



INDIA: Evaluating Bank Assistance for Urban Development

A Country Assistance Evaluation

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Acronyms

CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
HDFC	Housing Development Finance Corporation
NDP	Net Domestic Product
OED	Operations Evaluation Department
OEDST	Sector and Thematic Evaluation Division
PPAR	Project Performance Audit Report
QAG	Quality Assurance Group
TNUDP	The Tamil Nadu Urban Development Project
ULBs	Urban local bodies

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Preface

This paper is one of the background papers prepared as an input to the India Country Assistance Evaluation (Task Manager: Mr. Gianni Zanini) by the Operations Evaluation Department (OED) of the World Bank. Findings are based on a review of project appraisal and completion reports, sector reports, and a number of other documents produced by the Borrower, the Bank, OED, and research papers. An OED mission visited India in April/May 1999. The mission interviewed current and retired government officials and Indian experts. Bank staff were interviewed at both headquarters and in the field office. Their valuable assistance is gratefully acknowledged.

An earlier version of this paper was reviewed by Roy Gilbert (OEDST) and Robert Maurer (SASIN) in collaboration with the Bank's Urban team, and by the Ministry of Urban Development. It was also discussed at a workshop in New Delhi on March 24, 2000 chaired by Dr. Rakesh Mohan, and with participation of central and state government officials, academics and members of policy research institutes, and other representatives of civil society.

The author is grateful for all comments received, which have been taken into account in this revised version. However, the views expressed in this paper remain entirely those of the author. They do not necessarily represent the views of OED or the World Bank.

Executive Summary

- The World Bank began its urban operations in India with the launching in 1973, of the Calcutta Urban Development Project. Over the period 1973–1999, the Bank has financed thirty urban sector projects, comprising twelve urban development projects, fourteen water supply, sanitation and sewerage projects, two urban transport projects, a special project designed to assist the earthquake–affected areas in Maharashtra, and a loan to Housing Development Finance Corporation (HDFC). The total financial commitment of the World Bank towards these projects is placed at US\$3.17 billion.
- Increasing the public supply of land, shelter and services, and developing and financing packages consisting of sites and services, slum upgrading, water supply and sanitation, and transportation for the poorer groups was the central objective in much of the Bank’s urban lending programme in the 1970s and 1980s. Projects in water supply and sanitation formed a part of a broader programme of infrastructure and institutional development, and sought to not only improve the level of urban services and shelter, but also address the problems of efficiency and effectiveness of resource mobilization, resource utilization and strengthening of institutional frameworks.
- The Bank’s urban lending in India has shrunk sharply since 1990, with the Bank having approved three stand–alone water supply, sewerage and sanitation projects, the recently–approved urban development project in Tamil Nadu, and a special relief project for the earthquake–affected areas in Maharashtra. These projects of which the Maharashtra Earthquake project and one of the three water supply projects were closed in December 1998, are guided by the objective in the case of water supply projects, of augmenting the management capacity of institutions responsible for the sector and achieving financial viability in the provision of water and sewerage, and in the case of urban development project, improving urban infrastructure services with private sector participation.
- Concerned at the reduction in Bank’s urban lending to India, the World Bank produced in 1997, a major study entitled, *India: Urban Infrastructure Services Review*, whose purpose was to “create a reasonably explicit and well–documented basis for the Bank’s future lending operations and sector work for urban infrastructure in India.” Drawn up in the aftermath of country–wide economic reform, the Constitution (seventy–fourth) Amendment on Municipalities, and over two decades of experience with urban lending in the country, this study outlined what it called, “a plausible reform scenario” for the urban sector. According to the study, the main features of the reform agenda for the country’s urban sector were as follows:
 - create and support long term financing facilities and intermediaries for urban infrastructure financing;
 - use public/private partnership to enhance efficiency in urban infrastructure provision and service delivery;
 - eliminate the regulatory constraints on effective mobilization of resources for urban infrastructure financing;
 - free the land and property markets from different kinds of controls; and

- professionalize municipalities.

Review of the Bank's Urban Lending Programme

- The OED evaluation of the World Bank's lending to the urban sector involving 27 completed projects and a financial commitment of US\$2.60 billion shows the outcome to be satisfactory in 59.3 percent of Bank-assisted projects, and unsatisfactory for 29 percent of projects. In the sphere of institutional development, 22 percent of Bank's urban projects were able to substantially build capacities and enhance the ability of institutions to better use the human, financial and organizational resources. Further, the benefits from Bank-assisted projects were likely to be sustained in only 26 percent of projects. The level of performance of the Bank's urban projects completed in the 1990s was far from satisfactory.
- The less-than-satisfactory performance is explained by a number of factors, including (i) highly complex nature of projects in relation to the limited planning, engineering, financial, administrative and implementation capacity of the borrowers; (ii) reluctance on the part of borrowers to compensate for the shortcomings in capacity deficit by utilizing external consultants; (iii) lack of ownership of, and commitment to, Bank's projects by the borrowers, and to the covenants attached to projects; (iv) difficult and lengthy procedures for land acquisition, procurement, and corruption; and (v) weak municipal institutions.
- The relevance and efficacy of the Bank's urban lending to India in the post-1990 period consisting of five projects (including a special earthquake relief project) can, at best, be judged as modest. At the same time, the two projects, namely, the Maharashtra Earthquake project and Hyderabad Water Supply project which stand completed, have performed well on the three measures of outcome, institutional development, and sustainability. The implementation progress rating of the ongoing projects is reported to be satisfactory. These projects have shown greater sensitivity to market trends and general macroeconomic environment, with emphasis on private sector participation in urban infrastructure financing, and financial viability in the provision of services.

Impact of the Deceleration of Bank's Urban Lending Operations

- The deceleration in Bank's urban lending to India in the 1990s when the country had embarked on economic liberalization, and initiated steps to strengthen the municipalities with such measures as the Constitution (seventy-fourth) Amendment, and when the Bank itself decided to strengthen the link between its lending assistance and the pace of implementation of reforms, is a case of missed opportunities on the part of the Bank as well as the Government of India and other tiers of government. The Bank lost a unique opportunity in supporting decentralization policies as provided for in the Constitution (seventy-fourth) Amendment Act, 1992, creating financial intermediaries for financing municipal infrastructure, and promoting private sector initiatives in infrastructure development and financing. On their part, the Government of India and other tiers of government missed out on utilizing the World Bank's expertise in developing an urban reform agenda that would support and contribute to country-wide economic reform.

- The widely–disseminated World Bank’s study, *India: Urban Infrastructure Services Review* which reflected on in depth understanding and appreciation of the India’s complex urban sector has also not been brought to its “logical conclusion.” The agenda, as proposed in the study, has not been followed up and translated into projects or project ideas. In other words, despite its satisfactory quality, after some three years it has had no impact. This indicates an overall moderately satisfactory outcome.

Overall Evaluation

- In the light of the modest relevance and efficacy and therefore unsatisfactory outcome of projects completed during the 1990s, their modest institutional development and unlikely sustainability, together with the moderately unsatisfactory impact of the sector work, the overall evaluation of this program in the 1990s is evaluated as unsatisfactory.

1. India's Urban Sector: A Profile

1.1 India's urban sector is commonly described as one that is demographically large, economically important, and socially deficient. Approximately 276 million persons or 28.15 percent of the total population currently constitute the country's urban population¹ With this base which is growing at about 3.1 percent annually, India has the second largest urban population in the world. Over the years, the city-size distribution of urban population has shifted significantly in favour of metropolitan cities which today account for approximately one-third of the country's total urban population; another one-third is accounted for by cities in the population range of 100,000 and one million. India is thus no longer a country that lives in villages and small towns; rather, it has acquired the complexion of a country that has an extensive network of large urban settlements.

1.2 The urban sector in India is important in economic terms. In 1980–81, its contribution to Net Domestic Product (NDP) was placed at 41.14 percent; based on the trends, it is currently estimated at anywhere between 50–55 percent of the NDP. Over 65 percent of the country's total manufacturing employment, 64.7 percent of employment in trade, commerce and financial services, and 68 percent of transport sector employment are concentrated in the urban areas, signalling a strong link between urbanization and economic development.

1.3 The country's urban sector is simultaneously characterized by widespread poverty, deprivation, and environmental degradation. A little over 76 million persons, or 32.3 percent of the total urban population, live under conditions of absolute poverty in that they do not have the necessary income to secure 2,100 calories per day, this being the official cut-off line between the poor and the non-poor.² The gap between the availability and demand for shelter, infrastructure, and services has widened over the years. In 1991, nearly 40 million persons in urban areas (18.7%) were reported to be without access to safe water supply, 78 million (36.1%) were without any form of basic sanitation, and another 49 million (35.2%) of the total urban population (over 5 years of age) were without schooling. Housing deficit in the urban areas is estimated at about 7.6 million units, and is particularly severe for the low-income segments of population.

1.4 Most cities are exposed to air and water pollution, and problems posed by inadequate solid and liquid waste management, large scale use of low-grade domestic fuels, and occupation of environmentally sensitive lands. In Bombay (Mumbai), both suspended particulates and nitrogen oxides have exceeded the levels specified by the World Health Organization. Emission of oxides, nitrogen, and carbon monoxide have increased in line with the motorization of traffic. In other cities, levels of suspended particles remain very high, and the concentration of nitrogen oxides is rising rapidly. A 1996 World Bank study estimated that the annual cost of ambient air pollution levels in Indian cities was between 0.23 to 0.7 percent

¹ Registration General, India. 1996. Population Projections for India and States: 1996-2016. New Delhi. The figures relate to the year 1999.

² These estimates relate to the year 1993/94.

of GDP, and of water pollution—mostly from urban sewage—between 1.1 to 2.8 percent of GDP.

1.5 Slums are the most visible manifestation of inadequate shelter and poverty in the urban areas. In 1991, slums accounted for 21.3 percent of the total urban population, the absolute number being 46–47 million out of a total urban population of 217.9 million persons. Slums are a typical feature of large cities. In Calcutta, Mumbai, Delhi, Chennai (Madras), Ahmedabad, and Kanpur, one–third to one–half of the population live in slums. These settlements lack water and sanitation systems, and are often located in the most undesirable areas of cities—on flood plains, hillsides, or adjacent to hazardous industries. Environmental degradation now represents one of the most formidable constraints on productivity of the urban poor.

1.6 The pressures of urban population growth have been particularly exacting on the wide network of urban institutions and financial systems. Created over 100 years ago, the municipal governments are in no position to meet the service needs of the rapidly increasing urban population; the coterie of new institutions set up in the 1970s to supplement municipal capacities has also not been able to fill in the void. The financial resource base of municipal bodies is narrow, and even that remains under–utilized and under–exploited. Only a few municipal governments are able to put into practice principles such as user charges for recovering the cost of services that they offer. Effectively, it has meant large scale subsidization of civic services which, in turn, has increased the dependence of city administrations on the higher levels of government. The overall situation is thus typified by inadequacies in the availability of basic urban services, their unequal distribution, and major institutional constraints in the access of particularly the low–income households to important services, shelter, and land.

1.7 The responsibility of the urban sector in terms of policy, programmes and projects is allocated to the State governments. The Central government’s mandate is limited to laying down the general framework, and extending limited financial support for special programmes on grounds of equity and nation–wide mandate and priorities. Thus, the Central government has supported programmes for the development of small and medium–sized towns, and for the upliftment of the poor. It has also taken initiatives for developing nation–wide policies for the urban sector³ and more recently, of amending the Constitution of India for the propose of empowering municipal governments. The urban programmes and projects at the level of States are largely an extension of the general framework expounded by the Central government, and account for anywhere between 3–6 percent of State’s total budgeted expenditure. The annual investment requirements for core municipal infrastructure are phenomenal and estimated at about \$ 9.7 billion, including the investment needed for eliminating the backlog. Currently, no more than US\$3.5 billion which is just enough to cover the annual operation and maintenance is available from different sources.⁴

1.8 Two recent developments, namely, economic liberalization and increasing decentralization of the system of governance have changed the development context for Indian cities and towns. Economic liberalization has introduced a more favourable environment for

³ Report of the National Commission on Urbanisation. August 1988. The Government of India is reported to be working on a draft urban policy for the country. See Draft National Urban Policy 2000, Ministry of Urban Development.

⁴ For details on the estimates, see The Infrastructure Report: Policy Imperatives for Growth and Welfare 1996.

private sector participation in the provision and financing of urban services and infrastructure. The Constitution (seventy-fourth) Amendment Act, 1992 has provided an enabling framework to restructure State–municipal relations and to promote reforms in the financing of municipal services. Together, these developments are beginning to impact the urban sector and create opportunities for undertaking the much-needed sector reforms.

2. The World Bank And The Urban Sector

2.1 The World Bank began its urban operations in India with the launching in 1973 of the Calcutta Urban Development Project (CR427-IN). Since then, the Bank has approved 30 urban sector projects, comprising 12 urban development projects, 14 urban water supply, sewerage and sanitation projects, two urban transport projects, a special project designed to assist the earthquake-affected areas in Maharashtra, and a loan to Housing Development Finance Corporation (HDFC).⁵ Of these, three projects are currently active. The following table summarizes the level and nature of Bank's participation in India's urban sector.⁶

Table 1: The World Bank and the Urban Sector in India, 1973–1999
(projects completed and ongoing)

Period	Urban Development		Water Supply, Sanitation and Sewerage		Urban Transport		Others		Total	
	No.	Financial commitment (\$ million)	No.	Financial commitment (\$ million)	No.	Financial commitment (\$ million)	No.	Financial commitment (\$ million)	No.	Financial commitment (\$ million)
1973–1979*	3	146.0	5	377.0	1	25.0	–	–	9	548.0
1980–1989*	8	888.3	6	520.0	1	56.0	1	250.0	16	1714.3
1990–1999*	–	–	1	89.9	–	–	1	246.0	2	335.9
1990–1999 TM	1	105.0	2	467.8	–	–	–	–	3	572.8
Sub–Total	12	1139.3	14	1454.7	2	81.0	2	496.0	30	3171.0
Total	12	1139.3	14	1454.7	2	81.0	2	496.0	30	3171.0

- Completed
- TM Ongoing

2.2 The total financial commitment of the World Bank towards these projects, is placed at US\$3.17 billion. Of this amount, the share of urban development projects is 36 percent, while that of the urban water supply, sewerage and sanitation projects is 45.9 percent. The balance is accounted for by two urban transport projects, the earthquake project in Maharashtra, and loan assistance to HDFC. Lending for urban sector projects forms about 7 percent of the Bank's total lending to India.

⁵ India stands next to China in terms of both funds lent and the number of lending operations to the urban sector.

⁶ A complete list of Bank-assisted projects is appended with this paper.

2.3 The objective of Bank's urban operations in India, in particular of the Calcutta Urban Development Project and projects that were taken up in the 1970s in other major cities (Madras, Kanpur, and Bombay), was to improve and augment the level of basic services, and strengthen urban planning and service delivery institutions. In specific terms, these projects were designed to increase the public supply of land, shelter, and services, and to develop and finance packages comprising sites and services, slum upgrading, water supply and sanitation, and transport in order to directly impact on the poorer groups. This focus of Bank's lending which centered on poverty alleviation through investment in citywide infrastructure and housing for low-income population widened in the 1980s in two directions: (a) *spatially* to include medium-sized cities with a State-wide project in Madhya Pradesh and subsequently in Gujarat; and (b) *sectorally* to cover area development, town planning schemes, solid waste management, improved municipal services, and institutional development. Projects in water supply and sanitation formed a part of a broader programme of infrastructure and institutional development. These sought to not only improve the level of urban services and shelter, but also address the problems of efficiency and effectiveness of resource mobilization, resource utilization, and strengthening of institutional frameworks.

2.4 Outside of the assistance to cities and States, the Bank approved in 1988, a loan of \$250 million to the Housing Development Finance Corporation (HDFC), a private housing finance agency in the country, which carried several objectives:

- to support HDFC's activities in a period of transition in the capital markets to extend the benefits of market-oriented housing finance to a wider geographical area and to a broader group of middle and low-income beneficiaries;
- to support the development of a regulatory framework in order to promote the financial integrity of housing finance institutions and their capacity to mobilize resources in the market; and
- to strengthen HDFC's role as an innovator and advocate of market-oriented finance and as sector leader assisting the entry and development of similar institutions.

2.5 Since 1990, the involvement of the Bank in India's urban sector has been limited to three stand-alone water supply, sewerage and sanitation projects, the Maharashtra Earthquake project, and the recently-approved urban development project in Tamil Nadu. The Maharashtra Earthquake project as also one of the three water supply, sanitation and sewerage projects were closed in December 1998. Of the three ongoing projects, the Madras Water Supply II is aimed at improving the transmission and distribution of water supply in Chennai, while the Maharashtra Sewage Disposal project aims at strengthening the management capacity of the concerned institutions and achieving financial viability in the provision of water and sewerage services. The Tamil Nadu Urban Development Project (TNUDP II), a post-runner of an earlier project, and approved in May 1999, signals an important shift from the government-led integrated urban development operations to a market-oriented financing intermediary operation. Involving a credit of US\$105 million, the TNUDP II is aimed at improving urban infrastructure services in Tamil Nadu in a sustained manner, which is to be achieved through:

- strengthening the managerial, financial and technical capacities of urban local bodies (ULBs), through an institutional development programme, in line with the urban sector

reforms which the Government of Tamil Nadu is implementing as a follow-up of the 74th Constitutional amendment;

- facilitating private sector participation in urban infrastructure financing and operation, through co-financing, joint ventures, and public-private partnerships; and
- operating a complementary window of the Grant Fund to assist in addressing the problems of the urban poor.

3. Review Of The World Bank's Urban Lending Programme

3.1 The World Bank's lending to the urban sector involving 27 completed projects and a financial commitment of US\$2.60 billion has been evaluated by the World Bank, employing the Operations Evaluation Department (OED) methodology. Using the results of these evaluations and such documents as the Staff Appraisal Reports (SARs), Project Completion Reports/Implementation Completion Reports (PCRs/ICRs), Project Performance Audit Reports/Memoranda, and discussions with experts and practitioners, this section presents the evidence on the extent to which the Bank's projects have produced the right results.

Table 2: Evaluation Results of World Bank-assisted Urban Sector Projects

Measure/Rating	Number of Projects	% to Total Number ^{a/}
Outcome		
Highly satisfactory	1	3.7
Satisfactory	15	55.6
Moderately satisfactory	3	11.1
Unsatisfactory	8	29.6
Institutional Development		
Substantial	6	30.0
Modest	10	50.0
Negligible	4	20.0
Not Reported	-	-
Sustainability		
Likely	7	35.0
Unlikely	6	30.0
Uncertain	7	35.0
Not Reported	-	-

- Number of projects evaluated 27.

^{a/} Percentages are worked out by excluding the 'not reported' entries.

3.2 The results of the evaluations show that of the completed projects, the outcome has been satisfactory in 55.6 percent of Bank-assisted projects, and unsatisfactory for 29.6 percent of projects. In other words, 59 percent of the projects were able to achieve the stated objectives in a cost-effective manner. In the sphere of institutional development which is a major objective, 30 percent of Bank's urban projects were able to substantially build capacities and enhance the ability of institutions to better use the human, financial and organizational resources. The

evaluations further show that the benefits from Bank–assisted projects were likely to be sustained in 35 percent of projects. The inertia of the system was too strong for such initiatives to make a lasting impact. Summary results are contained in Table 2.

3.3 Of the 27 ongoing projects, the performance of only three projects—significantly, all them located in the State of Tamil Nadu—are rated to be uniformly satisfactory on the yardsticks of outcome, institutional development and sustainability. In addition, the Maharashtra Earthquake project and the HDFC project have displayed satisfactory performances on these measures. These projects have a high Aggregate Project Performance Indicator (APPI). Implementation progress rating in respect of the two ongoing water supply, sanitation and sewerage projects is reported to be satisfactory. On the other extreme are the Uttar Pradesh Urban Development Project (ID–9873), the Calcutta Urban Transport (ID–9769), the Calcutta Urban Development Project II (ID–9741), and the Calcutta Urban Development Project III (ID–9808), whose performance has been found to be consistently poor on all counts. The results of evaluation are mixed in other projects. Although international comparisons are often risky, urban development projects worldwide received high satisfactory ratings by the OED in the first twenty–year retrospective. Urban development projects completed between 1972 and 1992 had an 80 percent incidence of satisfactory outcome; the institutional development outcome was rated substantial for 32 percent of urban development projects; and the likelihood of sustainability was about 47 percent.⁷

3.4 Two questions arise in relation to the worldwide experience:

- (a) What explains the less–than satisfactory performance of so many of the Bank–assisted urban projects in India, particularly in matters of institutional development and sustainability?
- (b) What distinguishes those urban projects whose performance has been found to be satisfactory?

3.5 A perusal of the Bank documents and independent reviews of selected projects attributes the less–than–satisfactory performance to the following five major factors:

- Highly complex nature of projects in relation to the limited planning, engineering, financial, administrative and implementation capacity of the borrowers. An example of the complex design of projects is that of the Calcutta Urban Development Project (CUDP–I) which consisted of 44 sub–components in six sectors, and which, as a result, overwhelmed the capacity of the newly created Calcutta Metropolitan Development Agency (CMDA) in terms of managing and implementing the sub–components.

⁷ See the World Bank. 1999. A Strategic View of Urban and Local Government Issues: Implication for the Bank. p. 102.

Box 1. Complexity in Bank–assisted urban project

To take on Calcutta at the virtual start of its (World Bank) career was courageous at the least, and some said foolhardy. If so little was known about urban problems in general, how could this novice department cope with such an extreme case? With no prior work experience to draw upon, other than experience in installing water and other such systems in city settings, it was not evident how the department could effectively deal with urbanism as a systemic phenomenon. One could build roads, treatment plants, or housing projects. But how could one confront the development of an urban system? A decade later, it is not apparent that answers to that question have been satisfactorily formulated (PPAR– Calcutta Urban Development Project I, CR 42 – IN – Y 1974).

- Reluctance on the part of the borrowers to compensate for the capacity deficit by utilizing external consultants.
- Lack of ownership of, and commitment to, Bank’s projects by the borrowers, and to the covenants attached to projects, e.g., application of the principle of cost recovery, active billing and collection procedures, and the like, and their application to identical projects implemented by the borrowing agencies.⁸
- Difficult and lengthy procedures for land acquisition, problems of procurement, and corruption. Corruption—meaning a normal cut of 30 percent—was cited as one of the most serious problems in Bank’s projects, undermining the sustainability of investments by shifting away from the less profitable O & M activities towards new capital works.⁹
- Weak municipal institutions which became weaker by their non–engagement in Bank’s projects.¹⁰

3.6 The less–than–satisfactory performance was also explained in terms of frequent changes in staff responsible for projects, and the absence of autonomy with institutions concerned with the planning and implementation of projects. Another reason cited was formulation of projects with narrow sectoral objectives instead of formulating them in the context of wider goals. On the other hand, the satisfactory performance of the Tamil Nadu Urban Development Project (TNUDP I) and such projects as the loan assistance to HDFC was made possible by a fuller commitment of the government and institutions to project objectives and project designs, rigorous pursuit of cost recovery mechanisms, and attempts to absorb and apply the gains and features of the Bank–assisted projects to other activities of the institutions.

3.7 The Bank’s urban assistance in the post–1990 period, as stated earlier, has been limited to three stand–alone water supply, sanitation and sewerage projects, the Maharashtra Earthquake project, and one urban development project. The performance ratings of the completed projects and implementation progress ratings of the three ongoing projects are shown in Table 3 below.

⁸ Bank-assisted projects were typically seen as an additionality, and were rarely absorbed within the system.

⁹ A leading Bank expert observed that if the cumulative 30 percent cut was reinvested productively to rehabilitate or replace infrastructure, the results of the Bank projects would not be insignificant.

¹⁰ Lack of autonomy with municipalities is cited as one of the reasons for less–than–satisfactory performance of urban projects worldwide. "Local governments had little say in many of the early urban projects, which were designed and implemented by special agencies answering mainly to central government. The municipalities lack of autonomy reduced their commitment and ability to maintain or extend the project activities," *ibid.* The Government of India believes that one of the reasons of less-than-satisfactory performance of World Bank projects was absence of community involvement and participation in Bank projects.

Table 3: Rating of Urban Projects Approved in the 1990s

Project	Completed Projects			Ongoing Projects
	Outcome	Institutional development	Sustainability	Implementation progress rating
Water Supply, Sanitation and Sewerage				
Hyderabad	S	Sub	UNC	
Madras				S
Maharashtra				S
Urban Development				
Tamil Nadu				NR
Special Urban Projects				
Maharashtra Earthquake	S	Sub	Likely	

Notes: S Satisfactory
Sub Substantial
UNC Unclear
NR Not reported

3.8 It is noteworthy that the lessons drawn from the Bank-assisted projects—both which have a satisfactory rating and which have a poor track record, are nearly identical. One: project designs must be simple.¹¹ This is one lesson that runs through all Bank-assisted urban projects. Even in the case of TNUDP I, which achieved a satisfactory rating, several of the sub-components were found to be too complex for the local agencies to effectively implement and manage them. Two: municipalities must be strengthened and fully involved in planning, designing and implementing the projects. And three: borrowers must own projects, and absorb the covenants, conditionalities and other positive features into the system.

¹¹ Complexity in terms of numbers of components or implementing agencies is not necessarily associated with poor performance, since there are urban projects in many countries that have worked well with fairly complex structures, as long as the counterparts accept the objectives, are committed to working together, and have the means to do so.

4. Impact Of The Deceleration Of The World Bank's Urban Lending Operations—1990s To The Present

4.1 As stated earlier, the World Bank reduced its urban lending operations in the latter part of the 1980s, to the extent that it has since approved a total of four projects including the Maharashtra Earthquake Project. This reduction in the level of Bank's urban lending is noteworthy—to some extent, even inexplicable—in several respects.¹² First: it coincided with the publication by the World Bank of its policy paper entitled, *Urban Policy and Economic Development: An Agenda for the 1990s* (1991), which set out a policy framework and strategy aimed at redefining the urban challenge in developing countries.¹³ Second, it coincided with the launching in India of wide-ranging macro-economic reforms which had important ramifications for the urban sector. Thirdly, it coincided with three important events concerned directly with the urban sector, namely:

- Submission of the report of the National Commission on Urbanisation (NCU), which called upon the Central and State governments to recognize the increasing importance of urbanization, and focus on the development of priority cities and urban regions.
- Introduction in the Parliament of the Constitution (sixty-fifth) Amendment Act, 1989, and later its reintroduction as the Constitution (seventy-fourth) Amendment Act, 1992 on Municipalities.¹⁴
- Adoption of a new National Housing Policy in 1992 which underlined, for the first time, the enabling and facilitating role of the government in the housing sector.

4.2 The reduction in the Bank's urban operations during a period when the country had embarked on economic liberalization, and initiated steps to strengthen the municipalities in recognition of their role in nation-building, and when the Bank itself had decided to strengthen the link between its lending assistance and the pace of implementation of reforms, and support States willing to embrace reforms is, thus, puzzling. Why, for example, did the Bank not push the urban agenda as outlined in its own policy paper, *Urban Policy and Economic Development*? Why did the Bank not choose to lend support to measures for the strengthening of municipalities as envisioned in the Constitution (seventy-fourth) Amendment Act, 1992 and as emphasized in the Bank's own evaluation of urban projects? Or, why did the Bank not

¹² The Bank's urban lending declined worldwide in the 1990s. As the World Bank notes, with the 1987 reorganization, the central cadre of experienced urban projects staff dispersed and many left the field. Urban assistance requires a wide range of disciplines and subsectoral knowledge, but many regional sector units had difficulty building a critical mass of such expertise. More seriously, relatively few regional project managers after that time has experience with or understanding of the urban agenda. Urban development lending, sector work and new research have therefore been relatively neglected since the early 1990s. See for further details, *A Strategic View of Urban and Local Government Issues: Implications for the Bank*, The World Bank, 1999.

¹³ The Bank's policy framework and strategy as enumerated in its policy paper consisted of four pillars: (a) increasing urban productivity, (b) alleviating urban poverty, (c) developing effective responses to the growing environmental crisis, and (d) increasing urban research. A draft of this paper was presented by its principal author in a seminar held in 1990, at the National Institute of Urban Affairs, New Delhi.

¹⁴ The Constitution (sixty-fifth) Amendment Act, 1989 could not get through the Parliament and was reintroduced in 1992 as the 74th Amendment.

propose to link its lending operations with other urban sector reforms, including development of a country-wide urban strategy? Should the Bank have been more proactive in seizing the opportunity afforded by the new economic environment for initiating urban sector reforms? Clear responses to these questions can, at best, be speculated; in retrospect, however, it would seem that the Bank lost a unique opportunity of:¹⁵

- sending out signals that cities were crucial for economic reforms, and that elimination of constraints to the efficient functioning of cities through appropriate policy and programme interventions was an essential step for speeding up country-wide economic reforms;
- supporting decentralization policies as contained in the Constitution (seventy-fourth) Amendment Act, 1992, particularly in respect of strengthening of municipal governments;
- supporting financial intermediaries in order that they could meet the increasing financial requirements of municipalities;
- promoting and supporting private sector initiatives in municipal infrastructure development and municipal infrastructure financing.

4.3 On their part, the Government of India and other tiers of government too missed out an important opportunity of seeking the assistance of the World Bank for financing the much-depleted municipal infrastructure in relation to requirements, and creating and supporting long-term financing facilities for infrastructure development. The Central government also lost an opportunity for initiating, with Bank's expertise and support, and parallel with economic reforms, urban sector reforms, particularly in the sphere of developing market-based pricing systems for services, responsive municipal accounting and auditing systems, and regulatory frameworks for private sector participation in the provision of urban services.

4.4 The overall result is that at the close of 1999, the Bank's urban portfolio consists of just one urban development project and two stand-alone water supply and sewage disposal projects. Although the urban development project (Tamil Nadu) displays considerable sensitivity to the contemporary market conditions in India and underscores the relevance of financial intermediation in municipal infrastructure financing, it is far from adequate for meeting the complex and diverse needs of the urban sector. The Bank has, through its study report *India: Urban Infrastructure Services Review*, attempted to put forward its position (discussed in the next section), yet the nature and scale of its future urban operations in India¹⁶ are far from evident.

5. India: Urban Infrastructure Services Review—Adequacy Of The Consultative Process

5.1 The World Bank produced in 1996, a yellow cover edition of a major study entitled, *India: Urban Infrastructure Services Review*, whose purpose was to “create a reasonably explicit and well-documented basis for the Bank's future lending operations and sector work

¹⁵ According to the SAR/The World Bank, the absence of the Bank from the urban sector was a mistake, and would deserve a more in depth analysis. See comments received from South Asia Region for India; 27 January 2000.

¹⁶ It is learnt that the World Bank is currently discussing urban lending operations with the State governments of Andhra Pradesh, Gujarat, Karnataka and West Bengal.

for urban infrastructure in India.¹⁷ Drawn up in the aftermath of economic reforms, the Constitution (seventy-fourth) Amendment, and over two decades of experience with urban lending in the country,¹⁸ this study outlined what it called, “a plausible reform scenario,”¹⁹ and argued for a change in the World Bank strategy towards the urban sector in India.

5.2 The key urban challenge for India, according to the study, is to reduce the backlog of urban infrastructure investment and improve basic services and service delivery. For meeting this challenge, this study has put forward an urban sector agenda which consists of, among others,

- Creating and supporting long-term financing facilities and intermediaries for urban infrastructure financing.
- Use public/private partnership for enhancing efficiency in urban infrastructure provision and service delivery.
- Eliminate the regulatory constraints on effective mobilization of resources for urban infrastructure financing.
- Free the land and property markets from different kinds of controls.
- Professionalize the municipalities.

5.3 On the lending strategy, the study has proposed that the Bank should mount “many more operations of relatively small size and moderate complexity,” instead of integrated projects which are “just too large and too complicated for the generally low level of urban administration that obtains in India.” The study has taken a view that the Bank should focus on (a) stand-alone water supply and sanitation projects, (b) development of small financial intermediaries in the more progressive States, and (c) a minimum package of environmental health projects for the low absorptive capacity States.²⁰

5.4 This study provided the basis for a meeting organized by the World Bank on June 13, 1997. Attended by senior officials of the Government of India, State governments, municipalities, key financial institutions, academics, and experts from the international and bilateral agencies, this review meeting recognized that a “valuable time has been lost²¹ by long years of Bank’s non-engagement in the country’s urban sector, and called upon the Bank to use its lending operations for accelerating urban sector reforms.”²²

¹⁷ See, The World Bank. 1996. India: Urban Infrastructure Services Review (Report No 16178 – IN). December 20, 1996.

¹⁸ This study was prepared by Evangeline K. Cuenco’s report entitled “Lending for Urban Development in India: 1974-1995—Lessons from Bank Experience,” 1996, The World Bank, Washington, D.C.

¹⁹ The Bank put out a green cover edition of this study in May 1997. It is significant and intriguing that this edition does not include what in my view, are the most important chapters in the yellow cover edition, namely: (1) A Plausible Reform Scenario for India, and (2) Proposed Bank Lending Support and Sector Work. Exclusion of these chapters from the green cover gives rise to doubts if there are some sections within the Bank who do not subscribe to the proposed reform agenda and the Bank’s role in implementing the same.

²⁰ Ibid.

²¹ See, address by N.P. Singh, Secretary, Ministry of Urban Affairs and Employment, Government of India, at the review meeting held on June 13, 1997.

²² The CAE/CAS: Urban Sector Workshop held on March 24, 2000 considered Bank’s intervention in matter of urban policy development as inadequate, and suggested that the Bank should share its vast expertise on decentralization and privatization in other countries with India.

5.5 The review meeting concurred with the tenor of the report, and emphasized the need to:

- Accelerate the implementation of the Constitution (seventy–fourth) Amendment Act, 1992.
- Make the municipal governments financially strong and viable.
- Professionalize the municipal governments and other related institutions.
- Assign higher priority to the urban sector in the sector portfolio of the Central and State governments.
- Review the urban sector related legal and regulatory frameworks as the existing frameworks had become obsolete in relation to the fast changing needs of the sector.
- Accelerate information flow and exchange including Best Practices.

5.6 The study has been widely disseminated among the different tiers of government, financial institutions and academics, with the overall assessment being that it reflects an in depth understanding and appreciation of the India's complex urban sector, and projects an agenda that is representative of sector priorities.²³ Yet, notwithstanding its strength and intellectual appeal, this study has not been brought to its “logical conclusion.” The agenda as presented in the study has not been followed up and translated into projects or project ideas. For instance, what should be done to accelerate the implementation of the Constitution (seventy–fourth) Amendment Act, 1992? What actions should be taken to build capacities and impart professionalism in municipalities? What role should the Bank play in assisting the Central government and other tiers of government in implementing the urban agenda? What should be the rules of the game for private sector participation in the development and financing of municipal infrastructure? What should be done to raise the profile of the urban sector in the country? Such questions have not been taken up for any serious examination.

6. Urban Policy And Institutional Reform Process: An Update

6.1 Since the discussion on the Bank's study, *India: Urban Infrastructure Services Review in June 1997*, five developments bearing directly on the urban sector have taken place in the country.

6.2 One: the Ninth Five Year Plan (1997–2002) which sets out the policy framework for socio–economic development has been finalized. It lays down the following, as the principal objectives of the urban sector for the 1997–2002:

- Development of urban areas as economically efficient, socially equitable and environmentally sustainable entities.²⁴
- Development and upgradation of urban infrastructure services to meet the needs of the growing population.

²³ According to a QAG review, it is “an outstanding piece of analytical work,” and with some further work, it belongs to the category of Best Practice.” See Anthony Churchill. 1998. Office Memorandum addressed to Mr. Prem Garg, Director, QAG. The World Bank.

²⁴ This objective would seem to convey the same meaning as the World Bank's vision of sustainable cities. The Bank suggests four dimensions of sustainable cities: competitiveness; liveability; good governance and management; and bankability. See. The World Bank. 1999. A Strategic View of Urban and Local Government Issues: Implications for the Bank.

- Alleviation of urban poverty and unemployment.
- Promoting accessibility and affordability of the poor to housing and basic services.
- Improvement of urban environment.
- Promoting private sector participation in the provision of public infrastructure and of the community and NGOs in urban planning and management of specific component of urban services.
- Democratic decentralization and strengthening of urban governance.²⁵

6.3 Two: the Ahmedabad Municipal Corporation (AMC) has issued the first-ever bonds, to be issued by a municipal body, launching what could turn out to be a major source of municipal infrastructure financing in the country. That the bonds have been issued on the strength of the AMC's own fiscal performance, and not on the strength of a State government guarantee constitutes an important trend in matters relating to the mobilization of resources. Three: the municipal governments together with other local governments have received Constitutional recognition and safeguards from arbitrary dissolution or suspension. Four: the Finance Commission of States set up in pursuance of the Constitution (seventy-fourth) Amendment Act, 1992 have submitted their reports,²⁶ containing recommendations on (i) the taxes, duties, and levies that should be assigned to municipalities; (ii) the taxes, duties and duties that should be shared between the State governments and municipalities, (ii) grants-in-aid to municipalities, and (iv) other measures for the strengthening of municipal finances. Five: The Government of India through an Ordinance, has repealed the Urban Land (Ceilings and Regulation) Act, 1976, thus removing from the statute one of the major impediments to the functioning of land markets.²⁷

6.4 The question is: what do these developments amount to? Do these developments form a part of a coherent urban sector strategy? Is there any evidence to show that the Ninth Plan urban sector objectives have been translated into specific actions and strategies? Have the recommendations of the Finance Commission of States been acted upon and led to, or leading to, an improvement in the finances of municipalities? Has the repeal of the Urban Land (Ceilings and Regulation) Act helped to remove the land market distortions?

6.5 None of these questions can be answered in the affirmative. Indeed, a stock-taking exercise would suggest that urban policy and urban institutional reform are in an infant stage in the country. The recognition that the Constitution (seventy-fourth) Amendment Act, economy-wide reform, and developments in the financial sector have significant implications for urban policy is still to take roots in the country. Accelerating the process of reform would call for far greater work on developing strategies for meeting out the municipal infrastructural deficiencies,

²⁵ The Ninth Five-Year Plan (1997-2002) makes a passing and partial reference to the World Bank assisted projects. To quote: "The World Bank and the Asian Development Bank have provided external assistance for urban sector projects, the former in Tamil Nadu and Uttar Pradesh and the latter in Karnataka. While Uttar Pradesh Urban Development Project was closed on 31.3.1996, Tamil Nadu Urban Development Project is under implementation, with a revised project outlay of Rs 988.50 crore. Negotiation were held with the World Bank for restructuring the existing Tamil Nadu Municipal Urban Development Funds (MUDF) into Tamil Nadu Urban Development Fund (TNUDF) to be set up under the Companies Act (p 303)."

²⁶ At least fourteen (14) Finance Commission of States are reported to have submitted their reports.

²⁷ In addition, a few States have changed the system of property taxation, and the Central government has used this opportunity to issue draft guidelines for property tax reform. The CAE/CAS: Urban Sector Workshop notes that this paper has not dealt with the impact of free land markets on urban development.

attracting private sector investment, and building capacities in municipal governments.²⁸ Similarly, it would seem essential to put in methodological inputs into determining future State–municipal fiscal relations.

6.6 On the Bank’s side, approval to the second Tamil Nadu Urban Development Project (TNUDP – II), with a loan of US\$105 million is an important development. This project, as indicated earlier, aims at strengthening the management, financial and technical capacities of urban local bodies, through an institutional development programme, and mobilizing resources for basic urban infrastructure investment. It aims at securing sustainable funding sources, beyond the Bank’s line of credit operations. While it may, as one of the several routes for Bank’s engagement in the India’s urban sector, serve an important purpose of conveying the message that it was time to look beyond government for solving cities problems, the sector needs wide–spectrum intellectual support on such issues as market–based pricing system for non–tradeable municipal infrastructure and services, regulatory mechanisms for private sector participation in urban development, State–municipal fiscal relations, and municipal accounting systems. Similarly, building strong managerial capacity in cities appears central to the success of urban sector projects. These constitute a small sample of areas where urgent reforms are needed and where the World Bank could make a significant contribution.²⁹

²⁸ According to the Region, economic liberalization in India has increased labour force mobility. As a result, large metropolitan cities grow at a faster rate requiring increasingly difficult (or expensive) remedies. "Because the Indian strategy to reduce population mobility has failed, new approaches have to be tested urgently. The Government of India is studying these new developments and the Bank could certainly play a leading role in helping overcome the challenge." Quote taken from the comments of January 27, 2000. The author is not aware of any strategy that the Government of India has employed in recent years to reduce population mobility.

²⁹ The World Bank has begun using in several countries, a City Development Strategy (CDS) to support its urban operations. However, because of its relative newness and absence of any information on Bank's CDS operations in India, this paper has not dealt with this subject.

Annex 1

**Evaluation of Bank Assistance
(excepting ongoing projects)**

Projects	Year of Approval	Financial Commitment US\$(million)	Outcome	Sustainability	Institutional Development
Urban Development					
Calcutta Project I	1973	35.0	Satisfactory	nr	nr
Madras	1977	24.0	Satisfactory	nr	nr
Calcutta II	1977	87.0	Unsatisfactory	Unlikely	Modest
Madras II	1980	42.0	Satisfactory	Likely	Modest
Kanpur	1981	25.0	Satisfactory	Uncertain	Modest
Madya Pradesh	1983	24.1	Satisfactory	Uncertain	Modest
Calcutta III	1983	147.0	Unsatisfactory	Unlikely	Modest
Gujarat	1985	62.0	Unsatisfactory	Uncertain	Modest
Bombay	1985	138.0	Marginally satisfactory	Unlikely	Modest
Uttar Pradesh	1987	150.0	Unsatisfactory	Unlikely	Negligible
Tamil Nadu	1988	300.2	Satisfactory	Likely	Modest
Water Supply, Sewerage and Sanitation					
Bombay I	1973	55.0	Satisfactory	nr	nr
Uttar Pradesh	1975	40.0	Satisfactory	nr	nr
Bombay II	1978	196.0	Unsatisfactory	Uncertain	Modest
Punjab	1978	38.0	Satisfactory	nr	nr
Maharashtra	1979	48.0	Satisfactory	nr	nr
Rajasthan	1980	80.0	Unsatisfactory	Uncertain	Modest
Gujarat	1982	72.0	Marginally satisfactory	Unlikely	Negligible
Tamil Nadu	1984	73.0	Satisfactory	Likely	Substantial
Kerala	1985	41.0	Marginally satisfactory	Uncertain	Substantial
Bombay III	1986	185.0	Unsatisfactory	Likely	Negligible
Madras	1987	69.0	Satisfactory	Likely	Substantial
Hyderabad	1990	89.9	Satisfactory	Uncertain	Substantial

Evaluation of Bank Assistance (excepting ongoing projects) (cont.)

Projects	Year of Approval	Financial Commitment US\$(million)	Outcome	Sustainability	Institutional Development	Bank's Performance	Borrower's Performance
Urban Transport							
Bombay	1976	25.0	Satisfactory	nr	nr	nr	nr
Calcutta	1980	56.0	Unsatisfactory	Unlikely	Negligible	nr	nr
Housing Finance							
Housing Development Finance Corporation Special	1988	250.0	Satisfactory	Likely	Substantial	nr	nr
Maharashtra Earthquake Project	1994	246.0	Highly satisfactory	Likely	Substantial	Satisfactory	Satisfactory

Annex 2

TREND OF URBANIZATION IN INDIA			
Census Year	Urban Population (million)	Percentage of Urban to Total Population	Decadal Urban Growth %
1951	62.44	17.29	–
1961	78.94	17.97	26.41
1971	109.11	19.91	38.23
1981	159.46	23.34	46.14
1991	217.61	25.71	36.47
1996*	254.40	27.23	–
1997*	261.55	27.53	–
1998*	268.83	27.84	–
1999*	276.23	28.15	–
2000*	283.71	28.46	–
2001*	291.24	28.77	33.84

Notes: *Population Projections for India and States: 1996–2016.

Source: Census of India, 1991.

Annex 3

PERCENTAGE AND NUMBER OF THE URBAN POOR				
Year	Poverty Percentage		Number of the Poor (million)	
	Urban	Combined	Urban	Combined
1973/74	49.0	54.9	60.0	321.3
1977/78	45.2	51.3	64.6	328.9
1983	40.8	44.5	70.9	322.9
1987/98	38.2	38.9	75.2	307.1
1993/94	32.4	36.0	76.3	320.3

Source: The Ninth Five Year Plan: 1997–2002, Table 1–9 (p. 27).

Summary of Discussion at CAE Workshop on Urban Sector Assistance Review

March 24, 2000

Overall Assessment of the Paper

There was general agreement with Professor Mathur's assessment that the World Bank had been largely unsuccessful in influencing government policies related to the urban sector. This was attributed to the Bank's failure to comprehend complex realities on the ground. The participants suggested that this could be remedied by increased Bank focus on municipalities since these held the key to future development of the urban sector. Appropriate ways of working with municipalities in view of operational procedures of going through the central and state governments will need to be identified. The Bank could contribute through concentration on capacity building of municipalities so that they were fully involved in planning, designing and implementation of the projects, as well as help in professional training of the municipal officials. The participants were unanimous in suggesting that the ownership of the projects should be with the borrowers and that the borrowers should be given benchmarks and accountability not compromised. The Bank was also asked to simplify its project designs.

Bank's Approach

The Bank had come up with projects in isolation and thus ended up pursuing narrow sectoral objectives instead of looking at wider goals within a more comprehensive framework. It was noted that at times Bank officials tend to be too rigid in their negotiations with the government and that, "... we are confronting hard minded academics instead of bureaucrats, who probe many things".

While the need for a policy framework was noted, it was also felt that the Bank's intervention in matters of urban policy development was considered inadequate, and it was suggested that the Bank should share its vast expertise on decentralization in other countries with India. It was felt that the Bank lacked expertise to deal with semi-political issues and acquiring this was vital.

It was suggested that there was a need for a comparative study of the performance of (a) Bank funded urban projects in India and with other countries and (b) between Bank funded urban and other sectoral projects in India. This could provide critical inputs for incorporation in the Bank's future strategy. In this respect, within India, successful projects in some states also needs to be assessed in more detail.

Sustainability of Projects and Bank Support

While there was agreement on the need to make the projects financially sustainable, it was felt that a more viable option would be to look at a basket of financial issues instead

of solely concentrating on user charges. The Bank was asked to rethink its lending patterns and lending charges. The Bank was also asked to examine whether frequent changes in staff as well as a decline in their numbers had adversely affected its own performance.

Nonlending Support

It was observed that while the OED paper has clearly shown the decline in Bank lending in the urban sector in the 1990s, it had failed to mention the Bank's increasing role in extending non-lending support.

Government/Bank Dialogue

The government also came in for much criticism for its neglect of the urban sector and for a lack of vision. The Bank was asked why it had gone along with the views of the government all these years and whether there were any structural reasons behind this.

Areas of Disagreement with Paper

Areas of disagreement with the evaluation included the following: (i) While there was talk about freeing land markets as an important part of any future urban strategy, the paper did not deal with the point extensively. Legal and tax related issues which were important were not touched upon at all. (ii) How did the paper reach its conclusions on the success rate of the Bank's funded projects? More information was sought. (iii) Interaction of the Bank with the Government financed institutions needed to be looked into.

Overall Evaluation

Overall, it was agreed that that the Bank's performance in the Urban sector had been unsatisfactory. However, it was also agreed that part of this could be due to the constraints imposed by government policies and that therefore, performance of the Bank should also be evaluated in the context of the policies of the Government of India.

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