: (i) improved health conditions through better water supply, excreta disposal, waste water management, and public hygiene; (ii) alleviate poverty and improve conditions for women; (iii) reduce environmental degradation; and (iv) institutional strengthening for the organizations in the sector.

Under the project, communities plan, operate, and maintain their systems through formally constituted Water User Groups (WUGs), headed by elected Water and Sanitation Committees (WSCs). Communities are selected on the basis of their ability to demonstrate a demand for improved services and willingness to participate in rehabilitation and construction of their infrastructure (e.g., communities are required to contribute up-front the equivalent of one year's O&M costs). Although the project provides for both water and sanitation services, it is anticipated that most investments would be for water as this has the highest initial demand, and sanitation activities will be mainly promotional (to be carried out by NGOs).

The Directorate of Water Development (DWD) is the government agency responsible for the overall implementation of the project. The central government will provide nearly all of the capital cost of *basic* levels of service, while the incremental cost of *higher* service levels as well as all O&M costs would be paid by the users. Choices of technology for each subproject and the communities' required capital cost contribution, if any, are determined by the beneficiaries through their WSCs (grouped into Associations where the water systems are linked). District and Town governments would be actively involved mainly in assisting the WUGs and WUAs.

The project experienced a 17-month delay in effectiveness in part to establish the legal framework for the water user groups and WSCs, but implementation started during this period under other funding channels. The main risks to the project at the outset appear to derive from the very early status of decentralization of administrative functions from central to district- and town-level government authorities.

Zambia's Urban Restructuring and Water Supply Project (URWSP - FY95) aims to provide immediate solutions to the most severe water and sewerage infrastructure deficiencies in nine key urban areas. Project components consist of: (i) water supply and sanitation system rehabilitation; (ii) community-based water and sanitation demonstration subprojects—

comprising 12 percent of project costs; and (iii) sectoral and local government reform and capacity building.

The community based demonstration subprojects are to be implemented in about seven peri-urban communities, and will extend water supply to at least 250,000 low income people in Lusaka and the Copperbelt councils. The component has the dual objectives of developing sustainable water supply and sanitation systems serving the urban poor, and of testing institutional mechanisms and linkages within and between local councils and participating communities.

The Department of Infrastructure and Support Services (DISS) of the Ministry of Local Government and Housing (MLGH) will have overall responsibility for coordinating implementation. As the first objective of the project is to begin decentralizing the decision-making process surrounding the provision of urban services, most of the implementation will be carried out at the local level by municipal and community authorities. The Ministry of Finance (MOF) and MLGH will sign subsidiary agreements with the local councils which outline their responsibilities. In regards to community based subprojects, where local authorities have first line responsibility, a further legal agreement will be signed between the local council and the contractors (anticipated to be private sector in most cases). To be accepted into the project, communities must meet basic criteria of service deficiencies, as well as form an association with the capacity to undertake the participatory design process. NGOs engaged by the councils will provide assistance as needed to the community groups throughout planning, implementation and operation of the project.

Central government will transfer the credit proceeds as a one-time grant to local governments, in part because at the present stage of restructuring the municipalities have very weak debt service capacity. The project's financial support to the community investments is based on a per capita budget ceiling for a minimum service level; the additional costs of any higher level of service desired by the community must be financed by the members, who must also cover O&M. In this respect, the financial design of Zambia's and Uganda's projects is analogous to that of the Ceara and NWFP projects (Box A.6). The partial recovery of capital and of all recurrent costs from households is anticipated through imposition of new user fees and water rates.

The appraisal anticipated that a comprehensive monitoring and evaluation system would be established to permit the project to incorporate the lessons from each stage of implementation into subsequent phases of the project cycle. This adaptive feature is what gives the component its "demonstration" character, since it is scaled at a larger size than a typical pilot scheme. The monitoring system is not yet in place, however, and will require the hiring of a suitable NGO.

The past Bank-supported operations in Zambia in the urban sector (one sites and services project in the 1970s) and in rural water and sanitation largely achieved their physical

targets but proved financially and institutionally unsustainable. Lessons learned from these projects are: i) that “appropriate technologies” could not be delivered through the existing inefficient and unresponsive institutions, and that ensuring low cost but reliable service required a more organized community involvement at all stages; ii) the users were not satisfied with a centrally-determined level of service and had more differentiated demands; and iii) that with suitable incentive structures, community-based organizations in low income areas could deal more effectively with local operational problems such as simple maintenance than could the large water and sanitation utilities. The URWSP approach is intended to be replicable to other urban areas and to other service sectors, by building the institutional, financial and technical capacity for developing future urban investment programs through a decentralized, demand-driven planning process.

Sources: SAR, Republic of Uganda: Small Towns Water and Sanitation Project, Report #12296-UG, February 17, 1994; Aide-Memoire of supervision mission, March 10-19, 1996.

SAR, The Republic of Zambia: Urban Restructuring and Water Supply Project, Report #13853-ZA, April 17, 1995; notes on project supervision by Richard Beardmore.

Box A.9 Social Investment Funds and Block Transfer Programs

Social investment funds (SIFs) are legally autonomous financing mechanisms that are vested with investment programming powers, i.e., they select/reject subproject proposals solicited from public agencies, private organizations, and/or community groups based on predetermined criteria. These criteria normally include objectives of serving the poor and providing relatively small-scale facilities and services in the social sectors and economic infrastructure. Targets for allocation of funds among sectors and regions are often specified upfront. The autonomous nature of SIFs involves either independent legal status of the entity itself, or exemptions from prevailing public sector rules and regulations regarding civil service salaries, procurement, disbursement, etc.

The Bank has supported over fifty such operations since 1987, of which 40 were active at end-FY96, for a portfolio of US\$1.2 billion. The early cohort of SIFs and SIFs introduced in situations of major structural adjustment or emergence from civil strife have generally had the objective of protecting poor and vulnerable groups through the rapid creation of employment opportunities and social transfers. Performance evaluations indicate that social funds have been effective instruments for responding to these short-term or emergency situations where existing institutions are weak or nonexistent. More recently, and especially in countries with successive social fund projects, the objectives have evolved to emphasize delivery of services to the poor and building local capacity for the sustainable provision of basic services.

Many social funds were set up initially to serve mainly rural communities, although investments in urban areas are also included and can be significant in some funds. The subprojects financed by most social funds are also anticipated at the outset to be mainly in the social sectors (health and education—although water and sanitation is often counted among the

social investments). However, roughly one-third of social fund resources are estimated to be directed to economic infrastructure (here defined as water, sanitation, drainage, transport, and energy) investments.⁴

SIFs can provide an efficient and responsive funding mechanism to direct resources to small investments that meet priority demands of low income groups who are often not served, or poorly served, by the formal agencies and budgeting processes. SIFs have performed well in situations where the formal government institutions are extremely weak and an enclave entity is needed to fill the vacuum—as in countries emerging from periods of civil or economic crisis. How well they function to promote development of services for the poor depends very much on the rules by which they actually operate.

The main issues raised by the broadening of SIFs' objectives is their actual capacity to elicit the effective demands of the poor and to ensure sustainability of services. Demand-orientation implies offering potential beneficiaries a range of subproject options from which to choose; providing information to assist clients in making informed choices; and requiring evidence of their commitment and interest through cash or in-kind contribution, and/or the completion of organizational tasks as a condition of subproject approval and release of funds. Of the SIFs that claim to be demand-oriented, one or more of these specific conditions are met in only a minority of cases. However, the recent social funds (approved since FY94) have in most cases placed a greater emphasis on requiring some financial contribution from both beneficiaries and the sponsoring agencies, as well as participation by the communities in subproject preparation or implementation.

In addition to demand-orientation, sustainability of services depends on: i) the appropriateness of the technical standards to which infrastructure is developed or rehabilitated in the light of the community demand and the capacity of the organization receiving the subproject; and ii) sound financial, managerial and institutional O&M arrangements, backed by evidence of the availability of funds and training. Many SIFs refer to “nationally mandated standards” for infrastructure subprojects, even though these are often either be too low to meet the service levels that users demand, or too high relative to the capacity of agencies responsible for O&M. The post-FY94 SIFs have devoted increased attention to specifying the institutional responsibilities for O&M of subprojects, including by requiring sectoral agencies to commit to providing operating staff and by requiring community maintenance committees to be formed where appropriate. In many cases, public sector agencies are receiving sizable investments under social funds, and the sustainability of these investments will be closely tied to the

⁴ AGETIP projects (profiled in Box A.11) constitute a subcategory of social investment fund operations. AGETIPs have been created primarily for subprojects of urban economic infrastructure. Like other SIFs, AGETIPs select/reject eligible subproject proposals and channel donor funding; however, AGETIPs also execute the subprojects on behalf of the sponsoring agency, typically the municipality. AGETIPs *in their essence* are contract management agencies working at the delegation of local governments or communities; SIFs *in their essence* are resource allocation mechanisms.

availability of recurrent budgets—an issue that cannot be addressed by the SIFs, and requires complementary sectoral and public finance reforms.

As the SIFs evolve into entities that aim at mainstream service provision, it becomes essential for their role and specific activities to be closely coordinated with the Bank's efforts of sectoral policy and institutional reform. There have been unfortunate instances in which the rules governing access to SIF resources have been more lax than those of other projects in the same sectors, thus weakening efforts to elicit demand and achieve cost recovery and undermining the dialogue on sectoral reforms. Many SIF projects are prepared, appraised and supervised by mainly human resources staff in the Bank without sufficient involvement of specialists in the many other sectors in which the SIFs are becoming more active. SIFs can be effective instruments for demonstrating and replicating appropriate policies of demand-orientation and subproject sustainability, provided they are designed with this perspective and reflect the state of best practice in the respective sectors.

Parallel to the growth of social funds, a few countries (Brazil, Mexico, Indonesia) have adopted an alternative type of programmatic mechanism, essentially block grant programs. These arrangements have been variously called “municipal development funds,” “community investment funds”, and “demand-driven rural investment funds” (all referred to simply as “block transfer programs” here). Like the SIFs, block transfers are intended to make investment resources available in response to locally-determined priorities. In addition, however, they decentralize investment decisions and empower local governments by making fiscal resources available to them directly, without creating an autonomous agency such as a SIF. The Indonesian Village Infrastructure Project (VIP, FY 95 and 97) provides full grant funding directly to villages identified as poor and lacking basic infrastructure. Other block transfer programs allocate to subnational jurisdictions, which decide on their use for local districts and communities that meet required shares of counterpart contributions--ranging between 0-40 percent of capital costs (at least 20 percent in Mexico), depending on the type of investment. Thus the funds can be steered towards national priorities of regional parity or sectoral balance, but within jurisdictions the resources are made available competitively to communities based on their assessment of local priorities and their willingness to contribute to the investment costs. In Mexico and Brazil, where the local communities are delegated responsibility for project selection, design, and execution decisions, the programs have led to a high turnout of subprojects at low implementation cost. In the Bank-financed Decentralization and Regional Development Project (FY91), for example, 30,000 subprojects were implemented in three years, with average costs 30-60 percent less than projects carried out through official channels.

The key distinction of these block transfer programs in Brazil and Mexico is that they depend on the existing local government structures for the choice among investments, rather than bypass them as SIFs have tended to do. The municipality (local council in Mexico) faces the trade-offs among alternative uses of the funds allocated to it; thus, by permitting the local population to appreciate the opportunity costs of using its funds for a particular purpose, the arrangement elicits effective demand of the local population more accurately than when the

power of project choice and resource allocation resides in a distant agency. The block transfer arrangements have been a fundamental means of giving reality to the decentralization process in Brazil, Mexico and Colombia by incorporating the transfer of fiscal resources (and donor funds) to the local level. The approach may represent one potential direction for SIFs to evolve so as to develop the decision-making capacity and accountability of local governments, whether urban or rural.

Sources: Draft “Review of Social Funds Portfolio for the Portfolio Improvement Program”, The Working Group for the Social Funds Portfolio Review, forthcoming; Deepali Tewari, “Social Funds: Review of the Economic Infrastructure Components for the Portfolio Improvement Program”, Background paper, TWUDR, December 1996; Tom Wiens and Maurizio Guadagni, “The Design of Rules for Demand-Driven Rural Investment Funds: the Latin American Experience,” LATAD Studies on Decentralization, May 10, 1996 draft; Tim Campbell, “Basic Features and Significance of PRONASOL: Mexico’s Solidarity Program”, LAT Advisory Group, Source Book Note 2, July 1994.

Box A.10 Community-Initiated Basic Infrastructure Programs: El Mezquital, Guatemala and MENPROSIF, Argentina

Two programs to provide basic infrastructure to the urban poor have arisen in Latin America from similar impulses (the immediate public health concerns due to poor sanitation), within very different institutional contexts—one instigated by NGOs, and the other by a provincial government—but both based on community initiative. The Bank came in after the programs were established in each case to provide additional financing and help to establish some of the linkages with other institutions, thus setting the stage for scaling-up.

Guatemala. In the early 1980s, the squatter community of El Mezquital, a neighborhood in Guatemala City, had reached 50,000 residents with extremely inadequate water and sanitation services and dilapidated shelters. The high rates of infant mortality and infectious diseases, capped by a typhus epidemic, provoked the government to shift from proscribing any assistance to the community as “illegal” and to authorize NGOs (UNICEF, the Catholic Church, and Medicins sans Frontieres) to meet the immediate needs. The NGOs directed their support to encouraging longer-term, more sustainable solutions that could be managed by the community. Through a variety of networks created in the community, programs were initiated during 1987-92 to provide public health education and primary health care, day-care centers and literacy training. A cooperative was formed to drill a well and set up a local water distribution network, and model low-cost housing units were designed and constructed.

In 1993, the World Bank offered to redesign its dormant Municipal Development Project (loan #2972), approved in 1988 but suspended during the civil war) to provide funding for a much larger program of housing, urban services (potable water, drainage, access routes, electricity, social services, and land tenure legalization) in the El Mezquital community under what became called the PROUME urbanization program. The cooperative manages the

housing loans and community services as well as water supply. Each of the settlements comprising the El Mezquital area is represented by legally-constituted community groups or associations which participate in decisions by the board of directors regarding the program.

Households who acquire tenure, housing, potable water and other services repay the cooperative through tariffs and housing loans; this package costs the beneficiaries only about 15 percent of the market costs if procured through the municipality, utility or real estate market. This differential represents both an element of subsidy as well as the considerable cost reductions for some of the services provided by the cooperative compared to the formal institutions. The households' monthly payments for the services, including repayment of 15 year housing credit, are within the amounts they previously spent for water alone.

Building partly on experience with community participation gained in the El Mezquital component, the Bank is preparing a broader-based project, Decentralized Municipal Environmental Services, which will provide institutional strengthening and basic environmental investments in a larger number of municipalities.

Argentina. The Mendoza Provincial Program on Basic Infrastructure (MENPROSIF) is an innovative program to supply basic sanitation and other services to low income households at the neighborhood level in the Province of Mendoza. The Program originated in 1991 in response to both the ongoing reform and decentralization of the public sector, and to a cholera epidemic in the region that catalyzed popular dissatisfaction with the inadequate sanitation coverage.

The MENPROSIF is based on the concept that strong neighborhood-level organizations created around priority demands of the residents can be coached and supported in securing credit, selecting and supervising contractors to undertake investments, and pursuing future felt needs. The essential features of the Program are:

- *Community organization* - Block organizations of several hundred households are the key unit to identify needs and pledge individual and collective responsibility for improvements. These organizations are registered legally in advance of participation.
- *Design simplicity and cost transparency* - The Program staff (both engineering and community relations specialists), housed in the provincial Ministry of Environment, Urbanism and Housing, assist the block organizations in articulating their demands, acting as brokers and sources of information on the technical alternatives and designs, and costs.
- *Credit securitization* - The neighborhood obtains credit from the Program on the basis of collective security. The Program staff vouches for the neighborhood organization's intentions, on which the provincial bank provides a credit in the organization's name. This credit is short-term (2 years) at a much lower rate of interest than would be available to the

residents normally, because the mutual solidarity offsets the risks to both borrowers and lenders.

- *Financing and cost recovery* - More than 70 percent of the project costs have been mobilized by the communities themselves, and the credit repayment record is excellent. Some communities and municipalities have organized financial support for the poorest residents where needed.
- *Contractor competition and selection* - Neighborhood organizations are active in managing the competitive selection of contractors, which has substantially bid down the cost of works over time.
- *Rapid works implementation* - With guaranteed rapid payment of contractors, construction times have been kept very short. The community representatives, along with the sectoral regulatory agencies, verify the construction. The community organization formally receives the assets on completion and in the case of utility works, transfers them to the utility by formal agreement.

Since 1991, MENPROSIF has completed or launched about 300 projects (average size US\$100,000), for more than 130 chartered neighborhood organizations in more than half the municipalities of the Province. As communities have gained familiarity with the Program, they have expanded the scope of activities for which credits are requested, and needed less assistance from the Program staff. After the Program reached got well underway around 1993, the World Bank and IDB support through the Provincial Development Project (FY91) provided a channel for larger and more predictable funding. Although the Program has grown in the Mendoza Province, it has not yet expanded to other parts of the country. In its further development, the Program needs to develop mechanisms for targeted subsidies to the poorest households; longer-term, more market-based credit sources; and a larger role for the municipalities, in place of the Province, in technical assistance and financing.

Sources: Tim Campbell, “Mendoza Provincial Program for Basic Social Infrastructure (MENPROSIF): Case Study”, Decentralization in LAC--Policy Lessons and Best Practices. A LACTD Regional Study. September 27, 1995 draft.

Paolo Basurto, “Fighting Urban Poverty: Promoting Community Organization”, The Case of “El Mezquital” in Guatemala City. Draft prepared for World Bank Urban Retreat, January 23-24, 1996.

Box A.11 AGETIPS as a vehicle for providing infrastructure for the urban poor

Beginning in Senegal in 1989, the World Bank has supported more than a dozen projects in West Africa (with another half-dozen under preparation) which involve the creation or use of an autonomous, nonprofit contract management agency for the execution of small scale

public works, known by the common acronym, AGETIP (*agence de travaux d'intret public pour l'emploi*). Now in eleven countries, AGETIPs share the following objectives, although the emphasis varies in each case: i) to have a rapid and direct impact on poverty, mainly by creating local employment in public works; ii) to ensure greater efficiency in the contracting and execution of small-scale public works activities, in particular by taking these functions out of bureaucratic control and introducing methods and incentives borrowed from the private sector; iii) to build capacity in the local private sector construction and consulting industries through steady demand, rapid payment, and transparent, simple procedures of project analysis, procurement and supervision; and iv) to increase the availability of public works and services in response to expressed demands by local governments and the user communities themselves. Although the need for immediate employment creation was the primary impetus of the early AGETIP projects, it has become less significant than the capacity- and market-building objectives in successive projects.

In most cases, the AGETIPs have proven highly effective in overseeing a large outturn of small public works projects, establishing efficient procurement and competitive contracting practices, catalyzing the growth of a private contractors, and in the process, creating short term employment,. In countries where urban investment had been moribund and the local government agencies extremely weak and incapable of even traditional force account, AGETIPs have provided quick, highly visible results that are appreciated by both the beneficiary communities and the local politicians. The strengths of AGETIPs have been their independence from government, their reliance on transparent rules and procedures, and the opportunity they accord communities to participate in the process of project identification and implementation—and in these respects, the agencies have provided a stimulus to good governance and efficiency to local governments. However, these features also suggest inherent risks and shortcomings of the AGETIPs: i) they take over some of the resource allocation decisions that properly belong to elected local authorities; ii) as a major channel of donor investment funds which (at least in the early projects) did not require significant counterpart contributions from the beneficiary communities or receiving municipalities, the agencies foster local preferences for new investment rather than proper O&M of existing facilities. In brief, the concerns are that instead of being a useful complement to institutional development and capacity-building for local authorities, AGETIPs might become shadow local governments in function, propped up by external funding.

The contrasting views of AGETIPs have been central to the variation and evolution in their design and functions in succeeding projects. In the earliest cases and in the context of the weakest local governments, the agencies have acted as both technical and financial intermediaries of subprojects proposed by the municipalities, and occasionally by communities and/or NGOs (e.g., Chad, Guinea-Bissau, Senegal I). In these instances, the AGETIPs function virtually the same as other Social Investment Funds (see Box A.9). However, where strengthening municipal capacity is a primary objective, the AGETIPs perform only the role of delegated intermediary in contract management, with the choice of subprojects made by the municipal authorities (Benin, Mauritania, Togo). The former characterization of the agencies, as both technical and financial intermediary, should be seen as a transitional solution until the local

governments are better prepared to undertake resource mobilization and allocation--although this transitional period may last for quite some time in many countries. The latter form of AGETIP (as contract manager only) is entirely consistent with even a well-developed municipal capacity and could be an effective permanent instrument of municipal management. In this role, the agency should become subject to competition from other private firms in contract management, to preserve incentives for efficiency.

Having already demonstrated that AGETIPs can achieve efficient contract execution, the more recent urban projects using these agencies have placed an increasing focus on developing the communities' meaningful participation, and on making the municipalities more active partners with the AGETIPs in investment planning and selection. The recent audit of the first and second AGETIP projects in Senegal confirmed that although the projects were very successful in contract execution, greater attention was needed to mobilizing community ownership and building the municipalities' capacity—objectives that require broader urban development efforts to supplement the narrower achievements of the AGETIPs. The FY96 Urban Infrastructure and Pilot Decentralization Project in **Mauritania** provides an example of a wider set of objectives. The project uses the agency (called AMEXTIPE) to execute poverty-oriented, labor-intensive investments to construct or rehabilitate urban facilities, but includes provisions to enhance the municipalities' ability to plan for and manage these assets and to mobilize fiscal resources, in keeping with the Government's decentralization strategy. The intention is that subprojects executed by the contracting agency will be explicitly consistent with a priority investment program drawn up by the municipalities, and sustainability of the investments will form part of a monitored performance plan of these municipalities. The local governments' contributions to the subprojects will average about 23 percent, and must be paid upfront, before AMEXTIPE will begin execution.

As to future roles for AGETIPs, one suggestion is that they branch out as area development agencies, to manage neighborhood upgrading activities in the periurban settlements which are rapidly growing in many Sub-Saharan African cities. In this capacity, the agencies would function outside the limited timeframe of individual projects, and could work at the service of multiple jurisdictions that would be involved in regularizing such settlements.

Sources: "Projets de Developpement Urban en Afrique Francophone: un Agenda pour le Future", C. Farvacque-Vitkovic and L. Godin, AF5IN, June 1996 draft; Project Completion Report, Republic of Senegal: Public Works and Employment Project (AGETIP), OED Report No. 15166, December 7, 1995; Project Performance Audit Report, Republic of Senegal: Public Works and Employment Project (AGETIP), OED forthcoming, October 1996 draft; SAR, Islamic Republic of Mauritania: Urban Infrastructure and Pilot Decentralization Project, Report No. 15119-MAU, March 4, 1996.

**PROJECTS REVIEWED WITH COMPONENTS FOR BASIC INFRASTRUCTURE SERVICE PROVISION
TO POOR URBAN COMMUNITIES**
(Urban Portfolio)

Loan / Credit #	Region	Country	Project Name	Loan / Credit Amount \$ (m)	FY		OED Rating (Completed proj.)			Supervision - Rating (last/previous) (Active projects)			
					Approved	Closed	Overall	Sustain- ability	Institutional Development Impact	Implementation Progress		Project Development Objectives	
										Current Form	Last Form	Current Form	Last Form
2338	AFRICA	Benin	Urban Rehabilitation and Mgt.	22.8	1992	Active				S	S	S	S
766	AFRICA	Burkina Faso	Urban Development I	8.2	1978	1986	Satisfactory	NA	NA				
2728	AFRICA	Burkina Faso	Urban Environment Project	37.0	1995	Active				S	HS	HS	HS
2244	AFRICA	Cameroon	UDP I	20.0	1983	1988	Satisfactory	Likely	Modest				
2704	AFRICA	Cote d'Ivoire	Municipal Support Project	40.0	1995	Active				S	HS	S	HS
2836	AFRICA	Ghana	Urban Environment and Sanitation	71.0	1996	Active				HS		HS	
543	AFRICA	Kenya	Nairobi UDP I	16.0	1975	1983	Satisfactory	NA	NA				
791	AFRICA	Kenya	Nairobi UDP II	50.0	1978	1986	Unsatisfactory	Unlikely	Negligible				
2835	AFRICA	Mauritania	Urban Infrastructure and Pilot Decentralization	14.0	1996	Active				HS		HS	
3238	AFRICA	Nigeria	Oyo State Urban Project (Infrastructure Development Fund II)	50.0	1990	Active				U	S	S	S
1458	AFRICA	Senegal	Sites and Services	8.0	1972	1982	Satisfactory	NA	NA				
2075	AFRICA	Senegal	Public Works and Employment Project I	20.0	1990	1994	Satisfactory	Uncertain	Substantial				
2369	AFRICA	Senegal	Public Works and Employment Project	39.0	1992	1997	Satisfactory*	Uncertain*	Substantial*				
2511	AFRICA	Sierra Leone	Freetown Infrastructure	26.0	1993	Active				HS	HS	HS	HS
2620	AFRICA	Togo	Lome UDP	26.2	1994	Active				U	S	U	U

Highlighted projects are featured in Annex boxes

*Provisional audit results

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**PROJECTS REVIEWED WITH COMPONENTS FOR BASIC INFRASTRUCTURE SERVICE PROVISION
TO POOR URBAN COMMUNITIES**
(Urban Portfolio)

Loan / Credit #	Region	Country	Project Name	Loan / Credit Amount \$ (m)	FY		OED Rating (Completed proj.)			Supervision - Rating (last/previous) (Active projects)			
					Approved	Closed	Overall	Sustain- ability	Institutional Development Impact	Implementation Progress		Project Development Objectives	
										Current Form	Last Form	Current Form	Last Form
1057	AFRICA	Zambia	Lusaka Upgrading	20.0	1974	1980	Satisfactory	NA	NA				
2445	AFRICA	Zimbabwe	Urban Development Project	43.0	1984	1993	Satisfactory	Likely	Substantial				
1040	EASIA	Indonesia	Urban Dev. I	25.0	1975	1980	Satisfactory	NA	NA				
1336	EASIA	Indonesia	Urban Dev. II	52.5	1977	1983	Satisfactory	NA	NA				
1653	EASIA	Indonesia	Urban Dev. III	54.0	1979	1986	Satisfactory	Uncertain	Substantial				
1972	EASIA	Indonesia	Urban Dev. IV	43.0	1981	1988	Satisfactory	Uncertain	Moderate				
2408	EASIA	Indonesia	Urban Dev. V	39.3	1984	1991	Satisfactory	Unlikely	Modest				
3246	EASIA	Indonesia	Third Jabotabek Urban	61.0	1991	Active				S	U	S	S
3340	EASIA	Indonesia	Sulawesi-Irian Jaya Urban Dev.	100.0	1991	Active				S	S	S	S
3304	EASIA	Indonesia	E. Java / Bali Urban Dev.	180.3	1991	Active				S	S	S	S
3749	EASIA	Indonesia	Semarang Surakarta Urban	174.0	1994	Active				S	S	S	S
3726	EASIA	Indonesia	Surabaya Urban Development	175.0	1994	Active				U	S	S	S
3854	EASIA	Indonesia	Kalimantan UDP	136.0	1995	Active				S	S	S	S
3888	EASIA	Indonesia	Village Infrastructure	72.5	1995	Active				HS	HS	HS	HS
1272	EASIA	Philippines	Manila UDP I	10.0	1976	1983	Satisfactory	NA	NA				
1647	EASIA	Philippines	Manila UDP II	32.0	1978	1985	Satisfactory	NA	NA				
1821	EASIA	Philippines	UDP III	72.0	1980	1987	Satisfactory	Likely	Modest				
2257	EASIA	Philippines	Regional Cities Dev. Project	67.0	1983	1992	Satisfactory	Unlikely	Modest				

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**PROJECTS REVIEWED WITH COMPONENTS FOR BASIC INFRASTRUCTURE SERVICE PROVISION
TO POOR URBAN COMMUNITIES**
(Urban Portfolio)

Loan / Credit #	Region	Country	Project Name	Loan / Credit Amount \$ (m)	FY		OED Rating (Completed proj.)			Supervision - Rating (last/previous) (Active projects)			
					Approved	Closed	Overall	Sustain- ability	Institutional Development Impact	Implementation Progress		Project Development Objectives	
										Current Form	Last Form	Current Form	Last Form
2435	EASIA	Philippines	Municipal Development I	40.0	1984	1993	Satisfactory	Likely	Substantial				
3146	EASIA	Philippines	Municipal Development II	40.0	1990	Active				S	S	S	S
1489	LAC	Bolivia	Urban Development Project	17.0	1977	1986	Satisfactory	Uncertain	Modest				
1842	LAC	Bolivia	La Paz MDP	15.0	1988	Active				S	HS	HS	HS
1720	LAC	Brazil	Medium Sized Cities	70.0	1979	1986	Satisfactory	Likely	Substantial				
2170	LAC	Brazil	Recife Integrated Urban	123.9	1982	1989	Unsatisfactory	Unlikely	Uncertain				
2345	LAC	Brazil	Parana Market Towns	52.7	1983	1988	Satisfactory	Likely	Substantial				
2623	LAC	Brazil	Santa Catarina Small Towns Improvement Project	24.5	1985	1993	Satisfactory	Likely	Modest				
2681	LAC	Brazil	Salvador Metro Devt.	36.6	1986	Active				S	S	S	S
3639	LAC	Brazil	Minas Gerais Municipal Management and Environmental Project	150.0	1994	Active				U	S	S	S
3789	LAC	Brazil	Ceara Urban Dev. / Water	140.0	1995	Active				U	S	S	S
1558	LAC	Colombia	Urban Dev. I	24.8	1978	1985	Satisfactory	Likely	Modest				
1694	LAC	Colombia	Urban Dev. II (CARTAG)	13.5	1979	1985	Satisfactory	NA	NA				
517	LAC	El Salvador	Urban I	8.5	1975	C	Satisfactory	NA	NA				
726	LAC	El Salvador	Urban II	12.7	1977	C	Satisfactory	NA	NA				

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**PROJECTS REVIEWED WITH COMPONENTS FOR BASIC INFRASTRUCTURE SERVICE PROVISION
TO POOR URBAN COMMUNITIES
(Urban Portfolio)**

Loan / Credit #	Region	Country	Project Name	Loan / Credit Amount \$ (m)	FY		OED Rating (Completed proj.)			Supervision - Rating (last/previous) (Active projects)			
					Approved	Closed	Overall	Sustain- ability	Institutional Development Impact	Implementation		Project	
										Progress		Development	
										Current Form	Last Form	Current Form	Last Form
2972	LAC	Guatemala	Municipal Dev. I	9.9	1988	Active				S	S	S	S
3310	LAC	Mexico	Decentralization and Regional Development Project I -	350.0 (150.5)	1991	1996				S	S	HS	HS
	LAC	Mexico	Decentralization and Regional Development Project II - Municipal Development Fund	500.0 (307.0)	1995	Active				U	S	S	S
3495	LAC	Venezuela	Low-income Barrios Improvement	40.0	1992	Active				U	U	S	S
831	MENA	Egypt	UDP I	14.0	1978	1984	Satisfactory	NA	NA				
1893	MENA	Jordan	Urban I	21.0	1980	1987	Satisfactory	Likely	Substantial				
2587	MENA	Jordan	Urban II	28.0	1985	1993	Satisfactory	Likely	Negligible				
2841	MENA	Jordan	Urban III	26.4	1987	1993	NA	NA	NA	S	S	S	S
1528	MENA	Morocco	Rabat UDP	18.0	1978	1984	Satisfactory	Unlikely	Negligible				
1944	MENA	Morocco	Second Urban Dev. Project	36.0	1981	1988	Satisfactory	Uncertain	Modest				
1705	MENA	Tunisia	Urban II	19.0	1979	1986	Satisfactory	NA	NA				
2223	MENA	Tunisia	Urban III	25.0	1982	1993	Satisfactory	Uncertain	Modest				
2736	MENA	Tunisia	Urban IV	30.2	1987	1994	Unsatisfactory	Uncertain	Modest	HS	HS	HS	HS
3507	MENA	Tunisia	Municipal Sector Inv.	75.0	1993	Active				HS	HS	S	S
687	SASIA	India	Madras Urban I	24.0	1977	1983	Satisfactory	NA	NA				
1082	SASIA	India	Madras Urban II	42.0	1981	1988	Satisfactory	Likely	Modest				
1185	SASIA	India	Urban - Kanpur	25.0	1982	1987	Satisfactory	Uncertain	Modest				

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**PROJECTS REVIEWED WITH COMPONENTS FOR BASIC INFRASTRUCTURE SERVICE PROVISION
TO POOR URBAN COMMUNITIES**
(Urban Portfolio)

Loan / Credit #	Region	Country	Project Name	Loan / Credit Amount \$ (m)	FY		OED Rating (Completed proj.)			Supervision - Rating (last/previous) (Active projects)			
					Approved	Closed	Overall	Sustain- ability	Institutional Development Impact	Implementation Progress		Project Development Objectives	
										Current Form	Last Form	Current Form	Last Form
1369	SASIA	India	Calcutta - Urban III	147.0	1983	1992	Unsatisfactory	Unlikely	Negligible				
2329	SASIA	India	Madhya Pradesh Urban Dev.	24.0	1983	1991	Satisfactory	Uncertain	Modest				
1544	SASIA	India	Bombay Urban Dev.	138.0	1985	Active				S	S	S	S
1643	SASIA	India	Gujarat Urban	60.0	1986	1995	Unsatisfactory	Uncertain	Modest				
2797	SASIA	India	U.P. Urban Dev.	150.0	1987	Active				S	S	U	U
1923	SASIA	India	Tamil Nadu Urban	300.0	1988	Active				S	S	S	S
1348	SASIA	Pakistan	Lahore Urban	16.0	1983	1992	Satisfactory	Uncertain	Substantial				
1652	SASIA	Pakistan	Karachi Special Devt.	70.0	1986	1995	Unsatisfactory	Uncertain	Modest				
1895	SASIA	Pakistan	Punjab Urban Devt.	90.0	1988	Active				S	S	S	S
2829	SASIA	Pakistan	North West Frontier Province Community	21.5	1995	Active				S		S	

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*Provisional audit results

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**PROJECTS REVIEWED WITH COMPONENTS FOR BASIC INFRASTRUCTURE SERVICE PROVISION
TO POOR URBAN COMMUNITIES
(Water and Sanitation Portfolio)**

Loan / Credit #	Region	Country	Project Name	Loan / Credit Amount \$ (m)	FY OED Rating (Completed projects)					Supervision - Rating (last/previous)(Active projects)			
					Approved	Closed	Overall	Sustain- ability	Institutional Developme nt Impact	Implem. Progress		Proj.Dev. Obj.	
										Current Form	Last Form	Current Form	Last Form
2583	AFRICA	Uganda	Small Towns Water	42.3	1994	Active				S	S	S	S
2725	AFRICA	Zambia	Urban Restructuring & Water	33.0	1995	Active				S	S	S	S
3629	EASIA	Indonesia	Water and Sanitation for Low Income	80.0	1993	Active				U	S	S	S
2983	LAC	Brazil	Water & Sanitation / PROSANEAR	80.0	1988	Active				S	S	S	S
3811	LAC	Peru	Lima Water Rehab. Project	150.0	1995	Active				S	S	S	S
1280	SASIA	India	Water Supply - Gujarat	72.0	1983	1991	Unsatisfactory	Unlikely	Negligible				
2769	SASIA	India	Bombay Water Supply and Sewerage Project III	40.0	1987	Active				U	S	U	S
3181	SASIA	India	Hyderabad - Water & Sanitation	79.9	1990	Active				S	S	HS	HS
2763	SASIA	India	Bombay Sewage Disposal	192.0	1995	Active				S	S	S	S
2442	SASIA	Sri Lanka	Community Water Supply & Sanitation	24.3	1993	Active				S	S	S	S

Highlighted projects are featured in Annex boxes

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