ICR Review
Operations Evaluation Department

Report Number : ICRR11565

1. Project Data:		Date Posted : 08/18/2003		
PROJ ID :	P050910		Appraisal	Actual
Project Name :	Municipal Development & Decentralization Project	Project Costs (US$M)	26.1	23.5
Country:	Georgia	Loan/Credit (US$M)	20.9	20.9
Sector(s):	Board: UD - Other social services (29%), General water sanitation and flood protection sec (29%), General transportation sector (29%), Sub-national government administration (8%), Central government administration (5%)	Cofinancing (US$M)		
L/C Number:	C2976; CQ051			
		Board Approval (FY)		97
Partners involved :		Closing Date	12/31/2001	12/31/2002

Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

(a) To assist the decentralization process at the central and local government level .
(b) To promote improvements in financial and administrative management as well as municipal investment programs .
(c) To support urgent local investments.
(d) To generate employment opportunities.

b. Components

(i) Institutional development - (ID). Local level ID through preparation of Municipal Development Agreements (MDAs) for performance-based municipal lending. MDAs were contingent upon the completion of a Municipal Audit, a Financial and Administrative Rehabilitation Plan, and a Priority Investment Plan . National level ID through national information systems about municipal service delivery; analysis of policy alternatives; evaluation of the impact of investments upon municipal finance; project coordination unit; and studies . (final cost: US$3.5m.)
(ii) Physical investments, including: roads, drainage, lighting, water supply, sanitation, social, educational, health, and cultural facilities. Construction, rehabilitation and maintenance sub-projects up to US$500,000. (US$20.0m.)

c. Comments on Project Cost, Financing and Dates

Final costs were 90% of those planned. The shortfall was with the ID component, since actual physical investments exceeded those planned. The IDA credit was 93% disbursed, accounting for 83% of all project funding. Completion was one year behind schedule owing to delays in implementing the ID component .

3. Achievement of Relevant Objectives:

(a) This objective was partially achieved. The project effectively initiated the implementation of the new government's decentralization strategy, but did not go as far as first hoped .
(b) Fully achieved through twelve municipalities signing up to MDAs incorporating significant municipal management and financial improvements, with emphasis from the mid-term review upon municipal creditworthiness. A comparison between municipalities that participated in the project and others found significant differences in financial performance. Participating municipalities increased their own-source revenues by 11 percent during 1998-2002, while they fell by 16 percent for other municipalities.
(c) Fully achieved through investments in 89 sub-projects in eleven municipalities, with two-thirds of project investment to Tbilisi, the country's capital and most credit-worthy municipality. Three quarters of the investments were in road rehabilitation and water supply sub-projects, with positive impacts upon the livelihood of local beneficiaries previously not served.
(d) Fully achieved through the short-term employment of about 5,000 individuals hired by the 47 companies that participated in the provision of project services .

4. Significant Outcomes/Impacts:

- The creation of a financing mechanism for local government investments that still operates efficiently and has reasonable prospects for longer term sustainability.
- Responsibility for operations and maintenance for all sub-projects was assumed by municipalities at the completion of each one, further bolstering sustainability.

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

- A top-down selection of municipalities by the central government according to criteria of geographical distribution overrode performance-based criteria introduced by the project.
- Hasty project preparation--most of it by Bank staff--crowded out borrower participation and undermined project ownership by government authorities. It also meant that the legal status and political support for the novel MDA concept was not reviewed as fully as it should have been.
- Four of eleven municipalities had partially defaulted upon their loan repayments.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	Overall satisfactory, strong supervision compensated for weak quality at entry.
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

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

7. Lessons of Broad Applicability:

- Rushing project preparation may leave many details to be worked out later with resulting higher costs and delays for implementation. The lack of a full policy dialogue during preparation can undermine institutional development achievements.
- Political commitment to reform should be cautiously assessed. Policy statements and declarations of intent should be interpreted with care, especially in a context populated by a wide variety of actors with diverging interests.
- Undue reliance upon local agencies with weak capacities can compromise project performance. External assistance to support them is appropriate in such circumstances.

8. Assessment Recommended? ● Yes ○ No

Why? As a building block toward OED's review of the implementation of Bank policy toward conflict-affected countries, this would also be the first OED field assessment of an urban project in Georgia.

9. Comments on Quality of ICR:

This is a very good quality ICR, that openly discusses the achievements and shortcomings of the project, providing substantial evidence and data to support its conclusions. The incorporation of informative borrower agency assessments contributes to the value-added by the report. The ICR does not report ERRs of sub-project investments, in spite of the project design requirement that all proposed investments had to demonstrate a minimum ERR of 12 percent.