PROCEEDINGS OF
SOUTH ASIA URBAN FORUM

A Strategic Approach to Urban Operations
June 24, 1999 • Washington, D.C.
Report Outline

FOREWORD

ACKNOWLEDGMENT

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   Mieko Nishimizu, Vice President, South Asia Region, The World Bank

3. The Bank's Urban Strategy and Its Challenges
   Angela C. Griffin, Sector Manager, TWURD, The World Bank

4. FLOOR DISCUSSION:
   Global Urban Challenges and Strategies

5. Strategic and Comprehensive Approach to Urban Development
   Hiroaki Suzuki, Pr. Operations Officer, SASIN, The World Bank

6. India: The Reform Agenda
   Mr. P. V. Rajaraman, Finance Secretary, Government of Tamil Nadu, India

7. Urban Tamil Nadu: Yesterday, Today and Tomorrow
   Ms. S. Malathi, Secretary, Tamil Nadu Municipal Affairs and Water Supply
   Tamil Nadu, India

8. The Tamil Nadu Urban Development Fund
   Dr. Krishnaswamy Rajivan, Chief Executive Officer, TNUDFS
   Tamil Nadu, India

9. PANEL DISCUSSION:
   Chris Kessides, Pr. Economist, TWURD, The World Bank
   Prof. Subbiah Kannappan, Professor of Economics, Michigan State University
   Eloterio Codato, Sr. Urban Management Specialist, LCSFP, The World Bank
   Hiroichi Kawashima, City Development Strategy (CDS), Urban Anchor
   The World Bank
10. FLOOR DISCUSSION: Approaches to Urban Sector Reform - The Case of Tamil Nadu (India)

11. Bangladesh Municipal Services Project

12. Pakistan Municipal Development Project
Michael Schaeffer, Senior Financial Analyst, TWURD, The World Bank

13. PANEL/FLOOR DISCUSSION: Municipal Development: Cases from Bangladesh and Pakistan
Chair: Sonia Hamman, Sector Director, MENA, The World Bank
Braz Menezes, Pr. Operations Officer, LCSPP, The World Bank
Arun Benarjee, Pr. Operations Officer, SACBF, World Bank Country Office, Bangladesh

14. Providing Services for the Urban Poor - The Challenges Ahead
George Gattoni, Pr. Urban Operations Specialist, TWURD, The World Bank

15. Sri Lanka: Colombo's Clean Settlements Project - An Effort in Progress
Jelena Pantelic, Sr. Urban Specialist, SASTN, The World Bank
and Ms. Allyson Thirkell, Consultant, London, U.K.

16. PANEL DISCUSSION: Social Dimensions of Urban Infrastructure Operations
Warren Waters, Social Scientist, SASSD, The World Bank

MOVING FROM SAFEGUARDS TO OUTCOMES
➤ The SAR Urban Portfolio
   P. Illangovan, Environmental Specialist, SASES and
   Kumi Kitamori, Consultant, SASEN, The World Bank

➤ Addressing Urban Air Pollution in South Asia
   Alastair McKechnie, Sector Director, SASEG and
   Kseniya Lvovsky, Environmental Economist, SASEN, The World Bank

PART II: LIST OF PARTICIPANTS

PART III: PROGRAM SCHEDULE
South Asia Infrastructure Unit (SASIN), in collaboration with the Urban and Water Sector Board in the PSI Network of the World Bank, organized a "South Asia Urban Forum" on Thursday June 24, 1999. We are pleased to share with you the Proceedings of the Forum. The purpose of this one-day forum was to take stock of the progress of urban operations in the South Asia Region of the World Bank, share information and exchange views with Bank colleagues and some of our clients. About 114 participants attended the forum, including a delegation from the State of Tamil Nadu, India.

The World Bank’s South Asia Region is experiencing rapid urbanization. By 2025, the region will have a majority of its people living in urban areas; a phenomenon that is unprecedented. At present 31 percent of people living in cities of South Asia live in poverty. By 2025, it is expected that this number will grow to nearly 40 percent. The pace of urbanization is expected to continue as the region becomes more linked to the global economy. To provide services to the 38 percent poor residents in these cities, would require concerted efforts to seek solutions that work and replicate them. Cities, which are already producing nearly 50 percent of the region’s GDP, will need to become more competitive in order to sustain the demand for services from the burgeoning urban populations. Sustained economic growth and development in the region is increasingly going to depend on the quantity and quality of urban services which cities will be able to provide citizens and industry. Massive concentration of population and economic activities create pollution and aggravate the situation of already widespread urban slums. If these externalities and social issues are not properly addressed, the welfare of urban populations, particularly urban poor, will be adversely affected, which could eventually lead to social unrest. Cities would also need to be well managed and governed in order to meet the challenges of urbanization. Paying attention to city finances will be critical to allow sustainable provision of basic services to its residents.

The timing of this Forum was opportune. The region is now beginning to record results of the first generation of the renewed urban operations in the South Asia Region after a decade of non-investment in the urban sector in the Region. In collaboration with the Urban and Water Sector Board, SASIN has taken the following systematic and cascading approach to urban development in South Asia:

- Formulation of Urban Strategies at the National and/or State Level in India, Bangladesh and Pakistan (Punjab State).
- Assisting cities with City Development Strategies (CDS) in India, Bangladesh, Sri Lanka and Nepal.
- Financing Specific Investment Projects that derive from these strategies in India, including the Tamil Nadu Urban Development Project II, Karnataka Municipal Strengthening project, Gujarat Municipal Institutional Strengthening and Urban Infrastructure Development Project; the Municipal Services Project in Bangladesh and the Punjab Municipal Development Fund Project in Pakistan.

These projects address a number of fundamental issues of urban sector reforms,
including but not limited to: capacity building of municipalities; municipal financing through municipal development funds, municipal bond and performance grants for less creditworthy municipalities; participatory community-based infrastructure services delivery for urban poor; and sustainable environmental projects.

Key strategic issues were presented and a wide variety of innovations in project design, supervision of project implementation, and financial leveraging techniques being used in SASIN operations were discussed. We are very pleased that we could achieve the objective of the forum by making it a stimulating and interactive event, allowing participants to update their knowledge, share insights, meet colleagues working on similar issues, and work together in exploring new ideas. We also were able to show-case successes achieved by our clients in the Tamil Nadu Urban Development Project which provided an opportunity for learning and knowledge sharing between clients and Bank staff. Sharing of best practices will allow the Bank and its clients to push the frontier on what works in poverty reduction in urban areas, thereby contributing to scaling-up the impact of successful projects and approaches.

Frannie A. Leautier
Sector Director
South Asia Infrastructure Sector Unit
The World Bank
Acknowledgement

Several people contributed to the success of the Forum by hard work, commitment and selflessness.

We would like to express our appreciation to all the participants of the forum. Ms. Frannie Leautier (Sector Director, SASIN) who encouraged us to organize this forum and Ms. Mieko Nishimizu (Vice President, South Asia Region, The World Bank), who joined us in spite of her extremely busy schedule and provided us a great insight into the linkages between the Comprehensive Development Framework and infrastructure investments in the Bank, deserve special thanks.

We would like to thank all the speakers, moderators and panelists who made this forum a valuable event. They are Mmes and Messrs. Angela C. Griffin, Manuel Panalver-Quesada, Christine Kessides, Hiroichi Kawashima, Subbiah Kannappan, Keshav Varma, Jonathan Kamkwalala, Michael Schaeffer, Braz Menezes, Arun Banerjee, Sonia Hamman, George Gattoni, Jelena Pantelic, Allyson Thirkell, Richard Ackerman, Warren Waters, P. Illangovan, Alastair McKechnie, Kseniya Lvovsky, Margaret Thalwitz, Zmarak Shalizi. Our special thanks to Mr. P. V. Rajaraman (Finance Secretary of Government of Tamil Nadu), Ms. S. Malathi (Secretary, Municipal Affairs and Water Supply, Government of Tamil Nadu) and Dr. Krishnaswamy Rajivan, Chief Executive Officer, TNUIFS, Tamil Nadu), who shared their valuable experience in Tamil Nadu Urban Development Project and the Tamil Nadu Urban Development Fund. We thank Mr. Anthony Pelligrini, Ms. Amy Osborne and Ms. Laura Lewis for their great support from the Urban Sector Board. We wish to thank the task team charged with delivery of the Forum who worked hard to accomplish the task - Mmes, Julie Viloria, Lal Gardner, Gladys Stevens and particularly Mr. Kwabena Amankwah-Ayeh, who made impeccable arrangements for the forum and compiled the proceedings.

We look forward to seeing you again at the next south Asia Urban Forum.

Hiroaki Suzuki (Team Leader)
Principal Operations Officer
South Asia Infrastructure Unit
The World Bank
1. THE URBAN SECTOR IN SOUTH ASIA

Frannie Leautier, Sector Director
SASIN, World Bank
Old problem.... Why renewed urgency?

- Increasing number of poor, most of whom are or will be in urban areas
- Size and urgency of problem requires different ways of working
- Few sustainable successes, with a key challenge in scaling up
- Macro and financial crises have cast doubt on well-held concepts and approaches

Global transformation with important shifts for urban centers

- Demographics and income disparities
- Decentralization and Governance
- Role of the city in regional economies
- Pressure for services and infrastructure
- Environmental and social factors

DEMOGRAPHICS AND INCOME DISPARITIES

- Urban growth rates in Asia about the same as global average, but absolute numbers in urban areas are orders of magnitude larger
- High concentrations of population (density) in Asian cities, with densities higher than any other region in the world
- While income disparities in Asian cities are low compared to other regions, there are high inter-country disparities at a very low level of city product compared to the world average
- Special characteristics of cities in small land-locked countries, and port cities

VARYING REGIONAL DEMOGRAPHICS

<table>
<thead>
<tr>
<th>Region</th>
<th>City Pop (000)</th>
<th>Growthpa</th>
<th>Density (pers/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>3,100</td>
<td>3.2%</td>
<td>237</td>
</tr>
<tr>
<td>All Developing</td>
<td>1,480</td>
<td>3.5%</td>
<td>158</td>
</tr>
<tr>
<td>All Cities</td>
<td>1,500</td>
<td>3.1%</td>
<td>154</td>
</tr>
</tbody>
</table>

Source: UNCHS Urban Indicators Program

DISPARITIES EXIST WITHIN AND BETWEEN REGIONS

Income disparity is ratio of top 20% households to bottom 20% households average ratio in region

<table>
<thead>
<tr>
<th>Region</th>
<th>Income Disparity</th>
<th>City Product per Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>6.7</td>
<td>$1,566</td>
</tr>
<tr>
<td>All Developing</td>
<td>10.7</td>
<td>$1,546</td>
</tr>
<tr>
<td>All Cities</td>
<td>10.7</td>
<td>$4,211</td>
</tr>
</tbody>
</table>

Source: UNCHS Global Urban Observatory

URBANIZATION

- Increasing concentration in large cities across all countries in the region
- Urban poverty growing faster than rate of urban growth in South Asia
- Population pressure, country size, and regional inequalities shaping pattern of development and role of transport
- Cities beginning to function as "systems of cities" with quality of city management interacting with transport policy and performance in shaping further urbanization
### Number of cities by city size

<table>
<thead>
<tr>
<th>City</th>
<th>&lt;300,000</th>
<th>300,000–1 mill</th>
<th>&gt;1 mill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>5</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Industrialized</td>
<td>8</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>77</td>
<td>66</td>
<td>86</td>
</tr>
</tbody>
</table>

Source: UNCHS Urban Indicators Program

### Petal and Fugal Forces in SAS Urbanization Patterns

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bombay</td>
<td>10,265</td>
<td>603</td>
<td>2.04%</td>
</tr>
<tr>
<td>Chittagong</td>
<td>2,400</td>
<td>61</td>
<td>5.34%</td>
</tr>
<tr>
<td>Bhiwandi</td>
<td>553</td>
<td>934</td>
<td>22.88%</td>
</tr>
<tr>
<td>Lahore</td>
<td>4,509</td>
<td>37</td>
<td>3.59%</td>
</tr>
<tr>
<td>Colombo</td>
<td>4,390</td>
<td>86</td>
<td>0.49%</td>
</tr>
</tbody>
</table>

### Illustration of the implications of good governance on cities comparative advantages

The Kathmandu-Biratnagar-Dhaka-Chittagong Corridor and the functioning of key cities:
- Current traffic 420,000 tons per year, potential to double
- Road link only if using Chittagong port, but rail and road if using Calcutta
- Chittagong and Calcutta in competition, and performance of ports and cities critical

### Within Region Demographics

- Fast but varied growth of urban centers in South Asia
- High rural-urban migration has fueled fast and uncontrolled urban growth
- Population concentration in increasingly larger metropolitan areas
- Growing importance of secondary cities and towns

### DECENTRALIZATION AND GOVERNANCE

- Constrained fiscal environment at central level a big force driving decentralization
- Growing reliance on local bodies in service delivery, but these bodies have weak management capacity and do not have sustainable finances
- Capacity of local governments to manage their cities impacts the comparative advantage of cities
- Size and importance of local bodies shapes the competitive position of cities as well as the quality of their management

### City Performance

<table>
<thead>
<tr>
<th>City</th>
<th>Pop (000)</th>
<th>Income Disparity</th>
<th>Growth</th>
<th>City Product $ per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathmandu</td>
<td>472</td>
<td>8.5%</td>
<td>5.8%</td>
<td>219</td>
</tr>
<tr>
<td>Biratnagar</td>
<td>158</td>
<td>8.8%</td>
<td>3.4%</td>
<td>261</td>
</tr>
<tr>
<td>Dhaka</td>
<td>6,610</td>
<td>8.8%</td>
<td>5.5%</td>
<td>219</td>
</tr>
<tr>
<td>Yangon</td>
<td>158</td>
<td>8.8%</td>
<td>3.4%</td>
<td>172</td>
</tr>
<tr>
<td>Chittagong</td>
<td>2,400</td>
<td>8.8%</td>
<td>5.3%</td>
<td>261</td>
</tr>
</tbody>
</table>

Source: UNCHS Urban Indicators Program
Financial Management and Transparency

<table>
<thead>
<tr>
<th>City</th>
<th>Revenue pc</th>
<th>CAPEX pc</th>
<th>Contracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathmandu</td>
<td>8.4</td>
<td>3.82</td>
<td>...</td>
</tr>
<tr>
<td>Biratnagar</td>
<td>5.5</td>
<td>1.98</td>
<td>45%</td>
</tr>
<tr>
<td>Dhaka</td>
<td>27.7</td>
<td>25.33</td>
<td>74%</td>
</tr>
<tr>
<td>Tangail</td>
<td>1.4</td>
<td>14.84</td>
<td>32%</td>
</tr>
<tr>
<td>Chittagong</td>
<td>9.2</td>
<td>1.97</td>
<td>41%</td>
</tr>
</tbody>
</table>

Source: UNCHS Urban Indicators Program

Revenues and CAPEX in 1993 $ per capita

CENTRAL GOVERNMENT CAN.....

<table>
<thead>
<tr>
<th>City</th>
<th>Close LG</th>
<th>Remove Councillors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathmandu</td>
<td>X</td>
<td>All</td>
</tr>
<tr>
<td>Biratnagar</td>
<td>X</td>
<td>All</td>
</tr>
<tr>
<td>Dhaka</td>
<td>X</td>
<td>None</td>
</tr>
<tr>
<td>Tangail</td>
<td>X</td>
<td>None</td>
</tr>
<tr>
<td>Chittagong</td>
<td>X</td>
<td>none</td>
</tr>
</tbody>
</table>

Source: UNCHS Urban Indicators Program

LOCAL GOVERNMENT CAN.....

<table>
<thead>
<tr>
<th>City</th>
<th>Set taxes &amp; charges</th>
<th>Borrow</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kathmandu</td>
<td>Some</td>
<td>Some</td>
<td>All</td>
</tr>
<tr>
<td>Biratnagar</td>
<td>Some</td>
<td>Some</td>
<td>All</td>
</tr>
<tr>
<td>Dhaka</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Tangail</td>
<td>All</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>Chittagong</td>
<td>All</td>
<td>All</td>
<td>All</td>
</tr>
</tbody>
</table>

Source: UNCHS Urban Indicators Program

Potential challenges

- Dhaka may not be able to react in an agile and flexible manner due to size constraints
- Governance as shown by transparency and autonomy may give advantage to Tangail and Biratnagar over Dhaka and Kathmandu
- Chittagong city may be performing well but issues need to be resolved in Chittagong port to protect position relative to Calcutta

Past Approaches, Lending Trends & Lessons Learned in SA Urban Projects

Past experiences: Project Types

1) Multi-sectoral integrated projects addressing

- delivery and/or improvement of services and shelter to the urban poor
- improvement of municipal services
- development of strategies to deal with rapid urban growth
- strengthening of local institutions to prepare and implement integrated urban developments
(2) City and Statewide Water Supply and Sewerage Sanitation Projects

- Dealing with urban W&S sector, and expansion of water supply and sanitation facilities to the urban poor.

(3) Urban housing finance projects

- Designed to develop market-oriented housing finance, and reduce deficit in urban shelter and services.

(4) Urban transport projects

- Designed to improve physical and financial performance of the public bus and rail companies.

Main constraints faced during past efforts

- Non-responsive urban or sector policy frameworks
- Land acquisition problems
- Weak financial and institutional capacity of municipalities and concerned agencies
- Work overload of implementing agencies
- Lack of funds for O&M of infrastructure and improvements

Main Constraints..(contd.)

Rapid urban growth outpacing the service supply increases provided through some of the projects

- Emphasis on physical works, soft on institutional strengthening & financial Reform
- Unwieldy nature of Integrated projects
- Inadequate assessment of demand, often obliged governments to rescue with heavy subsidies

What is South Asia doing to deal with these issues?

- Draw up holistic frameworks that sharpen strategic vision, recognizing the schizophrenic aspects of urban development
- Introduce long-term system-wide approaches rather than project approach to investment in urban areas and transport--focus on development impact
- Learn from others and focus on long-term institutional building, understanding that change requires a process of transforming urban societies
- Move towards regional rather than national programs, understanding spatial aspects and "systems of cities"

Recognize the schizophrenic aspects of urban development:

- Orchestrate a marriage between social policy, economic growth, infrastructure services
- Forge coherence between community desire for results, private sector interest in profits and NGO interests in process
- Tolerate the co-existence of city-wide and site-specific solutions
- Accept that there is beauty in the ugliness, and frogs can turn into princes

Lessons from impact based budgeting in the region......The Case of India

What is different in this year's WPA process?
India: From CAS to Urban Sector Strategy

CAS Objective
- Focus on reforming states
- Support policy reforms in selected sectors
- Poverty alleviation

Urban Sector
- State-wide institutional reform & development strategy for ULBs in UP
- Urban management strengthened and access to ULB funding improved in TN, Karnataka, Gujarat
- Better understanding of urban poverty and micro-credit for urban community infrastructure

Lessons from clients in regions of the world

The South East - East Asia Regional Dialogue on Providing Services for the Urban Poor

Get the process right.....

Start with the social aspects
......then get the economics right......
and only then go for the physical and technical solutions

Social and political aspects
- Mobilize communities and get stakeholders involved
- Understand varying perceptions of urban poor, private sector, NGOs, local governments, politicians
- Search for partnerships and build alliances, coalitions

Social and political aspects (continued)
- Understand and incorporate heterogeneity of community needs (gender, age, religious, ethnic, new comers, and informal settlers)
- Involve politicians and capitalize on political cycles, get mayors and local bodies involved
Understanding social aspects is critical to deliver good financial performance

- Collection rates can improve if communities are involved
- Substantial community participation in financing limits political interference and patronage, and lowers financial risks

Multiple models exist, no one size fits all

*"Bundles and packages of options are more effective than single service solutions"*

Menu of options to beneficiaries and partners

- Development alternatives
- Tenure solutions
- Land acquisition alternatives
- Financing models for corporate partners
- Inter-jurisdictional transfers

New concepts....

- It's a complex process of social transformation....
  - Housing as a verb and as an ongoing process
- There are multiple solutions and path dependency
  - in-situ upgrading, redevelopment, relocation
  - regularization of tenure or not

New concepts (continued)

- There is path dependency and outcomes are unpredictable
  - start with pilot and scale-up

Necessary shifts in long-held concepts

- Poor are creative and innovative, need to work *with* and not for the people
- Cost is not the problem, poor can and are willing to pay
- NGOs as managers of social concerns rather than advocates of social change
- Business as good corporate citizens, with an image to protect/enhance, and not as philanthropic one-time contributors
- Poor (women) are bankable.
2. KEY NOTE ADDRESS: THE LINKAGES OF COMPREHENSIVE DEVELOPMENT FRAMEWORK AND THE SOUTH ASIA URBAN OPERATIONS

by Mieko Nishimizu, Vice President, South Asia Region, The World Bank

"To fight poverty with passion and professionalism for lasting results." This is the first sentence and the very essence of our Bank's Mission Statement. It has a special place in South Asia, because it is here that harbors a lion's share of the world's poor. It is also in South Asia where most children of the world are growing up in poverty, and nucleus of the poor continues shifting from villages to towns to cities to mega-cities. There is no poverty alleviation without urban development, and no urban development without poverty alleviation.

This morning, I want to help frame all the good thinking to come in this Forum by sharing two thoughts with you. First, I want to place your urban work on a different paradigm for development. Second, I want to put your urban work into a different global context.

A Different Paradigm for Poverty Alleviation

Our central challenge must be to deliver on poverty reduction, period. So, I think about our commitment to fight poverty, all the time.

I used to think of development as poverty alleviation measured in terms of concrete stuff like per capita income or literacy rate. This kind of thinking shaped my personal commitment to poverty alleviation. I never doubted the strength of that commitment. But, looking back, I think there was this little voice somewhere deep in my subconscious that kept calling me a liar, questioning how I could possibly commit myself to an outcome that would never be realized in my lifetime.

Thanks to you and other teachers inside and outside the Bank, including those among the people of South Asia, I now think very differently. I think of development as transformation of a society. Yes, this is the paradigm at the heart of Comprehensive Development Framework.

I think of development process as an everlasting process of change, wherein people of a society choose to gain more control over their own destiny, enrich lives by widening their horizons, reduce afflictions and shackles of poverty, and improve the very vitality of life.

I think of development strategy as first and foremost that of a society--a living and dynamic strategic "framework" that is based on a long-term vision of the society's own; that identifies structural barriers for its transformation; that selects those who can serve as catalysts for change; and that is founded on a participatory process amongst the people to reach down deeply into the society in creating, revising, adapting and realizing that vision.

I think of country, sector, or city assistance strategy as our banking business
strategy that maps into such a living and dynamic "framework".

And I think of our role as a facilitator for the process of a society's own transformation, invited by the society to serve as a catalyst for change as honest neutral brokers, which after all is at the heart of our corporate strength.

So, success of our assistance cannot be judged by high rates of return alone, but by whether development outcomes begins the sustained social learning, spreading to a broader society over time—whether the very acorn of such sustainable institution building has been firmly planted and is beginning to grow as a strong oak. As such, it is an open-ended process that cannot and should not be designed 100 percent up front. This is a "poverty alleviation" outcome to which I can hold myself accountable. It is not an outcome beyond my lifetime's reach. There is no longer that "little voice" anywhere in my subconscious, calling me a liar.

Call it the CDF way, if you would like. It is a way of thinking about poverty alleviation that I want to see reflected in everything we do—in each country on its own merits, at the national or sub-national levels all the way down to cities, towns, and village communities, and all the way up again. Exactly how, in urban work, is better left up to your talent and teamwork. You know that you, too, are empowered to think creatively, act, and transform yourself and those who work with you. For me to tell you how, carries the risk of micro-management, stifling your innovation and throwing away many good acorns.

But, if you really want to know, or if you would happen to ask me (here I go!), there is one advice I can give: Work smart! Don't waste your time designing a perfect Titanic of social transformation, and don't even think about an imperfect one unless it comes with a captain and his crew. Be on the lookout for promising change leaders and change agents in any urban society—be they elected officials, civil servants, NGO leaders, slum community presidents or agitators. Engage with such people and form lasting alliances. Help them help themselves, and their people.

A Different Context for Poverty Alleviation

So, we are the facilitators who enable these change leaders and agents to see their dream come true. There are many reasons why each of us wants to fight poverty that way, in urban as well as rural South Asia, with passion and professionalism for lasting results. I now want to share with you one of several that I hold—one that you may not have had an occasion to dwell on, but one I want you to have as a "different context" to your work in fighting urban poverty.

I have a strategic view about our Bank: that, in the long term, IBRD will see a significant geographical shift of its "customer" base. IBRD's financial importance will diminish except for a few regions of the world. The last year and a half will be shown as an anomaly, and IBRD lending to emerging and intermediate economies will decline. In fact, the last decade altogether will be seen as an anomaly—as the last gasp of the post-World War II de-colonization—as Eastern Europe, most of Latin America and East Asia will link up with the rest of the world through financial and other mechanisms that exclude us. To be sure, this is not a widely-shared view. But, it is one that the South Asia Management Team shares, as a team.

This view implies that the main geographical focus for IBRD, and IDA, will be where the world's poor remains concentrated. That is, South Asia, Africa, and certain parts of the rest—notably, parts of the Former Soviet Union, Cuba, remote regions of China, North Korea, Myanmar, Viet Nam, Laos, Cambodia. Note, that these are places that happen to contain seeds of political instability, tracing the world's "fault lines" of political uncertainty. This happenstance may not be a mere coincidence. It gives our Mission to fight poverty an entirely different global context.
Such a geographical focus for IBRD and IDA means a long-term relevance of our Mission, of course. But, it also means we must focus on poverty alleviation with a sense of urgency, equating it to global political stability—the world peace.

We cannot let short-term needs of other parts of the world drive our "tooling up" for the longer-term. Our strategic "drivers" will have to remain investments in social and human capital, institutional development, good governance, and good old-fashioned policy, as before. But, this political context adds critical dimensions to our strategic "drivers": a rapid scaling-up of rural poverty (where we have a pretty good idea on solutions) and a serious attack on urban poverty (which we do not yet comprehend as well as we should). In both, I hope we can set our eyes on jump-starting a dynamic process of social transformation, rooted firmly in empowerment and social mobilization at the grass-roots in rural and urban communities. Stable societies are ones that have discovered positive powers of individual and collective empowerment—therein lies a link between political stability and poverty alleviation, in rural and increasingly in urban societies.

What are events and trends that constrain us in moving in this direction? Not surprisingly, they are political ones. After all, the ultimate risk our Bank takes on its balance sheet is the political risk of member sovereigns.

Regional and domestic political conflicts are the major negatives. Here again, the end of the Cold War has changed the political landscape, "downgrading" the world-wide attention to localized conflicts, until serious problems erupt (e.g., the nuclear testing in India and Pakistan). Political constraints to development are present in all countries, not just India and Pakistan. Afghanistan is our extreme example—a nation of people who have never seen an enduring peace in its history. In Sri Lanka, the civil war continues to take a heavy toll in people's lives and financial resources, mortgaging the country's future. In Bangladesh, "hartals" and politically motivated violence are imposing substantial social and economic costs. In Nepal, low-level Maoist insurgency is doing the same. In Pakistan and India, the Kashmir conflict remains unresolved. In the former, civil strife in Sindh, particularly Karachi, continues. At this time, it is only in Bhutan and the Maldives where the political environment seems calm (but, there may be clouds in the horizon even there). There is probably little we can do to influence these factors. But, we must at least become better informed by (and of) them in designing our strategy, as proactively as possible.

Poor-to-mediocre governments and governance—poor-to-mediocre political leadership, that is—are the other major constraints. Bhutan and the Maldives demonstrate what the combination of political stability and enlightened and/or strong leadership can do for development. Afghanistan defines the other extreme. In between lie the rest of South Asia, burdened with political plurality driven by ethnic, religious, or ideological divide, violent party-rivalry politics, and/or involvement of criminal elements in political process. Investments in people, institutions, good governance and good policy suffer enormously as a result.

Yet, there are hopes at sub-national levels, as seen for example in some Indian states, even in Pakistan's Punjab Province perhaps, and in cities, towns and countless village communities throughout South Asia, where strong leadership is turning governments and governance around to work for development. We are indeed privileged to have such leaders as our partners—some of them are among us today. I hope that partnerships with such islands of success wherever they exist, and with civil society in general for participatory development process, will be at the heart of South Asia's urban assistance strategy.

So, once again, work smart. Do not waste your good time on a Titanic without an outstanding captain and a first-rate crew. Be on the lookout for promising change leaders and change agents among elected officials, civil
servants, NGO leaders, slum community presidents or agitators. Engage with them. Form lasting alliances. Help them help themselves and their people. If you set your operational sights so, I dare say the magic of poverty alleviation through social transformation will happen—in your own lifetime.
3. THE BANK'S URBAN STRATEGY AND ITS CHALLENGES

Angela Griffin, Sector Manager
TWURD, World Bank
Aim of Strategy (Urban "Mission"):
To help national and local governments build their capacity to:
- improve the lives of the urban poor
- manage urban growth
- improve city efficiency and productivity
thereby contributing to national goals of poverty reduction and sustainable development.

The Challenge -- meeting increased needs and demands arising from:
- Urbanization
- Globalization
- Decentralization
- Government reform and adjustment of public/private sector roles

These trends increase the importance of cities and local governments for poverty reduction and economic development.

Within a generation, the developing world's population will be mainly urban

The Development Stakes are High:
- Cities account for the lion's share of GNP and wealth creation
- Poverty is becoming increasingly urban - and cities face worsening public health, safety and security concerns (crime, violence, natural disasters)
- "Brown" environmental problems and urban congestion have direct impacts on household welfare (especially for the poor) and on productivity.

Small cities predominate, but larger ones are gaining in share of urban population

The Challenge for us is to help countries to realize development benefits of urban growth through Sustainable Cities -- which are:
1) "Livable" -
- with equitable opportunity for all residents to participate in economic and political life of the city (e.g. access to essential services, secure tenure)
- in healthful and safe environment
- implies addressing both income and non-income dimensions of urban poverty, inequality and exclusion
to be "Livable" cities must also be:

(2) "Competitive" - where the challenge is for cities to strengthen their comparative advantage:
- productive firms and households
- spatially-efficient markets for infrastructure (especially transport), land/real estate, labor, and capital
- broad-based growth of employment, including informal sector

(3) Well-governed and managed - that is
- accountable and transparent local government, responsive to poor, with broad community participation
- clear and rational sharing of responsibilities with higher levels of government and with the private sector
- local government staff trained, motivated, and well-informed

(4) "Bankable" - financially sound - that is:
- local governments have resources (user charges, tax and transfers) appropriate to their expenditure responsibilities and greater financial autonomy
- good financial management practices to build creditworthiness

Our challenge in this strategy is to achieve greater impact by:
- Taking holistic approach - the city as integral unit of analysis and assistance (within national framework)
- Committing to scaling-up
- Reinvesting in internal urban knowledge and capacity
- Working through partnerships

The Bank has a Strong Position in Urban:
- Record of performance in Urban Development operations generally strong over three decades
- External client survey shows appreciation for Bank assistance, especially sector work and policy advice
- Globally, the Bank remains the leading international assistance agency for urban work
- But we have been depleting our stock of sector knowledge and staff experience
- And the Bank does not yet fully value the potential of cities in economic growth and poverty reduction

Our Four actions for strategic emphasis:
1. National urban strategies
2. City development strategies
3. Scaled up (national and city-wide) programs to help the poor
4. Enhanced capacity-building
While continuing and strengthening core urban development products and services:
- in municipal management
- municipal development funds
- housing and real estate
- urban environment
- post-conflict/disaster reconstruction

(1) National Urban Strategies address:
- Urban dimensions of national poverty assessments
- Synergies between urban and rural development
- Equitable policy frameworks for service delivery and financing
- Intergovernmental finance frameworks that support the system of cities

(2) City Development Strategies:
- Facilitate process to identify the shared "vision" for a city; existing bottlenecks; and requirements for action
- Diagnose and relate poverty trends to city functioning, linking the four themes
- Support long-term, cross-sectoral assistance program for some cities that want such help

(3) "Scaling-up" projects into programs to provide basic services to the urban poor (e.g., neighborhood upgrading)
Building on existing successful initiatives with the communities themselves through:
- Sustainable financial policies
- Security of tenure
- Arrangements for partnership

Example Bank Slum Improvement Project (1997)
Favela Jardim Souza

Example "We have seen a dramatic decrease in violence in Favelas that have been upgraded."
(4) Expand and accelerate capacity-building of local governments:

- Support professional networks and associations of local governments for sharing of experience, technical assistance and training.
- Develop non-project based Advisory Services for timely provision of direct advice and technical assistance.
- Continuously support Municipal Management projects and support to market-oriented Municipal Development Funds, especially for secondary cities.
- World Bank Institute (WBI) expanding municipal training.

To Complement the New Strategic Emphases:

- Lending and policy advice on housing, land and real estate markets, and urban environmental management.
- Integrate disaster management and cultural heritage into urban development assistance.
- Resume programs of research and tool development.

Implementation of strategy will require:

- Internal alliances - across networks and thematic groups of the Bank, and with IFC.
- Capitalising on the CDF.
- Building Knowledge and Capacity:
  - Core electronic/publications knowledge base in each main area of urban work, with a network of external knowledge partners.
  - Skill building and recruitment.
- Regional Urban Action Plans.

Challenges of Responding to Urban and Local Government Demands:

- Ensuring that we have the right assistance products.
- Selectivity vs. comprehensiveness - taking holistic perspective while retaining necessary depth in technical components.
- Financing non-lending activities (e.g., country urban strategies, CDS, advisory services).
Urban Development Lending: FY70-99

Lending Comparison:
Urban Development, Urban Transport, Urban Water & Sanitation as a share of Total Lending

Urban Development Portfolio Distribution by Regions
(Number of Projects)

Pipeline of Urban Development Projects: FY'00-'02

Source: OIB as of May 3, 1999
4. FLOOR DISCUSSION: GLOBAL URBAN CHALLENGES AND STRATEGIES

Chair: Manuel Panalver-Quesada, Director, Operations, South Asia Region

Panel participants: Manuel Panalver-Quesada, Director, Operations, South Asia, panel chair; Frannie Leautier, Sector Director, Infrastructure Sector Unit, South Asia; Mieko Nishimizu, Vice President, South Asia Region; Angela Griffin, Sector Manager, TWURD; participants from the floor: Warren Waters, Social Scientist (SASSD); Jelena Pantelic, SASIN; Mansour DeLamey, World Bank Institute; others.

Warren Waters, from floor

Ms. Leautier mentioned that work starts with the social before the economic and physical. But the ideas usually come from people with technical capacity and technical experience—those with particular civil works or engineering or environmental experience. So generally the problem is not identified by social specialists, but by problem area specialists. That means that the challenge has always been to link the two sides early in the process. How can that linking be better made when the concept is still a twinkle in someone’s eye or a voice in someone’s head?

Frannie Leautier

That’s a very good question. The finding that shows this order (i.e., that work starts with the social before the economic and the physical), that seems to make the most sense when considering the past fifty years of development experience, shows that we’ve gone about trying to solve the technical problems independent of the other dimensions. And that has been a miserable failure. The origin of the problem does not necessarily dictate the direction of the solution. That is one thing worth noting. The other fact is that by working in various disciplines as a team of knowledgeable people trying to solve the problem, there is a better chance of arriving at a solution than looking at one independent discipline. So that’s the other aspect of it. Also, when you try to solve only the technical side, you don’t end up with a sustainable solution, because you’re missing out on the dynamics that will sustain the solution.

One example is lack of operation and maintenance. Anywhere people go, they can find structures that have been built, but are not maintained. Buildings are not painted, roads have potholes, and so on. And the question is “why?” Fundamentally, it’s because the social, economic and financial aspects are forgotten in that solution of building the structures first. That’s a clear, physical manifestation of not remembering the importance of looking at the process that will sustain the solution. The only way this can be solved, both within the Bank and with the client partners, is by working with disciplines in a team; social experts, technical experts, financial experts and economists, thinking together. When all of these elements work together, there is a better chance of solving the problem in a sustainable way.

4-1
Mieko Nishimizu

The question from the floor is a very important one. My suggestion for improving this problem would be for engineers, economists and social scientists on the team to each have one experience that would put them "in the shoes of the people." This would help them look at the project from the point of view of people in a society and community who are affected by it. This means spending days and nights living in a society to understand it through the eyes of the people. That would increase the chance of a team having a shared experiential base that transcends their distinct areas of expertise.

A participant from the floor

It's important to start the salvation process at the city level. This means inviting local NGOs and other participants and placing more emphasis on the process of setting up and establishing an urban strategy; when this is done, practical issues have worked. There have been successes where participating processes have identified very practical, fundamental problems and solutions. And these are good solutions with lasting effects, because they're sustainable.

Angela Griffin

Yes, the city development strategy pilots that we've pursued have actively involved community representation, whether it be NGOs or private sector community groups. And the evidence is that it makes a significant contribution to the awareness. People see their community through a different lens, whether it be from a private-sector, business point of view, or the point of view of a person living in conditions that are not acceptable. So undertaking a city development strategy can help. In addition to the village immersion program that South Asia region pursues, there is a suggestion in our strategy of what's called a city immersion program. This is the suggestion that Bank staff spend some time in municipalities and actually see what it's like working in municipalities that don't have the capacity to respond to their community needs.

A participant from the floor

In my opinion, there is a lack in the Bank's approach between two dimensions: the macro-economic level and the physical level. The people at the Bank do a lot of macro-economic planning using different tools and then they do project work. And in between the two, there doesn't seem to be a tool that can translate macro-economic planning into territorial planning, and that would incorporate in an integrated fashion all of the elements this discussion has addressed.

Sometimes, in the Bank's work in different countries, there is an assumption that maybe the country will be able to use the tools it has at its disposal to adjust its master planning exercise or rural planning exercise, and the Bank can sort of integrate this at the project level. And most of the time there is no such tool. And therefore, sometimes the Bank ends up in a sort of piecemeal achievement on the ground. This is a very strategic and important issue. More of a building or a central planning exercise is needed. Right now, this is not generally the case. But we do have to do that link, because it's going to take place anyway.

Frannie Leautier

This is an important question that the urban strategy is trying to address by giving us two tools: the City Development Strategy and the National Urban Strategy. Those allow us to bridge the gap at the city level--and then maybe look at regional economies through systems of cities, when looking at national urban strategies. The Bangladesh case is one of a National Urban Strategy looking at urban/rural linkages and regional patterns of growth and the implications of that for cities. And then there are case studies at the city level. The strategy is providing two new tools that were never really used that way in the past.
Manuel Panalver-Quesada

In talking about this, it's important to identify the actors who are being talked about—whether it's the Bank or the countries that are being talked about.

Angela Griffin

Is the question that, even if what has been done is to undertake the National Urban Strategy or the City Development Strategy, in your opinion, the tools don't exist to enable us to capitalize on that work? Is that your question? Does it pertain to master plans at a regional or local level?

A participant from the floor

Many of the instruments we've been talking about have already been integrated in their program in the process of creation, that is, the economic and the social and the environmental aspects. But they do in fact translate into physical intervention. These are maps at different level, and at different scale. Having such tools (i.e., relating to territorial, physical planning) is what matters at the end. Because whatever economic decision is taken, it is going to take place in a physical intervention, whether it is through an industry or having development, or a sewage waste treatment plant or whatever. And whatever physical development comes along has impacts on the plans. At the Bank, we do tend to try and figure out what we're dealing in with impacts of those from the project level.

Angela Griffin (interjects): Yes, but not holistically.

A participant from the floor

But not from the top down, at the national/regional level and the implications of that. We do it from the project level. And maybe now it will be possible to do it with these new tools. But so far, in my experience, this has not happened. And this is a dimension that is missing, but whose impacts may not been seen for a ten- or twenty-year period, because this is long-term planning and it has to fit with a long-term national strategy.

Angela Griffin

Yes, taking that holistic view on a City Development Strategy approach should, over time, mitigate some of those risks. It won't solve all of them though.

Jelena Pantelic, from floor

One approach in planning is to try to marry the strategic approach with the operational organization on the ground. So, in terms of urban “specialization of the problem,” there are situations in some countries where a lot of work has been done on the physical level, that is, on the long-term planning level, but without paying very much attention to the financial, economic, and long-term strategic planning. So this is really where the synergy between the strategic approach, National Urban Development of the strategies, a City Development Strategies on the one hand, work parallel with the investment operations. This is a strength of working together. On the one side, theoretical/strategic and the experimenting and trying these postulants, the findings of the previous experiences, how do they apply on the operational side and vice versa. This is the situation that we have in Sri Lanka at this point in time.

A participant from the floor

This is a new environment. This (the Bank) is a place that is run by macroeconomists. Some of you will remember Vilna Lonzo and his famous phrase that “for macroeconomics the world dances on end of a pin.” For a long time, urban work was considered a sort of appendage of planning. So it is significant that you are mainstreaming the urban agenda in your region into a macro view.

We do have also another point that is a very fundamental one. We have obsolete statutes, which do not permit us to lend to local
governments. Take the OECD, for example. The OECD is a club for central governments. In most countries, local governments are in opposition to central governments. So my point is, in making the connections, one thing that was consistently missing in the urban agenda, was an attention to law, to regulations, to corporate structure. A lot of the urban agenda vanished into PSD. So why we said it failed was simply because people were looking at bricks, when it was looking at urban sector. Every morning an architect would visit me, saying: “I’ve solved the urban housing problem of the world. I’ve designed a better brick!” I would say: “Look, this is not the problem.”

Essentially what was happening was that the urban group didn’t have the professional skills to deal with laws, with regulations, with governance, with decision-making structures on one side. And on the other side, the macro-economists felt that Housing and Urban was mostly policy issues that were not so significant. You have all the NGOs in this case. So now it’s very urgent that the prevention be re-established between the macro-economists who have their view on everything, especially what they don’t know. And the other thing is really my plea—there have been three revolutions in urban work. It’s the introduction of poverty economics which include the urban issues. The second was the introduction of finance and the third revolution is in the urban governance. If we don’t include that in our agendas, we’ll have public relations, but we will not have results on the ground. So we cannot disassociate the poverty agenda from the tools. I don’t think that there is a gap between central and local planning.

Mansour DeLamey, from floor

My comment is one that basically refers to the political economy of the urban issues. The key question is that as we see the process of political decentralization taking momentum in South Asia and other regions of the world we increase political voice in the parliament and at the city level. In fact with India, as we see in China, it’s at the village level. Let’s get the economic resources and economic means to be able to satisfy the increased political demand with the voice. And the question is, to what extent has the South Asian region really considered lending to the city governments as they’ve been doing with the state governments, particularly, in India, given some of the credibility issues, financial credibility and risk issues, that will generally raise their voice.

Frannie Leautier

This is a very important question, which within the region, I can tell you what we are doing given the constraints we have in not being able to lend directly to cities. First of all, we have criteria for which cities we work with. And that mimics, in a sense, our state focus strategy, for example in India. So that’s one way in which we are able to work with cities within countries that have a large number of cities that can participate in this way. And to give an example—even within a state, such as Tamil Nadu—you can introduce elements by which cities and local bodies can compete for resources following a particular selection criteria. Within countries where there are fewer cities, it’s much more difficult. For example, in Bangladesh. But there, the strategic approach we’re taking is to have an agreement up front on what the National Urban Strategy looks like. And once that is agreed, then you can get all the cities and towns to move in the right direction. So we have limitations, but it doesn’t tie our hands. Because we are able, even within those structures, to do that. Also, in the case of Sri Lanka, we can work with the IFC, and since IFC can take an equity stake, they can work with another part of the city that we cannot. So if we think broadly in terms of the tools we have available, and the instruments, we are quite powerful, actually, in terms of being able to work at different levels of a city in different ways.

Mieko Nishimizu

Just one comment. The only thing is, please be careful as Bank staff when you talk about who we can/cannot lend to, as articulating articles. Because remember, we are trustees of
other people's money. We do not print money; we borrow money. We are just entrusted by the taxpayers' contributions through donors. Just like your bank, my bank, in whom we entrust our money. We're in the business of trust and when we decide to lend, we have to make very organized judgments in the case of IBRD and other long-term political risk judgments in the case of IDA. Either way, the reason why the Articles we adopt are not outdated—they've always been ahead of us, govern us to lend to members' body, or lend to sovereigns--period. Which, in economists' language, is a collection of people, through an agent that is regarded legitimate by all members of a cooperative, which is the World Bank, as those representing the people. And that's the body that can represent the sovereign credibly, the sovereign's commitment to take on the debt, and the national debt. So there is a whole financial aspect to that consensus. So let's respect that, and use that as a powerful positive force to help actors at different levels of governance come together on the same focus, rather than to make it a divisive instrument.

Angela Griffin

Just a comment on this point. We do have tools that enable us to lend through agencies--municipal development funds, etc. But we have to be aware of the implications of decentralization and the fact that it actually increases people's autonomy at a local level. They become legitimate and powerful in their own right. Some mayors in Latin America have been elected as presidents in their countries. They are going to place more and more increasing demands on the Bank. And quite legitimately, because of the responsibilities they have for large populations, and for expenditure, for resources, and for being advocates for their community. So we have to think about how we handle that in the future as decentralization increases and as their expectations and aspirations rise. No one is recommending there should be a change in the Articles, because we know what that would imply; however, there are implications of decentralization and how we'll respond to these increasingly powerful mayors.

Manuel Panalver-Quesada

As we close the session, let me at least ask one question without suggesting that the answer is given now. One of the challenges that intrigued me was the issue of scaling up. And if it's true that we know how some things work, then if it's also true that we do not seem to be able to get to the scaling up, the question is "why?" This is a very important question that certainly has worried me, not only in the urban sector, but in many others, for many years in the Bank.
5. INDIA TAMIL NADU URBAN DEVELOPMENT PROJECT (TNUDP)

STRATEGIC AND COMPREHENSIVE APPROACH TO URBAN DEVELOPMENT

Hiroaki Suzuki, Pr. Operations Officer
SASIN, World Bank
Project Objectives

- Financing Basic Infrastructure
- Supporting the Implementation of Urban Reforms by strengthening the capacity of ULBs
- Secure Sustainable funding sources for urban infrastructure investment.

Lessons Learned

- Long-term commitment (20 years)
- Scaling Up (Madras to State Wide Operation)
- Demand driven participatory approach (linkage with CCP/CDS)
- Phased Approach toward the Market-Oriented Urban Financial Intermediary (GOTN owned fund--Public-Private Partnership--Bond Issuance)
- Grant Fund (Poverty Focus, R&R, Costs, TA)
6. INDIA: THE REFORM AGENDA

Mr. P. V. Rajaraman, Finance Secretary
Government of Tamil Nadu, India
India: The Reform Agenda

In the early 1990's faced with a severe Balance of Payments Crisis, India undertook
- Short term stabilization measures
- Medium to long term structural adjustment
These macro reforms explicitly recognized the need to
- Decapitate the economy, allowing private capital to enter and
- Exit in competitive markets
- Financial sector reforms to free interest rates and allow the
   Fluctuating of new investments to be determined by commercial
   appraisal criteria

India: The Reform Agenda

- Improve public savings, by disinvestment in
  loss making enterprises and provide
  budgetary support for the social sector
  especially, public health and education
- Open up infrastructure to private capital,
  especially in sectors where returns are
  attractive.

Reforms: The Achievements

After nearly a decade of reforms, the achievements include:
- Freer domestic markets, by dismantling the licensing system
- Reducing tariff barriers and encourage FDI especially in
  infrastructure
- A freer exchange rate mechanism
- Establishment of independent regulatory bodies for
  Infrastructure pricing issues, thereby providing private capital
  security of returns
- New financing mechanisms and products to integrate
  Domestic capital markets and infrastructure financing needs.
- Broad political and social consensus on the scope, if not pace.

Reform Agenda: Public
Expenditure Reforms

- Reduction of subsidies through better
cost recovery
- Reduction of expenditure on growth of
  staff
- PSR disinvestment/restructuring
- Enabling private investment in
  infrastructure
- Tax reforms

Tamilnadu: Reform Agenda

Tamilnadu during this period 1986-96 has
- Incentive reform of PSRs
- Encouraged private investment in power and transport
- Rationally indirect tax systems
- Strengthened social safety nets
- Identified infrastructure which can attract private
  investment, such as ports, roads and urban water
- Subsidized investments in the public sector domain to
  commercial appraisal methods.

Tamilnadu: The Urban Context

- In 1991, Tamilnadu had a population of 55.86
  million which makes it the seventh largest state
  in the country and somewhat smaller in size to
countries such as Turkey, Thailand or France.
- Tamilnadu has a relatively large urban
city population. The percentage of states' urban
  population in 1991 was 34%, significantly higher
  than the all India average of 26%, and next only to
  that of Maharashtra.
**Urban Tamlilnadu: Agenda**

This focus on cities as self-sustaining financing structures requires:

- Legal changes, allowing for greater autonomy
- Capacity building for better governance
- Creating sustainable financial structures which link local capital markets with city financing needs.
- Allowing for privatization of service delivery to enhance efficiency for customers.

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**Urban Tamlilnadu: The Policy Background**

*Since 1950's and upto 1970's*

- In Tamilnadu as with the rest of India, historically, new civic investments have been financed through public sources such as loans and grants from the State Government, with little exposure to institutional or commercial debt.
- The design of new capital investments were usually not structured on the basis of capital costs, VaM expenditure, and the need for sinking funds for replacements.

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**Tamlilnadu: Urban Agenda**

In the Urban Sector:

- There is explicit recognition that the major macro reforms will be meaningful at a micro level only if city governments provide an environment which encourages new capital flows.
- Hence the imperative to transform city governments from an indifferent service provider to a driver and more responsive developer of urban infrastructure.

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**Tamlilnadu’s Economy**

- State’s GDP growth - over 5% in the first half of the 90’s - increased to over 6.5% in the past two years.
- Hourly the GDP from the services sector, primary sector contributing only 25%.
- Second among all States in manufacturing value-added.
- Has two major ports - TN - account for one-sixth of the country’s export.
- Textiles, automobiles and ancillaries, leather, sugar, cement are the major industries.

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**Compared to other major states, such as Maharashtra and West Bengal, the urban population in Tamlilnadu is more evenly spread out among various size classes of urban agglomerations and towns.**

- Chennai has a population of 5 million in 1991 accounting for 24% of State’s urban population of 19.82 million.
- Other major agglomerations in the state are Coimbatore (8.82%), Madurai (8.18%), Tiruchirapalli (8.18%), and Salem (5.04%).

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**Tamlilnadu**

- Has succeeded in attracting substantial FDI in automobile, software.
- Literacy rate - 70%.
- Population growth rate - 1.3% expected to stabilize in the first decade of the next millennium.
- Has achieved steady reduction in poverty levels.
- Poverty ratio - 28% in 1997-98.
Urban Tamilnadu: The Policy Background

- Bold for city infrastructure, mainly housing and water supply loans, were drawn by State level utilities with little co-ordination with city governments, who were often later in time, entrusted with maintenance responsibilities.

This situation has led to deterioration in asset quality especially in core city infrastructure such as water supply systems and municipal roads.

Urban Tamilnadu: The Policy Background

- Beginning with the late 70's (1976-87, Tamilnadu with the IBA assisted MMUP I & II (US$ 70 million) moved away from construction-oriented water supply and housing schemes to integrated urban projects covering basic physical needs, such as water and sanitation, roads, low cost housing through sites and slum upgrading, transportation, and social capital programs.

- Cost recovery through user charges was introduced on the basis of economic costs / benefits.

- Special emphasis was placed on the problems of the urban poor, in upgrading of poor neighborhoods with extra attention to sanitation needs on a demand driven basis.

Urban Tamilnadu: Background

- The success of the MMUP I & II, the growth of cities other than Chennai, encouraged GoTN and IBA, to carry forward MMUP principles to other large towns by way of TNUDP I (US$ 334 million).

- TNUDP (1988-96) was a multi-agency urban development scheme covering ten major urban centres in Tamilnadu State.

Urban Tamilnadu: Background

- The project components included SHELTER, providing affordable developed sites mainly to the economically weaker sections

  - Sites and services for providing fully serviced plots to mainly the EWS and LIG.

  - In-situ improvement of sites with towers and ensuring full cost recovery.

  - TRAFFIC and TRANSPORTATION MANAGEMENT including five components, to improve the mobility of both goods and services and people.

  - A Municipal Urban Development Fund to provide debt capital to urban/local bodies for investment in municipal infrastructure.

Urban Tamilnadu: Background

TNUDP I generated about

- 90000 plots, 62% benefiting EWS and LIGs.

- provided improved living conditions for about 77000 households in 408 slums,

- procured 1585 buses and

- implemented 37 schemes of roads / bridges/80kms/including traffic management schemes.

Urban Tamilnadu: Background

Special emphasis was placed on

- Institutional development: For the first time a fund for loans and grants, namely a Municipal Urban Development Fund (MUDF) was established to provide long-term debt for infrastructure needs of Urban Local Bodies (ULB).

- This was the first major policy shift to focus an effort on a centre for financial decision for civic investments.

- MUDF has financed 68 projects including basic civic amenities such as roads, bridges, street lights, storm water drains, and commercial projects such as bus stations, markets. Borrowed (US)394 million (US$ 69 million).

- FDP were prepared using consultants for ULBs for the first time and used for assessing the creditworthiness of the ULBs.
Urban Tamilnadu: Background

- The HUDF component of TFWIF conceived initially as an experimental and transitional operation, achieved high repayment rates (99%). This fact established city governments as credible borrowers of institutional debt.
- The high repayment rates, and strict project discipline encouraged HUDF to broaden the scope of the fund to attract private financial institutions to participate in urban infrastructure financing. Accordingly Tamil Nadu Urban Development Fund (TUFID) was established in November 1994, in partnership with 3 off India FIs.
- TUFID, the first public-private partnership in urban finance, has indicated new opportunities for private capital, continued the financing of viable needs of small towns and improved (with HUDF assistance), project design and procurement skills within cities.

Urban Tamilnadu: Prospects

- There is a clear need to create a market for municipal debt, a market which links city financing needs with the domestic debt markets. Larger cities it is expected would directly access capital markets, especially with the expected fiscal consolidation.
- HUDF would participate in Government of Tamilnadu's efforts to create a market for municipal debt. International experience indicates that TFWIF type structures serving small city needs for low capital expenditure enhancing projects is nothing unusual in the United States, for example, small loans of around USD 25,000 are typical disbursements by State level Focused Finance Structures. It appears evident that since municipal demands are universal, similar structures have emerged in different economies.

Urban Tamilnadu: Prospects

However, more financing structures are not enough. Complementary steps to:
- Enhance capacity building of city governments for efficient and responsive urban service delivery
- Correct decision of public disarray and build up public equity for the future
- Develop grant mechanisms to address basic human needs of the poor
- Regulatory mechanisms for tariff settings for sustainable investments
- Evolve social/political consensus for managing charge and conflicts
- TFWIF is being implemented to achieve these objectives.
7. URBAN TAMIL NADU: YESTERDAY, TODAY AND TOMORROW

Ms. S. Malathi, Secretary
Tamil Nadu Municipal Affairs and Water Supply
Tamil Nadu, India
Urban Scenario in India

Demography
1991 census indicates
- 217.18 million i.e. 25.72% constitute the urban population.
- 2/3rd of urban India live in Class I towns (with more than 1,00,000 population)
- 1/3rd live in 23 metropolitan cities
- Projected urban population by 2021 will be 618 million and
constitute 40% of the total and by 2025 will become 50% of the population.

Urban Scenario in Tamilnadu

Demography
As per 1991 census
- Tamilnadu is the 3rd most urbanised state in the country
  after Maharashtra, Gujarat.
- 34.20% of population are urban
- Over 600 Town Panchayats, described as transitory areas
  in the 74th Constitutional Amendment were brought under
  the Municipalities Act in 1994. With this the urban
  population has reached nearly 40% of the total
- 60% of the urban population live in Class I towns
- About 15% in the single metropolitan city of Chennai.

Some Characteristics of urbanisation in Tamilnadu

- Has been growing consistently whereas even Maharashtra
  has experienced decrease in certain years.
- While the urban population between 1901 to 1991
  increased 60 fold the urban settlements increased only 15
  fold.
- This has resulted in a large number of small towns leading
  to low thresholds for employment generation, sustainable
  economic base and viable capital infrastructure investment.

Quality of Life

- Urban poor constitute 25% of the population.
- Water supplies vary from 34 lpcd in Town Panchayats to
  74 lpcd in Corporations, significantly below the norm of
  70 lpcd for Town Panchayats and 110 lpcd for
  Corporations.
- Only 57% of population in Corporation areas, 32% in
  Municipalities and 16% in Town Panchayats have access
to safe sanitation
- Although 79% of Solid Waste generated is collected, most
  local bodies do not have organised disposal facilities.
- Less than 50% of the roads are provided with Storm Water
  Drains.
Some major causes for sub optimal urban infrastructure

- Urban areas have not had political lobbying power due to structural imbalance between number of purely urban constituencies and urban population
- Centre and State investments have tended to reflect rural infrastructure priorities, reflecting the mindset that "India lives in her villages", e.g., while investment in rural water supply is in the form of State equity that in urban is wholly debt.

Some major causes for low levels of urban infrastructure

- HRD and capacity building in the sector has been neglected. Urban management as a discipline has not received the attention it deserves either from academic institutions or from the practitioners. As a result there is neither a database, countrywide record of best practices, nor an institute of excellence either at the national or state level which can impart quality training to personnel in all aspects of urban management.

Some major causes for low levels of urban infrastructure

- Traditional wisdom is that all capital investment in urban infrastructure even water, sanitation, etc. must be financed entirely by debt, and that the debt and O&M must be serviced by the urban local bodies, either from user charges or general tax revenues. Such an assumption ignores:
  a. Externalities across time and space leading to divergence between private and social benefits.
  b. Lack of sustained buoyancy in local body tax revenues

Some major causes for low levels of urban infrastructure

- Laws governing local body administration have become out of date.
- All these have led to Urban Local Bodies, remaining subsistence level institutions barely able to keep afloat, and looking up to State Governments for doles even for survival.

The 74th Constitution Amendment - A Turning Point

- The 74th Constitution Amendment Act was passed in 1992. The salient features of this amendment, expected to have an impact on ULB administration are:
  - Mandatory Elections with reservation for women and weaker sections
  - An Independent Election Commission
  - A State Finance Commission to recommend basis for transfer of resources from state to local bodies
  - Division of functional responsibilities between state and local bodies
The 74th Constitution Amendment - A Turning Point

- Although some provisions of this Constitutional Amendment Act lack clarity and are impractical, the basic spirit and framework of the 74th Constitutional Amendment, has been able to set in motion measures to improve the financial status and thereby performance levels of ULBs.
- Although Tamil Nadu passed the conformity legislation to the 74th Amendment in 1994, the reform process really started in 1996.

State's reform agenda for the ULBs

- Includes political, financial and administrative reforms. The changes put in place so far include:
  - Elections to all ULBs in October 1996. Chennai Municipal Corporation went to polls after 23 years.
  - Statewide elections placed in office:
    - 14,000 Councillors
    - 740 Chairpersons
    - 3,500 women and
    - 1,000 members of weaker sections

State's reform agenda for the ULBs

- The State Finance Commission's recommendations implemented from Financial Year 1997-98. Major ones are:
  - 3.6% of State's tax revenue passed on to urban local bodies
  - Inter-allocation based on population, per capita expenditure and per capita revenue.
  - 15% set as an equalisation cum incentive fund to reward performance and "handhold" structurally unviable ULBs
  - 90% of Entertainment tax passed on to local bodies

State's reform agenda for the ULBs

- Restructuring of the MUDF component of TNUDP to create the first Public-Private partnership for financing urban infrastructure.
- The Grant Fund, set up under the restructured TNUDP - I was used to:
  - set up software for the computerisation programme for all ULBs in the State. Hardware supply has been completed, software has been developed for all district functions and installed in the ULBs. It is expected to be fully operationalised by end 1999-2000.
  - This is the first major computerisation effort in the country for ULB functions.
- To develop an accrual based accounting manual for ULBs. The system of accrual accounting is being implemented 12 ULBs from financial year 1999-2000. It is expected to be extended to others in FY2000-01. The state has approached the National Institute of Chartered Accountants through USAID FIRE-D project to develop Standards for Local Body Accounting.
- Draft Concession Agreement for the first ULB sponsored BOT project in the country.
- Develop the system of Design, Supervision and Management consultancy services for ULBs. This has enhanced pace of project implementation.
Others

- The State has issued several administrative orders, delegating powers to councils for approval and implementation of projects; prescribing norms for staff for various basic functions of ULBs, put in place a policy for unbundling of basic civic services and for their privatization.

Impact of the 3 year reforms

- With the increased resource flows to ULBs, with simultaneous effort at enhancing their capacity to implement projects the quantum of capital investment by ULBs has seen an impressive spurt in the last 3 years.

### Long Term

- **The Common Urban Local Bodies Bill**

  - The Common Urban Local Bodies Bill is a comprehensive legal framework for ULBs in the State replacing about 8 existing legislations and takes into account the present day demands on ULBs, their need to become transparent in operations, effectiveness in the need to adopt alternate modes of service delivery.

  - The legislation was analysed in detail by a committee of legislation, for over a year, during which views of stakeholder groups, viz., elected representatives, employees, general public etc were heard and with modifications, passed by the State legislature in October 1998. The legislation has since been assented to by the President of India.

  - Some of the important provisions in this Act are:
    - Laying down of criteria for municipalisation
    - Delimitation of the mandatory and discretionary functions of the local bodies
    - A carpet area-based property tax system with provision for self assessment and penalties for delayed payments
    - Privatisation of urban services
    - Access to capital market for resources
    - Transparent Budgeting to include statements showing cost of service, population groups subsidized and quantum of subsidy
    - Levy of user charges for solid waste disposal
    - Handling encroachments on public land effectively

- **Value of capital works executed by the Municipalities**

  - With assistance from the ‘Green Fund’ of TNUDP, the ULBs have been able to avail of non-guaranteed debt to the extent of Rs. 160 Crores from TNUDP, in just the last 3 years.

- **HRD for ULBs**

  - For the first time the State would undertake a major training program for both officials and non-officials of ULBs.

  - TNUDP II has a major ID component which would concentrate on comprehensive training, system improvements like computerization, lateral entry of professionals, for specified periods of time etc.

  - The Tamilnadu Institute of Urban Studies to be restructured to become a state level Training Institute, capable of sustaining the training efforts to be started under TNUDP II.

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A few more HRD initiatives include:

- Area based penalty on unauthorized building constructions
- Power to levy a water tax, sewerage tax, tax on encroachments etc.
- Mandatory revision of fees / charges once in 3 years
- Formation of joint Committees of local bodies and other personnel Agencies involved in urban management for coordinated action.
HRD FOR ULBs

- Cities will go in for preparation of city corporate plans - a document prepared to reflect the city's plans for a period of 5 years and which will include major investments, sources of funding etc.
- The city corporate plan will be a document which will be finalised after discussion with all stakeholders, viz., business groups, residents associations, poor neighborhoods, etc., and will be adopted by the council.
- Two cities, Coimbatore and Tiruppur are right now in the process of finalising their city corporate plans. Tamil Nadu would soon be institutionalising this process.
- The city corporate plans, will be identifying major areas of investment, will become an important document for any Financial Institution, that the ULB wants to access funds from.

Tamilnadu - Urban Reform Initiatives - The Firsts

- BOT project to be undertaken by an Urban Local Body
- ULB sponsored large project financed by user charges (Madurai IRR)
- to take up computerisation of major urban local body functions.
- To develop an accrual system of of accounting for ULBs
- Perhaps the only state to put in place a comprehensive legislation for urban local bodies.
- A Rs. 900 crore investment in the water supply project at Tiruppur, public-private partnership mode.

The Road Ahead - The Challenges

Even while the State has endeavoured to implant a comprehensive reform package, areas which are expected to pose serious challenges are:
- The capacity both technical and financial of the private sector to come in with large investments in the sector.
- The capacity of the small non-viable towns to put together financially viable investments. This problem will get further aggravated with the "understandable" reluctance of FIs to consider it "worth their while" to appraise such investments.
- Sustained and relevant capacity building of the personnel in the sector.
- A political consensus on key areas relating to user charge / cost recovery, etc.
- Availability of suitable debt instruments.

HRD FOR ULBs

Financial

- With the on-lending component of TNUDP II, while the large ULBs will be enabled to access the capital markets directly, the small ones will do so through the TNUDF.
- With the grounding of a transparent accounting system, meaningful budgeting, and inhouse capacity for efficient management of investments, urban local bodies are expected to become vibrant, and self sufficient bodies responsive to citizen needs.
8. THE TAMIL NADU URBAN DEVELOPMENT FUND (TNUDF)

Dr. Krishnaswamy Rajivan
Chief Executive Officer, TNUDF
Tamil Nadu, India
Scheme of Presentation

Introduction
- Purpose of the fund
- Objectives
- Eligible borrowers / sectors
- Lending policies and procedures
- Grant Fund

Performance (as on date)
- Leading volumes and profits
- Sector-wise investments
- Status of projects
- Project prototype
- Financials

Scheme of Presentation

Prospects
- Infrastructure demand situation in Tamilnadu
- Financial Projections
- Vision

Introduction
- A Trust established under the Indian Trusts Act, 1882, by GoTR, GOIPD and R&F with a line of credit from the World Bank

Purpose of the Fund

TNURF is a trust fund engaged in the development of urban infrastructure in the state of Tamilnadu. This trust was created as part of a restructuring exercise of an existing World Bank credit to the Government of Tamilnadu (GoTN) in September 1998.

Under the World Bank credit of Rs.107 crores, the Municipal Urban Development Fund (TNURF) was set up in 1998 to fund city infrastructure needs. The fund has been in existence for 8 years and has extended loans of about Rs.230 crores to 14 Urban Local Bodies (ULBs) up to September 30, 1996.

Purpose of the Fund

- Financial discipline, strict project accounting and strong management enabled the fund to perform successfully, ending up with a net worth of Rs.140 crores as on September 30, 1996. Repayment from ULBs to the fund was also an impressive 95%
- The projects funded varied from commercial ventures, such as markets etc., to core civic amenities including sanitation and solid waste management.
Purpose of the Fund

- Successful track record enabled 83% to broaden the scope of the fund, so as to attract private capital into urban infrastructure, and facilitate better performing ILBs to access capital markets.
- In 1996, 83% with the assistance of the World Bank, invited three financial institutions namely, 83% (BNIFC) and ILFB to convert 83% into a fully funded trust, namely TURF with a private fund manager to deploy the resources of the trust.
- Accordingly, TURF was established as a trust under the Indian Trusts Act 1882, and is managed by an Asset Management Company, Terminus Urban Infrastructure Financial Services Limited (TURFSL).

Purpose of the Fund

- 83% equity in the venture is restricted to 40%, based on the motivation to facilitate private sector management in investment decisions.
- Other shareholders of TURFSL are ROC (27%), SIC (8%) and 83% (15%). ROC, the lead institution, has taken up management responsibility, putting in place operational systems and key personnel.

Fund Objectives

- Fund urban infrastructure projects which improve the living standards of the urban population;
- Facilitate private sector participation in infrastructure through joint ventures and public-private partnerships;
- Operate a complementary window, the SMART FUND, to assist in addressing the problems of the urban poor.

Eligible borrowers / sectors

- Urban Local Bodies (ILBs), statutory boards, public sector undertakings and private corporations are the eligible borrowers of the Fund.
- The eligible sectors include water supply, sanitation, solid waste management, roads / bridges, transportation, sites and services and integrated area development.

Lending policies & procedures

- Eligible items for TURF funding:
  - Only for capital expenditure
    - Civil works
    - Services
    - Goods / Materials
  - TURF will not fund:
    - Land acquisition costs
    - Half expenditure / other revenue expenditure such as salaries etc.

Eligibility Criteria

- For ILBs etc.:
  - TE / TB < 1
  - Amorty / Total revenue < 30%
- In case where ILBs fail to meet above criteria, the project specific returns (IRR) should be greater than 13.5% p.a.
- For private sector borrowers:
  - Long term debt / net worth > 1.5
  - Net fixed assets / long term debt > 1.5
  - Average IRR > 15
Lending terms
- Interest: For TSHFE-65, Water supply and Sewerage 10% p.a. and other projects 15.5% p.a. for ULBs and statutory boards. Market determined rates for private sector borrowers.
- Overdue interest: 15.5% p.a. on overdue amount charged from the date of scheduled repayment till the date of actual payment.
- Amortization: Consistent with HDBF - 1 year moratorium, 15 year repayment for service projects and 5 year moratorium, 15 year repayment for water supply and sewerage projects.
- Repayment terms fixed on basis of cash flows (for commercial ventures).

Project Cycle
- Letter of intent from ULB
- Issue of loan application form by TSHBF
- Preparation of initial screening report
- Preparation of detailed project report
- Appraisal
- Issue of sanction letter
- Signing of loan agreement
- Disbursement
- Sample audit/monitoring site visit
- Project completion reports

Security Measures
- Special recovery mechanism such as escrow accounts of property tax, water charges etc. and hypothecation of immovable properties are being put in place.
- In case of commercial complexes, default option of conversion of m/s to 40% of loans outstanding into office space is being stipulated.

Grant Fund
- TSHBF also operates a complementary GRANT FUND fully owned by GoTH with following objectives:
  - Strengthening and upgrading of ULB's financial, technical, managerial and service capabilities, training and computerization of municipal accounts and basic records e.g. birth and death register (Category I);
  - Meeting the cost of construction and rehabilitation related to sub-projects to be financed by TSHBF (Category II);

Grant Fund
- Financing projects which directly benefit urban low income populations such as water supply, sanitation, storm water drains, street lighting, sewerage systems etc. (Category III);
- Meeting cost of project preparation for TSHBF financed projects as well as to facilitate private sector participation (Category IV).

Grant Fund (as on 31.03.99)

<table>
<thead>
<tr>
<th>Stage / Category</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application</td>
<td>15.99</td>
<td>0.18</td>
<td>68.99</td>
<td>0.67</td>
</tr>
<tr>
<td>Sanctioned</td>
<td>0.91</td>
<td>0.18</td>
<td>17.59</td>
<td>0.57</td>
</tr>
<tr>
<td>Disbursed</td>
<td>5.50</td>
<td>0.18</td>
<td>12.13</td>
<td>4.55</td>
</tr>
</tbody>
</table>

Cat I - Computer hardware/software for all ULBs
Cat II - Sanction and Rehabilitation of PIPs for Easar Bridge
Cat III - Loan/Grant info
Cat IV - BRT/Construction for Easar Bridge, Underground drainage design
select 10 ULBs
**Lending Volumes & Income**

![Graph showing lending volumes and income over time]

**Performance**

- **Loan Fund / Grant Fund**
  - Since incorporation, TNHRD has approved projects costing Rs. 10.58 crores and approved loans of Rs. 771.83 crores to 23 ULBs and 6 Corporations.

**Status of Projects as at 31.03.99**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Cost</th>
<th>Loan</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications received</td>
<td>889.61</td>
<td>576.67</td>
<td>312.94</td>
</tr>
<tr>
<td>Closed</td>
<td>131.90</td>
<td>62.81</td>
<td>3.70</td>
</tr>
<tr>
<td>Sanctioned</td>
<td>108.76</td>
<td>111.00</td>
<td>98.86</td>
</tr>
<tr>
<td>Loan agreements signed</td>
<td>131.96</td>
<td>87.98</td>
<td>26.55</td>
</tr>
<tr>
<td>Disbursed</td>
<td>131.96</td>
<td>77.48</td>
<td>23.25</td>
</tr>
</tbody>
</table>

Ratio of sanctions to applications: 76.42%
Ratio of disbursement to sanctions: 73.57%

**Project Prototypes**

- BOT projects - Karur Municipality Bridge
- Public Private Partnership - Medanur Inner Ring Road
- Loan - Great Needing

**Public - Private Partnership**

- In general, factors enabling private investments are:
  - where outcomes of projects are predictable and assured;
  - where regulatory framework is in place;
  - where contractual obligations amongst the various participants are clear and consistent with risks, performance and returns; and
  - where scarce resources of ULBs can be harnessed for growing investments in basic civic amenities.

**Karur Toll / BOT Bridge**

- Based on these principles, TNHRD has facilitated the first BOT / Toll Bridge, contracted by an ULB in India at an estimated cost of Rs. 78 crores.
- The users of the bridge are heavy traffic with the capacity to pay. As the bridge would substantially reduce vehicle operation costs (VOC) and time, cash flows to the operator is expected to be predictable.
- The enabling provisions of Tamil Nadu State Toll Act have been amended allowing ULBs to enter into BOT style operation, thus offering the investor a stable regulatory framework.
Karur Toll / BOT Bridge

- This project would enable Karur Municipality, the project sponsor, to use its resources for pressing public investments in core civic amenities.
- The concession has been awarded to East Coast Constructions and Industries Private Limited (ECCL) on the basis of competitive bids for a 14 year period, including the construction period.
- THB has already sanctioned Rs.500 lacs to meet part of the cost of the project.

Madural Toll Road

- The project is being undertaken by a 22 km Madural Bypass at an estimated project cost of Rs.471 crores. Madural Corporation, the project sponsor, would auction the toll collection at the end of the 3 year construction period.
- THB has indicated its willingness to meet the shortfall, if any, between the toll revenue and annual payments.
- This project structure allows for a major transportation facility where project benefits flow directly to Madural Corporation, without recourse to the Corporation's cashflows.

Madural Toll Road

- Consultants appointed to review designs, validate traffic data, prepare bid documents, evaluate bids, design toll plazas / tolling mechanisms and secondary level supervision of work.
- Further the II and III phases of the Bypass are being developed on a BOT basis, with recourse to revenues from phase I. This would clearly enhance the entry conditions for private participation.

Solid Waste Management Contracts

- Conversion of Municipal Solid Waste into Organic Manure (50 tpd plant)
- Supply of pay contract between ULD and Private Sector operator at Rs.2.00 pt + lease rentals
- Pressure / incentive for the ULD to keep the streets clean.

Veeranam Water Supply Project

- 135 mld, Rs.290 crore Water Supply to 13 cities and Industry
- Project R/B of 15.33% at prices of Rs.35 per 1000 litres for industry and Rs.3.00 for Municipalities.
- Consultants appointed for IFF documentation.

Lease Grant Blending

- THB has structured investments in basic civic amenities on the basis of debt servicing capabilities of ULDs. This implies elementary budgeting based on demand analysis of civic needs.
- Project preparation by way of technical support through the Grant Fund has been a feature of all THB activities in these sectors.
Loan - Grant Blending

- Further when the ULBs have established a clear geographical-demographic linkage in terms of direct benefit to the urban poor, TIFRUS has supplemented its debt with a loan component, thereby reducing the effective rate of interest.
- In the longer term, TIFRUS believes that these investments can be sustained only by improved project management performance by ULBs. Pursuant to this, TIFRUS has supported capacity building efforts such as computerisation of accounts and training programs to manage environmental and social issues etc.

KEY PROFITABILITY INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>Rs. in Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the Period</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rs.</td>
</tr>
<tr>
<td>14.00 to 31.95</td>
<td>20.11 to</td>
</tr>
<tr>
<td>31.95 to 31.98</td>
<td>31.67 to</td>
</tr>
<tr>
<td>Total Income</td>
<td>44.51</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>38.91</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>5.62</td>
</tr>
</tbody>
</table>

Urban Tamilnadu: Existing Situation

Demography and Urbanisation
- In 1991, Tamilnadu had a population of 55.98 million which makes it the 7th highest State in the country and somewhat smaller in size to countries such as Turkey, Thailand or France.
- Tamilnadu has a relatively large urban population. The percentage of State's urban population in 1991 was 34%, significantly higher than the all India average of 20%, and next only to that of Maharashtra.

Urban Tamilnadu: Existing Situation

Demography and Urbanisation
- Compared to other major States, such as Maharashtra and West Bengal, the urban population in Tamilnadu is more evenly spread out among various size cities of urban agglomerations and towns.
- Chennai had a population of 5 millions in 1991 accounting for 26% of State's urban population of 10.02 millions. Other major agglomerations in the State are Coimbatore (9.20%), Madurai (9.19%), Trichy (8.78%) and Salem (8.94%).

Urban Tamilnadu: Existing Situation

Demography and Urbanisation
- The pattern of urbanisation also seems to be related to large scale industrialisation as a thin belt across the northern part of the State, consisting of large urban agglomerations like Madras, Tuticorin, Salem, and Coimbatore which accounts for half of the urban population of the State.
- On the other hand, the State has dry, backward areas where the degree of urbanisation and the process of urbanisation appears to be a reflection of recurring distress conditions in poor and unstable agricultural regions.

Institutional Framework

- The 74th Constitution (Amendments) Act, 1992 has paved the way for significant devolution of powers to the ULBs. The spirit of the amendment seeks to achieve a paradigm shift in the role of a ULB from that of a constrained and indifferent service provider to a freer and more responsive developer of urban infrastructure.
Institutional Framework

- This amendment seeks to make municipalities local institutions in the provision of urban infrastructure through participation of people at the local level and by endowing it with authority commensurate with responsibility.
- In practical terms an annual statutory devolution of about Rs.200 crores to all ULBs has been put in place. This implies an opportunity to leverage resources for substantive upgrading of basic civic services.

Urban Tamilnadu: Existing Situation

Primary Infrastructure Requirement
- Water supplies vary from 34 lph in Town Panchayats to 74 lph in Corporations, significantly below the state norm of 90 lph.
- Only 57% of population in Corporation areas, 32% in Municipalities and 10% in Panchayats have access to sanitation.
- Although 70% of Solid Waste generated is collected, most local bodies do not have organised disposal facilities.
- Less than 50% of the roads are provided with Storm Water Drains.

Urban Tamilnadu: Existing Situation

Financial Implication: Table - Investment requirements

<table>
<thead>
<tr>
<th>Local Body</th>
<th>Rs. in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporations</td>
<td>2037.00</td>
</tr>
<tr>
<td>Municipalities</td>
<td>1833.58</td>
</tr>
<tr>
<td>Town Panchayats</td>
<td>634.05</td>
</tr>
<tr>
<td>Total</td>
<td>3500.65</td>
</tr>
</tbody>
</table>

- Sector wise break up of investment needs indicates that 64% of the requirement is for water and sanitation sector, followed by 37% for roads, drains and lighting.

Urban Tamilnadu: Existing Situation

Urban Local Body - Finance Gap

Estimates of Finance Gap 1997-2002

<table>
<thead>
<tr>
<th>Local Body Class</th>
<th>Investment needs 1997-98</th>
<th>Investment needs 2006</th>
<th>Borrowing Capacity</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs. in crores</td>
<td>Rs. in crores</td>
<td>Rs. in crores</td>
<td>Rs. in crores</td>
</tr>
<tr>
<td>Corporations</td>
<td>2033.00</td>
<td>1455.00</td>
<td>2180</td>
<td>955</td>
</tr>
<tr>
<td>Municipalities</td>
<td>1830.00</td>
<td>1450.00</td>
<td>1810</td>
<td>660</td>
</tr>
<tr>
<td>Total</td>
<td>3863.00</td>
<td>2895.00</td>
<td>3990</td>
<td>995</td>
</tr>
</tbody>
</table>

Urban Tamilnadu: Existing Situation

Lending Volumes & Profits

- 1996-97: 33
d- 1997-98: 40
d- 1998-99: 50
d- 1999-00: 85
9. PANEL DISCUSSION

Participants: Christine Kessides, Principal Economist, TWURD, World Bank; Subbiah Kannappan, Professor of Economics, Michigan State University; Eloterio Codato, Sr. Urban Management Specialist, LCSFP, World Bank; Hiroichi Kawashima, City Development Strategy (CDS), Urban Anchor, World Bank.

Christine Kessides

Anyone would have to admit that this project is a complex, multi-faceted project. It incorporates direct living standards, investments; it incorporates financial objectives and governance objectives. And it is probably the best designed and is already well in operation. This is an ongoing and continuing project. And it very well represents what the Urban Strategy is trying to foster.

That Urban Strategy, first of all, is emphasizing lendability. And this project addresses that directly through investments that are focused (for example, the low income sanitation component), but also through building up the competitiveness of the local government entities, by improving their performance situation, by increasing their governance and management capacity, and by strengthening their bankability. It embodies what we're talking about in the Urban Strategy.

This project has also obviously been emphasizing the concept of scaling up, which, again, is a strategy the Bank is trying to foster. The question was raised, why has the Bank not successfully scaled up its successful experiences in the past? Often, one reason it has not is that the multiple conditions are not there. This project has been built upon a strong policy base, going into each of the areas that were mentioned. Also, often, people at the Bank haven't scaled up because they've walked out on a good experience or an experience that had some flaws and they left. They had the baby in the bath water and saw there was a lot of grime behind the ears. So rather than clean it, they threw the baby out with the bath water. Or walked out and let the baby drown! That's a morbid example, but it seems that that was what was happening.

Another thing worth remarking is that what's key about this project is that it's been built on 20 years of experience. Twenty years of experience, in which not only the government itself has gradually expanded its efforts across this wide range of policy and institutional reforms, but also 20 years in which the government has, at great pains, trained the Bank. Indeed, at great pains.

The project is also based upon its very strong commitment to broad-based policy reform. And this successful, indeed, already successful experience should be celebrated. Although it should be celebrated soberly, this becomes the basis for the Bank's strategy in South Asia and for other regions, that's a really long-term commitment. This example should be discussed in other regions, because it does so well embody this wide scope of reforms and objectives that are encompassed in this strategy.

Another point that was discussed this morning—the problem of the Bank's statutes, that there is this requirement of a sovereign
guarantee. Therefore, the Bank can't lend independently, directly to local governments without a sovereign guarantee. This project is an example of how the Bank still has tremendous scope to do good and to reach a wide variety of scale of local governments, even within the statutory requirements that it has. What's useful about this project is that it's really focused on the process, the graduation process of getting financial intermediaries in place with private sector partners, and having this be a part of developing a truly indigenous local capital market for municipal finance. That's the long-term objective. But this project is already well on the way. This should be the model of what we're doing. It would be nice for us to be lending directly, independently to credit-worthy local governments, but in fact if they're credit-worthy to stand without a sovereign guarantee for the Bank, they're probably also able and should be going to the capital market. And there's no way the Bank could reach very many of them. The important thing about this kind of arrangement is that it gives the Bank a way of reaching indirectly--through these financial intermediaries--a large number of local governments and at small scale of the governments. That's important because smaller local governments will not be able to access capital otherwise. So it's actually very consistent with the Bank's objectives here.

In this case, there is a traditional Bank instrument that has been used creatively and consistently over a long time with new partners. And that's what makes it different. And that's what makes it an interesting case. Both the Bank and the government should be congratulated; that this experience should be disseminated outside the region as well.

Prof. Subbiah Kannappan

Over the past 30-35 years, the field of Development Economics has undergone a tremendous amount of change. Early on, the criteria that were emphasized were investment criteria. And now the focus is more and more on the issues of institutions, and how institutions and organizations and appropriate incentives are important. Stiglitz, the Senior Economist for the World Bank, has made a point of it. There's also a lot more emphasis on the issues of governance.

Today, there is so little in the field of economics in the way of prior theoretical principals relating to what is possible on the part of a government. A good deal of what governments can do has to come from actual experience, and the economics of governance is not something that can be derived from abstract cost/benefit analysis, independent of what one actually does.

However, one useful theoretical example is felicitous cost/benefit calculus--because the budget constraints are all given in traditional analysis. These are a function of the kind of governance mechanisms that exist.

An important comment that was made earlier in the panel is that the Bank's objective is not merely to provide some kind of capital and their systems for people, but to phase itself out of existence, so that eventually the Bank will not be addressing the entire problems of urban development, but only pockets that are left behind, that are left untouched by the success of these projects. And this success is extremely promising because it's not really a marriage of different governance possibilities--multi-participation at different levels of effectiveness--but, rather, generating a kind of "people's participation." Normally, people's participation is perceived to be like some "new-age economics," not quite solid. But in this case, there is a certain element of solidity.

Earlier in the discussion, it was mentioned how very important it is to marry diverse decision-making contexts into certain convergent goals. And an important component of public choice theory is how very important it is to secure some kind of effective convergence of goals. To conduct a project, you can't just go somewhere, endow the money, and get people to act some similar sense of purpose.

So much of governance is particular. It's not universal. It's specific to particular
situations and kinds of trade-offs that are very important. And one of the important roles that the Bank can play, quite apart from phasing itself out, as projects are completed, should be as a catalyst for providing a framework for continued experience and growth.

Another really important thing is the political framework. There is a great deal of misunderstanding and misrepresentation of the political framework of India in the popular press. Currently, there are political developments in India and the emergence of states as centers of decision-making importance, comparable to--no longer the monopoly of--New Delhi. There is a framework of evolution of machinery--of machinery of participation in institutions. Democracy has provided some room on, or least political civility has provided some room, for experimentation, learning and moving forward. One of the major reasons for optimism in India, and in terms of Tamil Nadu, is that some experimentation and learning have taken place side by side with the more dramatic political changes that have been noted, and there is some machinery for broader cooperation and continuing interaction. A final point concerns the traditional distinction between urban and rural that has always been maintained. Rural development should never really be completely divorced from urban development. One of the objectives of urban development in Tamil Nadu also should be to bridge the gap between the urban and the rural areas, so there aren’t just two polarized dichotomies of urban development, and less developed rural areas, but, rather, a great deal of blurring in the middle.

Hiroichi Kawashima

From the viewpoint of City Development Strategy, two short comments can be made on this project. The first comment is: as of May 1999, there were 33 City or Urban Development Strategies either active or proposed in the Bank. And yet, something different is happening in Tamil Nadu State. This is called City Corporate Plan (CCP), and it has already been incorporated into lending projects, the mainstream of the Bank.

The second comment is that earlier in the panel it was mentioned that there is a government goal to institutionalize the process of City Corporate Planning at the local municipal level. And because this City Corporate Plan is a statewide scaling-up approach, it is somewhat difficult to see how an actual public consultation process is going on--and how widely and how deeply the stakeholders could be involved in the process of CCP. So the sustainability of this approach, scaling-up approach, by using CCP as a technical assistance is really dependant on the coverage of stakeholders from the depths of the consultation and could be well designed in a way that would be managed by the local government. This would hopefully increase the capacity of the local government. It is necessary to assess the existing capacity of the local government.
10. FLOOR DISCUSSION: APPROACHES TO URBAN SECTOR REFORM

Cases From Bangladesh and Pakistan

Chair: Sonia Hamman, Sector Manager, EMENA, World Bank

Panel participants: Keshav Varma, Sector Director, Infrastructure Sector Unit, East Asia, (panel chair); Dr. Krishnaswamy Rajivan, Chief Executive Officer, NUDF, Tamil Nadu; Hiroaki Suzuki, Pr. Operations Officer, SASIN, World Bank; P.V. Rajaraman, Finance Secretary, Government of Tamil Nadu; Ms. S. Malathi, Secretary, Tamil Nadu Municipal Affairs and Water Supply; participants from the floor: Jonathan Kamkwalala, Pr. Financial Analyst, SASIN, World Bank; Brad Thompson, Attorney; Braz Menezes; Paul Stanfield.

Keshav Varma

Congratulations to the team from Tamil Nadu--Mr. Rajaraman, Dr. Rajivan and Ms. Malathi--for a most comprehensive presentations on urban development. Generally in India, this kind of synergy doesn't easily take place. It's remarkable how this kind of synergy has taken place between the Finance Department, the Urban Development Department, the state, and the city on a consistent basis and the policies so generated may be replicated in other parts of the country.

In terms of urban policy, the fact that "city" is being considered as an economic unit, and the fact that "city" is being looked at as an economic engine for growth is very important. One thing that one does notice after a South Asian experience is that the leaders in East Asia at the city level have a very sound economic grounding. They talk a different kind of language. They look at infrastructure, but first they look at the economic role the city is playing, the kind of investment profile the city has, the kind of exports and imports that the city is able to generate--complete resource in terms of human resources--and how that can be enhanced. And then the infrastructure is taken into view. So it is interesting to note what is happening in Tamil Nadu.

The second point made is the one regarding the contribution of local bodies to building the State of Tamil Nadu. In the developing world, one thing that we have to understand is that we're still running cities with rural laws. To give an example: the city of Ahmadabad had 385,000 traffic offenses in 1985 waiting to be taken care of by the courts, and these were twenty years old. The court system that existed in the city was in no condition to
handle 385,000 pending cases for twenty years. The city was spending 500 rupees to 1000 rupees per case, when the fine from the court (when found guilty) was 5-10 Rupees. At a go the city completely compromised, squashed all these cases, and then came out with mobile calls to enable offenders seek redress and other types of concepts. It is therefore fundamentally important that an upper local body is built in Tamil Nadu. We would hope to see this concept replicated and that urban management be done through new kinds of legislation which takes holistic view and all issues into consideration before a decision is made. How you have established the political and the social consensus, and generated enthusiasm on a consistent basis is another very interesting issue in India, where the Bank has had a very varied experience in urban management.

One or two other issues: the State Finance Commission which has put 3.6 percent of the State revenue into cities that generate 65 percent of this State’s GDP is not enough, and today there is a total investment profile of $40 millions to $50 million in six ministerial corporations, 102 municipalities, and 630 towns is not sufficient. There is need to think strongly about up-scaling in a State where there is so much of reform-mindedness and there is so much consistency. This is more important also because in the coming years, at least in the municipal corporation area, most of the infrastructure shall have to be provided underground. You can’t keep destroying roads and other things, and underground costs more money. This is something that really needs to be looked at.

In terms of small cities, there is a concept in the Philippines about ‘cluster’ management of small cities that makes investment more viable.

A participant from the floor

One of the comments that was made is very interesting. The Bank is so Washington-tolerant and therefore obsessed with markets, that it has a tendency to forget about market failures and externalities. The question about the grants reminds us that we have to review what we say about subsidies policy. But there is a dimension of scale of economies and so on, which is also part of the story. So my question is really one of information. In discussing the trust, in particular, Dr. Rajivan mentioned the question of guarantees and the role of the private sector, in a sense adding one layer of governance and one layer of transparency in the process. What is the current status of the project that has been discussed for some time with the infrastructure Sector Unit of The Bank and how would it contribute to the Fund?

Dr. Krishnaswamy Rajivan

There is a national level institution called IDFC--the Infrastructure Development Finance Company--which has been set up. Its purpose basically is not to lend, but to provide take-out financing and to become a "World Bank" within India, to provide guarantee mechanisms and so forth. So far it’s done nothing at all in the urban sector. Their priorities were restricted to direct lending in the power sector and water supply--they are looking at, but it’s not yet decided. But urban--real urban, no, not yet.

Jonathan Kamkwala, from floor

Dr. Rajivan, in your presentation you indicated that from your funds, you make the resources available to the private sector. Can you explain the rationale for this?
Dr. Krishnaswamy Rajivan

Our eligible borrowers include the private sector because this trust is an entity, which is in the business of making infrastructure loans. And if a private sector entity develops a project like the Karurbuti bridge, for example, and is acceptable to our terms, and it’s a profitable investment, why not? No one is willing to lend in India today to a private sector entity to develop a bridge of this sort. Because the first thing a commercial bank asks is “where’s the collateral?” Obviously there’s no collateral; there’s only the concession agreement. A concession agreement is based on future cash flows, for which the banks will say, provision for it in your balance sheet. Therefore, there is a real shortage of funds even for the private sector, for these kinds of financing if you view it in the framework of Indian accounting costs.

Hiroaki Suzuki

In addition, let me add that lending that comes as a condition for private sector is in line with private prevailing interest rates. So there is no crowding-out effect.

Brad Thompson, from floor

As an attorney and partner in a Wall Street law firm that specializes in public finance, I have one comment and one question. The comment is basically to congratulate Mr. Suzuki and to tell him that it really is an investor’s dream come true. Your presentation has done a very good job of identifying the impediments to market access and devising solutions to get over those impediments. You are well positioned to access those capital markets. The one challenge ahead of you in accessing the capital markets will be raising capital at the lowest possible interest rates. And when you go to the market, you’ll need a rating. You will discover the rating agencies will rate a pool of projects for a fund against the weakest project in the pool. So if they’ve got 20 projects financed together—nineteen are AA, but one’s BBB—the entire pool is rated BBB, unless you credit against them with group accounts for excess coverage from other loan B payments. My question to Mr. Rajivan is: do you have resources that can be used to put in a venture pool to increase the rating when you go to market?

Braz Menezes, from floor

This is a good opportunity to provide some feedback into the strategic approach for urban operations in South Asia. From what was said, it takes about 20 years to start seeing the results. So for ABC’s, you’ve got to cover the rest of the region we’re going to be looking at some 10, 20 years from now. One part of the strategy should be how to scale-up this experience, using what you already have, and disseminating the same. The other side of it is we should probably take less of the constraints in terms of lending through sovereignty, sovereign governments etc.; but look at what is successful municipal funds as a matter of wholesale. You can get wholesale to a number of municipalities, through similar programs. You can debit the level of municipalities or local governments, scale-up individual types of programs where it’s available etc. And then, in that process, make a dent in the scale of the problems nationwide.

Paul Stanfield, from floor

This idea of twenty years, that’s a little bit misleading. It started out as a very comprehensive project with a lot of different
components. The municipal development fund was just one of the components. We can probably short cut this, so it really doesn’t have to be 20 years. We can start focusing on this type of approach. And also the idea of money pouring in and making it a public-private partnership really didn’t come up until about five years ago. Another interesting point was these City Development Plans. This was an aspect put in early on, when the Plan was started. It was a condition. If you wanted to get money from the Fund, you had to do a city development plan. What was interesting about it was that it developed a whole local industry of consultants who gained capacity, who were able to do these things. So it created, it spawned off a whole industry.

Dr. Krishnaswamy Rajivan

Your question was, what kind of intercepts do we have, if we want to go to the market place? Let’s look at it through the capital markets point of view. Look at our balance sheet. We only expect over the next five year, with our calculations, that somewhere roughly 50, 150 crore would be standing cash balance—all of them short-term deposits, which could be relinquished at any point in time. So, to an investor into the fund, if he believes that most of the assets are municipal assets he’s going to have a heart attack. But if you’re going to see this stream of liquid resources, then one could really work with private investors. My understanding is that the capital markets in the US probably won’t lend to the World Bank, not on the basis of sovereign guarantees of a host of governments, whose ratings are probably not so good, and rating of the lowest common denominator may be pretty bad. But on the strength of the US government’s pledge in the Congress to put in x amount of dollars if things should go wrong, the capital markets lend to the World Bank. Even though the quality of the municipal assets and gold repayments are high, gold is an existing form. And you don’t go to the market on the basis of a green-feed project resource funding loan. We also have an intercept mechanism in the form of available cash balances, which should provide some kind of security to the investor. I hope the question is answered somewhat.

P. V. Rajaraman

There were, at least, two major issues, which cropped up during the development of this project. One issue was whether we should have such an intermediary at a national level, in the context of the state level and this was debated. There are over 700 other bodies in the State of Tamil Nadu. And in countries where such large numbers exist, if you scaled up at the national level, you run into thousands, and lending to a local body involves a lot of effort and time on the part of the intermediaries on the executing side. We felt very strongly that, and we believe we were able to carry the Bank with us, what was needed is a state-level intermediary which can interact, because it is not merely lending, it is institutional development, it is project development, a lending operation. It is really highly manpower intensive and having a smaller number to be covered by the intermediaries would be a factor for success.

The second important point, which we feel contributed to the success of TNUDP, was the willingness of the political leadership to let go. Let go of the decision-making relating to allocation of funds for the projects in different municipalities. There’s a very strong political angle. And our political leadership was willing to let go his power. And not only that: they agreed to
formula-based devolution of state resources rather than an ad hoc allocation to the urban bodies. The devolution provided equity for the local bodies and TNUDP provided the debt funds, and this combination has contributed to the success.

The third important point, which contributed to the success, was to find the person with the commitment and the capability and support him. And we found the person in the CEO of this organization, and supported him. That’s what contributed to the success.

Ms. S. Malathi

Just a minor point on the City Corporate Plans. Someone mentioned that there is a new species of consultants who drew up this for the State in the earlier project. We are hoping we can do away with them, because you want to institutionalize this corporate planning, the city corporate planning. We want to ensure our specialists who work in the municipalities involve themselves in the preparation of the plan. Because if we get it done through consultants, there's a tendency not to have the ownership. And we were hoping to make it a very simple and understandable process. Some consultants do make plans nice and glossy-looking, but the ownership becomes a major issue. We're hoping to do away with them in the current project.

Hiroaki Suzuki

There was a question on the upgrading and replicating of our experience to other parts of the region. In fact, in the last ten years it's true that the region has not featured in the urban sector within the World Bank. For various reasons, we failed to deliver good projects. And also the region faced more urgent macroeconomics programs, like India in the 1991 crisis. So, somehow, our effort on the urban sector was diverted. However, after the arrival of a new management team two years ago, a new emphasis and a priority has been placed on the urban sector. That's why we are here. And not only Tamil Nadu. This afternoon, our colleagues will present a project in Bangladesh, and also, we are replicating this approach in Pakistan--which is a more difficult country and certainly it is coming, but maybe in speed we should accelerate.

Keshav Varma

Two points in concluding this session: one is that in the urban perspective, new leadership and more decentralization and devolution are taking place. There is an imminent need for institutions to develop at the country level. We cannot keep bringing people to Toronto and to Australia and all these places. There's a need for us to create institutions of international caliber for training local municipal managers, middle-level managers, and political leaders. This is an issue that we are going to have to really go into on a long-term basis.

The second issue is about optimizing the performance of the present assets. In the Bank we tend to emphasize privatization and public-private partnership. And this should be done. It's a great thing. But in the coming 10 to 15 years, and considering the vast nature of all these--and the performance of the utilities--privatization may come up to 15 percent, 20 percent, 25 percent. But still you have the 75 percent of utilities that will need to get to a level of comfort for private people to invest in them. And therefore, it is very necessary that attention be given to present assets in optimizing their performance of these present assets. Actually, in Australia and New Zealand, there's a lot of work going on this concept, and we really need to look at this.
11. BANGLADESH MUNICIPAL SERVICES PROJECT

Jonathan Kamkwalala
Sr. Financial Analyst, SASIN, World Bank
Bangladesh Municipal Services Project

Contributing to the improvement in quality of life

Bangladesh

Urban Growth:
a new Chittagong every two years

Economy:
Urban Centers will drive national economic growth

Services and Infrastructure:
Tackling "backlog" and addressing future demand

Bangladesh Urban Program

GoB-WB

School Sanitation
Solid Waste
Dhaka By-pass
Dhaka WASA
MSP
Shiv Upgrading
Air Quality
DUTP

Poverty
Environment
Decentralization
Services

Housing:
Massive shortfall expected with current growth rate, urban to rural migration and workforce expansion

Environment and Health:
Quality will further deteriorate

Project Design
Municipal Services Project - Components, Phase 1

1. Physical investments for service improvement in 14 Pourashavas and 2 City Corporations
2. Flood Rehabilitation
3. Technical Assistance
4. Project Staffing and Incremental O&M Costs
5. Chittagong Hill Tracts Special Assistance

Municipal Services Project - Components, Phase 2

1. Municipal Development Fund Line of Credit
2. Technical Assistance - MDF, MSU & Municipalities
3. Incremental O&M Costs

Municipal Services Project - 5 Key Principles

✓ Preparation and Implementation of FOA and Operational Action Plan (FOAP)
✓ Creation of MDF as an independent and autonomous financing mechanism
✓ Municipal Performance Review Committee to assess performance of municipalities
✓ Present PSU upgraded and strengthened as the Municipal Support Unit
✓ Participatory and Partnership approach will enable a direct role for the communities

Municipal Support Unit - Organizational Structure
Municipal Development Fund

Rationale for MDF
- Create fiscal discipline and accountability
- Mobilize resources for infrastructure through revolving funds
- Enhance transparency in decision making for investments in municipalities
- Use debt/grants as incentive to improve commitment to municipal reforms

Lending Eligibility Criteria: for Municipalities
- All Municipalities are eligible
- Municipalities shall have:
  - undergone a municipal assessment
  - adopted a Financial and Operational Action Plan (FOAP)
  - undertaken property valuation and updated records

Lending Eligibility Criteria: for Sub-projects
- Eligible Sub-projects: water supply, roads, drainage, sanitation, solid waste management, markets, bus terminals
- Sub-project:
  - included in capital improvement program
  - has stipulated contribution by the municipality
  - has an agreed cost recovery mechanism for revenue generating project in place

Lending Eligibility Criteria: for Sub-projects
- Sub-project is consistent with:
  - environmental and social framework
  - municipality's land use and development plan
  - PPA framework if applicable
  - technical norms and standards
  - minimum economic rate of return of 12%
  - satisfactory implementation arrangements

Participatory and Partnership Approach
Moving to Action
Strategy Promises Dreams;
People and Processes Make Results

Participatory and Partnership Approach - What is it?
- Municipal Authorities partner with Communities to provide basic infrastructure and services
- Promoting "ownership" through community involvement in design, construction and O&M -- increases the sustainability of investments

Participatory and Partnership Approach - Why
- Appropriate solutions required to meet communities' needs
- Improved usage and maintenance
- Increased levels of cost recovery, transparency and accountability

Participatory and Partnership Approach - Who
Partnership of Communities - NGO - MA

- Communities
  - organise with NGO/PO support
  - participate in expansion and delivery of basic environmental infrastructure
  - become involved in operation and maintenance

- Municipal Authorities
  - empower communities to organise and participate
  - ensure coordinated service delivery at macro level
  - better able to use participatory approaches
  - deliver better-targeted, better-functioning, better-maintained service
12. PAKISTAN MUNICIPAL DEVELOPMENT FUND PROJECT

Michael Schaeffer
Sr. Financial Analyst, TWURD, World Bank
The Issues

- Punjab Province One of Pakistan's Most Industrialized / Urbanized State
- Rapid Urbanization
- Lack of Financial and Institutional Capacity
- Substantial Backlog for Urban Investments
- Limited Access to Clean Water, Open Sewers, Lack of Street Drainage, Uncollected Garbage, and Congested Roads

Punjab Urban Sector Reforms

- Government of Punjab in Pakistan Implementing Comprehensive Urban sector Reforms
- Functional and Financial Devolution From State to ULBs
- Financing Urban Infrastructure Investments - Punjab Municipal Development Fund Company (PMDFC)
- Objective of PMDFC to Improve Urban Infrastructure Services in the Province of Punjab. Objective Achieved Through:
- (a) Mobilizing Additional Resources For Urban Infrastructure Development;
- (b) Developing Efficient Mechanism for Allocating Public Resources, and
- (c) Strengthening Financial, Administrative and Managerial Capacities of ULB Councils.

Punjab - WASA/ULB Overview

- Limited ULB Debt Service Capacity
- WASA's Currently Not Creditworthy
- Weak Municipal Management Capacity
- No Municipal Lending Regulatory Framework

Creditworthiness of ULBs

- Limited "Apparent" Debt Absorption Capacity
- Existing Liabilities Cannot Be Confirmed
- Size of Budget Surplus Can Change Dramatically Year-Over-Year
- Significant Errors in ULB Accounting Practices

Proposed PMDF Structure

- Intensive Technical Assistance
- Infrastructure Loans
- Capital Grants
- Effective Interest Rate Estimated at 8%
- Performance Grants
- Development of a Municipal Lending Regulatory Framework

Creditworthy ULBs
Non-Creditworthy ULBs

PMDF Flow of Funds

Go Punjab

IDTA
Performance Grants
Creditworthy ULBs

Creditworthy ULBs
Conditions of Performance Based Grants

- Performance Grants Not to Exceed U.S. $1.00 per Capita
- Not to Exceed 25% of Total Municipal Revenues
- Performance Grants Weighted Toward Projects Targeted at Low-Income Population / Environmental Projects
- Grants Allocated to ULBs That Have Undertaken Municipal Assessment / Signed Municipal Improvement Agreement

A Number of Uncertainties

- Installation / Effectiveness / Devolution of Property Tax
- Elimination of Octroi
- Concerns Include
  - Impact on Local Municipal Revenues
  - Stability Provincial/National Government Transfers

The Lending Framework

Municipal Regulatory Framework

- Need for Clear Creditor Remedies
- Need for Clarification of Legal Status and Remedies of GO Debt
- Need for Predictable Adequate Revenues for Municipalities
- Need for Increasing Borrower Capacity (Financial/Institutional)
- Need for Restrictions on Debt
It is very interesting to go back to two projects that we learned about a year ago, and see how they’ve evolved. One thing that is quite interesting, in terms of both projects is that, Mr. Kamkwala has taken a project in Bangladesh, where he started with some very simple, modest, gradual objectives, and picked up some solutions to try and reach as many municipalities as possible. And the thing that was proposed was the Municipal Development Fund. He’s tried to still keep the gradual, modest objectives that he had set forward and, at the same time, bringing some of the financial discipline that may come from borrowing and repayment. He’s worked it to a point where, even in the context of municipalities that still have weak capacity and weak financial resources, it’s very clear what the objective of the lending is. The objective is not to create credit-worthy municipalities. Basically, they would access capital markets in the short or even medium term. But in fact the objective is to create some of the discipline in municipalities to have them to actually repay their debts. And have to justify borrowing for particular projects and there are criteria for which projects would get lending.

In the case of Pakistan, it was alarming to learn that the octroi had been eliminated. Because about a year ago, the conventional wisdom was, “yes this is an inefficient tax”; the concern was, in fact, that it had not been even keeping pace in real terms. And 60 percent of municipal revenues is a very large percentage of municipal revenues, considering what other sources there are, and the fact that there is this very unpredictable fluctuation in terms of revenues. The fund idea is an interesting one; it would be interesting to look at, if you have transfers and performance grants and grants that are matching grants to bring down the effective rate. It’s all one pool of resources. Is this the most efficient way? This is a project that is basically being designed in a very evolving and transitional situation. So, what are the steps that one would have to take to make sure that if you do create a development fund, and you create all these other grant mechanisms at the same time, will your fund take off? And in the end, having created a system of grants that are around a specific project and a specific institution, rather
than taking into account what the needs are across the board and what are the most efficient ways of providing transfers from the central governments to the local governments and how do you sustain the fund?

Braz Menezes

My comments will focus more on the Bangladesh project because of the institutional issues involved. The whole area of institutional development has not really been given the same attention in the Bank as have the areas of financial and fund development, and so forth. And so I would like to share with you some of my thoughts and experiences on this.

In the case of Bangladesh, the phasing was very good—the way the project is starting—very gradually and phasing into a second phase that obviously provides a transition. It’s important also to keep that sequencing in terms of a block of institutional development linked to the money. Because that has a tremendous influence in terms of changing people’s attitudes and minds. On institutional development, what we’ve learned over time is the real richness of this. The Tamil Nadu case will confirm that as the projects start to get going, there’s a lot of advantage in being very proactive on fine-tuning and adjusting the institutional development subcomponents. Let me explain. You’re dealing with policy, a number of policy issues that will really need fine-tuning, and others that will need development from scratch. There are the regulatory issues. There are the new regulations in the case of private sector involvement, BOT, etc. Then there’s process. In lots of the countries we work in, they have either inherited or evolved or developed rather complex bureaucratic processes. Today, the combination of technology plus other tools allow us to change processes very dramatically—processes that are also measurable. And therefore, it’s worth putting in a few performance indicators to measure how your institutional development is actually being implemented. You measure the time taken between one action and somebody receiving something, as against just the number of institutions or things being created, etc. So that develops a whole line of thinking on performance indicators, and so forth.

On people. We found in some of the projects that you need to do an assessment of training needs at different levels, because just the numbers of bodies that you’re dealing with in some cases, can become astronomical. So you have to say: where do we put our money and on whom, this first stage, and how do we get the biggest bang for the buck? What are the training areas that we’re not going to handle right now? And what is the type of technical assistance we can best get from the outside, do a quick shot and then get out? There is the danger always that one wants to set up training institutions for the reasons mentioned earlier—at some point phasing out consultants. But publicly-funded training institutions sometimes become part of the problem. We have situations where we’ve appraised very fine training institutions, but in a different macro-economic situation training institutions also have their budgets cut and people have to put bread on the table. So they lose key people. And before you know what’s happened, your whole project’s at risk. In others, we’ve relied completely on the use of consultants and, in the process, built a consultant market that starts to compete amongst itself, and so the quality of your technical assistance goes up and the price goes down.

On the tools that you put in as part of your technical assistance, take cognizance of your institutional development. As a bank, we tend to say the municipality must increase its revenues. Quite often these municipalities don’t have a basic map, they don’t have a cadaster of their economic contributors. They don’t have anything and that takes time to put in place. And technically sometimes it is more complex than it sounds. So you have to allow for that phase of putting those tools in place before you can actually start to see results. And so you need to factor that into priorities for training.

Finally, procurement. We found there’s quite a lot of benefit in terms of training for procurement, not because of the Bank project,
but as a sort of sideline. Because where you can show that procurement works and where it's transparent, simple and clear, you actually get governments adopting this as a process for several of their other transactions outside the Bank. And so, you can't invest too little on institutional development. But keep it flexible and don't feel shy to keep changing it from day one. Don't worry about what's in your appraisal report. That's just a sort of guide.

Arun Benarjee

Along with Mr. Kamkwalala, I helped develop this project in Bangladesh. This project took a longtime to prepare—more than six years. The reason was that this was initially started as a fairly standard sort of government municipality transfer-type project. But over the years, we learned from what was happening elsewhere and Tamil Nadu, although it was in the background, played a role in changing our minds. And in the Bangladesh project, we were trying to do a few special things.

One example: Bangladesh is very much a donor-dependent country. And what happens is that different donors come in and they lend money for improvement of municipal infrastructure under different rules. And in our negotiations with the government we said, look, not only are we going to go through this phased approach of the first two years trying to build up the capacity, getting the municipalities to a situation where they are better able to at least borrow some funds, if not all that are needed, and once you meet those targets, then we will lend you money from the Municipal Development Fund. But in order for us to put up this very large amount of funds, you have to agree that from now on all funds going to municipalities will go through meeting this criteria. And this was a real sticking point in our negotiations. Government was extremely reluctant, but in the end they did agree that all donor funds would go under the same criteria as this. And considering the fact that probably 80-85 percent of those funds that go to the municipalities are donor funds, we sort of capitulated. In my opinion, we didn't lose very much. But, that was one principle that we were able to establish through this agreement.

The other thing was that while we were creating this Municipal Development Fund, the government made an agreement with us, that they would try to establish a set of principles for regulating the fiscal transfer from the center to the municipalities. This was another sort of philosophical argument that we were involved in. Because right now in Bangladesh it's just completely ad hoc. If you go to this very reputable institution called Local Government Engineering Department, and look outside the Office of the Chief Engineer, you'll always find two MPs and several municipal chairmen sitting outside. And they come in while the Bank mission is there. So this man has a lot of IOUs.

So these were two very important things that we were able to establish under this project. And after listening to the various presentations, in my opinion, there are also a couple of things that I believe it is possible to do. One is create relationships between successful projects within the region. Given that we are a "knowledge bank," we are not adequately doing this. We have much to learn from each other, and we can do it very easily, at least in South Asia. It does not take much to travel across the border with three or four people to spend a few days.

The other idea that came to me is that we need to go beyond this stand alone municipality concept. The idea of clusters of municipalities that are geographically contiguous deserves consideration. Take, for example, the provision of some services which for certain municipalities standing alone will not be economical. But they could expand those services in an area going beyond the municipal boundary. Solid waste comes to mind very quickly here—something like that could be done. And there must be other possibilities.

Our project is going to be a very, very long-term process. There is a real risk, which we have noted in our documents, that this very large amount of money that we have allocated for this project may not actually move. That is very
serious and we have to find some mechanisms to ensure that we remain flexible. We have a certain structure, which we described in the reports. But we still need a lot of support from senior management, in looking at this very flexibly. Because what will work in Bangladesh may not work in Pakistan. And, in my opinion, what will work in Tamil Nadu may not work in Bihar or Uttar Pradesh.

Sonia Hamman

One of the things that is very interesting is that Tamil Nadu has inspired more than just the two cases here. And what's interesting is the different approaches. In the Pakistan case there's been a lot of emphasis on the institution that you are creating, and the sizing of that institution. And in other cases, that you start with an idea of a project and a size, and then try and make the fund fit that size—which may be the absolutely wrong way to approach it. Both approaches are necessary for success. The work may focus on the institutional aspects on the local level and the revenues and capacity, but if the fund has not been designed correctly, money won't flow and that fund will also fail. Many of the failures that have occurred in municipal development funds have been because these funds were not created to perform and to operate correctly.

P.V. Rajarama, from floor

Regarding the Bangladesh project, I'd like to share with you some of our experiences in similar projects in Tamil Nadu. We have done three projects, Madras I, Madras II and Tamil Nadu. In a multi-sector project like this, we found that the need for a very strong and effective coordinating mechanism is most important. Despite our experience with two earlier projects, with Tamil Nadu I, we could not complete many of the contracts in eight years. Many of these projects involve land acquisition, dealing with other agencies not connected with this project, etc. And in the kind of administrative culture that exists—I'm sure Bangladesh must be similar to India—a strong coordinating leader is essential for completing the project requirements. Funding is a separate issue. It's a very large project. And unless you have full support from the government at all levels, it could be very, very difficult to complete. Full government support is a necessity for a successful completion.

Dr. Krishnaswamy Rajivan, from floor

Could local institutions have been used in these efforts?

Arun Benarjee

Actually, the institution we chose to start implementation of this project is the local Government Engineering Department, which is probably the best performing government department in Bangladesh. But the idea is to change the role of the LGED over a period of time. Instead of becoming the provider of municipal infrastructure services, we want it to change its role over a period from provider to facilitator, to use a common term. That's why the MDF was created with a completely different set of rules. Because LGED was getting too much into actually going there and designing things, constructing things and handing them over without really training or creating any local capacity. It has done what it has done extremely well. But it has basically failed to create any local capacity. So we needed to make a shift and, from that standpoint—at least in the Bangladeshi context—we have hopefully taken care of the problems.

Jonathan Kamkwalala, from floor

Among the options we considered, one was using commercial accounts. But that was not a workable option in view of the banking system in Bangladesh.

Michael Schaeffer, from floor

One of the things we did in Bosnia was to evaluate the banks in the public sector. But there's no balance sheet capacity, or a limited balance sheet capacity. And the financial institutions were weak. We felt that the best
option was to go through the banking sector because we couldn’t figure out a good access strategy to get these funds. One thing that perplexes me about South Asia from an intellectual point of view: is why we don’t build up the financial infrastructure side? It seems that we have all that exact same problems in “greenback,” weak financial structure, poor balance sheet capacity, but we’re still going to drive home the municipal lending through the banking infrastructure. This is a long-term solution. So I’m curious as to why that banking solution was eliminated. Was it just because of the balance sheet or infrastructure or what? In Bosnia, we lent to the banks and capped at a certain rate. We expected the spread to be about five percent, and the long-term rate would be about five to ten years.

(A participant from the floor objects that this does not seem sustainable.)

Michael Schaeffer, from floor

It’s true that the dimension that is missing is a municipal bond market. But still, the banks really do want to take the risk in the long term. What that does is that it smoothes out the cash flow of the long term.

Sonia Hamman

This is an interesting discussion. The Bosnia case was to be able to get the money out of the municipalities, and over the long term what will happen in that situation is what happens whenever there’s a long-term market. It should not be dependent solely on our resources. The only place that I know of that does not depend on international agency lending for its resources is Morocco.

Ms. S. Malathi, from floor

Both in Pakistan and Bangladesh similar actions need to be taken. Probably there is a lot of jumping and pushing by the owners of the municipalities to get into agreements. But before that, there is a step that is needed. The state has to put a set of things in place and abide by them. That’s where the reform process really starts. In Bangladesh, this is the revenue. Unless the state agrees to the conditions, it’s really not fair to put the municipality into various kinds of regulations and discipline enforcement, saying you must pay this back. I think that this is a very important link.
14. PROVIDING SERVICES FOR THE URBAN POOR THE CHALLENGES AHEAD

George Gattoni, Pr. Urban Operations Specialist
TWURD, World Bank
South Asia Urban Forum
A strategic Approach to Urban Operations

Providing Services to the Urban Poor:
The Challenges Ahead

In South Asia Challenges:
- Convince governments to invest in upgrading - starting point
- City plans for poverty alleviation and upgrading
- Devise financial support plans
- Network of practice exchanges
- Tools and easy information

The Problem of Scale:
- 95% of growth in cities.
- Slums growing at twice the rate of cities in India.
- In 25 years, there will be as many new slum dwellers, as there are today.
- Scaling-up is key for the urban strategy

What is needed to scale up?
- Political will
- Poverty alleviation leading CDSs
- Unlocking impediments
- Local framework of action
- Consensus and unified action
- Alliances and leveraging
- Projects to Programs
- and...

...Slum prevention ...

Actions to eliminate the need for new slums.

Help in getting there:
- Tools –
  - Upgrading CD,
  - Upgrading toolkit
  - Rapid City Poverty Assessment toolkit
- TG on Services to the Urban Poor
- Cities Alliance
- Knowledge and learning
15. SRI LANKA: COLOMBO'S CLEAN SETTLEMENTS PROJECT 
AN EFFORT IN PROGRESS

By Jelena Pantelic, Sr. Urban Specialist, SASIN, World Bank
and
Ms. Allyson Thirkell, Consultant, London, U. K.

SUMMARY PROJECT DESCRIPTION

Introduction

The capital city of Sri Lanka, Colombo, has a population of about 700,000. The outskirts and suburban districts of the Western Province are about three times as large. The Colombo Metropolitan Region (CMR) includes three districts: Gampaha, Colombo and Kalutara, forming the Western Province. The CMR extends 30 to 40 kilometers to the north, south and east of the city.

Colombo is the administrative, financial and trade center with a modern container Transshipment port which handles a large tonnage of containers. The economy has grown at about five percent per annum, despite the crippling effects of the ethnic conflict that has raged since 1983. In recent years, diversion of funds to the war effort has impacted the development in all sectors. The policies of the Government are relatively progressive, and have resulted in the relaxation of many controls. The attractive tax and other incentives to investors have encouraged foreign investors to buy public assets divested by the Government, and set up industries in the free trade zones.

Sector Issues

The main sector issues are: (i) urban poverty that has forced migrant families to live in slums or on marginal lands; (ii) the deteriorating environmental conditions in the under-served settlements (slums and shanties and tenements or 'slum gardens'), and the impact on health and productivity; (iii) Government's shelter policies and programs that have failed to address shelter issues for a large proportion of urban families, primarily due to poor targeting; (iv) the planning, regulatory rules and development control regulations that make it impossible for the low- and middle-income families to access land and/or shelter finance; (v) the high cost and scarcity of land, and affordability issues pertaining to the middle and low-income families; (vi) fiscal incentives, legislation and protection offered to tenants (rent control, etc.) do not promote private sector investments for housing either rental or sales; (vii) the lack of long-term housing finance, the reluctance of lenders to deal with lower income groups, and difficulties of enforcing foreclosures; (viii) sector allocations for housing and urban development are inadequate to deal with the housing and urban development; (ix) private sector investment is a growing industry for high
income condominium housing which is not subject to rent control; while the existence of rent control for older housing discourages private sector investments and redevelopment. These issues are elaborated below.

*Half of Colombo residents live in overcrowded and poor housing*

Due to the relatively high cost of housing, in and near Colombo, a large number of people commute to Colombo daily. The proportion of families living in under-served settlements in the Colombo Municipal Council Area has reached about 45 percent of the city's population. Under-served settlements include: shanties (illegal slums), slums (legal but crowded), slum gardens (rows of rooms in compounds), and on environmentally sensitive land (canal banks, road reserves). Environmental conditions in the under-served settlements are extremely poor, have skeletal services, and poor and crowded housing. Conditions have deteriorated to the point that last year there was an outbreak of cholera in Colombo. Middle income families mostly live in rent-controlled houses in Colombo or live at varying, distances in the CMR.

*Buildable land is scarce and expensive*

Urban land is in short supply and expensive. Land prices vary between Rs. 200,000 per perch (273 square feet) in low-income neighborhoods to Rs. 3,000,000 per perch in the low density choice living areas. The Urban Development Authority (UDA) owns large tracts of land generally used for higher income housing and commercial purposes. UDA enters into joint ventures with developers for high income housing and commercial development, and for use in the government's own housing schemes.

*Planning regulations work against low and middle income families*

UDA’s planning regulations mandate minimum plot sizes of six perch in Colombo and 10 to 15 perch in the CNM and other urban centers. With salaries of about Rs. 15,000 average per month, land prices in Colombo are not affordable by middle-income families. Many families however, live on one to two perch plots that do not meet development control requirements.

*Government Programs are Unsustainable*

During the past 20 years, successive Governments have addressed housing issues as priority social programs. These programs have made little impact on housing conditions or to meet the demands for housing in Colombo and other urban centers. Urban housing programs included high rise and walkup apartments built for outright sale or lease purchase or rent. These programs were not sustainable because capital funds had to be appropriated from the budget. Interest on loans and rents were not priced realistically, house allocations were not transparent, cost recovery is poor, and evictions and foreclosures are not enforceable. Recent budget allocations are adequate for NHDA to construct about 500 to 1,000 housing units per year.

*Private Sector Investments are only for high cost housing*

Private housing development is traditionally done by persons constructing single family homes through small contractors. Foreign private developers in joint ventures with local developers construct high-cost, high-rise apartments costing about Rs. 7-9 million (unit cost of about $125 per square foot), which are available for sale to nationals and foreigners. Local developers (Keels, Ceylinco) sell plots or plots with housing, units in the outer districts of the CNM in cost ranges affordable by middle-income families. The Board of Investments (BOI) tax exempt schemes have not attracted much foreign or domestic finance for housing development. Fiscal incentives available in the past, such as tax exempt development of low cost housing, constructed for sale, are no longer available.
**Long-term Housing Finance is Not Available**

Limited housing finance, usually between five and ten years, is available from commercial banks to established and higher income customers. Limited housing finance is available from the government-owned National Savings Bank and the State Mortgage and Investment Bank at subsidized interest rates. However, obtaining loans from these agencies are complex and time consuming. Loans are not easily accessible to low and middle income families.

**Urban Local Authorities Have Limited Capacity to Deliver Basic Services.**

Urban local authorities have had little involvement in housing provision. The resources of urban local authorities, except Colombo Municipal Council (CMC), are severely limited due to poor resource mobilization. They have also been constrained in the provision of basic services due to legal restrictions regarding provision of basic services on private lands, and the desire not to provide official recognition to slum dwellers for fear of giving a sense of permanency. Where interventions have been made in urban slums they have been done by the GOSL with extremely minimal services, or through the decentralized budget of the Colombo Municipal Council, which allocates funds to Councilors to undertake improvements in under-served settlements in their wards.

**Tentative Project Description**

(i) Long-term housing finance for low- and middle-income families: There is no long-term housing finance available for low-income households in Sri Lanka except on a small scale under the NHDA’s house ownership programs. Apart from being inadequate to meet the demand, this program is not sustainable because of political overtones of the program, and hence the large scale defaults. There are recent programs and initiatives in this direction. However, the latest ADB Urban Development Project provides for loans of up to Rs. 100,000 for repair and improvements of housing, and IFC is currently in the process of approving project that would help establish a private housing finance company in Sri Lanka.

The proposed Clean Settlements Project intends to address the issue of housing finance for middle- and low-income families through a line of credit for use by commercial banks to on-lend to individuals and or cooperatives for purchase of land or shelter. As access to serviced land by these families is not achievable at land prices prevailing in Colombo, discussions have been initiated with the GOSL to release serviced land.

(ii) Access to affordable land: Discussions going on with the GOSL to release LTDA-owned land to the private sector for low- and middle-income housing, and to housing cooperatives to organize their own construction. The project will provide funds to provide services for these lands that will be primarily targeted to low and middle income families. Through the use of cooperatives, where the absolute ownership remains with the association, the restriction on the minimum plot size could be circumvented through construction of three to four story walk-ups, and lenders could have greater confidence to deal with a cooperative society, than individuals.

(iii) Upgrading of under-served settlements in situ: The proposed Bank financed project will support upgrading the living conditions of up to 25,000 families living in under-served settlements who are unlikely to benefit from the re-housing program in the next five to ten years. The process of settlement upgrading (slum upgrading) will unfold through a methodology that had been developed in the past preparatory stages of the project through the works in six pilot projects. Use of Community Environmental Management Planning process, active collaboration between the CBOs and NGOs and the decentralization to Urban Local Authorities (ULAs) will form the principal approach.

(iv) Strengthening of urban local authorities: Thus far, urban local authorities
have served in a passive role with regard to shelter provision or providing basic infrastructure services to improve conditions in under-served settlements. Most initiatives have been taken by GOSL through the UDA and NHDA. Low capacity and strength of urban local authorities have been the primary cause of this malaise. Through the project, assistance will be provided to strengthen urban local authorities to enable them better to serve the needs of their citizens, particularly those enjoy low and middle income. Technical assistance would be provided to: develop city development strategy, improve planning operation and maintenance, resource mobilization, and financial management. The project will support a twin/partnership program with another local authority in the UK, USA or Canada where specific experts (in strategic planning, financial management, valuation, resource mobilization, including property taxation, town planning, and development control, and operation and maintenance) will work side by side with officials of the Colombo Municipal Council for periods of up to six months at a time.
16. PANEL DISCUSSIONS

SOCIAL DIMENSIONS OF URBAN INFRASTRUCTURE OPERATIONS

Warren Waters, Social Scientist
SASSD, World Bank
WHY consider social aspects?

- Do No Harm
- Foster Participation
- Share Benefits
- Reducing and Manage Risk

Benefits to borrowers of a good social assessment

- Reduced reputational risk - minimize conflicts and disputes over impacts and mitigation
- Reduced financial costs and faster benefits - minimize delays in implementation
- Do no harm - ensure cost of projects not unfairly borne by third parties
- Improved project design - Reduce participant's uncertainty and increase consensus on project strategy

Paying attention to social issues will prevent

- Unforeseen issues/problems
- Soured relations with local communities
- Delays and stoppage
- Legal disputes

- Negative publicity
- Damaged public image
- Added financial costs
- Low staff morale

Social Assessment Process

- Identify key social & participation issues
- Define Participation framework
- Evaluate institutional and social issues
- Establish mechanisms for monitoring and evaluation

Social Assessment

- Involuntary Resettlement
- Indigenous Peoples
- Cultural Property
- Forced Labor and Harmful Child Labor
- Public Consultation and Disclosure
- Sharing Benefits

The goal of the resettlement policy

To improve, or at least restore, incomes and standards of living for project affected persons

16-1
Resettlement policy triggered

By involuntary physical impacts
- taking of land or other assets resulting in
  - physical relocation
  - loss of livelihood or access to assets
  - loss of livelihoods
  - restriction of access to parks and protected areas resulting in
    - loss of livelihoods

Resettlement policy principles

- Avoid or minimize economic and physical displacement
- Compensate at full replacement value
- At least restore incomes, ability to generate income, living standards
- Lack of title no barrier to eligibility
- Provide opportunities for participation by PAPs
- Design resettlement as a development program

Avoid or Minimize Economic and Physical Displacement

1. Select alternative sites, routes
2. Alter project design
3. Minimize R-O-W or any other land taking

Compensate at Full Replacement Value

2. Real Market Value for land, buildings, etc.
3. Include moving, relocation and transaction costs

At least restore incomes, ability to generate income, living standards

3. Resettlement is not “finished” when people move

Lack of title no barrier to eligibility

4. Treat all people affected equally
5. Projects should not create victims
6. Eligible for rehabilitation assistance, not legal compensation
7. Census cut-off date to prevent fraud
Provide opportunities for participation by PAPs

- Participation builds ownership and reduces conflict

Design resettlement as a development program

- Create development opportunities, not just mitigate impacts
MOVING FROM SAFEGUARDS TO OUTCOMES

The SAR Urban Portfolio

P. Illangovan, Environmental Specialist
EASES, World Bank
and
Kumi Kitamori, Consultant, SASEN, World Bank
**Environment in Urban Sector Operations**

**Contents**
- Safeguards
- Mainstreaming

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**1 SAFEGUARDS**

**Introduction**

Operational Policy 4.01
Environmental Assessment

Operational Policy 17.05
Public Disclosure

**New OP/BP/GP 4.01: Salient Features (1)**
- Retains basic principles of OD 4.01
- EA: natural environment + human health and safety + social aspects + transboundary and global aspects
- All category A and category B proposed for IDA funding must complete a separate EA report prior to appraisal
- Adds new Category FI for Financial intermediary loans

**New OP/BP/GP 4.01: Salient Features (2)**
- Direct reference to Pollution Prevention and Abatement Handbook
- Clearer description of requirements for Sector Investment Loans and SECALs
- Improved clarity on Environmental Management Plans; Implementation Schedules and Cost Estimates and public consultation and disclosure

**New OP/BP/GP 4.01: Salient Features (3)**
- For Category-A Projects:
  - Field visit by environmental specialist during preparation of PCD
  - Formal environmental clearance for PCD package
  - Independent experts prepare EA report
  - Appraisal mission to include an environmental specialist
  - Contentious and risky independent panel
Key stages in the EA process

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<td>Selecting EA team</td>
<td>Review of EA results</td>
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Categorization of Projects

Factors
- Type
- Location
- Sensitivity
- Scale
- Nature and Magnitude of Impacts

Current Picture: Categories

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<thead>
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<td>Urban Transport</td>
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Types of EA

Project-specific EA
Examines the project's impacts and suggests mitigation measures

Sectoral EA
Suits for sector investment programs to make strategic choices and examines the cumulative impacts of sum of all investments.
Types of EA (cont'd)

Regional EA
Considers the carrying capacity of a region before strategic investment choices are made and recommends measures to contain incremental impacts

Framework for FI's
Sets up an approach and organisational mechanism for financial intermediaries to appraise and supervise sub-projects

Operational Experience
- EA has proved to be an effective tool to avoid, minimize and mitigate environmental impacts
- EA has contributed to improved project design, especially when initiated early as part of overall project preparation
- Sectoral EAs can be more cost-effective and allow for more systematic consideration of alternatives.

Operational Experience (2)
- The effectiveness of EA depends in large measure on the commitment and capacity of borrowers and the Bank to follow through during implementation

- EA capacity of borrowers is improving but Bank staff play critical role in ensuring quality. More attention need to paid to Local Governments

Concerns with EA
- Internal process too focused on categories (leading to conflicts!)
- Data rich but weak analytically and strategically
- Analysis of alternatives
- Valuation of project impacts;
- Public consultation and Disclosure are still problematic.

Major EA Challenges
- Move EA "upstream" in the process with the client
- Raise the quality of analytical content of EA and combine with economic analysis
- Ensure meaningful public consultation and disclosure
- Improve public participation in EMP implementation

Major EA Challenges (2)
- Better incorporation of recommendations into project legal agreements and contracts
- Improve implementation of EMP
- Target EMP to become more OUTCOME oriented
2
Mainstreaming

Questions ??? for Us

1. Country Sector Dialogue -- To what extent is "environment" on the table?
2. Are projects merely "retrofitting" environment in the objectives?
3. How can CDS be used both as an instrument and vehicle to promote better environmental management at the city level?

Questions ??? for Us (2)

1. How can we scale-up pilot components initiated under MSP and TNUDP II?
2. How do we tackle solid waste management and sanitation for the poor?
3. How to move from outputs to outcomes... should project outcome indicators include measurable environmental improvements?
ADDRESSING URBAN AIR POLLUTION
IN SOUTH ASIA

Alistair McKechnie
Sector Director, SASEG, World Bank
and
Kseniya Lvovsky
Environmental Specialist, SASEN, World Bank
ADDRESSING URBAN AIR POLLUTION IN SOUTH ASIA

Joint presentation of SASEG and SASEN

Urban air pollution is a multi-sectoral problem involving a variety of sources:

- **Energy**
  - small stoves and boilers using wood, dung, heavy oil or coal; large industry and power
- **Transport**
  - poor vehicle performance (e.g. two-strokes)
  - poor fuel specifications (e.g. lead, high sulphur)
  - poor vehicle and road maintenance
  - poor traffic management
- **Municipal**
  - garbage burning; dust and dirt on the streets

Controlling small pollution sources in different sectors is a major challenge.

A clear "North-South" pattern in air quality shows that small energy sources are at least as significant as transport in Northern cities with the highest pollution (TSP) levels.

South Asia Environmental Strategy for the Energy sector: key priorities:

- Combating indoor air pollution
- Managing urban air quality
- Mitigating environmental problems associated with coal-power chain development in India
- Strengthening environmental monitoring and enforcement
- Addressing global climate change

Urban air pollution in South Asia is among the highest in the world, and so are the adverse health impacts...

Annual health burden:

- 100,000 - 300,000 premature deaths
- 4 billion work days lost or reduced productivity
- Economic costs in largest cities reach 10% of city product (compare to 4% for all developing countries)
- Plus indoor pollution in slums and peri-urban areas

![Graph showing urban air pollution in South Asia and worldwide](image)
Key features of our strategy

- Holistic approach to urban/regional/national problems in the energy-environment nexus
- Focus on outcomes, i.e. significant reduction in health and environmental damages
- Facilitating cross-sectoral collaboration (e.g. urban air quality management)
- Long-term commitment to environmental improvements and local capacity building

Indicators of progress - Outcomes

- Significant improvements in air quality in at least two major cities in the region by the year 2010; most of the other major cities adopt air quality improvement programs
- The use of leaded gasoline phased-out or reduced in at least 3 countries by 2005; phased-out in all countries by 2010
- Sulfur content of motor diesel reduced below 0.5% in at least two countries by 2005, and all countries by 2010

Indicators of progress - Actions needed

- Short-term (FY02):
  - Reach consensus with respective governments a strategy for reducing air pollution in selected severely polluted cities (such as Delhi, Kathmandu, Lahore, Lucknow), and
  - Advance dialogue leading to commitment to phase out lead in all countries
- Medium-term (FY05):
  - Facilitate government commitment towards controlling urban air pollution in at least two major cities,
  - Facilitate the restructuring of the petroleum sector, including fuel specifications and pricing policies, and
  - Agreement to phase out leaded gasoline in all countries
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South Asia- Urban Forum

Thursday, June 24, 1999, Room F8P-100, IFC Building,
2121 Pennsylvania Avenue, Washington D.C.

Agenda

8:30 - 8:50 a.m.  Registration, Tea and Coffee

8:50 - 9:00 a.m.  Presentation of Objectives & Expected Outcomes
by Hiroaki Suzuki, Pr. Operations Officer, Infrastructure Sector Unit, SASIN.

9:00 - 9:20 a.m.  Welcome and Introduction.
"The Urban Sector in South Asia: Issues and Options"
by Francie Humplick, Sector Director, Infrastructure Sector Unit, South Asia.

9:20 - 9:40 a.m.  Key Note Address
"The Linkages of Comprehensive Development Framework
And the South Asia Urban Operations"
by Mieko Nishimizu, Vice President, South Asia Region

9:40 - 10:00 a.m.  "The Bank's Urban Strategy and Its Challenges"
by Angela C. Griffin, Sector Manager, TWURD.

10:00 - 10:30 a.m.  Floor Discussion - Global Urban Challenges and Strategies.
Chair: Manuel Penalver, Director, Operations, South Asia

10:30 - 10:45 a.m.  TEA/COFFEE BREAK

10:45 - 10:55 a.m.  "Strategic and Comprehensive Approach to Urban Development"
by Hiroaki Suzuki, Principal Operations Officer, SASIN.

10:55 - 11:10 a.m.  "India: The Reform Agenda"
by P. V. Rajaraman Finance Secretary, Government of Tamil Nadu

11:10 - 11:25 a.m.  "Urban Tamilnadu; Yesterday, Today and Tomorrow"
by S. Malathi, Secretary, Tamil Nadu Municipal Affairs and Water Supply

11:25 - 11:40 a.m.  "The Tamil Nadu Urban Development Fund"
by Dr. Krishnaswamy Rajivan, Chief Executive Officer, TNUDFS

11:40 - 12:10 a.m.  PANEL DISCUSSION:
Christine Kessides, Principal Economist, TWURD
Prof. Subbiah Kannappan, Professor of Economics, Michigan State Univ.
Elotero Codato, Sr. Urban Management Specialist, LCSFP.
Hiroichi Kawashima, City Development Strategy (CDS), Urban Anchor.

12:10 - 12:40 a.m.  FLOOR DISCUSSION: Approaches to Urban Sector Reform - The Case of
Tamil Nadu (India).
Chair: Keshav Varma, Sector Director, Infrastructure Sector Unit, East Asia.
12:40 - 1:40 p.m.  LUNCH PRESENTATION
Knowledge Management – Website Home Page of Coimbatore Corporation -
Forthcoming SA Events and Partnerships
By Dr. K. Rajivan, CEO, TNUIFS.
Kwabena Amankwah-Ayeh, Urban Specialist, SASIN.
Amy Osborne, Urban Anchor, TWURD.

2:00 - 2:20 p.m.  “Bangladesh Municipal Services Project”
by Jonathan S. Kamkwalala, Senior Financial Analyst, SASIN

2:20 - 2:30 p.m.  “Pakistan Municipal Development Fund Project”
by Michael Schaeffer, Senior Financial Analyst, TWURD

2:30 - 3:00 p.m.  PANEL/FLOOR DISCUSSION: Municipal Development - Cases from
Bangladesh and Pakistan.
Braz Menezes, Principal Operations Officer, LCSFP
Arun Benarjee, Principal Operations Officer, SACBF, Bangladesh.
Chair: Sonia Hamman, Sector Manager, MENA

3:00 - 3:15 p.m.  “Providing Services For The Urban Poor - The Challenges Ahead”
by George Gattoni, Principal Urban Operations Specialist, TWURD

3:15 - 3:35 p.m.  “Sri Lanka: Colombo’s Clean Settlements Project -- An Effort in Progress”
by Jelena Pantelic, Senior Urban Specialist, SASIN, and
Ms. Allyson Thirkell, Consultant, London, UK.

3:35 - 3:50 p.m.  COFFEE/TEA BREAK

3:50 - 4:30 p.m.  PANEL DISCUSSION
Introduction & Overview - Richard Ackermann, Sector Director, SASEN
"Social Dimensions of Urban Infrastructure Operations"
Warren Waters, Resettlement Specialist, SASSD
"Moving from Safeguards to Outcomes"
The SAR urban portfolio - P. Illangovan, Environmental Specialist, EASES
Urban air quality - Alastair McKechnie, Sector Director, SASEG, and
Kseniya Lvovsky, Environmental Economist, SASEN

4:30 - 5:00 p.m.  FLOOR DISCUSSION: Urban Poverty, Social and Environmental Issues in
Urban South Asia.
Chair: Margaret Thalwitz, Sector Director, Urban Infrastructure, ECA
Co-chair: Zmarak Shalizi - Research Manager, DECRG

5:00 - 5:30 p.m.  Opportunities For Joint Collaboration and Conclusion
by Frannie Humplick, Sector Director, SASIN

5:30 - 6:30 p.m.  COCKTAILS !!!!!!
For further information on the Proceedings of the South Asia Urban Forum, please address your comments, inquiries, questions, requests and suggestions to:

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