

Gujarat urban development project

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The India Gujarat Urban Development Project, supported by Credit 1643-IN for US\$62.0 million equivalent, was approved in FY86. The Credit was closed in FY95 five years late and US\$0.84 million was canceled. There was no cofinancing of the project. The Implementation Completion Report (ICR) was prepared by the South Asia Regional Office. A summary of the borrower's report is included as an annex.

The project objectives were to: (i) increase the supply of urban housing and infrastructure services in the main urban centers of the state; and (ii) strengthen planning, administration, and financial management in state and local government agencies in the urban sector. These broad objectives were to be achieved through: (a) development of residential land in six cities; (b) town planning schemes, including the provision of basic infrastructure in three cities; (c) upgrading of slum areas in five cities; (d) improvement of solid waste disposal services in five cities; (e) improvements of other urban infrastructure (water supply, sewerage, storm drainage, etc.) in four areas; and (f) institutional strengthening at the state and local levels through technical assistance.

A series of droughts in Gujarat in the mid-1980s strained the state's financial and managerial resources and government funds earmarked for the project were diverted to drought relief. Subsequently, the project was restructured to meet the need of drought-prone rural areas for drinking water and improvement of health conditions. The restructured project, approved by the Board in 1989, drastically reduced all urban components and introduced a new rural water supply component which accounted for some 40 percent of the revised project. The physical objectives of the urban components were only partially achieved even after the restructuring of the project, while the water supply and sanitation components were more successful. The original project was too complex and ambitious for the weak municipal institutions which lacked the implementation capacity. The restructuring of the project, however, made it even more complex as more subprojects were added. The time schedule remained unrealistically tight and supervision became more difficult as the new rural water supply component required different skills. Coordination among twelve different implementation agencies was made difficult by the lack of clear understanding about differing responsibilities. The project's institutional strengthening objectives were only partially achieved. In particular, the main objective of full cost recovery in municipal services was difficult to achieve without prior reforms in tax and tariff assessment and collection efficiency. The state government continues to provide subsidies to the Gujarat Water Supply and Sanitation Board to cover the costs of debt service, operations and maintenance, and new investment. The appraisal estimate of the economic rate of return (ERR) for the components with quantifiable benefits (58 percent of the total project cost) was 18.6 percent. The ICR does not provide an ex-post ERR citing a lack of data.

As in the ICR, project outcome is rated as unsatisfactory, institutional development impact as modest, and sustainability as uncertain because it hinges on the implementation of reforms started very late in the project implementation period. Bank performance is rated as unsatisfactory (as in the ICR) in light of the overly optimistic assessment of the borrower's implementation capacity and commitment to the project, both during preparation and when the project was restructured.

A main lesson is that project implementation and outcome can suffer from being too big and too complex, especially when the capability of implementing agencies is modest. This project should have had less ambitious objectives, fewer components and fewer implementing agencies.

The ICR is rated as satisfactory, but it could have provided clearer assessments of the project's physical achievements compared with the quantitative targets set at appraisal. No audit is planned.