

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC706

Project Name	Municipal Governance and Services Project (P133653)
Region	SOUTH ASIA
Country	Bangladesh
Sector(s)	Urban Transport (45%), General water, sanitation and flood protection sector (35%), Sub-national government administration (20%)
Lending Instrument	Specific Investment Loan
Project ID	P133653
Borrower(s)	Government of Bangladesh
Implementing Agency	Local Government Engineering Department, Local Government Engineering Department, Local Government Engineering Department
Environmental Category	A-Full Assessment
Date PID Prepared/ Updated	04-Feb-2013
Date PID Approved/ Disclosed	13-Feb-2013
Estimated Date of Appraisal Completion	18-Jul-2013
Estimated Date of Board Approval	12-Dec-2013
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. With about 150 million people, Bangladesh is one of the most populous as well as one of the most densely populated countries in the world. Per capita GNI growth at a compound annual growth rate of 4.9 percent over the last three decades. While growth rate around 5 percent per annum is favorable, the continuing global economic crisis may have a further moderating impact on growth in the near future.

2. Despite the stable macroeconomic situation, poverty remains prevalent in the country. The proportion of the population living below the poverty line is still 31.5 percent in 2010. Simply moving from the national poverty line of US\$1.09 per day to international US\$1.25 per day, increases the headcount ratio from 31.5 percent to 43.2 percent.

3. In addition to widespread poverty, Bangladesh is also rapidly urbanizing. With rapid

urbanization particularly in district towns and pourashavas (municipalities), there is even greater pressure exerted on basic urban services such as water supply, sanitation, sewage and drainage, solid waste management, and urban transport. Water supply is inadequate, traffic congestion has worsened, drainages are blocked and inadequate, solid waste management practices are poor and pollution levels (water, air, noise) have increased posing huge health risks.

4. Urban local bodies (ULBs) face constraints to enable them to function as strong, responsive and inclusive local government institutions despite the progress made on the decentralization reform agenda prior to 2008, and the legislative reforms introduced in the area of local governance in 2008-2009, including a new pourashava law and a city corporation law. The quality of urban institutions is still weak, with limited fiscal autonomy and decision making, inadequate capacity, weak resource mobilization, and weak systems of accountability.

5. In response to these urban governance challenges, the SFYP lays out the Government of Bangladesh (GoB) priorities to address human service delivery deficiencies and to further reduce urban poverty. These include emphasis on enhancing participation of various urban stakeholder groups in service delivery, providing greater clarity in roles and responsibilities to urban local bodies, including improving municipal finances, strengthening systems of financial accountability, improving physical and sectoral planning and implementation capacity, improving coordination among various service agencies, and promoting private-public partnerships.

6. The World Bank, along with an increasing segment of the global development community, is working with the GoB to identify and implement urban solutions to governance and service delivery challenges by building strong ownership and relying on country systems. The proposed operation seeks to contribute to more sustainable and pro-poor public service delivery by strengthening the effectiveness, responsiveness and accountability of urban local bodies in Bangladesh.

Sectoral and Institutional Context

7. Since 1999, the Bank has supported infrastructure development and capacity strengthening of ULBs through the Municipal Services Project (MSP) that closed in June 2012. The original project received additional funding three times during the 12 year implementation period to respond to urgent flood damage rehabilitation works after the major floods in 2004 and 2007, and to scale up BMDF operations (US\$36 million and US\$42 million, respectively). MSP helped to enhance the capacity of municipalities to more effectively manage municipalities through provision of resources for financing critical urban infrastructure, improve own revenue generation, and enhance urban planning, procurement and financial management.

8. The primary implementation agencies of the MSP were the municipalities, Local Government Engineering Department (LGED) and Bangladesh Municipal Development Fund (BMDF).

9. The LGED with its extensive experience and project management capabilities, successfully supported municipalities in the implementation of their infrastructure projects within the original MSP project period. In addition, a Municipal Support Unit (MSU) was established under LGED to provide comprehensive capacity building for municipalities, including computerization of business activities. Due to its successes, the LGED and the MSU have also been widely used by government and other donors such as ADB.

10. The BMDF was established as an independent agency to provide credits to municipalities based on transparent, objective eligibility criteria. The experience through MSP showed that BMDF was able to provide a total credit funding of US\$103 million for 575 sub-projects, on 86.5% to 13.5% grant loan mix, in 154 municipalities.

11. The emerging lessons based on the draft MSP ICR, show that these investments were cost effective, and in some cases, the only source of discretionary financing for smaller municipalities. The main positive aspects were: (i) the project performed well overall and largely achieved the project development objective, except sustainability; (ii) the grant infrastructure component which improved basic services in municipalities, was implemented by LGED within the original five year period; (iii) LGED performance was exceptionally good and was able to implement additional flood rehabilitation works; (iv) BMDF had a delayed establishment, yet performed very well in disbursing nearly US\$ 103 million through the credit window; (v) the BMDF model was good because municipalities had another option to finance infrastructure improvements, supplementing the small annual block grants; and (vi) the Municipal Support Unit, set up under MSP, was highly effective in building up capacity in municipalities.

12. On the other hand, the projects' weaknesses were: (i) underestimate in the amount of time it would take before the BMDF would be fully operational and not adequately addressing the longer term sustainability issue of BMDF after the project closed; (ii) inadequate attention was paid to O&M; and (iii) the technical capacity of municipalities was weak and required considerable handholding from the LGED.

13. Project design for MGSP will be based on lessons learned from MSP, as well as other Bank operations and government and donor programs within the urban sector in Bangladesh. In order to support further decentralization, municipalities will be given the responsibility to plan and implement subprojects with significant technical support and handholding from the LGED and BMDF under this proposed project. The key features of the MGSP are: (i) Integrated Approach - the project will take a more holistic approach in the design and selection of sub-projects by focusing on leadership, management and governance; economic and social objectives (poverty reduction); environmental objectives; and sustainability; (ii) Performance-based Financing - MGSP will incentivize improved local performance by linking investments in basic urban infrastructure and services with interventions in good local governance, capacity building and sustainability (operation and maintenance). As a result, ULBs will have an incentive to pursue improvements in these areas through initial access criteria and annual performance assessments that reward satisfactory performance with greater allocation of funds.

Relationship to CAS

14. The proposed investment operation is fully aligned with the Country Assistance Strategy (CAS) for FY11-14. Underpinning the achievement of the CAS strategic objective is the need for stronger governance at central and local levels which addresses persistent governance challenges that undermine the effectiveness of the public sector. Stronger governance also lays the foundation for achieving the objective of poverty reduction in Bangladesh from 40% to 15% by 2021. The CAS Progress Report indicates that systems and procedures surrounding public investments for basic infrastructure continue to be weak and suggest that a continuous focus on strengthening of the capacity to manage public investments may have a significant positive impact on development outcomes. The proposed operation aims to address the weak governance and municipal

management, increasing urban congestion, insufficient planning and under-investment in basic infrastructure, and operation and maintenance deficiencies. By enhancing governance and municipal services, especially at the local level, the project will help to reduce poverty in the country.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

15. The project development objective is to improve municipal governance and basic urban services in selected urban areas. The PDO will be achieved through an integrated approach including improving planning, resource management, accountability and social inclusiveness.

Key Results (From PCN)

16. The key result indicators for the project are:

- (i) Municipalities able to meet performance requirement of the project (number);
- (ii) Municipalities with subprojects for which arrangements for operations and maintenance are established (number);
- (iii) Direct project beneficiaries (number), of which female (percentage); and
- (iv) People in urban areas provided with all season roads and drains, improved water sources, improved sanitation, and regular solid waste collection (number).

III. Preliminary Description

Concept Description

Component 1: Municipal Governance Improvement

17. This component will seek to improve municipal management and strengthen local government capacity through an integrated approach in the following areas: (i) integrated municipal planning, including master planning, capital investment planning, and environmental planning and climate change adaptation; (ii) administrative improvements and service delivery strengthening, including service delivery planning, O&M planning, and inter-agency coordination; (iii) financial accountability and sustainability, including revenue enhancing action plans, private sector participation, including outsourcing of municipal services; and (iv) social accountability strengthening, including citizen awareness and participation (including through Citizens' Report Cards), participatory and inclusive urban planning, women's participation and pro-poor urban development. The MSU established under the MSP, will be the key agency to support capacity building activities, which will receive support to enhance its scope and skills. WBI and other donors (e.g. Korea Research Institute for Human Settlements) plan to join hands and work together on this component.

Component 2: Basic Urban Services and Maintenance Program

Priority Urban Infrastructure Investment Funding

18. Under Component 1, 25 urban local bodies (three city corporations and 22 municipalities) will be given access to the Basic Urban Infrastructure Investment Funding in the core urban areas including slum settlements. Neither improved urban governance nor improved urban service can take place unless municipalities have access to a source of funding over which they have some degree of discretion. The urban local bodies eligible for support from this Fund have been identified as potential growth centers along the three main corridors (excluding those receiving support by

other government initiatives and other donors). Resources from this fund would be allocated among the eligible municipalities over the project period based on an objective and transparent resource allocation formula (and performance criteria, as noted below). Municipalities would know their annual and total allocation over the project period in advance, enabling them to prepare multi-year Capital Investment Plans (CIP). Municipal CIPs should be prepared in a participatory and inclusive manner. Emphasis will be placed on investments that address key service delivery bottlenecks in the urban core and slum settlements, including urban transport, drainage, solid waste management, water supply, sanitation and municipal facilities. In addition, building upon lessons learnt from the MSP, the MGSP seeks to return ownership to local municipalities in terms of both funding and implementation, supported by the technical support from LGED.

19. In order to incentivize good local governance and management practices at the local level, each municipality's allocation from the Priority Urban Infrastructure Investment Funding will be augmented or decreased based on the results of an annual municipal performance review. The design of the performance assessment will be based on previous urban governance project experiences, and will aim to establish a single LGD-led national municipal performance assessment. Municipal performance will be annually assessed in areas such as improvements in urban planning (including municipal capital investment planning and operation and maintenance planning); citizen participation and accountability improvements; integration of the urban poor; promotion of gender equality and gender mainstreaming; improvement in public financial management systems and outcomes; local revenue collections and loan repayments; and improvements in administrative transparency and sub-project implementation.

Operations and Maintenance Funding

20. There are extensive demands on the own source revenues collected by municipalities, including the funding of municipal administration, salaries, satisfying co-funding requirements for donor-supported projects and other municipal development spending. Often little or no funding is left or allocated for the routine maintenance of urban infrastructure, nor is there a culture of regular operations and maintenance planning and budgeting. To address this issue of extremely weak O&M planning and budgeting, MGSP will provide financial support for municipal O&M activities and planning, on a pilot basis, in the 25 eligible MSGP municipalities (alongside capacity building in this area under Component 3). The details of the methodology and implementation arrangements will be discussed during project preparation stage, and finalized by project appraisal. Options under consideration include: O&M funding on a declining basis with corresponding increase of own O&M allocations; incentives for enhanced O&M performance; results-based incentives for improved O&M performance; support for outsourcing maintenance functions or annual maintenance contracts, etc.

Component 3: BMDF Operations and Institutional Improvements

21. This component will address improvements for the BMDF including refinements to its current operations and ensuring its long term sustainability. BMDF is an important source of additional funding window for municipalities to undertake infrastructure development, besides the annual block grants from the Central Government. Currently BMDF provides funding for demand-based urban infrastructure projects on a loan-grant mix of 15%-85%, with the loan at concessionary rates (5 percent interest). The current source of funding for BMDF is the World Bank. In addition, while the BMDF currently has in place a due process in the selection and financing of municipalities based on the municipalities' investment proposals, the project selection criteria,

projects preparation and appraisal process and financing decisions could be further enhanced. For example, municipalities could be required to build in O&M budget and implementation plans in their proposals, which are currently lacking.

22. Therefore, there is a need for BMDF to devise a business plan and strategic road map to ensure its long-term sustainability and gradual financial independence. It needs to consider and chart its relationships with the Central Government (as possible funding source and policy support) and Urban Local Bodies (as borrowers and market demand), operation needs (e.g. resources and skills) and strategies (e.g. loan-grant operations). The component will support BMDF in its rethinking of such issues, ultimately building up the capacity of BMDF and in turn that of the ULBs and generate a sustainable and virtuous cycle for municipal urban infrastructure services provision in Bangladesh.

Component 4: Project Management and Implementation Support

23. This component would finance incremental costs of LGED and LGD associated with project management and implementation support. This covers the costs for staff and consultants for supervision, monitoring, evaluation of project impact, training, institutional capacity building, preparation of future projects and any strategic studies needed during project implementation. Support to the 25 participating to engage consultant support for project planning, preparation and implementation, will also be explored. The component would also finance costs of technical assistance services to BMDF to improve project appraisal and cost recovery.

24. In addition to regular project operational costs, Component 4 would provide a window of support for conducting relevant monitoring, policy analysis and up-scaling and mainstreaming of project modalities. For instance, MGSP could support LGD to mainstream the annual Municipal Performance Assessment beyond the core 25 project municipalities, or provide the support for the design of a formula-based ADP Block Grant for municipalities. Alternatively, Component 4 could support the development and introduction of a municipal financial monitoring and reporting system, which could be integrated into the annual municipal performance assessment process. The details of the methodology and implementation arrangements will be discussed during project preparation stage, and finalized by project appraisal.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Tentative financing

Financing Source	Amount
BORROWER/RECIPIENT	50.00
International Development Association (IDA)	300.00
Total	350.00

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