

ICR Review
Operations Evaluation Department

1. Project Data:	Date Posted : 03/01/2001	
PROJ ID : P007702	Appraisal	Actual
Project Name : Second Decentralztn	Project Costs 1,095	1,038.6
	US\$M)	
	(US\$M)	
Country : Mexico	Loan/ US\$M) 500	
	Loan /Credit (US\$M)	500
Sector (s): Business Environment	Cofinancing 0	0
	US\$M)	
	(US\$M)	
L/C Number : L3790		
	Board Approval	95
	FY)	
	(FY)	
Partners involved :	Closing Date 06/30/1999	06/30/2000
Prepared by :	Reviewed by :	Group Manager : Group :

2. Project Objectives and Components

a. Objectives

The objectives were to: (a) alleviate poverty in eight poor states by increasing the access of rural poor and indigenous communities to basic social and economic infrastructure and to income generating activities; and (b) strengthen the institutional capacities at the state and local levels to assume greater responsibility in supporting rural development.

b. Components

Initial Components

1. Municipal Investment and Institutional Development -Municipal Fund - (\$ (\$737 million). This component financed works for water supply development, rural roads, school rehabilitation, productive activities, and other infrastructure works; the community would select and manage those works .
2. Rural Water Supply (\$178 million). This component financed investments in potable water in small rural localities (500-5,000 inhabitants) not eligible under the Municipal Funds Program .
3. Rural Roads Rehabilitation and Maintenance (\$133 million). This component financed the rehabilitation and maintenance of priority sections of the rural roads network .
4. Income Generating (\$12 million). This component financed technical assistance, training and limited investment to develop and pilot new strategies to support income -generating projects in rural areas .
5. SEDESOL -Institutional Development and Project Coordination (US\$35 US\$ 35 million). This component financed a program of institutional development, technical assistance and training and contracting of technical expertise required for the supervision and review of each component .

Components after 1998 and 1999 amendments

1. Municipal Investment and Institutional Development . All loan funds were transferred to this component .

c. Comments on Project Cost, Financing and Dates

In 1998, after the first two years of project implementation, the Bank and the Borrower agreed to : (a) eliminate the

rural roads and water components and transfer the funds to the Municipal Investment and Institutional Development

component; (b) eliminate the income generating component; (c) increase the disbursement percentage in certain

categories, from 50 to 65 percent; and (d) increase the aggregate amount for civil works under direct contracting for

the Municipal Fund Program.

In 1999, the Bank and the Borrower amended the loan to adjust it to the decentralization law issued by Congress in

1997. In this amendment the component for SEDESOL was eliminated .

3. Achievement of Relevant Objectives:

The project achieved the objectives of increasing the access of the poor rural communities to basic social and

economic infrastructure. Public works carried out under the Municipal Funds component exceeded 100,000, beyond

the 40,000 planned in the SAR; these public works included rural roads and water supply systems . Between

1995-97, before its amendment, the loan financed 52 larger rural water supply systems (construction, enhancement

and rehabilitation) and 200 rural roads rehabilitation projects . The slow execution of the rural roads component

convinced the Bank and the Borrower to abolish them, and transfer the funds to the Municipal Funds component .

4. Significant Outcomes/Impacts:

1. The Fiscal Coordination law (decentralization law) of 1997 ordered the Government to transfer directly to states

□and municipalities the funds for local programs, without intervention of federal agencies (SEDESOL). SEDESOL, the

executor of the Bank-financed project, stopped managing the funds for local programs . The funds, thus, ceased to

be federal, and local jurisdictions managed them without having to account for them to the federal government . As a

result, the component for SEDESOL was abolished and replaced by one that focused on municipal strengthening

and community participation. Moreover, the execution of the project financed by the Bank depended on the states

willingness to participate in the project and to meet the conditions for disbursement and accountability required by

the Bank. Four out of the eight original states of the project agreed to participate in the program .

2. The project strengthened the institutional capacity of the state and local levels in supporting rural development .

The project showed that local communities can manage projects well, that accountability and community participation increase when they take responsibility for managing the funds they receive from the central government. Thus, a federal anchor (SEDESOL) for the project was unnecessary . Moreover, projects had lower

costs and better quality than those managed by outside contractors . Field reviews found that the costs of the

community-based projects of the Municipal Fund Program were 30 percent lower than those managed by outside

contractors.

3. Experience with the project helped to influence the decentralization law; in fact, the innovative ideas of the

Operations Manual for the project were used to shape parts of the decentralization law issued by Congress

5. Significant Shortcomings (including non-compliance with safeguard policies):

Management problems delayed disbursement of funds . In 1997 disbursements were suspended for some months

due to considerable delays in the provision of audits, and monitoring reports also had a considerable lag . States did not provide specific funding to the state water agencies for implementing the rural water component .

Delays in institutional strengthening of state water agencies, local water organizations and state road agencies

impaired their capacity to manage operations effectively .

The municipalities did not have readily available aggregate information on numbers of projects and unit costs This

monitoring weakness is being addressed with the help of a grant from the institutional development fund (IDF).

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	ICR rates ID as satisfactory, but its authors meant substantial
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE:

NOTE ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Simple project designs have higher chance of success than complex ones . Over its implementation, the

amendments to the project and the abolition of three components made its execution easier and more effective .

2. Local communities, municipalities and state governments can manage projects as well or better than central

government agencies. The Bank, thus, must be inventive and find ways to operate in the new decentralized environment of Mexico.

3. Better to change the project during execution than trying to stick to its original design . The project showed that, during execution, abolishing components that do not work and shifting the funding to those working well increased its benefits.

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

ICR deals with project as if it were two separate projects, the one before and the one after the amendments . ICR

could have presented a small table at the beginning listing the components in the initial and final phases of the

project. Another section could have explained why the project had to be changed during implementation . After that,

the ICR could have focused on discussing the components that were actually implemented .

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