



<b>1. Project Data:</b>		<b>Date Posted :</b> 06/25/2002	
<b>PROJ ID:</b> P035082		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Municipal Finance	<b>Project Costs (US\$M)</b>	40	7
<b>Country:</b> Poland	<b>Loan/Credit (US\$M)</b>	22	4.2
<b>Sector(s):</b> Board: FSP - General water sanitation and flood protection sec (30%), General education sector (25%), Roads and highways (25%), Banking (10%), Sub-national government administration (10%)	<b>Cofinancing (US\$M)</b>	0	0
<b>L/C Number:</b> L4208; L4209			
	<b>Board Approval (FY)</b>		98
<b>Partners involved :</b> Local gov'ts., banks	<b>Closing Date</b>	12/31/2001	12/31/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Alice C. Galenson	John H. Johnson	Ruben Lamdany	OEDCR
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The main objective of the Municipal Finance project (MFP) was to promote development of a commercial credit market for municipal investment.			
<b>b. Components</b>			
The project comprised lines of credit to the Bank for Socioeconomic Initiatives (BISE) and the General Credit Bank (PBK), for (i) onlending to municipalities or revenue-earning municipal enterprises for infrastructure (including education) projects; and (ii) technical assistance to help prepare and appraise sub -projects. The Municipal Development Agency (MDA) was expected to provide consultancy services to the banks and municipalities using resources from USAID and a PHRD grant.			
<b>c. Comments on Project Cost, Financing and Dates</b>			
The original cost of the project was US\$ 40 million, including the \$22 million Bank loan. Another \$18 million was expected to come from local government/utility counterparts and commercial banks . The line of credit to PBK (US\$15 million) was canceled in November 2000, and at loan closure BISE canceled US\$2.8 million. A total of US\$4.2 million of Bank funds was disbursed.			
<b>3. Achievement of Relevant Objectives:</b>			
The growth rate in commercial infrastructure funding, one of the key performance indicators, was well above the target rate, but this did not take place with MFP funds . The project had a positive, but very limited, impact on the growth of the commercial credit market for infrastructure, mainly through technical work undertaken through the project. Although disbursements were low (see below), both banks continue to employ the appraisal methodologies developed during project preparation and have stated that involvement in the MFP enhanced their ability to develop business in the municipal sector. There was little demand for MDA's services, though its training events may have had a positive impact.			
<b>4. Significant Outcomes/Impacts:</b>			
None.			
<b>5. Significant Shortcomings (including non-compliance with safeguard policies):</b>			
Project disbursements were much slower than anticipated, because of reluctance by the banks to take on the foreign exchange risk, a new Public Finance Law (1999) which for 18 months (until a waiver was obtained) effectively prevented municipalities from borrowing in foreign currencies, and a Public Procurement Law which made MFP funds less attractive. PBK, the larger of the two participating banks, canceled its loan with no disbursements . BISE disbursed only \$4.2 million. Overcoming procurement problems--which should have been dealt with prior to approval--delayed sub-loan approvals by six months.			

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Unsatisfactory	Unsatisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Unsatisfactory	Problems with the project at entry contributed to the unsatisfactory outcome, despite satisfactory supervision . These problems included incomplete identification of risks (loan competitiveness), inadequate treatment of known risks (foreign exchange risk, procurement), and inadequate provisions for technical assistance .
<b>Borrower Perf .:</b>	Satisfactory	Unsatisfactory	The 1999 Public Finance Law had a major negative impact on project outcome, and municipalities were not committed to the project.
<b>Quality of ICR :</b>		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:

(i) A line of credit does not provide adequate leverage to require changes in commercial bank operations or procurement procedures. (ii) A more thorough examination of procurement procedures during project preparation might have prevented the delays encountered after project approval .

**8. Assessment Recommended?** ☐ Yes ☒ No

#### 9. Comments on Quality of ICR:

The ICR is well written and concise.