Report No. 25899

Improving the Lives of the Poor through Investment in Cities

An update on the Performance of the World Bank's urban portfolio

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Operations Evaluation Department
Sector and Thematic Evaluation Group

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Abbreviations and Acronyms

APPI	Aggregate Project Performance Indicator
CDF	Comprehensive Development Framework
CDS	City Development Strategy
CODE	Committee on Development Effectiveness (of Bank Board of Directors)
CPIA	Country Policy and Institutional Assessment
ED	Executive Director (of the Board of the World Bank)
ERR	Economic Rate of Return
ESSD	Environmentally and Socially Sustainable Development (network of World Bank)
ESW	Economic and Sector Work
FPSI	Finance, Private Sector and Infrastructure (network of World Bank)
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ID	Institutional Development
ICR	Implementation Completion Report
IFAD	International Fund for Agricultural Development
M&E	Monitoring and Evaluation
MDP	Municipal Development Project
MDG	Millennium Development Goal
NGO	Non-government Organization
OECD	Organization for Economic Cooperation and Development
OED	Operations Evaluation Department
OD	(World Bank) Operational Directive
OP	(World Bank) Operational Policy
PPAR	(OED) Project Performance Assessment—formerly Audit—Report
PRSP	Poverty Reduction Strategy Paper
PTI	Poverty Targeted Operation
QAG	Quality Assurance Group
RBM	Results-based Management
UNCHS	UN Habitat (formerly United Nations Centre for Human Settlements)
UNDP	United Nations Development Programme
UPP-91	Urban Policy Paper - 1991 *Urban Policy and Economic Development*
USP	Urban Strategy Paper *Cities in Transition*
WDI	World Development Indicators
WDR	World Development Report

Director-General, Operations Evaluation	Mr. Gregory K. Ingram
Director, Operations Evaluation Department	Mr. Ajay Chhibber
Manager, Sector and Thematic Evaluation	Mr. Alain Barbu
Task Manager	Mr. Roy Gilbert

Foreword

This report is based on a desk review of the Bank's urban portfolio. It focuses on the results of the 99 operations completed in the past ten years. It uses the four pillars of *livability, good governance, bankability* and *competitiveness* of the Urban Strategy Paper as the evaluation framework.

Over time, urban development projects have increasingly sought to improve the lives of the poor but robust evidence of impacts has been meager. Through the triangulation of project performance ratings with changes in basic urban service coverage—reported by UN Habitat urban indicators data at the city level—this evaluation detects significantly greater improvements in cities that hosted Bank-financed projects than in others.

At the project level, the study identifies factors that help determine good outcomes, such as building upon previous operations, involving beneficiaries, and avoiding straining borrower resources and implementation capacity. At the strategic level, the study finds that the portfolio has concentrated on the *livability* pillar, through projects aiming to make the lives of the urban poor more healthy and productive. Attention has also been paid to *governance* too, especially through operations that strengthen municipal administration. *Bankability* aspects received some attention while the *competitiveness* pillar—that seeks improvements to the workings of urban markets—has proved the most elusive.

OED recommends:

- *Systematic M&E and reporting of results—of poverty alleviation especially—from the city to the sector/strategic levels. The Bank should go beyond the USP's 'illustrative' indicators and put in place an M&E program to measure results of Bank investments in cities and report on them on a regular basis.*

- *Revision of the USP's business strategy to ensure successful implementation. This would provide explicit targets and determine priorities that link the USP's four key instruments—scaling-up services to the poor, city development strategies, national urban strategies, and local government capacity building—and four strategic pillars—livability, good governance, bankability and competitiveness—to urban poverty alleviation.*

- *Clarification of the concept and the operational consequences of the competitiveness USP pillar for urban practitioners. One way of doing this could be through issuing region-specific guidelines explaining to Bank task managers, borrower project managers, city mayors and other officials, how to get urban poverty alleviation results through the implementation of this pillar.*

Gregory K. Ingram
Director-General
Operations Evaluation

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Preface

Cities are home to 525 million poor people, and the Bank makes substantial investments in developing country cities every year. This study by the Operations Evaluation Department (OED) reviews the performance of 99 urban development operations completed since 1993 to see, in particular, how these interventions have improved the living conditions of the urban poor, the primary goal of the *livability* pillar of the Bank's current urban strategy. This is OED's first review of the urban portfolio since its 1994 study of the first 20 years of Bank urban lending. Since that study was completed, the Bank has invested US$6 billion more in assistance for urban development.

From Regional and OED assessments of project performance and other sources, the present study compiled a database of more than 120 variables for each of the 99 urban operations completed during 1993–2001. While the information in this database was the cornerstone of the review, the evaluation also made use of other data. These included country statistics from the Bank's *World Development Indicators* and city statistics from UN Habitat *Urban Indicators Program*, as well as data from older projects covered by OED's earlier *Twenty Year* review and newer operations that are still ongoing as of September 2001. Designed primarily as a desk study, the present review also included interviews of 45 borrower managers of urban projects worldwide. Supporting all this effort was a review of academic and professional literature relating to urban development, especially from non-Bank sources.

The core team for this work was made up of Roy Gilbert, Anna Amato, and Romayne Pereira. Roy Gilbert wrote the report. The telephone survey of project managers was designed jointly with OED, and conducted by the Gallup Organization under the supervision of Ajay Bhardwaj, with the assistance of Chris McComb, David Osborne, and Anna Maria Salih. For the extensive data analysis conducted, the study benefited from the help of OED colleagues Sohail Malik and Anju Gupta Kapoor. The core team also benefited from advice and inputs at various stages of this work from fellow OED Urban Cluster members Soniya Carvalho and Ron Parker. Bill Hurlbut edited the report. Finally, the team's special thanks go to urban project managers in our client countries for their collaboration in our telephone interview and also to Bank urban task managers for facilitating these contacts. Written comments were gratefully received from: Robert Buckley, Tim Campbell, William Cobbett, Elizabeth Campbell-Page, Victoria Elliot, James Fitz Ford, Nils Fostvedt, Jonathan Kamkwalala, Christine Kessides, Omar Razzaz, Gwen Swinburn, Gene Tidrick, and Tom Zearley. Christine Kessides was a peer reviewer of the report.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank's work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). *Possible ratings:* High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project's objectives were achieved, or expected to be achieved, taking into account their relative importance. *Possible ratings:* High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. *Possible ratings:* High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. *Possible ratings:* Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. *Possible ratings:* High, Substantial, Modest, Negligible.

Outcome: The extent to which the project's major relevant objectives were achieved, or are expected to be achieved, efficiently. *Possible ratings:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). *Possible ratings:* Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the Borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Executive Summary

CONTEXT AND METHODS

Each year, the Bank invests US$6-7 billion in developing country cities where 525 million poor people reside. Some 30 per cent of all the world's poor live in cities, where a dollar-a-day does not go as far as it does in the countryside. Meeting the Millennium Development Goal (MDG) of halving poverty by 2015 would imply raising 24 million people out of urban poverty every year for the next fifteen years, a daunting task.

Has Bank investment in cities improved the lives of the poor? This is the central question addressed by this evaluation, a desk study of the policy context and performance of 99 urban projects completed during 1993-2000, and update of OED's 1994 review of urban operations. The study assesses the implementation challenges of *Cities in Transition*—the Bank's new urban strategy paper (USP). For its analysis, the study built an evaluation database from existing Bank sources as well as others such as UN Habitat city-level urban indicators. The only primary data collected for this work was through a worldwide telephone survey of borrower managers of 45 of the 99 completed urban projects.

EVOLUTION OF THE BANK'S PORTFOLIO

The first decade of Bank lending—1972-82—pioneered Bank urban operations and set priorities, such as slum upgrading and sites and services focused upon the urban poor. Low-income urban households were target beneficiaries from the outset, a priority inspired by former World Bank President McNamara's 1975 speech and clarified by subsequent Bank urban policy work.

The second decade—1983-92—saw a rapid expansion in urban lending and made Latin America the main regional client of the Bank's urban program. Urban projects still concentrated upon improving basic infrastructure and shelter, while a new line of urban business expanded in the form of municipal development projects (MDPs). With 78 per cent of project outcomes rated satisfactory, portfolio performance was good, according to OED's 1994 review of urban lending, which found that best practice projects had unequivocal borrower ownership and explicit poverty reduction aims, lessons absorbed by later operations. The Bank's *1991 Urban Policy Paper* - - UPP-91—focused upon three "P's", (urban) productivity, poverty reduction, and pollution abatement. It was most successful in maintaining the portfolio's focus on poverty reduction. Urban practitioners rarely took up the urban productivity theme. Pollution was addressed, but urban environment project performance was weak at that time.

The third decade—exit years 1993-2000—witnessed sustained portfolio activity. Africa hosted most projects, but Latin America still accounted for most lending. Overall, satisfactory projects fell to 71 per cent of the total. The nadir came in 1995, the year of the completion of twelve projects prepared around the time of the disruptive Bank reorganization of 1987. Since 1995, there has been a strong rebound. Urban projects helped strengthen municipal management and the housing sub-sector. MDPs used financial intermediaries to on-lend Bank and other funds to local governments in exchange for structural reforms at the city level across all regions. The focus upon urban poverty reduction became even stronger, being addressed by more than half the completed portfolio at this time. This decade's urban activities also show responsiveness to OED's 20-Year Study recommendation to strengthen the congruence of project objectives and design with better results. Almost all projects that aimed at improving *livability* and *governance* incorporated specific components designed to help achieve these goals. On the other hand, less

was done by the Bank to develop guidelines for M&E and to implement project specific M&E systems that OED had recommended.

The fourth decade—2001 and beyond—poses the challenge of implementing the Bank's new Urban Strategy Paper (USP) approved in 1999, with its primary focus upon improving *livability*—decent quality of life for all, including the poor—through the *good governance*, *bankability* and *competitiveness* dimensions of sustainable cities (defined below). In its 1999 comments on the draft USP, OED welcomed the new strategy, especially its matrix of performance indicators to monitor results under each of these four strategic pillars, but indicated that more work was needed on implementation. Thus far, the prospects for implementing the *livability* agenda are promising, however. In the ongoing portfolio of 90 urban projects worldwide, 68 per cent of projects had objectives focused upon improving the living conditions of the urban poor, the highest proportion to date. Self-evaluation by QAG and the latest supervision missions suggests that final outcome ratings of these projects will be good.

BETTER PROJECTS IN CITIES: BETTER LIVES FOR THE POOR

Despite the desirable shift by urban projects toward a more concentrated poverty focus, robust evidence of their actual impacts upon livability in cities has been meager, especially at the strategic or sector level. In the absence of performance data, the present review turned to another source, city-level UN Habitat urban indicators. Through triangulation with urban project ratings, it found robust evidence of positive project impacts upon livability. Between 1993 and 1998, water, sewerage and solid waste service coverage extensions were significantly greater in 24 Bank client cities hosting urban projects than in 37 otherwise similar comparator cities without the benefit of such operations. This result confirmed that cities with urban projects designed to extend service coverage within their urban areas did perform better. The study also used a simple least-squares regression model to identify factors that determine project performance, and hence should be taken into account in project design.

Project factors: *High levels of demandingness*—that strains borrower resources and capacity is negatively correlated with project performance. The Bank's overestimation of borrower institutional capacity was typically detrimental to outcomes, based on OED evaluations. *Building on prior experience*—urban projects that incorporate the lessons of predecessor project experience (covering half the portfolio in 31 countries) perform better. *Involvement of beneficiaries*—especially during project identification, was positively correlated with good outcomes. Projects with substantial beneficiary involvement had satisfactory outcomes 89 per cent of the time. Since fewer than half of completed operations had a substantial degree of participation, however, designers should do more to incorporate it in the future. *Borrower involvement*—mainstreamed into project design to a greater extent has a similarly positive impact upon performance. *Excellence in Bank service*—through good performance during identification, appraisal, and supervision, is also key to satisfactory results.

Country factors: Projects completed in more *urbanized* countries (with more than 58 per cent of their populations living in cities—the lower limit of the top tercile) were 81 per cent satisfactory, while in less urbanized countries (less than 34 per cent living in cities) only 59 per cent of projects were satisfactory. GDP per capita is correlated with urbanization and therefore has a similar relationship with project performance. More urbanized and *higher income* countries give borrowers greater urban development experience, resources (including counterpart funding), and institutional capacity to perform better. Urban project managers may not be able to change these conditions, but they certainly need to be aware of them.

This statistical analysis was unable to find significant relationships between three factors conventionally associated with project performance: (i) *poverty-focus* in objectives—often associated by task managers with poorer performance through weaker effective demand by poorer beneficiaries—did not appear to affect outcomes; (ii) *partnerships* with co-financiers—appeared to have no impact upon performance, despite expectations of high 'transaction costs' of such arrangements; and (iii) *economic and sector work - ESW* - preceded only a minority of projects—18 out of 99—whose performance was not significantly different from the performance of the majority of urban projects prepared without ESW. In some cases ESW may have been carried out for other purposes than to improve project performance, e.g. for country dialogue.

IMPROVING LIVES IN CITIES BY IMPLEMENTING USP

How much Bank urban assistance will continue to improve the lives of the poor in cities in the future will depend upon how successfully the new urban strategy is implemented and how well the results are monitored. The USP's matrix of performance indicators will help, but we still await the results of monitoring them at the strategic level. The results needed are outlined below for each strategic pillar.

Livability – Decent quality of life and opportunities for all, especially the poor. As its beacon on the poor, *livability* is deservedly the principal pillar of the USP. Through it, the Bank seeks to help make the lives of the poor in cities more healthy and productive. Beyond its welfare content, it establishes conditions for the growth of the urban economy that will benefit all citizens. New ongoing urban projects focus appropriately upon livability goals and dovetail neatly into the Bank's own poverty reduction mandate (OD 4.15 –1990) that espouses the inclusion of the poor through more healthy and productive lives. USP indicators for monitoring livability outcomes (e.g. urban poverty rates, infant or child mortality, rates of waterborne diseases, and ambient air and water quality) and outputs (e.g. basic urban service coverage) are, for the most part, relevant to USP strategic goals and familiar to urban practitioners. Much more needs to be done, however, to monitor poverty results in practice. We can only claim good results of Bank investments in cities on the lives of the poor if we can base those claims on convincing evidence.

Good Governance – Inclusion and accountability at the local level. For urban practitioners to assemble evidence of governance results, they will need more guidance from the Urban Sector Board. In particular, they will need advice on quantitative measures of performance. Meanwhile, anecdotal evidence suggests that by dealing directly with municipal governments, many completed urban projects have strengthened governance at the local level. If municipal governments are well managed, they are better poised to lead programs to improve *livability* in their cities. The most comprehensive instrument for improving local governance is the *City Development Strategy – (CDS).* Projects also support governance through technical assistance, training and intensive borrower management of procurement. Municipal governance can be enhanced by enabling private sector participation in service provision within a competitive environment.

Bankability - financial soundness and creditworthiness: Proposed USP bankability performance indicators for local governments are among the strategy's most robust and most readily quantifiable. In practice, municipal development projects have enabled the Bank to strengthen local government revenues. OED evaluations show local government fiscal gains attributable to Bank financed projects in Brazil, Ghana, the Philippines, Tunisia, and Venezuela. Progress with municipal creditworthiness, the second aspect of the USP's bankability pillar, has been much

more limited. Even so, many urban practitioners feel the pursuit of creditworthiness, insofar as it requires good governance, remains a worthy goal.

Competitiveness – efficient markets in cities: The USP aims to improve the workings of urban markets for land, labor, credit, and infrastructure and housing inputs using such instruments as city development strategies (CDS), and housing finance and infrastructure reforms. How to monitor these results will be a major challenge for urban practitioners, given that city-level data is scarce for several proposed indicators. Currently, fewer than ten per cent of urban projects address competitiveness, partly because urban practitioners are unsure what competitiveness means and how it should be fostered. More work is needed to refine the term, clarify its underlying objectives and determine its practical application. In its Evaluative Note to CODE on the USP in 1999, OED raised concerns about the ambiguity of the competitiveness concept and the uncertainty about how it would be addressed. It is important for urban practitioners in the Bank to help mayors focus upon building good economic governance that emphasizes the *comparative advantage* of their city economy.

RECOMMENDATIONS

To help the urban lending program focus more effectively upon getting urban poverty alleviation results within the current strategic framework, OED recommends:

Systematic M&E and reporting of results—of poverty alleviation especially—from the city to the sector/strategic levels. The Bank should go beyond the USP's 'illustrative' indicators and put in place an M&E program to measure results of Bank investments in cities and report on them on a regular basis.

Revision of the USP's business strategy to ensure successful implementation. This would provide explicit targets and determine priorities that link the USP's four key instruments—*scaling-up services to the poor, city development strategies, national urban strategies, and local government capacity building*—and four strategic pillars—*livability, good governance, bankability and competitiveness*—to urban poverty alleviation.

Clarification of the concept and the operational consequences of the *competitiveness* USP pillar for urban practitioners. One way of doing this could be through issuing region-specific guidelines explaining to Bank task managers, borrower project managers, city mayors and other officials, how to get urban poverty alleviation results through the implementation of this pillar.

1. Context and Methods

RATIONALE

1.1 *The study deals with an important line of business for the Bank which invests US$6–7 billion—some 30 per cent[1] of all its lending—in cities where some 525 million poor people reside:* Five per cent of all Bank lending is for urban development projects reviewed in this report—infrastructure, housing, and municipal development operations—most of which are focused upon the urban poor. Surprisingly for such an important parameter of the Bank's fight against poverty, a precise and broadly accepted measure of how many people are living in urban poverty is not readily available. This study's estimate (details para. 1.6) of 525 million urban poor currently living in cities corresponds to 25 per cent of the 2.1 billion inhabitants of developing country cities today. Worldwide, this would make cities home to some 30 per cent of all the poor, against 70 per cent in rural areas.[2] But the minority urban share understates the gravity of the urban poverty problem. It gets bigger as cities themselves do. Moreover, poverty can be particularly degrading in cities, where a dollar-a-day goes less far than in the countryside.

1.2 *The study updates progress since OED's 1994 review:* Since that report, 99 more urban development projects—with Bank investments of US$6.6 billion—have been completed within a poverty-focused policy framework. How well they have done can point to the likely future success of improving the lives of the poor in cities. In addition, this update looks at progress in response to the earlier review's recommendations (details Table 2.3), such as those that called for more coherence between urban project objectives and designs and a fuller exploitation of the economic and fiscal linkages of urban projects (World Bank 1994a).

1.3 *The study assesses the implementation challenges of the Bank's new Urban Strategy – called USP in this report:* Presented to the Committee on Development Effectiveness (CODE) in July 1999 and to the Board of Directors in November 1999, the USP (*Cities in Transition: World Bank Urban and Local Government Strategy)* has guided Bank operations since its adoption. The present review examines the obstacles that stand in the way of full implementation of the strategy and at the likelihood of achieving desired strategic outcomes of improved urban lives, especially for the poor. Through pointing to what we have learned thus far from past experience, the review suggests where USP efforts are most likely to succeed and also points to where greater efforts are needed to overcome strategic weaknesses.

1.4 *Poverty alleviation goals in general and meeting the 2015 Millennium Development Goals (MDG) call for results which clearly show that Bank investment in cities improves the lives of the urban poor.* Poverty alleviation has been central to Bank urban development policy for decades. Half the 99 completed urban projects reviewed here had at least one objective trained upon poverty alleviation. The study asks if we are getting results. Can urban projects help halve poverty in cities by 2015 as the MDG imply? How can the Bank implement the current urban sector strategy to help achieve this? This study seeks answers to these and related questions by drawing upon the operational and policy lessons of what now amounts to three decades of urban lending by the Bank.

DEVELOPING COUNTRY CITIES AND THE POOR

1.5 More and more of the developing world's population lives in cities, even though urban population growth rates have slowed (Table 1.1). By 2015—the MDG target year—almost half the developing world will be urban, compared with today's 40 per cent. Although there are many more large cities today, most urban residents live in cities of less than one million people, the most com-

mon client of Bank urban projects. Surprisingly given its centrality to the Bank's mission statement, we do not have a precise and widely accepted measure of how many of the poor live in cities.

1.6 This study used a working estimate of 525 million people living in cities below the respective national poverty lines in 2000, using poverty shares estimated from the following: (i) 44 country reports to the Bank's 2002 World Development Report; (ii) 132 developing country cities reporting to the UN Habitat Urban Indicators Program for 1998; and (iii) recent estimates at John Hopkins University (Bloomberg School 2001).[3] The estimate needs further refinement, of course, not least of all because it will serve as a baseline from which improvements can be observed. In the meantime, however, one thing is certain. Urban poverty is likely to increase, unless we can do more—in part through urban assistance—to spurn its encroachment among families in cities.

Table 1.1. More People—Including the Poor—Living in Developing Country Cities

	1970	1990	2000	*2015 (projected)*
Urban population (total in millions)	654	1,320	2,100	2,849
Urban population (%of total population)	25%	34%	40%	48%
Annual growth of urban population (% per annum)	3.6%	3.8%	2.6%	2.1%
Large Cities >1 million inhabitants (number)	80	173	268	358
Urban poor (millions below national poverty line)	215	330	525	713 *(356)**
Urban poor (% of urban population)	33%	25%	25%	25% *(12.5%)**

*Sources and Notes: (i) Urban population and growth; 1970/1990 (World Bank 1991), 2000 (WDI 2001 CD-ROM), 2015 (UN Habitat 2001); (ii) Large cities (UN Habitat 2001a); (iii) Urban poor 1970–1990 (World Bank 1991), 2000 (World Bank 2002d – 44 countries), 2015 share assumed unchanged; (iv) Developing countries include those defined as middle and low income by the World Bank for 1970–1990; (v) *MDG target figures in parentheses.*

1.7 Despite prosperity in many of these cities, poor people living in them often face squalid housing conditions, enjoy few urban services and lack security of tenure in illegal squatter settlements. Poor people in cities face constraints that their more numerous rural counterparts do not. Costs for most basic needs—notably food and shelter—are typically higher in a city, meaning that a dollar-a-day there does not go as far as it does in the countryside. Nor do the urban poor have direct access to food as the rural poor do (Pernia 1994). Health deprivation in cities through inadequate water, sanitation, and drainage infrastructure—less necessary in rural areas—can be severe for the poor (McDade and Adair 2001). Relative deprivation is worse as Gini coefficients estimated for 19 countries' urban and rural areas show income inequality to be greater in cities (Bump and Hentschel 1998). In common with their rural counterparts, the urban poor are often without *voice* in political and bureaucratic processes, and rarely have the option to *exit* their deprivation. Women among them especially face discrimination in labor and housing markets, as well as difficulties in accessing property, credit, and urban services. Such exclusion poses not just a welfare problem for the urban poor themselves. It prevents their *productive* contribution to the urban economy. Thus, halving urban poverty by 2015, as implied by the MDG, is a worthy aim for the Bank's current urban strategy (Tables 1.1 and 2.4). Achieving the MDG in cities, however, would imply taking 24 million[4] people out of poverty every year for the next 15 years, a daunting task indeed.

1.8 We now know that "watering and housing" the poor is not by itself a solution to urban poverty (Moser 1997). But providing better sanitation and shelter through urban projects can enhance *livability* for the poor, affording them a decent quality of life and equitable opportunity, as defined in the Bank's current urban strategy (Table 2.4). Support to the urban economy and its governance can help foster income earning opportunities, some of which may benefit the poor. Thus, urban development assistance can be fully consistent with the Bank's poverty reduction

policy which calls for projects to "raise the productivity of the poor's physical assets and increase their incomes, through the provision of infrastructure, credit, technology and complementary inputs and by regularizing de facto land tenure rights" (OD 4.15 para. 27).

EVALUATION METHOD

1.9 This review was based upon a desk study, conducted during the period July 2000–December 2001. It focused primarily upon the portfolio of 99 urban projects completed between 1993 and 2000, how they performed and what their results were. Bank project investments in cities through other sectors—notably education, health, transport and power—are not covered here. They mostly lacked explicit urban (or rural) spatial references needed for a review like this. As their spatial dimension becomes clearer, their impact upon urban (and rural) poverty will also be amenable to assessment in the future. Meantime, this review's assessment of urban projects was complemented by reference to the very rich academic and professional literature on urban affairs in developing countries, and to Bank non-lending activities, particularly urban sector policy advice.

1.10 To take advantage of the wide array of sources of data related to urban development, this review relied upon six different instruments of evaluation: (i) reassessment of OED's earlier review of urban lending, called the 20-year Study in this report (World Bank 1994a); (ii) compilation and analysis of a database of the 99 more recently completed urban operations, with data on their performance—assessed by OED through desk reviews of Implementation Completion Reports (ICRs) and field assessments through Project Performance Assessment Reports (PPARs) and Impact Evaluations; (iii) intensive interaction with urban practitioners within the Bank through the Urban Sector Board, Urban Fora, OED 'Urban Breakfasts' and direct contacts with Anchor and Regional staff; (iv) a telephone survey worldwide of borrower managers of 45 of the 99 completed urban projects; (v) comparative analysis of changes in livability in Bank client cities and others during 1993-98—61 cities worldwide; and (vi) review of academic and other professional literature.

1.11 For the more data-rich *livability* aspect of cities, this study tries to assess the *results* achieved by operations within the urban portfolio, within the results-based management (RBM) framework adopted by OED for its evaluations. The portfolio of 99 completed urban projects seems able to fit that framework, since the objectives of 92 per cent of these operations were aimed explicitly at medium-term results (outcomes) and/or long-term results (impacts). This study examines whether the desired results were achieved and postulates how such achievements were made. There is growing consensus among practitioners—which this review aims to bolster—of the need for greater emphasis upon results assessments in evaluation and the monitoring and evaluation (M&E) that this implies.

2. Evolution of the Bank's Urban Portfolio

2.1 The Bank urban portfolio has grown regularly since its inception in 1972. The volume of lending for completed projects has increased substantially, the product of more and, on average, larger projects (Figure 2.1). Portfolio performance ratings, measured by the share of projects with satisfactory outcomes, were strongest in the earlier periods. The weaker performance for 1993-2000 conceals a strong rebound in recent years (details: para. 3.7 and Fig. 3.1), as better performing operations approved since 1993 entered the portfolio of completed projects.

2.2 Across regions, Africa now hosts the largest number of urban projects, both ongoing and recently completed. Latin America had been the main urban borrower during 1983-92, but now hosts far fewer projects in the ongoing portfolio, as does South Asia. For ongoing projects East Asia is responsible for the largest volume of lending. Project performance during 1993-2000 was strongest in Middle East-North Africa (MNA), and had improved on the previous decade in Europe, Central Asia (ECA) and Latin America (Table 2.1). For a year-by-year portrayal of project performance and associated events in the urban portfolio story, see Timeline (Figure 2.1).

Table 2.1. The Bank's Urban Portfolio at a Glance

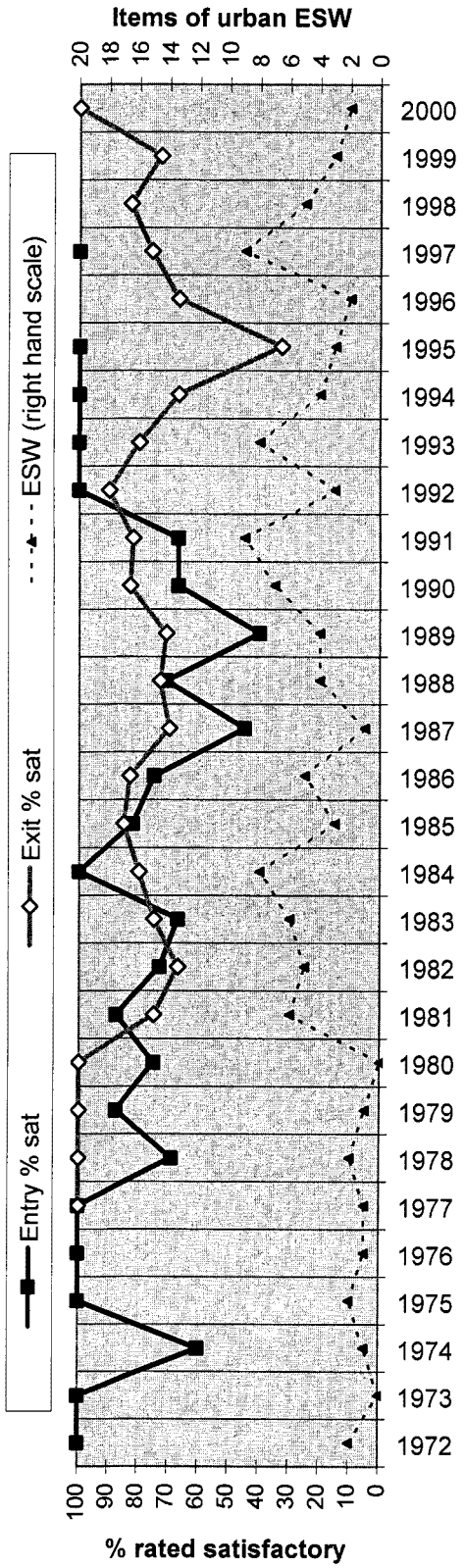
		First decade: 1972–1982		*Second decade: 1983–1992*		*Third decade: 1993–2000*		*Fourth decade plans: 2001→*	
by exit year:	Projects completed (number/year)	1.5		9.9		12.4		*15.0(#)*	
	Actual total lending (US$m/year)	18		460		825		*1,033(#)*	
	Average loan size (US$m/project)	15		46		67		*69*	
	Percent with satisfactory outcomes	88%		78%		71%		*90%(*)*	
by entry year:	Projects approved (number/year)	7.1		12.4		12.6		-	
	Planned total lending (US$m/year)	245		980		863		-	
	Planned av. loan size (US$/project)	35		79		69		-	
	Percent with satisfactory outcomes	81%		71%		100%(**)		-	
		No.of projects	***% sat***	***No. of projectss***	***% sat***	***No. of projects***	***% sat***	***No. of projects***	***% sat(*)***
by region: *(exit year)*	Africa	5	*100*	21	*86*	30	*63*	*24*	*83*
	East Asia	4	*100*	21	*95*	14	*79*	*18*	*89*
	Europe, Central Asia	1	*100*	2	*0*	6	*80*	*17*	*100*
	Latin America, Caribbean	4	*75*	33	*64*	24	*79*	*10*	*89*
	Middle East, North Africa	2	*50*	11	*100*	13	*92*	*16*	*93*
	South Asia	-	-	11	*73*	12	*42*	*5*	*80*
	- low-income countries (all regions)	*6*	*100*	*39*	*82*	*45*	*64*	*48*	*88*
	ALL URBAN PROJECTS	16(^)	*88*	99(^)	*78*	99(^)	*71*	*90(^)*	*90*

Source: OED Urban Database. Notes: (#) assumes 90 projects completed over six years; (**) refers to 12 completed out of 102 urban projects approved since 1993; (*) latest supervision self-evaluation of project achievement of development objectives; (^) actual number of projects. Decades are "flexible". %Sat = percentage rated satisfactory. All years are calendar years.

THE FIRST DECADE: 1972–1982[5] – INITIAL FOCUS ON POVERTY

2.3 Just 16 projects with loans of US$188 million were completed in this first period—mostly in Africa, Latin America and East Asia—but further lending of US$1.9 billion was approved for 55 new projects. Inspired by then World Bank President McNamara's 1975 Annual Meetings' speech—that had tackling urban poverty through service provision as its main theme—early urban projects targeted low-income beneficiaries. In particular, they called for upgrading existing squatter settlements notably through the large scale pioneering *kampung improvement program* in Jakarta, Indonesia (Ln1040).[6] The aim was to apply low physical standards to make solutions affordable to poor beneficiaries themselves and replicable on a large-scale. In the same spirit, early urban projects supported *new* housing through low-cost sites and services schemes across several regions as well as urban transport for the poor in a few key cities.[7]

Figure 2.1: Timeline of Urban Portfolio Performance (by entry and exit year)



Urban Strategy Paper – "Cities in Transition"

Urban within FPSI network that includes Urban Sector Board/Thematic Groups)

Housing Policy Paper **Urban within ESSD**

Urban Policy Paper

1987 Reorganization: Urban within Sub-regional Infrastructure Divisions

Urban Transport Paper

"Learning by Doing"

Regional Urban Projects Depts.

Shelter Paper

Housing Paper

Sites and Services Paper

Urbanization Paper **Central Urban Projects Dept.**

(Bank urban milestones)

2.4 Bank policy and technical papers on urban development during this decade—*Urbanization* (World Bank 1972); *Sites and Services* (World Bank 1974); *Housing* (World Bank 1975a); *Urban Transport* (World Bank 1975b); and *Shelter* (World Bank 1980)—all emphasized what today we would call *livability* improvements, affordable to the poor. The first decade ended with a Bank self-evaluation—entitled *Learning by Doing*—of the incipient sector (World Bank 1983). It concluded that affordable infrastructure and housing standards had been an important achievement, but to reach more people, the Bank had to wholesale benefits via local intermediaries rather than retail them individually to every single city. In today's parlance, this was a call for *scaling-up* with more emphasis on strengthening what we now call *governance.*

THE SECOND DECADE 1983–1992 – RAPID EXPANSION AFTER THE DEBT CRISIS

2.5 Urban projects were completed on a much larger scale during this period, which also saw a sharp acceleration of new urban lending approved. The portfolio gave increasing attention to institutional development at this time, while 40 per cent of projects remained focused upon the urban poor. With 78 per cent rated satisfactory, rapid expansion did not erode the quality of the portfolio. In a decade overshadowed by the international debt crisis, Latin America became the Bank's principal urban client region, hosting one third of completed projects and nearly half the lending. Successful innovation came in the form of well performing shelter and housing finance projects, such as those that successfully strengthened local housing finance agencies in India (Cr2929), Morocco (Ln2245), and Mexico (Ln2612) and established wholesale municipal lending arrangements in Jordan (Ln1826), Paraná, Brazil (Ln2343), Morocco (Ln2272) and Nicaragua (Ln2086). This was also a time of expansion of Bank urban lending for reconstruction following natural disasters (see: Gilbert and Kreimer 1999 for details). Less successful innovation was through integrated urban development projects several of which—including operations in Calcutta, India (Cr756), Recife, Brazil (Ln2170) and Guayaquil, Ecuador (Ln1776)—foundered under the weight of their multi-sectoral complexity.

2.6 The end of this decade saw the publication of the Bank's paper (details Table 2.2) *Urban Policy and Economic Development*, known hereafter as UPP-91. It presented a policy framework of the "three Ps", namely *productivity* enhancement, *poverty* alleviation, and *pollution* abatement and supported a call for further research into them. For Bank urban work, productivity was the most innovative concept, although it had figured for a long time in the academic literature (Jacobs 1969, p. 18 and Richardson 1971, p. 47). While it was an important attempt to highlight links between cities and economic development, the urban productivity concept was not well understood then or later. As one writer recently questioned: "When we talk of the need to improve urban productivity, are we talking of increasing the productivity and efficiency of cities in themselves or of increasing the productivity and efficiency of urban systems?" (Burgess 1997, p.21). Nor was the concept widely applied, being incorporated into only two urban operations during this period[8] and very few subsequently. More importantly, UPP-91 reaffirmed the priority of tackling poverty as well as taking on board the growing environmental agenda.

2.7 Also at the end of this decade, OED began its first assessment of the Bank's urban portfolio, whose report was issued in 1994 as *Twenty Years of Lending for Urban Development 1972-1992: an OED Review* (World Bank 1994a). The "20-year Study" of 115 urban projects completed between 1972 and 1992 found that physical output goals were often surpassed, but only one-third of projects substantially met their institutional development (ID) objectives. Best practice urban projects enjoyed unequivocal borrower ownership and incorporated explicit poverty reduction aims. The present review's finding of substantial borrower involvement in project preparation and implementation and the resulting project success (Table 3.1 and para.

3.15) suggests that the lessons of OED's 20-year Study remain valid and have been absorbed. The poverty focus lesson has been similarly taken on board, with more projects addressing it. Recent findings show that such projects perform well although not significantly better than average (para. 3.21). The 20-year Study made four recommendations, adopted by the Bank to differing degrees during the following decade, as discussed below (Table 2.3 and para. 2.13) .

Table 2.2. Urban Policy and Economic Development, UPP-91

	Productivity	Poverty	Pollution	Research
Issues to tackle:	Constraints upon the productivity of the urban economy	Unemployment and lack of urban infrastructure and services	Deterioration of the urban environment	Serious gap in understanding of urban issues
Strategic instruments:	(i) Strengthen management of urban infrastructure; (ii) make citywide regulatory framework more market efficient; (iii) improve municipal financial, and technical capacity; (iv) strengthen financial services for urban development.	(i) Government-supported, labor-intensive productive activities; (ii) regulatory reform to ease access by the poor to urban services, credit, and markets; (iii) facilitate women's employment; (iv) spend more on basic services for urban poor; (v) better access of poor to infrastructure and housing; (vi) recognize and support self-help community and NGO efforts.	(i) More information about the urban environmental crisis; (ii) city-specific environmental strategies; (iii) curative clean-up actions in cities; (iv) formation of national and urban policies on the environment.	(i) Assessment of existing urban research; (ii) broad, long-term urban research strategy; (iii) mobilizing resources for urban research especially in the developing countries.
Expected results on the ground:	(i) Faster growth of the urban economy; (ii) market-friendly behavior by national and city authorities	(i) Fewer urban families below the poverty-line; (ii) higher share of population with access to urban infrastructure and services	(i) Lower levels of pollution in urban areas	(i) Research results in the literature; (ii) greater urban data available
Related USP themes:	*Competitiveness/ Governance*	*Livability*	*Livability*	-

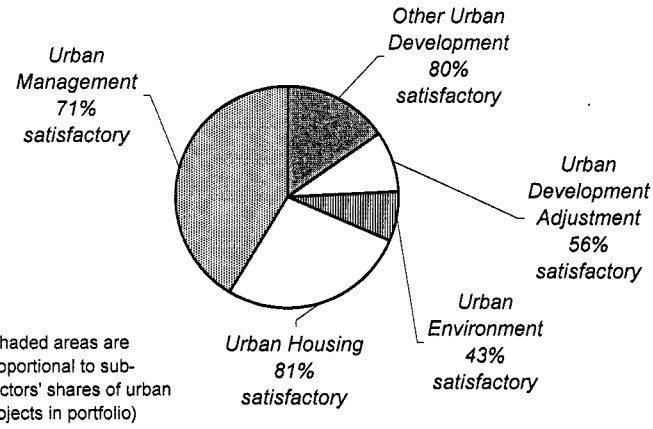
Source: World Bank 1991

THE THIRD DECADE 1993–2000 – MANAGING CITIES AND MARKET REFORMS

2.8 Portfolio performance during this period—the busiest in the history of Bank urban lending—is the principal focus of the present review. The decade saw the largest volume of lending for completed projects, although the volume for newly approved projects (Table 2.1) was down on the previous period. Africa overtook Latin America as the busiest region for Bank urban projects, but Latin America still hosted the largest volume of Bank urban lending. With 71 per cent of completed projects rated satisfactory, performance slipped to around the average for Bank projects as a whole. The performance of projects *approved* during this period, however, has so far been much stronger, although the 100 per cent satisfactory rate applies only to the twelve operations completed by July 2001 (Table 2.1).

2.9 The portfolio of completed projects during this period focused heavily upon the Urban Management and Urban Housing sub-sectors, strong performers that together accounted for two-thirds of all operations (Fig 2.2). These sub-sectors incorporated the decade's emphasis upon market reforms by trying to help bring local government and official housing agency actions and finances more into line with market behavior (Lee and Gilbert 1999). Even if they did not reach the lowest income groups, large and successful projects involving public sector housing finance were completed in Mexico (Ln2947 and Ln3497), as well as smaller operations in the Philippines (Ln2974) and Morocco (Ln3122). Indonesia's Housing Sector Loan (Ln2725) helped reform state

Fig 2.2 Subsector Shares of Urban Projects and their Percent Satisfactory by *Exit* Year 1993-2000



agencies, but with less private sector involvement than planned. Urban environment was the weakest performing sub-sector, due to the failure of three projects with large sanitation or solid waste components.[9] Urban development adjustment performed badly too, though this was a poorly defined group with few common features among its nine component projects.

2.10 This period saw increased attention by completed urban projects to poverty alleviation; addressed by objectives of 53 per cent of all operations, up from 40 per cent in the previous decade. They aimed to improve the lives of the poor through slum upgrading, for example, that made a comeback during this decade in Venezuela, Ghana (Cr2157) and Indonesia (Ln3246 and Ln3304). The poor—those most vulnerable to the effects of natural disasters—were the focus of emergency recovery operations, a few of which included housing components (details: Gilbert 2001). Additionally, this decade saw an expansion of completed Bank assistance to rebuilding lives and restarting economies in post conflict country cities in Bosnia-Herzegovina through emergency housing repair, and emergency reconstruction in Croatia and Sri Lanka (Cr1883).

2.11 Municipal development projects (MDPs) took center stage among completed urban projects at this time. They greatly increased the number of cities served by the Bank's urban portfolio. The eight largest MDPs—in Brazil (Paraná, Rio Grande do Sul and Santa Catarina), Argentina, Ecuador, Tunisia, Morocco and India (Tamil Nadu)—directly helped more than 1,500 cities. This was through local financial intermediaries on-lending Bank (and other) funding to help municipalities finance priority investment programs in return for structural reforms at the city level. OED rated 89 per cent of MDPs as having substantial or high borrower involvement in preparation, making them a particularly appropriate follow-up the 20-year Study recommendation to secure greater borrower ownership (Table 2.3). A later OED impact evaluation of four MDPs in Brazil and the Philippines found that the projects facilitated reform, and enabled participant municipalities to outperform non-participants on the fiscal front (Lee and Gilbert 1999). Despite the decentralization implied, the Bank itself still prefers to lend directly to national governments (or their financial agents). As of September 2001, the Bank made loans to the subnational level only three times, to states in Brazil and always with a federal government guarantee, as required by the Bank's Articles of Agreement (III, Section 4). Even in China with a program of on-going projects aimed at particular cities, Bank loans were always to the national government.

2.12 Bank urban activities during this decade were strongly influenced by the UPP-91 (details Table 2.2), but did not implement all aspects of the policy. UPP-91 did help keep the portfolio focused upon urban poverty and the urban environment, albeit with weak results for the seven operations officially classified as urban environment projects (Figure 2.2). There was little success in dealing with the constraints upon the productivity of the urban economy, however, a theme rarely taken up by urban practitioners (details: para. 2.6). As to the fourth aspect of the UPP-91, urban

research, it appears that it became less active within the Bank itself, but important work was done elsewhere during the decade (see: bibliography). This study did not examine this aspect in detail.

2.13 This decade's urban activities also show responsiveness to OED's 20-Year Study recommendation (Table 2.3) to strengthen the congruence of project objectives and design focused upon achieving better results, particularly as far as *livability* issues (see: Table 2.4) are concerned. Without doubt, though, the most thoroughly adopted OED recommendation was the one concerned with securing greater project ownership by both borrowers and beneficiaries. This led to good project performance (details: para. 3.15-3.16). On the other hand, OED had least success in convincing the Bank to develop guidelines for M&E and to implement project specific M&E systems, as recommended by both the 20-year Study (World Bank 1994a) and restated in its later Evaluative Note to CODE (World Bank 1999d). Insufficient attention to monitoring results of Bank urban assistance continues to be an unfortunate feature of urban lending, as discussed later in this report (Chapter 4). OED's recommendation for urban projects to tap their economic and other linkages, while supported in principle by the Bank, led to few cases of operations paying attention to the urban economy.

Table 2.3. OED's Review of 20 Years of Lending for Urban Development, 1972–92

Recommendation	Response within Bank	Level of Adoption	Current update through 1993-2000 Urban Portfolio
Enhance development impacts through tapping the potential of economic, fiscal, and financial linkages of urban projects.	Agreement, but limited action in practice.	Low	Limited attention to economic linkages still. Only 24% of projects had objectives explicitly focused upon enhancing economic development.
Strengthen the congruence of objectives and design.	Agreement, but urban projects remain intrinsically complex.	Medium	86% of projects with *livability* (definition: Table 2.4) objectives had livability components. 70% of projects with governance objectives had governance components.
Secure project ownership by borrowers and beneficiaries.	Pursuit of greater involvement in design and implementation stages.	High	Borrowers were highly or substantially involved in 85% of projects, according to OED. But beneficiary participation was a major project emphasis for only 28% of completed projects.
Accelerate the development of guidelines for and implementation of project-specific monitoring and evaluation systems.	Agreement that this should be a priority, but guidelines and adoption still weak.	Low	Only 34% of projects incorporated M&E indicators into design. Only one fifth of those projects incorporating M&E had their performance indicators substantially supervised.

Source: World Bank 1994a

INTO THE FOURTH DECADE: 2001 AND BEYOND – PUTTING CITIES IN A GLOBAL CONTEXT

2.14 In *Cities in Transition*—called USP in this report—the Bank has a new urban strategy firmly harnessed to the earlier policy paper and the experience of past lending. The rebound of urban project performance in recent years bodes well for successfully implementing the strategy, but expectations are higher today and the Bank's own poverty focus is sharper. The top priority of USP is to improve *livability* using the three other strategic dimensions or pillars—*good governance, bankability* and *competitiveness*—to achieve this goal (see definitions in Table 2.4). How this can succeed—taking into account what has been learned thus far—is the focus of more detailed discussion later in this report (Chapter 4).

Table 2.4. Cities in Transition: World Bank Urban & Local Government Strategy, USP

	Livability	Good Governance	Bankability	Competitiveness
Definition:	Decent quality of life and equitable opportunities for all—inc. the poorest—to achieve a healthy and dignified living standard.	(a) Inclusion and representation of all in urban society; (b) accountability, integrity, and transparency of government in defining and pursuing shared goals	Financial soundness in treatment of revenue sources and expenditures—and for some cities, a level of creditworthiness permitting access to the capital market	Efficient markets in cities for land, labor, credit and for infrastructure and housing inputs, permitting firms and individuals to become more productive.
Issues to tackle:	Urban poverty, inequality, unhealthy urban environment, and insecurity.	(a) Exclusion/lack of representation (b) insufficient government accountability	Cities lack of access to capital markets. Inequitable and unsustainable local finance systems	Inefficiencies in these markets.
Strategic instruments:	(i) Scaling-up services to the poor; (ii) slum upgrading	(i) Enhanced capacity building; (ii) municipal development rooted in market-based initiatives; (iii) City development strategies (CDS)	(i) Public-private partnership in municipal services; (ii) financial innovations to bring cities to capital markets; (iii) risk-pooling	(i) National urban strategies; (ii) City Development Strategies (CDS)
Expected results on the ground:	(i) Fewer urban families below the poverty line; (ii) higher share of population with access to urban infrastructure and services; (iii) less pollution	(i) Local government more responsive and inclusive toward the poor; (ii) more professional staffing of local government	(i) More creditworthy municipalities; (ii) more sound municipal finances	(i) Well-functioning urban markets; (ii) efficient use of urban inputs in production and livability
Selected Indicators *(complete list in Annex 1 of this report : (*)*	(i) Child mortality rate; (ii) households below poverty line; (iii) households with water and sewerage connections; (v) homicide rate	(i) Local government employees per 1,000 people; (ii) wages as % of local government budget; (iii) less corruption	(i) Shares of local government income deriving from: (a) taxes; (b) user charges; (c) transfers; (d) debt; and (ii) debt service charge	(i) House price: income ratio; (ii) travel time to work
Related UPP-91** themes:	Poverty/pollution	-	-	Productivity

*Source: World Bank 1991 and World Bank 2000a. (*) Taken from Annex D of USP . ** See Table 2.2*

2.15 When the USP was first presented to CODE in July 1999, OED's Evaluative Note to the Committee (World Bank 1999d) welcomed the draft of the new strategic document. OED stated then that USP was better prepared for implementation than its predecessor 1991-UPP, especially as USP included a matrix of urban performance indicators to monitor achievements under each of the four strategic pillars (reproduced in Annex 1 to this report). For M&E to be able measure the results of Bank supported interventions, however, OED suggested to CODE that additional work would be needed, such as: (i) guidance to help Bank task teams incorporate M&E into projects; (ii) clarification of baselines, or points of departure, from which changes indicators can be measured; (iii) suggestions for cost-effective methods of monitoring; (iv) Bank partnership with others, particularly the UN Habitat. Having explicit targets to achieve also increases the urgency and relevance of M&E to urban practitioners. At the same time, OED stated that M&E was most likely to succeed with the more familiar *livability* indicators, in contrast to indicators of *competitiveness*, a concept that was not clearly understood.

2.16 Among the 90 ongoing urban projects, the focus upon the poor has never been stronger. The objectives of 69 per cent—compared to 53 per cent during the previous decade—aim at alleviating urban poverty, principally through improving livability. Across regions, Africa, East Asia and Europe-Central Asia give most attention to livability, which is addressed by the

objectives of more than 70 per cent of all projects. As of July 1, 2001 they include three concurrent urban projects in Ghana, while six major operations presently address *kampung* improvement in Indonesia (see Annex 4 for complete list of projects). Good governance is also a major target, being addressed by 62 per cent of projects, with the most intensive coverage by urban projects in Africa, Latin America and South Asia. In contrast, competitiveness and bankability are each within the sights of less than 10 per cent. Within this limited coverage, the Africa urban portfolio is ahead of other regions in addressing competitiveness through project objectives. Bankability, on the other hand seems to have met with little attention in all regions.

2.17 The ongoing portfolio has incorporated the OED 20-year Study recommendation to strengthen the congruence between project objectives and design, at least as far as *livability* and *governance* are concerned (Table 2.3). Of the 61 ongoing projects with *livability* objectives, 97 per cent also had *livability* components (up from 86 per cent for operations completed during 1993-2000). A similarly high share of projects aimed at better *governance* had relevant components. The story of *bankability* and *competitiveness*—given much less attention by urban projects—is quite different, however. Of the five ongoing projects focused upon *bankability*, only 40 per cent had relevant components. Of the nine projects aimed at *competitiveness*, only 33 per cent had relevant components. Congruence between strategic objectives and project design is key to the efficacy of sector strategies and the Bank's performance in this respect has been mixed.

2.18 Self-evaluation of on-going urban projects points to likely successful outcomes, however. Latest supervision reports rated 90 per cent of them satisfactory in achieving their development objectives. This would imply an 80 per cent satisfactory OED rating for outcome at completion, if current 'disconnect' factors between self-evaluation and OED ratings of ten percentage points hold. QAG 100 per cent satisfactory quality-at-entry ratings of a sample of 23 ongoing urban projects, and 92 per cent satisfactory supervision for another sample of 48, support the positive trends observed.

3. Better Projects in Cities, Better Lives for the Poor

3.1 Despite the desirable shift by urban projects toward a more concentrated poverty focus, robust evidence of their actual impacts upon livability in cities has been thin, especially at the strategic or sector level. But with the publication of illustrative performance indicators in the USP (reproduced in Annex 1 to this report), more concrete results should be expected. A major challenge for M&E is to produce these results soon, something that does not look very likely. The Urban Sector Board's 'stocktaking' presentation of USP progress to the Board of Directors in October 2001 did not report results of monitoring these indicators, nor describe M&E under way that might produce results in the near future.

3.2 In the absence of project level data, the present review turned to another source, namely city-level UN Habitat Urban Indicators data for 1993 and 1998 to gather evidence of such impacts, attributable to Bank-financed urban operations. The study first identified all city-level indicators related to livability for which there were consistent observations for both years. Then the changes in the values of the indicators over the 1993-98 period were calculated and the results across cities were depicted on scatterplot charts. This helped identify a few outlier cities—with observations more than two standard deviations from the mean of the group—that were excluded from the analysis, in view of doubts about the quality of their data. This would be the case, for instance of a city reporting a sharp fall in water service coverage, when a modest increase was the expected result. After this 'data cleaning' the analysis used a good quality data set covering 61 cities—24 Bank clients and 37 comparators[10] —and seven indicators for the two years in question.

BANK SUPPORT MAKES A DIFFERENCE

3.3 The expected result of this analysis was that Bank client city indicators would reveal greater improvements in livability than those of otherwise similar comparator cities that did not benefit from assistance. Such a result was the explicit intent of projects that sought to increase urban service coverage—particularly of basic sanitation—in the client cities. Good quality data was most readily available for water, sewerage and solid waste disposal services. Being collected independently of the projects themselves, the UN Habitat urban indicators data affords a valuable opportunity to verify project performance through the triangulation of OED performance ratings at the project level with actual results reported at the city level. The results of the analysis of this small sample of cities—and implicitly, the urban projects behind them—points to greater livability improvements in Bank client cities than in comparator cities with respect to:[11]

- **Water:** Bank client cities increased their service coverage during 1993-98 significantly more than comparator cities. This finding assumes that most higher-income households in these cities already have basic services—studies in Latin America show that 85-98 per cent are already served (PAHO 2001)—and most of the additional coverage would go to the poor. The share of households connected to water supply services rose, on average, by 30.4 per cent in Bank client cities, but only by 4.9 per cent in comparator cities. Among others, urban projects in Armenia and Lesotho (Cr2400) contributed to this result.

- **Sewerage:** Similarly, Bank client cities fared better than others did. During 1993-98, the share of households connected to proper sewerage rose on average by 86.6 per cent in Bank client cities, versus only 1.5 per cent in comparator cities (same distributional assumption as above). Bank-financed municipal development operations in Bolivia and Morocco were among those that helped client cities achieve better results.

- **Solid Waste:** The share of all garbage poorly discarded in open dumps *fell* by 6.7 per cent during 1993-98 in Bank client cities against an *increase* in comparator cities of 285 per cent. Urban projects, such as those in Benin and Belize helped bring about improvements of this kind.

3.4 Furthermore, the analysis found that the higher the project rating—measured by OED's Aggregate Project Performance Indicator (APPI)[12]—the greater the increase of the shares of all households connected to water and sewerage services in the host Bank client city. For both services the study found positive and significant correlations at the city level (coefficients of 0.65 for water and 0.74 for sewerage).

3.5 In addition, the study pointed to other hypotheses about urban project impacts worthy of further research, but which did not produce robust statistical results given high variances in the small pool of observations available. Thus, the mean of under-five child mortality rates for all cities reviewed here increased between 1993 and 1998—an average pulled up by the HIV/AIDS pandemic in Africa—the rate of increase in Bank client cities was 45 per cent, while it was 153 per cent in comparator cities. The study also tried to test the hypothesis that poverty reduction was greater in Bank client cities, but the large variance of the shares of people living in poverty shrouded any significant differences between the two groups of cities. In terms of the efficiency of the urban economy and markets, two more indicators provide (weak) evidence of the favorable impacts of Bank urban projects. First, the average travel time to work in Bank client cities fell by 7.9 per cent, while it fell in comparator cities by only 2.4 per cent. Second, house prices as a multiple of average annual incomes—an indicator of affordability and the efficiency of housing markets—increased in all cities, but by an average of 13 per cent in Bank clients, against 71 per cent in comparator cities. The desirable result would be for this indicator to fall, of course.

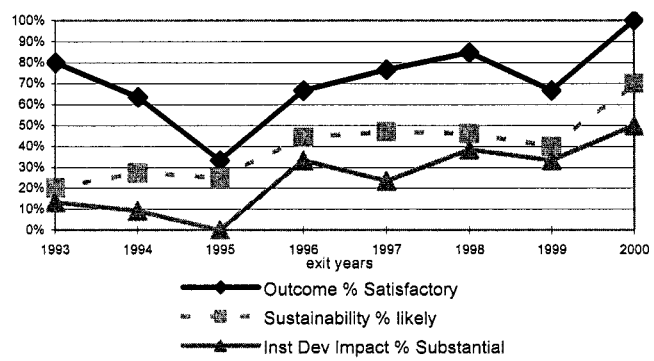
3.6 Clearly there is a need for more data to test these and other hypotheses. Building upon the UN Habitat Urban Indicators—which still cover relatively few cities for both 1993 and 1998—would be a good place to start. In the UN Habitat database, fewer than half the cities and indicators are reported for both years, limiting the scope of time series analysis. For these reasons, the Bank should support UN Habitat's efforts to extend and improve the data set, starting with the next survey scheduled for 2003. UN Habitat's work is also currently under way—and should be encouraged—to consolidate a single City Development Index (CDI) measuring overall *livability* based upon: (i) city product; (ii) infrastructure; (iii) waste; (iv) health; and (v) education (UN Habitat 2001b). Broader and more consistent coverage would allow better urban *livability* impact analysis. It would also be relevant to all Bank sectors that invest in cities—education, health, transport, energy, and water—that share the common aim of improving the lives of the poor.

REBOUND OF PROJECT PERFORMANCE RATINGS

3.7 Figure 3.1 shows the positive trend of urban project performance ratings, since their nadir in exit year 1995, when only 33 per cent of (twelve) urban projects was rated satisfactory. That year saw the evaluation of a number of operations prepared around the time of the Bank's disruptive 1987 reorganization, which severely reduced funding for urban development. Though strong, the post-1995 rebound did not lift the average for the 1993–2000 period above 71 per cent satisfactory, a level significantly below the previous decade's 78 per cent. This leaves the urban portfolio, which had been a good practice leader in the past, with ratings only slightly above the Bank-wide average of 69 per cent satisfactory. Recovery looks set to continue, though, given the positive QAG ratings reported at the end of the previous chapter.

3.8 As a component of the overall outcome rating, OED evaluators also assess the relevance[13] of a project's objectives to country policies and Bank sector strategies (such as the CAS). Of 65 projects thus rated, 88 per cent were considered substantially or highly relevant. All but one of the seven with the highest relevance rating—which included urban projects in Brazil-Salvador, Benin, and Ghana (Cr2157)—had project objectives and components focused upon the urban poor. The Ghana operation, for instance, sought to improve transport access to low-income areas and improve market facilities for the poor in four key commercial cities whose prosperity was crucial for the country's development. At the other extreme, only one of the seven modestly relevant projects targeted the poor.

Figure 3.1 Ratings have Rebounded Strongly since 1995



3.9 Similarly as components of the final outcome rating, OED assessed urban project performance in meeting objectives (*efficacy*) and in the efficient use of resources in doing so (*efficiency*). Lower ratings for both undermined a more positive assessment of portfolio performance. For instance, only 58 per cent of urban projects were rated highly or substantially *efficacious*. Municipal development operations, implemented in Argentina, Brazil, India-Tamil Nadu, the Philippines, Morocco, Tunisia and Venezuela during 1993-2000, have high efficacy ratings, In Tamil Nadu, the project achieved more than originally intended through

the creation of the privately managed urban development fund for the state, which helped ensure the remaining capacity building objectives and the provision of serviced land affordable to low-income households were fully met. Clear and realistic objectives of projects contribute to project efficacy. OED evaluators rated the *efficiency* of urban projects to be high or substantial only 51 per cent of the time, a rating that could have been undermined by lack of data. Only 28 project evaluations included estimates of *ex-post* economic rates of return (ERR), which averaged 26.6 per cent, against appraisal estimates of 25.1 per cent. The highest ERRs came from urban projects with large housing components, such as Brazil-Rio Flood, and Albania Housing, which generated high returns in tight housing markets. Flood reconstruction projects, such as those in Argentina and Yemen, also generated high ERRs as they helped kick-start disaster-hit local economies.

3.10 Urban project sustainability—understood as the resilience of project benefits over time—has improved less dramatically, but more consistently since 1993 (Fig. 3.1). Still, only 38 per cent of the 99 urban projects reviewed had *likely* sustainability, below 51 per cent for all Bank projects and down from 42 per cent for the urban portfolio during the previous decade. Inadequate maintenance and half-hearted cost recovery efforts are most frequently cited in OED PPARs as causes for unlikely sustainability. Maintenance was neglected altogether in urban projects in Ethiopia, Cameroon, and Mozambique (Cr1949)—where five-year old street pavement was broken and water distribution networks not operating—and cost recovery failed in Nigeria (Ln2925) and Sri Lanka (Cr1697). Since larger projects perform better, 55 per cent of all urban *disbursement* was sustainable, versus 60 per cent for Bank disbursement overall. Fewer urban projects with *likely* sustainability is not the result of more project sustainability being rated *unlikely*, however. In recent years, more urban project sustainability has been rated *uncertain*, a "don't know" category used by evaluators when project data is scarce.

3.11 ID impact ratings shadow outcome ratings, with a substantial improvement since 1995. Only 25 per cent of the 99 urban projects had *substantial* or better ID impact, though, below the Bank-wide figure of 34 per cent and down from 29 per cent in the previous decade. For the recent period, evaluators gave more *modest* and fewer *negligible* ratings for ID impact. Nevertheless, the MDPs mentioned above (para. 3.9) and other follow-on projects such as in Ghana (Cr2157) had important ID impacts through decentralization that helped cities conduct their urban development business more autonomously.

KEY DETERMINANTS OF PROJECT PERFORMANCE

3.12 Given that the impact of an urban project upon livability depends upon the quality of the operation—expressed through the performance ratings, urban project managers and others will want to know what factors help determine good project quality and performance. The present study designed a simple least-squares regression model to help identify such factors, some that managers can control and others that managers need to take into account as they design and implement urban projects. The model is the outcome of:

- Formulating hypotheses of possible causes of good project performance using factors related to project design and implementation, project management and country conditions, using data from a variety of sources available.
- Results of simple bivariate correlation analyses among the 50 or so chosen variables, to select key independent variables to include in the regression equation (at the same time identifying their correlates to exclude multicolinearity from the model).
- Estimating the results of the regression model (yielding R-squared of 0.48) (Table 3.1).

Table 3.1. Results of Least-Squares Regression of Factors of Urban Project Performance

Dependent Variable:	*Independent Variables:*			
	1	*2*	*3*	*4*
OED APPI	*(project factor a:)* ***Demandingness***	*(project factor b:)* ***Beneficiary involvement***	*(project factor c:)* ***Poverty-focused objective***	*(management/country factors:)* ***Predicted overall borrower performance (1)***
Coefficient	*-0.900*	*0.601*	*0.028*	*1.714*
t statistic	*-3.451**	*2.660**	*0.079*	*1.777**
Correlates	***+ positive:*** Project complexity. ***- negative:*** Previous project. Project quality at entry. Country GNP/capita.	***+ positive:*** Bank performance. Borrower involvement.	***+ positive:*** Previous project.	***+ positive:*** Monitoring & evaluation. Borrower involvement. Country urbanization. Bank performance. ***- negative:*** Country interest rate. Urban pop. growth 1993–98.
Interpretation	• The more a project taxes government or implementation agency resources, the weaker the project performance. • Larger loan amount; better quality-at-entry; being a follow-on operation, all help good performance. • Higher GNP per capita facilitates performance.	• Greater beneficiary involvement during project preparation makes for better project performance. • Greater government involvement has a similar effect.	• Incorporating poverty-focused objectives does not undermine project performance. • A poverty-focused design is more likely in follow-on projects.	• Borrower performance, itself the product of country condition, is a significant driver of project outcomes. • Bank performance is also a significant determinant of outcomes. • More urbanized countries host better-performing projects. • More rapid urbanization—with more unsatisfied demand for services—undermines project performance.
Regression statistics:	***R-squared = 0.48***	***F-value = 8.93*** *(significant at 99%)*	***n = 54*** *(2)*	

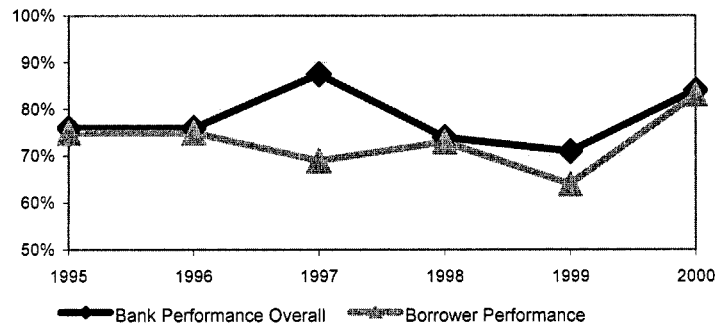
Source and notes: OED urban database. (*) significant - t-test 90% or higher. (1) The model uses predicted values of Overall Borrower Performance estimated from a regression of Actual Overall Borrower Performance against three significantly correlated country factors: governance (CPIA), urbanization and urban growth – t-test 90% or higher. (2) All urban projects completed since fiscal 1995 for which OED has the most complete evaluation data. Difference of means tests show no significant differences between this subset and the complete set of 99 completed urban projects with respect to 18 variables, including OED APPI; country urbanization; country GNP/capita; country GDP growth; poverty focus; and borrower and Bank performance.

PROJECT FACTORS OF SUCCESS—THINGS THAT MANAGERS CAN WORK ON

3.13 **Reduce "demandingness".** Urban projects should avoid straining borrower implementation capacity or resources, in other words not be too *demanding*. Only 42 per cent of urban projects reckoned by OED evaluators to be highly demanding upon borrowers had outcomes that were rated satisfactory. A highly demanding project is typically the product of overestimating institutional capacities of borrowers and what borrower agencies can be reasonably expected to achieve in the short term. *Demandingness* in urban projects can take several forms, among them: (i) complex designs involving myriad components and implementing agencies; (ii) assuming that a policy framework to be in place that does not actually exist, as occurred with urban projects in Mozambique (Cr1949) and Vanuatu; or (iii) project design based upon ideal institutional arrangements that in fact are not in place, as happened with housing in Argentina (Ln2997) that presumed a non-existent strong federal authority and Nepal's municipal development that foundered without a local institutional base. These and many other experiences point to the need for careful appraisal of borrower institutional capacity at the design stage.

3.14 **Build on experience.** Where they exist, managers should build upon previous urban projects and the learning experiences they embody. Doing so, according to the findings of this study, makes the follow-on project less demanding and therefore, more successful. Within the urban portfolio, follow-on projects—those with a similar predecessor completed less than five years before—were 78 per cent satisfactory, against 65 per cent satisfactory for stand-alone projects. Bank urban experience has been broad enough for 50 of the 99 completed projects in the 1993-2000 period to have predecessor urban projects across 31 countries in all regions.

Figure 3.2 Completed Urban Projects: Bank and Borrower Performance (% satisfactory by exit year)



3.15 **Involve beneficiaries.** Beneficiary participation is positively correlated with good project outcomes. When beneficiary involvement in project identification is high or substantial, 89 per cent of urban projects are satisfactory. Outstanding beneficiary participation was a central feature of successful urban projects in Benin, Guatemala and India-Maharashtra. Such engagement strengthens community organization itself and makes local government more accountable for results to final beneficiaries, as an OED impact evaluation of urban projects in Brazil found (World Bank 1997).[14] While the recommendation of securing more beneficiary ownership of projects of OED's 20-year study (details: Table 2.3) has been well accepted in principle, more has to be done to engage beneficiaries in practice, since fewer than half the projects featured substantial beneficiary participation. This study also found borrower managers of urban projects to be lukewarm about a constructive role for final beneficiaries, whom they found to be poor sources of both information and learning. With practice lagging behind, there is clearly scope for Bank support to encourage more borrowers to work more closely with final beneficiaries.

3.16 **Engage the borrower.** Borrower involvement too is very significant for project success, echoing the recommendation of OED's earlier 20-year Study to secure borrower ownership (details: Table 2.3). This lesson seems to have been well learned since borrowers were highly or substantially involved in the preparation of the great majority of urban projects—85 per cent of the total. These projects were rated 82 per cent satisfactory, compared with the 38 per cent satisfactory rating of operations lacking this involvement.

3.17 **Excellence in Bank service.** Good Bank performance was found to be positively correlated with borrower performance and, therefore, with satisfactory project results (Figure 3.2). OED rated 79 per cent of all completed projects as having satisfactory Bank performance (above the Bank-wide average of 74 per cent). Of these, 82 per cent had satisfactory overall outcomes. There is a positive payoff in terms of project performance from good Bank performance, especially if it goes into preventing unduly demanding project designs and into recognizing and nurturing the partnership with a well performing borrower. Bank performance has remained at high levels in recent years and future prospects look good as the high QAG ratings reported earlier (para. 2.18) would indicate.

3.18 **Nurture good borrower management.** The model found a positive and significant relationship between borrower performance[15] and project outcomes. Nearly all of the 74 per cent of completed projects with satisfactory borrower performance had satisfactory outcomes. The corollary is that projects with poor borrower performance hardly ever make the grade of a satisfactory outcome. Borrower performance for urban projects is above the average for all Bank projects (69 per cent satisfactory), but has changed little in recent years (Figure 3.2).

COUNTRY FACTORS—THINGS THAT MANAGERS NEED TO TAKE INTO ACCOUNT

3.19 **Degree of urbanization.** Urban projects appear to be more successful in more urbanized countries. Those completed in the most urbanized countries—the upper tercile with 58–89 per cent of their populations living in cities—were 81 per cent satisfactory. The equivalent rating for the least urbanized countries—that made up the lower tercile with 6–34 per cent of their people in cities—was only 59 per cent. More urbanized countries—which are also higher income—have more experience in managing urban development and more resources than those with rural-based economies. On the other hand, faster urban population growth was found to correlate negatively with project outcomes as resulting strains upon urban services and widening financial deficits undermines urban project management.

3.20 **GNP per capita.** The analysis for this review confirmed as earlier studies have long shown, that urbanization itself is correlated with income per capita at the country level. Therefore, urban projects in upper-middle income countries—with 79 per cent satisfactory—performed significantly better than those in low-income countries, where 66 per cent were satisfactory.[16] Urban project managers can do little to change income levels of their client countries, but they need to be aware of them. Managers need to be sensitive to the capacity constraints posed by low-income countries, which account for a growing share of Bank urban lending (Table 2.1).

FACTORS NOT FOUND TO BE CORRELATED WITH PROJECT PERFORMANCE

3.21 The study model was unable to point to a statistically significant relationship between three factors conventionally associated with project performance and the quality of project outcomes themselves. At this stage, we cannot affirm that no relationships exist; only that further work would be necessary to reveal them.

3.22 First, poverty focus in urban project objectives did not lead to weaker performance as many practitioners expect. Managers cite lack of effective demand and financial sustainability coming from the poor that can undermine performance. The message is that project managers need not fear fighting poverty through their projects. In fact, 75 per cent of the 52 completed projects that targeted poverty in their objectives and components were rated satisfactory. While somewhat above the average for the urban portfolio as a whole, the difference was not found to be statistically significant across the samples analyzed.

3.23 Second, the performance of the 37 completed urban projects that featured partnerships with co-financiers on the one hand was also not significantly different from that of stand-alone Bank operations on the other. In part, this result reflects the fact that such partnerships are forged within a broad array of urban projects across all regions and subsectors. It does not point to evidence of these operations' much talked about "transaction costs" undermining outcomes. The model used here does not capture other valuable benefits of partnerships, such as learning and dissemination for instance.

3.24 Finally, the model did not point to any significant difference in the performance of 18 projects prepared with the benefit of recent—up to three years before project appraisal—urban Economic and Sector Work (ESW) and the 71 other urban projects prepared without it. Other aims of ESW, such as establishing a policy dialogue with potential borrowers—as pursued in 12 countries with ESW but no ensuing projects—were not examined by the present study. While the results thus far are inconclusive, they do beg questions on the purpose of ESW, where to focus it, and whether it should underpin more innovative approaches to urban lending in the future.

WHERE TO FOCUS ACTION?

3.25 The evidence assembled in this chapter points to a valuable role for Bank-financed urban projects in improving the living conditions of the poor in cities. Cities that hosted urban projects saw improvements that others did not. Across cities, the higher the project ratings, the greater the improvements. Furthermore, there are a number of identifiable "handles" of project performance that managers can grasp in order to improve project and hence portfolio quality. To arrive at recommendations for action, however, we first need to identify the strategic areas of urban action that hold the greatest promise of success in Bank assistance to improve the lives of the poor in cities. To do this, the discussion now turns in the following chapter to a more detailed review of each of the strategic pillars of the current urban strategy.

4. Improving Lives in Cities by Implementing the Strategy

4.1 How much Bank urban assistance will continue to improve the lives of the poor in cities in the future will depend upon how successfully the new urban strategy is implemented and how well the results are monitored. These twin aspects of implementation and monitoring are examined here in relation to each of the pillars of the strategy, *livability, good governance, bankability* and *competitiveness*. Successful strategy implementation requires that these pillars constitute a framework for applying what we have learned thus far, and provide a road map showing where Bank urban assistance is headed, what it aims to achieve, and how we will monitor the results obtained.

4.2 For monitoring results, a USP attachment provides a matrix of 'illustrative indicators for monitoring urban and local government performance under the new strategy'. The matrix—reproduced in Annex 1 to this report—is one step in adopting the OED 20-year Study recommendation to improve M&E of urban projects (Table 2.3). Having explicit targets to achieve can also increase the urgency and relevance of M&E in the eyes of urban practitioners. As mentioned earlier in this report (para 3.1) we still await the results of the monitoring of these indicators at the strategic level of the USP. The need and potential for getting these results in discussed below, pillar by strategic pillar.

LIVABILITY—DECENT QUALITY OF LIFE AND OPPORTUNITY FOR ALL, ESPECIALLY THE POOR

4.3 Livability is deservedly the principal pillar of the USP. By continuing to focus upon it, as under different labels in the past, the Bank can help improve the lives of the urban poor by making them more healthy and productive. Better health can come from a safer urban environment and productivity can come from better access to job opportunities in the urban economy. In addition to being a welfare issue, this is a question of setting up conditions for the growth of the urban economy that will benefit all citizens. Through helping provide a safe water supply, sewers that work and drainage and paving that permit access to neighborhoods however inclement the weather, urban projects are instrumental in such livability improvements. They

have been in the past, most notably through 12 successive operations in Indonesia that brought the benefits of low-income *kampung* improvement to nearly 15 million people (World Bank 2000a). Newer ongoing urban projects focus correctly upon livability goals, that dovetail into the Bank's own poverty reduction mandate (OD 4.15 – 1990 and its successor) that espouses the inclusion of the poor through more healthy and productive lives.

4.4 USP indicators for monitoring livability outcomes[17] (e.g. urban poverty rates, infant or child mortality, rates of waterborne diseases, and ambient air and water quality) and outputs (e.g. basic urban service coverage) are, for the most part, relevant to USP strategic goals and familiar to urban practitioners (see: Annex 1 for complete list). Results measured by them are still not systematically reported at the sector or strategic level in the Bank, even though they are necessary for the Bank to demonstrate the effectiveness of its contribution to the livability agenda, and eventually to the achievement of the 2015 MDGs. Long before then, however, the Board and external reviewers will want to see systematic evidence of urban livability improvements for the poor, especially those attributable to Bank supported interventions.

4.5 More could be done to monitor poverty results in practice at the project level too. Of all urban operations completed during 1993–2000, 53 per cent focused at least one of their objectives on the poor, but ICR and OED evaluations drew poverty-related lessons for only 10 per cent of projects. Even fewer reported impact indicators related to urban poverty. Typically at the closing of an urban project, we still do not know who the poor beneficiaries were or how the operation made their lives better. Even the present study's own findings of the poverty impact of livability improvements (para 3.3) are premised upon (albeit reasonable) assumptions about the distribution of project benefits within the cities themselves. A critical (and self-critical) OED finding sums up the problem well: "A history of inadequate project monitoring data and weak follow-up on poverty-related project objectives in ICRs and ICR reviews, has resulted in a serious gap in the Bank's knowledge about the effectiveness of its lending in reaching poverty goals. The lack of a clear poverty focus in OED's work until recently has only served to perpetuate this gap" (Evans 2000, p. 46). We can only claim to have achieved positive impacts on the lives of the poor if we have clearly seen the results, shown them to others and also known how they were obtained.

4.6 Despite these shortcomings, the USP and future urban portfolio are poised to support several key initiatives in the Bank's poverty reduction arsenal, including:

- *Millennium Development Goals (MDG)* especially reducing poverty and infant mortality in cities and improving the lives of urban slum dwellers. (see Chapter 2).
- *Priorities of the WDR 2000/2001–Attacking Poverty:* (i) *opportunity,* through improving *livability* of the poor in cities; (ii) *empowerment,* through substantial participation of poor beneficiaries in project design and implementation; and (iii) *security,* through legal tenure and mitigating the risks from natural disasters.
- *Poverty Reduction Strategy Papers (PRSP):* As of December 2001, 42 have been prepared, 24 of which by countries that have borrowed from the Bank for urban projects. Altogether 18 PRSPs[18] address urban poverty directly and explicitly as recommended by the PRSP Sourcebook.
- *Priorities of the WDR 2001–Institutions:* The important role assigned to institutions at the local level can draw upon urban portfolio's rich experience of dealing with municipal governments for more than two decades.

The principal challenge will be to demonstrate convincingly the results achieved and that they can be attributed to the Bank interventions.

4.7 To successfully raise the USP livability pillar, urban teams at the Bank and among borrowers can draw upon a rich body of experience. First and foremost, are the three decades of experience in urban lending, which had the urban poor in its sights from the outset. Second, borrower project managers interviewed for this study said that their project experiences had taught them a lot more about livability than any other pillar of the USP. Altogether 37 of the 45 interviewed reported substantial learning about alleviating poverty through targeted infrastructure provision especially. Third, other studies have reported that city mayors especially have learned considerably about improving livability through contacts with their peers from other cities (Campbell 2001, p. 229). Very direct learning also comes from incorporating the experience of prior urban projects, a key factor in improving the performance of the successor project, as noted earlier (para. 3.14). Among strongly performing follow-on operations was the MDP in Rio Grande do Sul, Brazil that benefited from a similar predecessor operation in the neighboring state of Santa Catarina (Ln2623). Tunisia's MDP (Ln3507) was the first of its kind in its country, but could draw on a long and solid experience of city management elsewhere.

GOOD GOVERNANCE—INCLUSION AND ACCOUNTABILITY, ESPECIALLY AT THE LOCAL LEVEL

4.8 This study's findings about the importance for project success of good borrower performance and of operations that do not strain borrower capacity together point to the relevance of the good governance pillar of the USP. Although the urban strategy highlights its political inclusion and government accountability aspects (see definitions in Table 2.4), the term governance itself has recently gained wide currency in the Bank to describe more broadly: "(i) the process by which governments are selected, monitored and replaced; (ii) the capacity of the government to effectively formulate and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them." (Kaufmann, et al. 1999a, p. 1). An environment of good governance—without corruption, with well-functioning bureaucracies, contract enforcement and protection of property rights—is regarded as synonymous with a sound investment climate (Collier and Dollar 2001). At the city level, these conditions would enable the urban economy to prosper.

4.9 Indicators recommended by the USP for monitoring governance outcomes (e.g. local government responsiveness to the poor, citizen trust in local government, and service efficiency) cover relevant topics, but do not lend themselves readily to quantitative or systematic measurement. To a lesser extent, this is also true of the governance output indicators (e.g. partnerships with local governments, public consultation in budgeting and investment decisions, share local government staff with professional qualifications), some of which are really input indicators, as OED informed CODE previously (World Bank 1999d). For urban practitioners to assemble evidence of governance results that are meaningful at the sector or strategic level, the practitioners themselves will need more guidance from the Urban Sector Board. This would include baselines for these indicators from which improvements can be measured, proxy quantitative measures for the less robust indicators proposed, and targets to be achieved.

4.10 Meantime, anecdotal evidence suggests that through dealing directly with municipal governments, many completed urban projects have succeeded in strengthening governance at the local level. Bank-financed urban projects introduced municipalities to rigorous debt financing in Tunisia (Ln3507) and Venezuela. In return for tighter financial management through municipal financial action plans monitored by a central agency, such projects typically gave better performing local governments access to funding for their priority infrastructure projects. With such incentives, well-managed municipalities are better poised to lead programs to improve *livability* in their cities.

4.11 Urban projects, especially MDPs, have supported decentralization programs in many countries throughout the world. In federated systems, such as in Argentina and Brazil, such projects have consolidated existing decentralized arrangements through local capacity building. Some operations have contributed to fiscal decentralization too, by helping municipalities to become financially more self sufficient through bolstering their own revenues (Lee and Gilbert 1999). In more unitary or centralized regimes—in Chile and Indonesia, for instance—urban projects have helped central governments take early steps in the decentralization process. More generally, they also helped city mayors deal with globalization and "adopt a more sophisticated approach to world events that might affect them" (Harris and Fabricius 1996, p. 8) as well as enabling them to "adapt global technologies to local needs"(UNDP 2001, p. 5). Perhaps the most comprehensive instrument for improving governance at the local level is the *City Development Strategy - CDS* (see Box 1).

Box 1: City Development Strategies

A key instrument for implementing the urban strategy, a CDS is defined as "both a process and a product that identify ways of creating conditions for urban sustainability along the dimensions of *livability, competitiveness, good governance* and *bankability*" (World Bank 2000a, p. 64).

To date, more than 80 city development strategies have been prepared or are under preparation in more than 20 countries worldwide. First prepared in 1997, a CDS is a city-driven initiative that relies upon Bank and other donor assistance. Since the CDS process is defined by the city itself, it shares the philosophy of the Comprehensive Development Framework (CDF) of being a partnership in which the local partner retains control. As with the CDF, a CDS is also driven by participation of stakeholders and inspired by a holistic view of the challenges of local development. In fact, some claim that a CDS provides a city-level CDF. According to the *Cities Alliance*, CDSs have recently been completed successfully for Kathmandu, Johannesburg, Kigali, Sofia and four cities in China—Changsha, Zhuzhu, Xiangtan and Guiyang. At its own initiative, the Municipal League of the Philippines has planned to extend CDS coverage in the country to many more cities than initially included.

Under the direct command of the city mayor, a CDS tries to aid understanding of the urban economy by asking the simple question, "how are people in the city, especially the poor, going to make a living?" The answer can come from CDS diagnosis of how urban constraints prevent local industries from competing in broader markets. A CDS can also lead focus studies of the poor that concentrate upon the inefficiencies behind the poverty and how they can be overcome.

A CDS can be an important lens through which the city executive can better understand the economic development of the city and remove constraints to its efficient functioning in the hope of improving the lives of its people. This can involve strengthening local governance to remove potential obstacles to urban economic development, such as those that prevent access to housing, land, credit, and infrastructure. A CDS is also intended to provide a framework for investment by a city in similar way that Bank *Country Assistance Strategies* guide Bank investment in a particular client country. The "bottom-line" of a CDS exercise, however, is to enable the city administration and stakeholders to make sustainable improvements in their city's livability, especially for the poor. For a summary of an early CDS experience, for the city of Haiphong, Vietnam, see (Campbell 1999).

4.12 Urban project support for local governance also came through conventional channels of technical assistance (TA) and training to strengthen municipalities' project appraisal capacities and financial accountability. Some US$658 million—12.6 per cent of expenditures on physical investments—was spent on TA by 65 urban projects completed since 1995. Training programs—for borrower agency staff in particular—featured in one-third of completed projects. Urban projects also enhanced borrower management of procurement, a day-to-day aspect of governance typically involving the most intense Bank/borrower interaction. Borrower managers interviewed for this study reported learning more about procurement than any other aspect of project management. The achievement of efficient procurement processes means greater transparency and accountability, and

can contribute to anti-corruption efforts (Klitgaard 2000, p. 46). Although not necessarily the result of any specific instrument, leadership—now recognized as an important feature of good governance (DiGaetano and Klemanski 1999, p. 250)—was often fostered by urban projects. The operations gave many individuals opportunities to champion reform initiatives, reflecting a new style of leadership emerging in Latin America, for instance (Campbell 2001, p. 227).

4.13 The urban portfolio has provided little support to the institutional framework for private sector participation in urban services. Given the public good nature of many services and government responsibility for addressing market failures in their delivery, the public sector is likely to remain a key player in poverty-oriented urban development projects for the foreseeable future (Kessides 1997, p. 23). Public/private sector cooperation, nevertheless prospered under the first urban project in Zimbabwe (Ln2445) when city governments providing serviced land, while private (mortgage-lending) building societies financed the construction and/or sale of the house, although macro-economic crises undermined building societies' contribution to the follow-on project (Ln3079). The private sector has also participated in solid waste collection supported by Bank urban projects in Indonesia (Ln3246) and Brazil-Salvador, and Guinea-Conakry. *Informal* private sector activity, by small and medium enterprises in productive activities and through community-based organizations in neighborhood upgrading, has been supported by the urban portfolio. Indeed, successful experiences with beneficiary participation (para. 3.13), that strengthen the inclusion aspect of governance, do engage the *informal* private sector through self-help efforts by communities themselves. While the cases reported here are important, they represent only small steps toward private sector participation in urban development programs, suggesting that opportunities for private sector participation may not be fully exhausted. Municipal governance can be enhanced by enabling private sector participation in service provision within a competitive environment.

BANKABILITY—FINANCIAL SOUNDNESS AND CREDITWORTHINESS

4.14 Proposed USP bankability performance indicators—exclusively concerned with local government—are among the strategy's most robust. Both outcome indicators (e.g. balanced budgets, investment capacity, creditworthiness) and output indicators (e.g. tax effort, debt service ratio, cost recovery on services) are readily quantifiable. With municipal finance data more readily available, the performance of these indicators has been more widely reported, by OED itself in Brazil, the Philippines and Tunisia. In the case of these indicators, the Urban Sector Board could do more to disseminate these practices across regions to increase M&E coverage.

4.15 In practice, municipal development projects have enabled the Bank to build up important experience with assistance aimed at strengthening local government revenues. With a stronger revenue base, municipalities can of course make greater inroads into improving the lives of the urban poor within their jurisdictions. OED evaluations have garnered evidence of fiscal improvements attributable to Bank financed projects at the local government level in Brazil, Philippines, Tunisia and Venezuela. Borrower project managers interviewed for this study reported substantial learning about fiscal improvements through projects such as these. Such improvements typically come from better financial management systems, more complete property lists (cadastres), effective tax collection and accurate and transparent accounting, actions typically associated with good governance.

4.16 Progress with municipal creditworthiness, the second aspects of the USP's bankability pillar, has been much more limited, though. Bank urban lending has been in countries that themselves are not considered creditworthy—taking Moody's sovereign rating of Ba or below as the benchmark. In these countries, the prospects for creditworthiness at subnational levels of government

must be clouded by the market perceptions at the national level. In addition, market misgiving about local governments, especially if they lack autonomy to raise revenues or reduce expenditures, is likely to continue to bar many from the capital markets (Dillinger et al. 1999, p. 58). Even after many years of successful municipal development work in Paraná, Brazil municipalities there are still not "going to market" on a large scale. Still, 52 municipalities in Latin America did issue bonds during 1991–99 and Asia's local bond market was worth US$477 million in 1999, but this is less than 0.2 per cent of worldwide municipal revenues of US$347 *billion*[19] per annum and less than 0.01 per cent of the US$7.4 *trillion* debt outstanding in North America's local bond markets. In spite of the limited results thus far, many urban practitioners feel the pursuit of creditworthiness, insofar as it requires good governance, remains a worthy goal. Creditworthiness helps the growth of domestic bank borrowing by municipalities, an aspect that is also relevant to the Bankability pillar.

COMPETITIVENESS—EFFICIENT MARKETS IN CITIES

4.17 Through its *competitiveness* pillar, the USP seeks to improve the workings of urban markets for land, labor, credit and infrastructure and housing inputs in order to enhance livability. Strategic instruments for achieving this include city development strategies CDS (which double up as instruments of governance too – see Box 1), and housing finance and infrastructure reforms.[20] Beyond competitiveness lies a worthy vision of livable cities with buoyant, broad-based growth of employment, incomes and investment (World Bank 2000b p. 48). The USP proposes to monitor this through several outcome indicators (e.g. urban employment, urban incomes, foreign direct investment in cities, satisfaction with business climate) for which data is scarcely available at the city level. The same is true of output indicators (e.g. functioning land markets, availability of microcredit, access to information technology). Guidance is particularly needed here for practitioners to know what proxy measures to use for indicators such as these.

4.18 Emphasizing the removal of constraints to the efficient working of markets, the competitiveness concept bears more than a family resemblance to its *urban productivity* predecessor in the UPP-91 (see: Table 2.2). It shares too with its earlier counterpart a general neglect by urban practitioners. Fewer than ten per cent of completed and ongoing urban operations addressed market issues of competitiveness in their objectives or components.[21] Thus far, ICRs have yet to report concrete results in this area. Borrower urban project managers interviewed for this study reported competitiveness to be the least relevant strategic pillar, a similar sentiment expressed through a poll taken of participants of the Bank's Urban Forum in 2000. Why is this sector strategy objective neglected?

4.19 Part of the reason may be that urban development practitioners are unsure about what competitiveness in cities means and how it should be fostered. In its July 1999 Evaluation Note to CODE, OED raised its concerns about the ambiguity of the *competitiveness* concept, and uncertainty about whom it applies to, whether to local governments, firms, urban households or other economic players. Lively discussions within the Bank provoked by earlier drafts of the present paper brought up disparate interpretations of competitiveness such as: business environment; job creation; backward/forward linkages; and locally grown businesses. Each idea deserves scrutiny, since each one's links to better working markets are unclear and their implications for action are most diverse. Do we risk losing sight of the original meaning—which has rivalry and contest at its heart—of competition, a word used in city halls throughout the world?

4.20 The academic literature—which the USP does not claim to represent—does not help clarify this, even though competition among firms and households is mainstreamed in microeconomics. Economists argue that cities—which are merely the physical locus of economic activity—cannot compete as firms do (Krugman 1996b). In most cities, the greater part of the

urban economy involves non-tradables, and yet competition theory applies only to the tradable part of that economy (Begg 1999 and Ingram 1998, p. 1032). For cities, therefore, we are left with "precious little agreement either on what the term 'competitiveness' means or how policy should aim to enhance it" (Begg 1999, p. 795), and a concept that is "notoriously difficult to measure" (Freire and Stren 2001, p. 47). Clearly, more work is needed to refine the term, clarify the underlying objective and determine its practical application.

4.21 Urban practitioners are no doubt confounded further by the questions in the academic and business literature on competition about whether developing country cities can really succeed in this game. The USP itself does not take an explicit position in this debate, but the strategic prescriptions are inevitably influenced by it. The most influential text *The Competitive Advantage of Nations* describes how spatial *clusters* of high-tech innovative and risk-taking companies in cities are the primary source of economic growth (Porter 1990). But the analysis is of clusters in rich OECD countries, only. By 1990 according to Porter, only Korea and perhaps Brazil among developing countries had competed their ways into this game (Ibid. pp. 544–556). Developing country cities are still excluded because they are peripheralized (Sassen 1998) and a globalized economy needs very few nodal city regions in any case (Friedmann 2001 p.120). No major innovative and risk taking clusters of the Porter type have been found in Africa (Rakodi 1998), and very few even in Brazil (Henderson 1988).[22] With their technology, infrastructure, knowledge workers, high-tech industry, e-government, e-commerce and e-communities, they should be easy to spot in poor countries (Caldow 1999, p. 145-7). Of course, firms and other services in close physical proximity in developing country city neighborhoods are often called clusters, and can promote efficiency through agglomeration economies. But they lack the innovative and risk taking features of the dynamic clusters that are behind competitive advantage that drives economic growth in rich OECD economies. Uncertainties about the applicability of competitiveness, combined with very modest results from past urban project efforts to jump-start urban economies (World Bank 1994a pp. 27-28) may help explain practitioners' reluctance to bear the competitiveness standard.

4.22 Past experience has shown that city mayors themselves often see competition as a zero-sum game that benefits the winner only at the expense of the loser (or losers). Apart from the few trained as economists, mayors are likely to see competition as defined in a dictionary, in English as 'the activity of striving to gain something by establishing superiority over others engaged in the same attempt.' In practice, this has translated into mayors giving costly tax-breaks and free land and infrastructure in attempts to attract outside enterprises and to nurture local ones. A recent extreme case of this led to the overproduction and collapse of the market, as municipalities in China counted the losses of their competitive involvement in assembling TV sets.[23] Several other cases of what has been called a 'race to the bottom' and 'predatory competition' are documented for both developed and developing countries.[24] The Bank's recent keynote paper *Globalization, Growth and Poverty* puts this risk into context: "A sound investment climate is not one full of tax breaks and subsidies for firms. It is rather an environment for good economic governance—control of corruption, well functioning bureaucracies and regulation, contract enforcement, and protection of property rights" (Collier and Dollar 2001). It is important for urban practitioners in the Bank to help mayors avoid the downside risks of competition and help them focus upon building this good economic governance.

4.23 This focus can come from a good understanding of their local economy, particularly its *comparative advantage*. Every city has some kind of comparative advantage. A poor city can benefit when a very efficient and rich city is willing to forgo its own efficient production of some good (allowing a poor city to produce) so that the efficient city can focus upon those activities where it is comparatively *most* efficient. City mayors themselves will not make such decisions; they are not CEOs of business corporations. It is the job of businesses and households to exploit

these comparative advantages. As leaders of local public administrations, city mayors can help by posing questions like "what can *we* do to encourage what is different and advantageous about our city"[25] and "how can *we* help innovations prosper here?" Most likely, answers will highlight tradable activities that will deepen a city's involvement in intercity (and international) trade, which urban economists have long regarded as the main drivers of city economic expansion (Jacobs 1984 p. 42). Through helping their cities to prosper, city mayors will not only be able to improve livability, but they will help build national prosperity. After all, cities account for more than 50 per cent of GDP (Begg 1996; World Bank 1996).

LOOKING AHEAD

4.24 The focus on poverty and results of the Bank's past urban portfolio work confirms the relevance of the USP's primary goal of improving *livability*. Action needed to support it can draw upon the most effective side of Bank assistance to the urban sector to date, namely improving the lives of the poor in cities. Thus, the Bank is well poised for the successful implementation of the *livability* dimension of the strategy. *Governance* too is a highly relevant strategic pillar, especially insofar as it makes achieving the *livability* goal more efficient. It too can draw upon a successful line of Bank urban business in the form of assistance to local government through municipal development projects (MDPs). MDPs have also advanced the fiscal side of the USP's *bankability* agenda—which some argue is a part of governance—but progress with municipal creditworthiness has remained slow to date. *Competitiveness,* like its *urban productivity* predecessor of the UPP-91, looks set to be the strategic pillar least adopted by urban practitioners. In the short to medium term this may not be a bad thing. It will give the Bank and borrowers more time to refine the concept and clarify how it can be translated into practical actions that improve livability. It is important to clarify its meaning to help dispel doubts and risks that, thus far, have discouraged its adoption. Looking at the strategy as a whole, we should expect good results from urban projects under this strategy in the years ahead. Specific recommendations to help achieve them are presented below.

5. Recommendations

To help the urban lending program focus more effectively upon getting urban poverty alleviation results within the current strategic framework, OED recommends:

- **Systematic M&E and reporting of results—of poverty alleviation especially—from the city to the sector/strategic levels.** The Bank should go beyond the USP's 'illustrative' indicators and put in place an M&E program to measure results of Bank investments in cities, and report on them on a regular basis.
- **Revision of the USP's business strategy to ensure successful implementation.** This would provide explicit targets and determine priorities that link the USP's four key instruments—*scaling-up services to the poor, city development strategies, national urban strategies, and local government capacity building*—and four strategic pillars—*livability, good governance, bankability and competitiveness*—to urban poverty alleviation.
- **Clarification of the concept and the operational consequences of the *competitiveness* USP pillar for urban practitioners.** One way of doing this could be through issuing region-specific guidelines explaining to Bank task managers, borrower project managers, city mayors and other officials, how to get urban poverty alleviation results through the implementation of this pillar.

Annex 1: Urban Output and Outcome Indicators from USP

	Output indicators	Outcome indicators	
Livability	Percentage of households with access to piped water, sanitation, power, heating, and social services	Urban poverty rates, especially for female-headed households	Livability
	Percentage of income spent by low-income households on housing, water, energy, transport, food and social services	Income inequality (ratio of fifth quintile to first quintile)	
	Percentage of households with secure tenure	Public health—rates of waterborne disease	
	Crowding (floor space per person)	Ambient air and water quality	
	Percentage of households in informal housing or slum neighborhoods	Infant or child mortality	
	Housing affordability (ratio of housing prices to incomes)	Child nutritional status	
	Rental market turnover	Murder rate	
	Availability and use of public transport	Satisfaction with quality of life expressed by urban residents in representative surveys or social assessments	
	Percentage of solid waste adequately disposed.		
	Percentage of wastewater treated		
	School dropout rates		
	Response time to disasters		
Good Governance	Extent of strategic intent or vision developed in partnership with stakeholders that guides local government activities	Accountable and honest local government that is responsive to the needs of the poor	Good Governance
	Extent of regular public consultation in local government's budgeting and investment selection process	Efficiency and competency of local government in fulfilling essential responsibilities	
	Percentage of local government staff with professional qualification	Extent of trust and satisfaction with local government performance expressed by citizens and other stakeholders in representative surveys	
	Percentage of local government services that are subject to competition with the private sector to assure efficient and effective service delivery		
	Public access to information about local govt. decisions (e.g. policy and regulatory contract awards, procurement service delivery and budgetary performance, etc.)		
Bankability	Tax collection rates (or tax effort relative to revenue base)	Balance of local government budget	Bankability
	Development of municipal credit market (percentage of banking system lending to municipalities, percentage of bank assets for municipal credit, municipal bond issues)	Local government capital investment as share of its budget	
		Local government creditworthiness ratings (actual or proxy)	
		Integration of municipal finance and mortgage finance into the country's overall financial systems	
	Repayment record of municipal credit funds		
	Local government debt service ratio		
	Improved cost recovery on revenue-earning services		
Competitiveness	Trends in infrastructure service quality and efficiency (telephone call completion rates, power and water service interruptions)	Growth and diversity of urban employment	Competitiveness
		Growth of median urban incomes	
		Share of urban employment in informal sector	
	Functioning land markets (with land use reflecting market value)	Growth and structure of investment in urban areas	
		Growth of foreign direct investment in urban areas	
	Mean travel time to work	City product per person ("city GDP")	
	Regulatory delays for real estate transactions and for approval of business licenses.	Satisfaction with business climate expressed by firms of different types and sizes (including informal sector firms)	
	Availability of microcredit		
	Access of firms to information technology and financial services		

Source: USP (Attachment 2 – Illustrative indicators for monitoring urban and local government performance under the new strategy) World Bank 2000a pp. 23-25. Note: Being side-by-side in this table does not necessarily mean that there is a direct relationship between the proximate output and outcome indicators.

Annex 2: Selected Performance Data: Urban Portfolio 1993-2000

Table A.1. Project Factors of Urban Project Performance

		(total)	(per cent of row total)		
		Number of projects	Satisfactory outcome	Likely sustainability	Substantial ID impact
Poverty reduction	In objectives	52	75	42	25
	In components	42	67	38	17
	In lessons	9	78	67	22
	PTI (poverty targeted intervention)	9	89	33	44
Loan size (millions of US dollars)	Large (66-450)	33	85	58	39
	Medium (23-65)	33	64	39	18
	Small (1.4-23)	33	66	19	19
Size of Project target city (population)	Large (>500,000)	41	68	39	24
	Medium (50,000-500,000)	40	77	46	28
	Small (<50,000)	17	65	29	18
Results-based focus	Long term (>5 years)	41	63	22	17
	Medium-term (1-5 years)	50	78	52	28
	Short-term (immediate effect)	8	63	38	38
Partnerships with cofinancers	Two or more	15	73	33	33
	One	32	72	44	28
	None	35	66	46	37
Other factors	Highly/substantially relevant	36	80	49	39
	Strong borrower ownership	59	83	52	38
	Beneficiary participation	26	89	65	50
	Highly/substantially complex	42	67	40	24

Source: OED urban review database.

Table A.2 Management Factors of Urban Project Performance

		(total)	(percent of row total)		
		Number of projects	Satisfactory outcome	Likely sustainability	Substantial ID impact
Borrower Performance	Highly satisfactory	-	-	-	-
	Satisfactory	44	93	59	43
	Unsatisfactory	17	24	6	0
	Highly unsatisfactory	-	-	-	-
Bank Performance	Highly satisfactory	2	100	100	100
	Satisfactory	46	85	54	37
	Unsatisfactory	12	33	0	0
	Highly unsatisfactory	1	0	0	0

Source: OED urban review database.

Table A.3 Country Factors of Urban Project Performance

		(total)	(per cent of row total)		
		Number of projects	Satisfactory outcome	Likely sustainability	Substantial ID impact
Country income category	Upper middle	19	79	68	42
	Lower middle	35	74	40	20
	Low income	44	66	25	21
Least Developed Country	Least developed countries	22	59	18	18
Country Credit Rating (Moody's)*	A1-Baa2 (investment grade)	19	74	63	16
	Baa3-B1 (speculative grade)	24	88	54	42
	B2-Caa3 (junk grade)	14	71	21	21
	Not rated	42	60	26	21
Country urbaniz-ation (% of total population in urban areas)	High (58%-89%)	33	81	50	34
	Medium (35%-58%)	33	73	36	24
	Low (6%-34%)	33	59	31	19
Country governance category(*) (av. CPIA indicator)	High (3.5-4.7)	30	70	39	27
	Medium (3.1-3.5)	31	84	48	33
	Low (2.7-3.1)	31	55	28	16

Source: OED urban review database, WDR and Moody's

*Note: Standard errors associated with estimates of governance can be large and recommend the use of broad intervals of cases according to levels of governance, as we do here (Kaufmann et al. 1999b) * Moody's ratings refer to sovereign debt issued in 2001, which, while rated, is not formally graded as corporate debt is. Nevertheless, "investment grade" etc. is noted here as a metaphor for equivalent quality commercial paper in the financial markets.*

Annex 3: Urban Portfolio: Completed Projects 1993-2000

Region **Africa**

Country	ProjectTitle	Loan#	Date Appr.	Date Closed	Loan Amt.	Outcome	Sustainability	I D Impact
Benin	Urban Rehabilitation and Management (#)	C2338	2/18/1992	12/31/1997	22.8	Sat-H	Lik	Sub
Burkina Faso	Urban Development II (+)	C2067	10/24/1989	3/31/1997	32.2	Sat	Lik	Mod
Burundi	Urban Development II	C1968	12/6/1988	12/31/1996	21.0	Sat-M	Unl	Mod
Cameroon	Urban Development II (+)	L2999	10/27/1988	6/30/1994	95.8	Unsat	Unl	Neg
Cote d'Ivoire	Urban Development III	L2789	3/24/1987	6/30/1994	118.3	Unsat	Unc	Neg
Cote d'Ivoire	Municipal Development (+)	L3128	10/24/1989	12/31/1994	47.1	Unsat	Unc	Neg
Djibouti	Urban Development II	C2203	1/15/1991	6/30/1998	11.2	Unsat	Unl	Neg
Ethiopia	Market Towns Development	C2103	3/13/1990	6/30/1999	42.0	Unsat	Unl	Neg
Ethiopia	Addis Ababa Urban Development II (+)	C2161	6/20/1990	6/30/1999	33.0	Unsat	Unl	Mod
Gambia	Urban Management and Development	C1443	3/6/1984	2/28/1993	11.3	Sat	Unc	Mod
Ghana	Priority Works	C1874	1/26/1988	12/31/1992	10.6	Sat	Unc	Mod
Ghana	Urban Development II (*) (+)	C2157	6/14/1990	6/30/1999	70.0	Sat	Lik	Sub
Guinea	Urban Development II (+)	C2112	3/27/1990	12/31/1997	57.0	Sat	Lik	Sub
Lesotho	Urban Sector Reorientation (+)	C1898	4/19/1988	12/31/1994	5.6	Unsat	Unl	Neg
Lesotho	Infrastructure Engineering (#)	C2400	6/24/1992	12/31/1996	9.8	Sat	Unc	Sub
Madagascar	Urban Development	C1497	6/12/1984	6/30/1993	10.8	Sat	Unc	Mod
Madagascar	Antananarivo Urban Works (#) (+)	C2591	3/29/1994	6/30/1999	18.3	Sat	Lik	Sub
Malawi	Urban Development I	C1528	11/27/1984	6/30/1993	10.8	Sat	Unc	Mod
Mali	Urban Development II	C1677	4/1/1986	3/31/1994	27.8	Sat	Unc	Mod
Mozambique	Urban Rehabilitation (#) (+)	C1949	8/2/1988	10/31/1996	60.0	Unsat	Unl	Neg
Mozambique	Local Govt Reform & Engineering (#) (+)	C2530	6/29/1993	3/31/1999	18.0	Sat-M	Unc	Mod
Nigeria	Urban Development II	L2607	7/23/1985	6/30/1993	44.6	Sat	Unc	Mod
Nigeria	Infrastructure Development Fund	L2925	3/29/1988	6/30/1997	61.1	Unsat	Unl	Mod
Nigeria	Oyo State Urban Development	L3238	6/26/1990	6/30/1999	25.0	Unsat	Unl	Mod
Rwanda	Urban Institutions/Sectoral Development	C2041	6/15/1989	12/31/1996	1.4	Unsat-H	Unl	Neg
Senegal	Municipal and Housing Development (+)	C1884	3/15/1988	1/31/1997	46.0	Sat-M	Unc	Mod
Tanzania	Urban Sector Engineering (+)	C2291	7/30/1991	12/30/1996	11.2	Sat	Lik	Sub
Uganda	Northern Reconstruction (*) (+)	C2362	5/5/1992	9/30/1998	71.2	Sat-M	Unc	Mod
Zimbabwe	Urban Development (*) (+)	L2445	6/19/1984	9/30/1993	36.5	Sat	Lik	Mod
Zimbabwe	Urban Development II (+)	L3079	6/1/1989	12/31/1999	84.3	Sat	Lik	Sub

Following indicate projects included in: (*) OED field assessments; (#) OED study of Bank urban client cities; (+) Urban review telephone survey of managers

Region East Asia Pacific

Country	ProjectTitle	Loan#	Date Appr.	Date Closed	Loan Amt.	Outcome	Sustainability	I D Impact
China	Shanghai Sewerage (+)	C1779	4/14/1987	12/31/1995	145.0	Sat	Lik	Mod
China	Medium-sized Cities Development	C2201	1/8/1991	6/30/1997	164.5	Sat	Lik	Mod
Fiji	Housing	L3188	4/17/1990	9/30/1998	13.0	Sat-M	Unc	Mod
Indonesia	Housing Sector Loan (*)	L2725	6/23/1986	12/31/1992	198.0	Sat	Unl	Mod
Indonesia	Third Jabotabek Urban Development (*) (+)	L3246	7/17/1990	12/31/1999	54.6	Sat	Lik	Mod
Indonesia	East Java/Bali Urban Development (*)	L3304	3/19/1991	9/30/1997	173.0	Sat	Unc	Sub
Korea, Rep	Housing	L3329	5/23/1991	6/30/1995	100.0	Sat	Lik	Sub
Papua New	Special Interventions (+)	L3289	1/29/1991	12/31/1996	17.4	Unsat	Unl	Neg
Philippines	Municipal Development (*) (+)	L2435	6/5/1984	6/30/1993	35.8	Sat	Lik	Sub
Philippines	Housing Sector	L2974	6/24/1988	6/30/1994	125.3	Sat	Unl	Mod
Philippines	Municipal Development II (*)	L3146	12/14/1989	12/31/1996	39.4	Sat	Lik	Sub
Thailand	Regional Cities Development (*)	L2520	4/23/1985	3/31/1994	19.9	Sat	Unc	Mod
Thailand	Third Shelter Project (+)	L2795	4/14/1987	12/31/1992	6.7	Unsat	Unc	Neg
Vanuatu	Urban Housing	C2262	6/11/1991	9/30/1998	1.8	Unsat-H	Unl	Neg

Region Europe and Central Asia

Country	ProjectTitle	Loan#	Date Appr.	Date Closed	Loan Amt.	Outcome	Sustainability	I D Impact
Albania	Housing (#)	C2534	7/8/1993	12/31/1999	15.0	Sat-M	Unl	Mod
Armenia	Earthquake Reconstruction (#)	C2562	2/1/1994	6/30/1997	28.0	Sat	Unc	Mod
Bosnia-Herzegovina	Emergency Housing Repair	C2902	7/30/1996	6/30/1998	15.0	Sat	Lik	Sub
Croatia	Emergency Reconstruction (*) (+)	L3760	6/21/1994	12/31/1999	128.0	Sat-M	Lik	Mod
Turkey	Cukurova Urban Development (+)	L2819	5/21/1987	6/30/1995	28.5	Unsat	Unc	Neg
Ukraine	Housing	L3985	3/14/1996	6/30/1999	0		NAPL	NAPL

Following indicate projects included in: (*) OED field assessments; (#) OED study of Bank urban client cities; (+) Urban review telephone survey of managers

Region Latin American and the Caribbean

Country	ProjectTitle	Loan#	Date Appr.	Date Closed	Loan Amt.	Outcome	Sustainability	I D Impact
Argentina	Municipal Development (*)	L2920	3/22/1988	3/31/1996	119.8	Sat	Unc	Sub
Argentina	Housing Sector (*)	L2997	10/27/1988	6/30/1993	21.8	Unsat	Unl	Neg
Argentina	Flood Rehabilitation (*) (+)	L3521	9/29/1992	3/31/1998	167.2	Sat	Lik	Sub
Belize	Belize City Infrastructure (#) (+)	L3667	11/30/1993	12/31/1997	20.0	Sat-M	Unc	Mod
Bolivia	La Paz Municipal Development	C1842	8/4/1987	10/31/1996	14.5	Sat	Unc	Mod
Bolivia	Municipal Development (#) (+)	C2565	2/8/1994	12/31/1999	42.0	Sat	Unl	Sub
Brazil	Sta Catarina Small Towns (+)	L2623	9/19/1985	12/31/1993	24.2	Sat	Lik	Mod
Brazil	Salvador Metropolitan Development (*) (+)	L2681	4/22/1986	6/30/1997	36.4	Sat	Lik	Sub
Brazil	Rio Flood Reconstruction (*) (+)	L2975	6/24/1988	9/30/1995	167.3	Sat	Unc	Mod
Brazil	Parana Municipal Development (*) (+)	L3100	6/22/1989	12/31/1995	100.0	Sat	Lik	Sub
Brazil	Rio Grande do Sul – Municipal Dev. (*) (+)	L3129	10/24/1989	12/31/1995	80.0	Sat	Lik	Sub
Chile	Housing Sector II (*) (+)	L3030	3/28/1989	6/30/1993	200.0	Unsat	Lik	Neg
Chile	Municipal Development (#)	L3668	12/7/1993	6/30/1998	10.0	Sat	Unc	Mod
Ecuador	National Low-income Housing II (+)	L2898	1/12/1988	6/30/1994	33.7	Sat	Unc	Mod
Ecuador	Municipal Development & Urban	L3285	12/20/1990	6/30/1999	84.0	Sat	Lik	Mod
El Salvador	Earthquake Reconstruction	L2873	9/15/1987	6/30/1996	63.8	Unsat	Lik	Mod
Guatemala	Municipal Development (+)	L2972	6/23/1988	6/30/1997	9.9	Sat-M	Lik	Mod
Mexico	Solid Waste Management Pilot (+)	L2669	3/25/1986	6/30/1995	17.7	Unsat	Unl	Neg
Mexico	Municipal Strengthening	L2666	3/25/1986	6/30/1995	39.7	Sat	Lik	Neg
Mexico	Housing Finance (+)	L2947	6/2/1988	6/30/1994	300.0	Sat	Lik	Sub
Mexico	Low-income Housing II	L3140	12/12/1989	6/30/1995	150.0	Sat	Lik	Mod
Mexico	Housing Market Development	L3497	6/25/1992	12/31/1997	450.0	Sat	Lik	Mod
St. Lucia	Water Supply	C2120	3/29/1990	3/31/1997	7.7	Unsat-M	Unl	Mod
Venezuela	Low-income Barrios Improvement (+)	L3495	6/23/1992	12/31/1998	38.5	Sat	Lik	Sub

Following indicate projects included in: (*) OED field assessments; (#) OED study of Bank urban client cities; (+) Urban review telephone survey of managers

Region Middle East and North Africa

Country	ProjectTitle	Loan#	Date Appr.	Date Closed	Loan Amt.	Outcome	Sustainability	I D Impact
Algeria	Housing Completion (+)	L3561	2/17/1992	6/30/1998	195.3	Sat-M	Unc	Sub
Algeria	Mascara Earthquake Reconstruction	L3813	12/1/1994	12/31/1999	32.0	Sat	Lik	Mod
Egypt	Greater Cairo Urban Development	L2176	6/10/1982	12/31/1992	52.9	Sat	Unc	Neg
Iran	Earthquake Recovery	L3301	3/14/1991	6/30/1996	245.5	Sat	Unc	Mod
Jordan	Urban Development II	L2587	6/18/1985	6/30/1993	16.4	Sat	Lik	Mod
Jordan	National Urban Development (+)	L2841	6/16/1987	6/15/1995	23.2	Sat	Unc	Mod
Morocco	Housing Finance II	L3122	9/14/1989	6/30/1995	78.3	Sat	Lik	Neg
Morocco	Municipal Finance (#) (+)	L3616	6/10/1993	6/30/1999	100.0	Sat	Lik	Sub
Tunisia	Urban Development III (*)	L2223	12/16/1982	6/30/1993	24.6	Sat	Unc	Mod
Tunisia	Urban Development IV	L2736	7/3/1986	6/30/1995	30.2	Unsat	Unc	Neg
Tunisia	Urban Development V	L3064	5/18/1989	12/31/1996	57.9	Sat-M	Lik	Mod
Tunisia	Municipal Sector Investment (*) (#) (+)	L3507	7/2/1992	8/19/1998	75.0	Sat	Lik	Sub
Yemen, Rep	Taiz Flood Disaster Prevention	C2160	6/14/1990	12/31/1998	15.0	Sat-M	Unc	Mod

Region South Asia

Country	ProjectTitle	Loan#	Date Appr.	Date Closed	Loan Amt.	Outcome	Sustainability	I D Impact
Bangladesh	Urban Development I	C1930	6/21/1988	6/30/1998	30.6	Unsat	Unl	Neg
India	Bombay Urban Development	C1544	1/29/1985	9/30/1994	93.7	Sat-M	Unl	Mod
India	Gujarat Urban Development	C1643	12/17/1985	3/31/1995	49.5	Unsat	Unc	Mod
India	Uttar Pradesh Urban Development (+)	C1780	4/21/1987	3/31/1996	111.0	Unsat	Unl	Neg
India	Tamil Nadu Urban Development (+)	C1923	6/15/1988	9/30/1997	254.7	Sat	Lik	Mod
India	Maharashtra Earthquake Reconstruction (+)	C2594	3/31/1994	12/31/1998	217	Sat-H	Lik	Sub
Nepal	Municipal Development & Housing	C1988	3/14/1989	6/30/1996	21.3	Unsat	Unc	Mod
Pakistan	Lahore Urban Development	C1348	4/19/1983	12/31/1992	12.9	Sat	Unc	Sub
Pakistan	Karachi Special Development	C1652	1/14/1986	9/30/1994	65.5	Unsat	Unc	Neg
Pakistan	Punjab Urban Development	C1895	4/12/1988	3/31/1998	90.0	Sat-M	Unc	Mod
Sri Lanka	Municipal Management (+)	C1697	5/13/1986	6/30/1995	10.1	Unsat	Unl	Mod
Sri Lanka	Emergency Reconstruction & Rehab (+)	C1883	3/15/1988	6/30/1994	47.2	Unsat	Unl	Neg

Following indicate projects included in: (*) OED field assessments; (#) OED study of Bank urban client cities; (+) Urban review telephone survey of managers

Annex 4: Urban Portfolio cont: Ongoing Projects*

Region **Africa**

Country	Project Title	Loan#	Date Appr.	Loan Amt.
Benin	First Decentralized.City Mgmt.	C3234	6/3/1999	25.5
Burkina Faso	Urban Environment	C2728	5/23/1995	37.0
Burundi	Public Works and Employment Creation	C3460	1/23/2001	40.0
Cote d'Ivoire	Urban Land Mgmt	CN036	11/5/1997	10.0
Cote d'Ivoire	Municipal Support	C2704	4/13/1995	40.0
Gabon	Pilot Com. Infrastructure	L4387	8/24/1998	5.0
Gambia	Poverty Alleviation & Municipal.Dev	C3176	3/16/1999	15
Ghana	Local Govt Dev.	C2568	2/17/1994	38.5
Ghana	Urban 5	C3330	3/30/2000	10.8
Ghana	Urban Environmental Sanitation	C2836	3/26/1996	71.0
Guinea	Urban III	C3196	4/20/1999	18.0
Guinea-Bissau	Transport And Urban Infrastructure	C2748	6/22/1995	0.0
Kenya	Emergency Infrastructure.Rehab	C3120	7/16/1998	40.0
Madagascar	Urban Infrastructure	C2968	6/25/1997	35.0
Malawi	Local Govt.	C2379	6/4/1992	23.3
Mali	Urban Devt & Decentralization	CN004	12/13/1996	80.0
Mauritania	Infrast & Pilot Decentralization.	C2835	3/26/1996	14.0
Niger	Urban Infrastructure. Rehab.	C2957	5/29/1997	20.0
Senegal	Urban Devt & Decentralization. Project	C3006	11/20/1997	75.0
Sierra Leone	Freetown Infrastructure	C2511	6/10/1993	26.0
Swaziland	Urban Development	C3807	11/15/1994	29.0
Tanzania	Urban Sector Rehab	C2867	5/23/1996	105.0
Togo	Lome Urban Development	C2620	5/31/1994	26.2
Uganda	Nakivubo Channel Rehab	C3203	5/6/1999	22.4

Region **East Asia Pacific**

Country	Project Title	Loan#	Date Appr.	Loan Amt.
China	Shanghai Sewerage Project II	L3987	3/21/1996	250.0
China	Enterprise Housing & Soc Sec Reform	L3773	7/5/1994	330.0
China	Huai River Pollution Control	L4597	3/22/2001	105.5
China	Hubei Urban Environment	L3966	12/19/1995	121.7
China	Zhejiang Multicities Development	L2475	3/25/1993	110.0
China	Liao River Basin	L4617	6/19/2001	100.0
Indonesia	Kalimantan Urban Dev	L3854	3/21/1995	118.0
Indonesia	East Java Urban Dev II	L4017	5/16/1996	82.2
Indonesia	Sulawesi Urban Dev II	L4105	11/21/1996	88.0
Indonesia	Bali Urban Infrastructure Project	L4155	5/6/1997	79.9
Indonesia	Surabaya Urban Dev	L3726	4/12/1994	0.0
Indonesia	Urban Poverty Project	L3210	5/18/1999	100.0
Indonesia	Semarang Surakarta Urban Dev	L3749	6/7/1994	132.6
Indonesia	Gef-West Java Environment Mgmt		6/12/2001	0.0
Indonesia	Western Java Environment Management	L4612	6/12/2001	17.4
Indonesia	Municipal Innovations Project	L4440	2/9/1999	5.0
Philippines	Lgu Finance And Development Project	L4446	3/23/1999	100.0
Vietnam	Ho Chi Min City Env Sanitation.	C3475	3/20/2001	166.3

* (As of July 1, 2001)

Region Europe and Central Asia

Country	Project Title	Loan#	Date Appr.	Loan Amt.
Albania	Land Dev	C3066	5/12/1998	10.0
Azerbaijan	Pilot Reconstruction	C3100	7/2/1998	20.0
Bosnia-Herzegovi	Local Dev	C3191	4/13/1999	15.0
Bosnia-Herzegovi	Cultural Heritage Pilot	C3269	6/28/1999	4.0
Croatia	East Slavonia Reconstruction	L4351	6/18/1998	40.6
Georgia	Municipal Dev	C2976	7/15/1997	20.9
Latvia	Municipal Services Dev	L3964	12/14/1995	27.3
Lithuania	Municipal Dev	L4481	5/27/1999	30.1
Lithuania	Energy Efficient Housing	L4064	7/11/1996	10.0
Moldova	First Cadastre	C3061	4/23/1998	15.9
Poland	Flood Emergency	L4264	12/18/1997	200.0
Russia	St Petersburg Rehab	L4144	3/27/1997	31.0
Russia	Housing	L3850	3/7/1995	249.3
Russia	Municipal Heating	L4601	3/27/2001	85.0
Tajikistan	Emergency Flood Asst	C3123	8/27/1998	7.0
Turkey	Emergency Flood Recovery	L4388	9/10/1998	369.0
Turkey	Marmara Earthquake Emergency	L4517	11/16/1999	505.0

Region Latin America and theCaribbean

Country	Project Title	Loan#	Date Appr.	Loan Amt.
Argentina	Munic Devt II	L3860	3/23/1995	210.0
Brazil	Bahia Municipal.Dev	L4140	3/4/1997	100.0
Brazil	Ceara Urban Development & Water	L3789	9/6/1994	140.0
Brazil	Minas Municipal Dev	L3639	7/20/1993	140.3
Colombia	Urban Infrastructure	L4345	6/11/1998	75.0
Colombia	Urban Environment TA	L3973	1/16/1996	20.0
Honduras	Emergency Disaster Mgmt	C3361	5/30/2000	10.8
Nicaragua	Natural Disaster Vulnerability Reduction	C3487	4/3/2001	13.5
OECS Countries	OECS Ship Waste Mgmt	C2859	5/4/1995	12.5
Venezuela	Caracas Slum Upgrading	L4400	10/22/1998	60.7

Region MNA

Country	Project Title	Loan#	Date Appr.	Loan Amt.
Algeria	Low-Income Housing	L4361	6/25/1998	150.0
Egypt	Private Sector Tourism Infras & Env	C3605	5/18/1993	70.5
Jordan	Community Infrastructure.Dev.	L4215	8/21/1997	30.0
Jordan	Second Tourism Dev.	L4214	7/31/1997	32.0
Lebanon	Emergency Recovery	L3562	3/4/1993	225.0
Lebanon	First Municipal Infrastructure	L7026	6/22/2000	80.0
Morocco	Municipal Finance II	L4231	9/11/1997	70.0
Morocco	Sustainable Coastal Tourism	L4573	6/30/2000	2.2
Morocco	Fes/Medina Rehab.	L4402	10/29/1998	14.0
Tunisia	Cultural Heritage Project	L7059	6/12/2001	17.0
Tunisia	Municipal Dev. II	L4202	6/24/1997	80.0
West Bank-Gaza	MIDPII		6/20/2000	7.5
West Bank-Gaza	Housing	C2605	4/8/1997	25.0
West Bank-Gaza	Municipal Development	C2605	5/30/1996	40.0
West Bank-Gaza	Bethlehem 2000	C2604	9/22/1998	25.0
Yemen	Public Works II	C3168	1/28/1999	50.0

Region SAR

Country	Project Title	Loan#	Date Appr.	Loan Amt.
Bangladesh	Air Quality Management Project	C3404	7/25/2000	4.7
Bhutan	Urban Development Project	C3310	12/21/1999	10.8
India	Urban Dev II	C4478	5/27/1999	105.0
Pakistan	N. West Frontier Prov Community Infra	C2829	3/14/1996	21.5
Sri Lanka	Colombo Env. Improvement	C2757	6/29/1995	31.2

Annex 5: Management Response

I. INTRODUCTION

1. Management commends the OED study team for this thorough review and for their credible effort to take account of previous staff comments and concerns. For the most part, the Review provides valuable analysis and stocktaking with which Management agrees. The Review also includes some valid criticisms (including of certain aspects of portfolio performance up to FY00), and three important and challenging recommendations.

II. MANAGEMENT'S VIEWS

2. Management agrees with and supports the recommendations of the OED review. Management has recognized the issues that prompt the recommendations and, as indicated in the matrix below, had already begun to formulate responses along those lines. This OED report will give additional impetus to the implementation of Management's plans.

3. Management has noted that our earlier comments on the draft report have largely been taken into account. However, Management would like to clarify its views on a few items without detracting from our general appreciation of the present report.

4. Management agrees that the recommendation that the Bank support urban data indicators collection is generally useful. Although collecting urban indicator data for international comparison is valid, Management notes that the Bank and other donors have directed most of their recent efforts toward strengthening locally-defined indicators relevant to projects and strategies, and to promoting the use of these locally-defined indicators in operations. Both objectives are justifiable and needed, but from our perspective, there is less international momentum behind data collection for international comparison. Since there are limited resources devoted to either, Management would choose to emphasize efforts to ward strengthening more locally-defined indicators.

5. Management was not convinced by OED's findings that ESW does not affect outcomes. We submit that ESW/AAA that Urban Poverty Analyses and Strategies (see matrix below) provide a reliable basis for the orderly application of Bank instruments resulting in the successful development of urban areas. In fact, Bank experience indicates that for multi-sectoral themes such as urban, several types of ESW are necessary because of the inter-relatedness and interactions among sectors that affect the urban environment. The Bank has found it essential that the design of individual interventions be based on an understanding of these critical cross-sectoral relationships, and Management believes that carefully designed, multisectoral ESW is indispensable to reach that level of understanding across sectors.

[cont:

III. Summary of OED Recommendations with Management Response

OED RECOMMENDATIONS	MANAGEMENT RESPONSE
1. Systematic M & E and reporting of results—of poverty alleviation especially—from city to the sector/strategic levels	
The Bank should go beyond the USP's 'illustrative' indicators and put in place an M&E program to measure results of Bank investments in cities and report them on a regular basis.	Management endorses this recommendation. Working with other Bankwide institutional efforts to improve M & E in Bank operations, Management is developing a program to provide advice, training, and support to Urban Sector staff, specifically to help fill this important gap. Management is also working with other international agencies to develop approaches to monitor national and global progress in urban poverty reduction.
2. Revision of the USP's business strategy to ensure successful implementation	
This would provide explicit targets and determine priorities that link the USP's four instruments—*scaling up services to the poor, city development strategies, national urban strategies, and local capacity building*—and four strategic pillars—*livability, good governance, bankability and competitiveness* – to poverty alleviation	Management accepts this recommendation. The Urban Anchor's business plan reflects ongoing efforts to promote the effective implementation of the Urban Strategy Paper and the linkage of its key components. Urban staff are collaborating with cross-sectoral colleagues in a new non-lending product currently designated as Urban Poverty Analysis and Strategy (UPAS) to bring together multi-sectoral, poverty-focused analyses and a consultative process modeled on City Development Strategy experience. The aim is to obtain locally-owned strategies and multi-year interventions for targeted, manageable support to reduce poverty in cities. This approach is being tested in several pilots initiated in FY03.
3. Clarification of the concept and operational consequences of the *competitiveness* USP pillar for urban practitioners	
One way of doing this could be through issuing region-specific guidelines explaining to Bank task managers, borrowing project managers, city mayors and other officials, how to get urban poverty alleviation results through the implementation of this pillar	Management agrees with the thrust of this recommendation. The urban anchor has been working for almost two years on a local economic development (LED) knowledge and capacity-building program, which includes methodologies for strategic planning of LED based on international review of experience, good practice, and testing in client countries. These applications are underway, mainly in ECA, but considerable interest is emerging in other Regions. A draft manual has been prepared and is being presented in courses and workshops for clients and staff. The manual will be further refined in FY04 based on experience with its use. Substantial material on LED has been developed on the urban KM website and may be accessed under the LED link. The LED program is being externally peer reviewed in FY03 and further refinements in content and approach will be identified and pursued accordingly. Issues of mainstreaming LED into Bank operations are also being addressed through practitioner workshops and internal peer reviews during FY03.

Annex 6: Chairman's Summary: Committee On Development Effectiveness

1. ***Report Findings***. This review is a sequel to OED's first review *Twenty Years of Lending for Urban Development 1972-1992*. The current urban strategy paper (USP), *Cities in Transition,* was discussed by CODE in July 1999 and endorsed by the Board in November of the same year. The review uses the four pillars of the USP -- *livability, good governance, bankability, and competitiveness* -- as the framework for evaluating project performance. The results are promising. There were significantly greater improvements in the lives of the poor in cities that benefited from Bank-financed urban projects than in similar cities that did not have such interventions. Projects undertaken in higher income and more urbanized countries also performed better. However, evidence of project impact on the poor has not been systematically monitored, and improved monitoring and evaluation of results at the project and sector/strategic levels are necessary. Management is in broad agreement with OED's recommendations and with the areas that OED concludes need priority action. Management has already initiated a number of actions along the lines proposed by OED.

2. ***Main Conclusions and Next Steps***. The committee welcomed the positive findings of the OED study, but raised the question of attribution. CODE endorsed the findings of the review and its recommendations but believed it could have spelled out more fully the operational lessons for successful strategy implementation, particularly those relevant for improving policy and project outcomes. The committee broadly endorsed the management response, but noted that it would have liked more information on how management planned to make progress in M&E of urban projects. The findings and recommendations of the OED review will inform management's on-going activities and implementation of the FY03 Urban business plan.

3. ***Attribution of Outcomes to Bank Interventions***. The committee noted that the correlation between the Bank's investment and improvements in the cities was encouraging but it urged further analysis of this relationship in order to attribute the causes of the improvements more precisely to Bank activities. OED emphasized that the results showed a strong association and not necessarily direct causality and that the challenge would be to provide more evidence to inform future policy and project design. Management agreed that it would be important to be able to assess the impact of the Bank's urban projects but also cautioned that it would be difficult to measure how many people actually benefit from a particular urban investment, given the nature of urban dynamics.

4. ***Links to the Macro-economic Policy Framework and Other Sector/Thematic Strategies***. The committee noted that the urban strategy needs to be set within the country context and be closely linked to macro-economic policy. OED and management agreed that it was important to assess the urban strategy within country and sub-regional contexts. Members stressed the importance of a cross-sectoral approach and asked how the priority issues from related sectors (rural, transport, water) are being integrated into the urban strategy and the urban work program. Management clarified that the OED review was evaluating urban projects carried out between 1990 and 1999-2000. Following the new USP the urban program today is being executed with cross-sectoral teams and consultations with all the networks.

5. ***Links Between Urban Strategy and Poverty.*** The committee believed that it would be important to increase the operational focus of the strategy on "economic growth" and "improving the investment climate". In this regard, it would have been useful for the OED review to say more about the trade-offs between focusing resources on improving the living conditions of the poor and directing resources towards promoting growth. The DGO noted that there may be no tradeoff, since improving the conditions of the urban poor can help productivity and hence growth. A member noted the widening gap between the supply and demand for urban services and said it would be important for the review to highlight the need for more investments in the urban sector, particularly in light of the daunting task of achieving the MDGs.

6. ***Operationalizing the "competitiveness" Pillar.*** The committee was concerned that the concept of "competitiveness of cities" is relatively unknown to staff and that the operational implications of this pillar are unclear. It agreed with OED on the need to clarify the concept further and hoped future work will be linked with on-going work on the investment climate and the private sector development strategy. The DGO suggested that an approach focusing on the comparative advantage of cities and gains of trade would be more useful and would avoid cities engaging in potential zero-sum games. Management said that the main message and operational focus of this pillar now emphasized the role local governments could play in shaping the conditions of the local economy, identifying constraints to improving the local investment climate, and developing good communications with the private sector.

7. ***Monitoring and Evaluation.*** The committee agreed that there was a clear need for data collection and for monitoring results at the project, at the country, and at the international level. Members, however, cautioned that such efforts should not over-burden clients. Management noted that harmonization of data collection and M&E at the country level was key. OED and management also supported collecting indicators at all levels, but noted the difficulty in balancing the need for indicators to assess project level impacts and the need to be able to track progress at the global level. The committee stressed the importance of self-evaluation as a vehicle for focusing on results and asked when management anticipated having such a system in place and what role the sector board would play. Management informed the committee that it was moving ahead on monitoring and evaluation and was preparing a work program on the results agenda. Speakers also discussed the appropriateness of some of the indicators to monitor strategy implementation (education, health). OED noted that many of the social indicators are linked directly to the MDGs.

8. ***Bankability.*** The committee noted the need for the strategy to focus on municipal creditworthiness and fiscal sustainability at the national and sub-national levels. The DGO noted that there were examples of cities that have successfully borrowed funds, some without the benefit of central government guarantees. Management emphasized the importance of strengthening the capacity of cities to raise local currency, particularly for capital improvements, and noted that work was underway with partners to explore how to provide partial guarantees to public sector authorities or cities that are creditworthy and can issue bonds. Other issues raised by members were the need to consider the role of secondary cities in achieving the strategy's goals, including addressing issues of economies of scale. OED noted that the review focused on an array of cities of various sizes, but omitted mega cities. Management confirmed that a minority share of urban lending is going to mega cities. OED also noted that there is a significant inverse relationship between urban service costs and population density. The committee observed

that the terminology of an urban PRSP was confusing and asked that it be revisited. Management agreed and will make the change.

9. ***The Role of ESW in Urban Sector Work.*** The committee recognized management's view that the issue of weak correlation between ESW and the performance of urban projects was more one of measurement than fact. Members also recognized that the link between ESW and the quality of urban projects may require further analysis and asked management to take a more critical look at ESW. Members noted that strong and relevant urban ESW was critical to generating solid urban operational programs. They felt that Bank ESW could play an advocacy role in informing policymakers about the contribution of the urban sector to development.

Finn Jonck, Chairman

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Endnotes:

1. Estimated as follows: Of Bank investment in education, health, transport, water and energy 40 per cent goes to cities, their share of the total population. For agriculture, environment, finance, mining, oil and gas, and also for non-spatial lending, zero per cent goes to cities. For urban development itself, the share is 100 percent.

2. The rural poor exceed the urban poor in most regions except Europe & Central Asia (ECA), where the urban poor are twice as numerous as the rural poor (Buckley and Mini 2000) and Latin America and the Caribbean (LCR), where the urban poor outnumber the rural poor 142 million/82 million (IFAD 2002).

3. This study's estimate implies a total of 1.85 million poor living below national poverty lines. An alternative estimate recently made by the International Fund for Agricultural Development (IFAD) focuses upon the 1.2 billion people living on less than a-dollar-a-day. According to IFAD's estimate, urban areas account for 25 per cent of this group, or 300 million (extreme) urban poor altogether (IFAD 2002). Another recent related estimate made for UN Habitat using a straight line urban population projection from 1993 points to 837 million people living in slums globally in 2001. This is equivalent to 38 percent of the urban population of developing countries and 4 per cent of the urban population of developed countries, but this estimate does not explicitly affirm that all slum dwellers are poor (Herr 2002).

4. The number would fall to 14 million people per year, if only those living on less than a-dollar-a-day were included as per the IFAD estimate (see: endnote 3).

5. For a detailed assessment of performance during this period, see OED's earlier review (World Bank 1994a)

6. There was also a very earlier upgrading project in Africa, namely the Zambia: Lusaka Upgrading and Sites and Services (Ln1057).

7. Sites and service projects included: Senegal (Cr336), Tanzania (Cr495), Zambia (Ln1057), Indonesia (Ln1040), El Salvador (Ln1050), and Peru (Ln1283). Early urban transport projects included: Malaysia (Ln851), Iran (Ln952) and Tunisia (Ln937).

8. Brazil: Salvador Metropolitan Development (Ln2681) and in Argentina (Ln2992).

9. The operations were: India; Uttar Pradesh Urban (Cr1780); Bangladesh: Urban I (Cr1930); and Mexico: Solid Waste Management (Ln2669).

10. Bank client cities were those that hosted Bank financed urban projects—11 completed and 13 ongoing—approved during 1992–96. The 24 urban projects would likely impact the indicator values for 1998, but not 1993. This sample of 24 projects was representative of the urban portfolio as a whole insofar as key sample mean values—loan size, performance rating etc.—were not significantly different (*t*-test at 90 per cent, assuming equal variances) from those of the portfolio as a whole. **The 24 Bank client cities were**: Accra, Antananarivo, Belize City, Bobo Dioulasso, Colombo, Cotonou, Kumasi, Lilongwe, Lome, Maputo, Maseru, Nizhny Novgorod, Nouakchott, Ouagadougou, Rabat, Riga, Santa Cruz de la Sierra, Santiago, Semarang, Surabaya, Tirana, Tunis, Vilnius, Yerevan. Cities with more than five million inhabitants were not included, as a single project was not expected to have a perceptible citywide impact at this scale. Comparator cities were chosen as those that best matched the Bank client cities by regional location, city population size, city population growth, country GNP per capita, country GDP growth, and country urbanization. The means of these variables were not significantly different between the two groups of cities (*t*-test at 90 per cent level, assuming equal variances). **The 37 Comparator cities were**: Addis Ababa, Amman, Asuncion, Bamako, Bandung, Bulawayo, Cajamarca, Cebu, Chittagong, Conakry, Cuenca, Douala, Gabarone, Guayaquil, Harare, Ibadan, Jinja, Kigali, Kingston, Kisumu, Kostromo, Minsk, Mombasa, Mysore, N'Djamena, Niamey, Quito, Recife, San Salvador, Sana'a, Tallin, Tbilisi, Ulaanbaatar, Vilnius, Windhoek, Yaoude, Zagreb.

11. Results reported here are of analyses of differences of means (assuming equal variances) between Bank client and comparator cities, with *t*-test statistics significant at the 90 per cent level or higher.

12. APPI simply consolidates OED's three principal ratings by the following formulae into a continuous numerical index with values form 2 to 10 that is amendable to quantitative analysis : (a) *Outcome:* highly satisfactory = 7.75; satisfactory = 6.00; moderately satisfactory = 5.25; moderately unsatisfactory = 4.50;

unsatisfactory = 3.75; highly unsatisfactory = 2.00; (b) *Sustainability:* likely = 0.75; uncertain = 0.25; unlikely = 0.0; (c) *Institutional Development Impact:* substantial = 1.50; modest = 0.50; negligible = 0.00. (World Bank 1999a, p. 39)

13. This is not the same concept as the USP's *principle of relevance* which is about: "mobilizing skills and knowledge across the widening range of urban issues and offering assistance with flexible designs, realistic time frames, and appropriate forms of financing to meet varied client needs" (World Bank 2000a p. 61).

14. Participation does not preclude the need for project staff to develop a good understanding of the demand for project services, however. OED's review of social funds found a community's first choice of investment can be overridden by the preferences of a community's "prime mover", such as a teacher preferring a school or a doctor preferring a health post a school, for instance (World Bank 2002 p. xxvii).

15. In OED evaluations this refers to performance of the government and implementing agency in preparing and implementing a project. For the preparation phase, OED evaluators take account of how well the government/implementation agency took account of economic, financial, technical, policy, and resource considerations, and ensured participation of major stakeholders in preparing the project. For the implementation phase, OED considers the extent to which the government supported the project through sectoral policies, commitment to the operation itself and counterpart funding, and the extent to which the implementing agency supported the project through good management, adequate staffing, cost controls and the involvement of beneficiaries.

16. Urban client countries were: ***Upper-middle income:*** Argentina, Brazil, Chile, Croatia, Korea, Mexico, St. Lucia, and Venezuela; ***Lower-middle income:*** Albania, Algeria, Belize, Bolivia, Bosnia and Herzegovina, China, Djibouti, Ecuador, El Salvador, Fiji, Guatemala, Iran, Jordan, Morocco, Papua New Guinea, Philippines, Sri Lanka, Thailand, Tunisia, and Vanuatu; ***Low-income:*** Côte d'Ivoire, Ethiopia, Gambia, Ghana, Guinea, India, Indonesia, Lesotho, Madagascar, Malawi, Mali, Mozambique, Nepal, Nigeria, Pakistan, Rwanda, Senegal, Tanzania, Uganda, Ukraine, Yemen, and Zimbabwe.

17. The USP lists both *output* and *outcome* indicators. In results-based management (RBM), *outputs* are generally regarded as short-term results of a project, often directly produced by a project within five years of its completion. *Outcomes*, on the other hand, consist of medium-term results, often indirectly achieved by a project five years after completion. The Canadian International Development Agency (CIDA) has done a lot of work on RBM methodology and terminology. For more details see (CIDA 2000).

18. In detail: Algeria, Bolivia, Cameroon, Chad, Georgia, Honduras, Mauritania, Vietnam and Zambia; less so: Benin, Burkina Faso, Cambodia, Gambia, Guinea, Guinea Bissau, Kenya, Mongolia, Mozambique, Nicaragua and Niger.

19. Average 1998 per capita own revenues of US$165 reported for 192 developing country cities by the Urban Indicators Program, multiplied by the 2.1 billion urban inhabitants of the developing world.

20. A key Bank instrument for stimulating competitiveness over the past two years in the ECA region especially has been the Local Economic Development a process by which actors within cities and towns work collectively with public, business and non-governmental sector partners to create better conditions for economic growth and employment creation.

21. The ECA region of transition economies, as to be expected, is where the urban portfolio gives most attention to strengthening markets. It has been reported that prosperous urban economies help build markets in these economies (Buckley & Mini 2000).

22. It is important to be able to identify existing clusters. New ones cannot be created from scratch since they depend upon a pre-existing critical mass of enterprises and skills (Schmitz 2001, p. 403). Historical *chance* has been an important factor in the creation of clusters (Porter 1998b, p. 84 and Krugman 1996a p. 22). For existing clusters, the literature prescribes how they can be *upgraded* through: improved education, skill levels, technological capacity, opening access to capital markets, improving institutions, and market-friendly regulatory standards (Porter 2001, p. 153), actions that are on USP's governance agenda.

23. As reported in the *FinancialTimes* October 19, 2001, p. 13.

24. See, for instance: Duffy 1995 pp. 4-5; Scott 2001 p. 22; Schmitz 2001, p. 408; Begg 1999, p. 805; Boddy 2000; and Scott 2001, p. 22.

25. Among other things, they might want to consider the following: "The attractiveness of urban areas for the location of industry and services stems from scale economies in production (efficient plant sizes are large), lower transport costs (reduced by clustering activities together), the modest use of land by industry and services as an input to production (allowing higher densities), externalities among firms (sharing of information), linkages across firms (providing intermediate inputs to each other) and potential agglomeration economies (because large clusters of activities use specialized inputs more efficiently)" (Ingram 1998 p.1020).