



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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Cover photo by Roy Gilbert. Photo shows typical urban project livability improvements—street paving, drainage, utilities, and lighting—financed through the Northern Uganda Reconstruction Project in the city of Soroti.

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Preface

Cities are home to 525 million poor people, and the World 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. Although 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 the U.N. Habitat *Urban Indicators Program*, as well as data from older projects covered by OED's earlier 20-year review and newer operations ongoing during this review. 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.



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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 10 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 U.N. 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 on 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 healthier and more productive. Attention has also been paid to *governance*, especially through operations that strengthen municipal administration. *Bankability* aspects received some attention, while the *competitiveness* pillar—which seeks improvements to the workings of urban markets—has proved the most elusive.

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PRÓLOGO

Este informe, que se basa en un análisis documental de la cartera de proyectos urbanos del Banco, examina detalladamente los resultados de las 99 operaciones completadas durante los últimos 10 años. Como marco para la evaluación se han utilizado los cuatro pilares del Documento de Estrategia Urbana, a saber: *habitabilidad, gobernabilidad, confiabilidad financiera y competitividad*.

A lo largo de los años los proyectos de desarrollo urbano han procurado mejorar las vidas de los pobres, pero en muchos casos ha faltado evidencia cierta que demostrara su impacto. Esta evaluación ha triangulado las calificaciones de los proyectos de acuerdo a sus resultados con los cambios en la cobertura de servicios urbanos básicos—según se desprenden de datos generados por los indicadores urbanos del programa de Hábitat de las Naciones Unidas a nivel de ciudad—y ha detectado mejoras significativamente más importantes en las ciudades beneficiarias de proyectos financiados por el Banco, comparadas con otras ciudades.

A nivel de proyecto, el estudio identifica los factores que contribuyen a la obtención de buenos resultados, como por ejemplo aprovechar la experiencia de operaciones anteriores, hacer participar a los beneficiarios, y evitar una excesiva dependencia en los recursos de los prestatarios y su capacidad de implementación. A nivel estratégico, el estudio dictamina que la cartera se ha concentrado en el pilar de *habitabilidad*, mediante proyectos cuyo objetivo

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AVANT-PROPOS

Ce rapport est basé sur un examen schématique du portefeuille urbain de la Banque. Il porte sur les résultats de 99 opérations effectuées au cours de la dernière décennie. Il utilise les quatre piliers de l'*habitabilité, de la bonne gouvernance, de la bancabilité et de la compétitivité* du Document de stratégie urbaine (USP) comme cadre d'évaluation.

Au fil du temps, les projets de développement urbain n'ont jamais cessé d'essayer d'améliorer les conditions de vie des plus démunis, mais leur impact réel reste à prouver. A travers la triangulation de l'évaluation des performances des projets avec les changements dans la couverture des services urbains de base—rapportés par les indicateurs urbains de Habitat (ONU) au niveau des villes—cette évaluation détecte des améliorations beaucoup plus notoires dans les villes ayant accueilli des projets financés par la Banque que dans d'autres.

Au niveau des projets, l'étude identifie les facteurs contribuant à de bons résultats, tels que la capacité à tirer parti d'opérations précédentes, la participation des bénéficiaires et les efforts visant à alléger les exigences pesant sur les ressources des emprunteurs et la capacité de mise en œuvre. Au niveau stratégique, l'étude établit que le portefeuille s'est concentré sur le pilier *habitabilité*, à travers des projets axés sur l'amélioration de la vie des indigents urbains au niveau santé et productivité. Les stratégies ont aussi

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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 Urban Strategy Paper’s (USP) “illustrative” in-

dicators 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.

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es hacer que las vidas de los pobres en las ciudades sean más saludables y productivas. También se ha procurado fomentar la *gobernabilidad*, especialmente mediante operaciones que fortalecen la administración de los municipios.

Se ha prestado cierta atención a los aspectos relacionados con la *confiabilidad financiera* pero no se ha prestado mayor atención a la *competitividad*, cuyo objetivo es mejorar la operación de los mercados urbanos.

El Departamento de Evaluación de Operaciones del Banco Mundial (OED) recomienda:

- Monitoreo y evaluación sistemáticos y generación de informes sobre los resultados—especialmente en lo que se refiere a la mitigación de la pobreza—tanto a nivel de ciudad como a nivel sectorial y estratégico. El Banco debe trascender los indicadores ilustrativos del Documento de Estrategia Urbana (USP) y debe implementar un programa de monitoreo y evaluación que mida los resultados de las inversiones efectuadas en ciudades, debiendo asimismo generar informes periódicos.
- Revisión de la estrategia operativa del USP para garantizar una implementación exitosa. Con ello se fijarían metas explícitas y se determinarían las prioridades que vinculan a los cuatro instrumentos clave del USP—ampliar los servicios ofrecidos a los pobres, estrategias de desarrollo de las ciudades, estrategias urbanas a nivel nacional y fortalecer la capacidad de los gobiernos locales—con los cuatro pilares estratégicos—habitabilidad, gobernabilidad, confiabilidad financiera y com-

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accordé beaucoup d’attention à la *gouvernance*, en particulier via des opérations capables de renforcer l’administration municipale. La *bancabilité* a aussi fait l’objet d’un certain intérêt, tandis que le pilier *compétitivité*—

qui poursuit des améliorations grâce au fonctionnement des marchés urbains—s’est avéré le plus insaisissable.

Le Département de l’Évaluation des Opérations de la Banque Mondiale (OED) recommande :

- Contrôle, évaluation et publication systématiques des résultats—concernant la réduction de la pauvreté en particulier—de la ville aux niveaux secteurs/stratégiques. La Banque doit aller au-delà des indicateurs « illustratifs » du Document de stratégie urbaine (USP) et mettre en place un programme de contrôle et d’évaluation afin de mesurer les résultats des investissements de la Banque dans les villes et de les publier régulièrement.
- Révision de la stratégie commerciale de l’USP afin de garantir une exécution réussie. Il serait alors possible de définir des cibles explicites et de déterminer les priorités liant les quatre instruments-clés de l’USP—amélioration des services aux pauvres, stratégies de développement de la ville, stratégies urbaines nationales et renforcement des capacités du gouvernement local—et quatre piliers stratégiques—habitabilité, bonne gouvernance, bancabilité et compétitivité—pour réduire la pauvreté urbaine.
- Clarification du concept et des conséquences opérationnelles du pilier compétitivité de l’USP à l’in-

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petitividad– para mitigar la pobreza urbana.

- Para los urbanistas, definición del concepto de competitividad y las consecuencias operativas derivadas de aplicar este pilar del USP. Una posibilidad es publicar lineamien-

tos específicos a cada región que expliquen a los administradores del Banco, a los administradores de los proyectos designados por los prestatarios, así como a los alcaldes de las ciudades y otros funcionarios, cómo conseguir resultados tendientes a la mitigación de la pobreza urbana mediante la implementación de este pilar.

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tention des praticiens urbains. Une des manières de procéder pourrait être au travers de l'émission de directives spécifiques à la région, expliquant aux gestionnaires de tâches de la Banque, aux gestionnaires de projets em-

prunteurs, aux maires des villes et aux autres représentants comment obtenir des résultats en matière de réduction de la pauvreté grâce à la mise en œuvre de ce pilier.



Gregory K. Ingram

Director-General, Operations Evaluation

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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 percent 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 15 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 an update of OED's 1994 review of urban operations. The study assesses the implementation challenges of *Cities in Transition* (2000a), 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 U.N. Habitat city-level urban indicators. The only primary data collected for this work were compiled 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 on the urban poor. Low-

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RÉSUMEN

Contexto y Métodos

El Banco invierte cada año de 6 a 7 billones de dólares en diversas ciudades de los países en desarrollo donde residen 525 millones de pobres. Aproximadamente un 30 por ciento de todos los pobres del mundo viven en áreas urbanas en las que un dólar al día representa un menor impacto económico que en áreas rurales. Para rebajar a la mitad la tasa de pobreza en 2015, alcanzando así el Objetivo de Desarrollo del Milenio (ODM), 24 millones de personas tendrían que salir de la pobreza urbana cada año durante los próximos 15 años, lo que es una tarea extremadamente ardua.

Hay que preguntarse si las inversiones del Banco en las ciudades han mejorado las vidas de los pobres. Esta es la cuestión central a la que pretende responder este estudio documental, en el que se evalúan el contexto político y los resultados de 99 proyectos urbanos completados en el período 1993–2000, actualizándose también el análisis de operaciones urbanas realizado por el Departamento de Evaluación de Operaciones del Banco Mundial (OED) en 1994. Este estudio evalúa los retos inherentes a la implementación de *Ciudades en Transición* (2000a), el nuevo documento de estrategia urbana (USP) del Banco. Para efectuar este análisis, se compiló una base de datos de evaluación a partir de fuentes existentes del Banco y de otras procedencias, como por ejemplo los indicadores urbanos a nivel de ciudad del programa de Hábitat de las

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RÉSUMÉ
ANALYTIQUE

Contexte et méthodes

Chaque année, la Banque investit de 6 à 7 millions de dollars dans les villes des pays en développement où résident 525 billions des groupes pauvres. Environ 30 pour cent de tous les pauvres du monde vivent en ville, où un dollar par jour ne leur donne pas le même niveau de vie qu'à la campagne. Le fait de réussir à atteindre l'Objectif de développement du millénaire (ODM) consistant à réduire la pauvreté de moitié d'ici 2015 équivaldrait à tirer de la pauvreté urbaine 24 millions de personnes chaque année pendant les 15 prochaines années, une tâche pour le moins herculéenne.

Les investissements de la Banque dans les villes ont-ils amélioré la vie des pauvres ? Cette question essentielle est traitée dans cette évaluation, une étude schématique du contexte politique et des performances de 99 projets urbains réalisés entre 1993 et 2000, et une mise à jour de l'examen 1994 du Département de l'Évaluation des Opérations de la Banque Mondiale (OED) des opérations urbaines. L'étude évalue les défis rencontrés par la mise en œuvre de *Villes en transition* (2000a), le nouveau document de stratégie urbaine (USP) de la Banque. Pour son analyse, l'étude a élaboré une base de données d'évaluation à partir des sources existantes de la Banque et d'autres telles que les indicateurs urbains au niveau des villes de Habitat (ONU). Les seules données primaires recueillies pour ces travaux l'ont été par l'intermédiaire

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income urban households were target beneficiaries from the outset, a priority inspired by former World Bank President Robert McNamara's 1975 Annual Meetings 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 on improving basic infrastructure and shelter, while a new line of urban business expanded in the form of municipal development projects (MDPs). With 78 percent 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 (World Bank 1991) focused on 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 percent of the total. The nadir came in 1995, the year of the completion of 12 projects prepared around the time of the disruptive Bank reorganization of 1987. Since 1995, there has

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Naciones Unidas. Los únicos datos primarios recolectados para este estudio se obtuvieron mediante una encuesta telefónica de los administradores de 45 prestatarios seleccionados entre los 99 proyectos urbanos completa-

dos en todo el mundo.

Evolución de la Cartera del Banco

El Banco empezó a conceder créditos durante la década de 1972 al 82 y desde entonces promovió las operaciones urbanas, asignando prioridades tales como el saneamiento de barriadas y la creación de sitios y servicios para los pobres en medio urbano. Desde un principio se dio prioridad a los hogares urbanos de bajos ingresos, prioridad inspirada por el discurso pronunciado por el ex Presidente del Banco Mundial, Robert McNamara, en 1975 y definida en mayor detalle por la posterior labor del Banco en el área de la política urbana.

Durante la segunda década (1983–92) se incrementó rápidamente el volumen de créditos para proyectos urbanos y Latinoamérica emergió como el más importante cliente regional del programa urbano del Banco. Los proyectos urbanos continuaron limitándose a mejorar la infraestructura básica y la provisión de viviendas, mientras se expandía una nueva línea de operaciones urbanas denominadas Proyectos de Desarrollo Municipal (PDMs). El resultado de un 78 por ciento de los proyectos fue calificado como satisfactorio, lo que confirma el buen desempeño de la cartera. Así se desprende del análisis de créditos urbanos efectuado por el OED en 1994, que demostró que los proyectos más exitosos habían sido

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d'une enquête téléphonique mondiale auprès des gestionnaires d'emprunteurs de 45 des 99 projets urbains achevés.

Evolution du portefeuille de la banque

La première décennie de prêts octroyés par la Banque—1972–82—a lancé les opérations urbaines de la Banque et déterminé les priorités, telles que l'amélioration des quartiers pauvres, ainsi que des sites et services concentrés autour des groupes pauvres urbains. Les foyers urbains à faible revenu ont été ciblés comme bénéficiaires dès le départ, une priorité inspirée par le discours en 1975 de Robert McNamara, ancien président de la Banque mondiale, et clarifiée par le travail en matière de politique urbaine de la Banque par la suite.

La deuxième décennie—1983–92—a vu une rapide expansion des prêts urbains et a fait de l'Amérique latine le principal client régional du programme urbain de la Banque. Des projets urbains se concentraient toujours sur l'amélioration de l'infrastructure de base et le logement, tandis qu'une nouvelle gamme d'activités urbaines s'élargissait sous forme de projets de développement municipal (MDP). Avec 78 pour cent des projets considérés comme ayant donné des résultats satisfaisants, les performances du portefeuille étaient bonnes, selon l'examen des prêts urbains de l'OED en 1994, qui a établi que les projets bénéficiant des meilleures pratiques étaient la propriété sans équivoque des emprunteurs et s'étaient fixés des buts explicites de réduction de la pauvreté, des leçons exploitées par les opérations ultérieures. Le document

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been a strong rebound. Urban projects helped strengthen municipal management and the housing subsector. 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 on 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 so-called 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. But less was done by the Bank to develop guidelines for monitoring and evaluation (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 USP approved in 1999, with its primary focus on 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

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asumidos inequívocamente por los prestatarios y tenían objetivos explícitos de reducción de la pobreza, lecciones absorbidas por las operaciones posteriores. El Documento de Política Urbana (UPP-91) publicado por el Banco en 1991 (World Bank 1991) daba prioridad a tres elementos: productividad (urbana), reducción de la pobreza y disminución de la contaminación ambiental. Se consiguió sobre todo que la cartera siguiera dando prioridad a la reducción de la pobreza, pero los urbanistas raras veces se preocuparon de la productividad urbana. También se intentó paliar la contaminación, pero en aquel momento los resultados de los proyectos orientados al medio ambiente urbano eran endebles.

La cartera continuó gestionándose activamente durante la tercera década (1993–2000). La mayoría de los proyectos se localizaron en África pero el mayor volumen de créditos continuó atribuyéndose a Latinoamérica. En términos generales, los proyectos satisfactorios cayeron a un 71 por ciento del total. El punto más bajo se alcanzó en 1995, año en el que se completaron 12 proyectos que se habían preparado en medio de la confusión provocada por la reorganización del Banco en 1987, pero la tendencia se invirtió a partir de 1995. Los proyectos urbanos contribuyeron a reforzar la administración de los municipios y el subsector de la vivienda. Los Proyectos de Desarrollo Municipal utilizaron intermediarios financieros para conceder créditos con fondos del Banco y de otras fuentes a los gobiernos locales de todas las regiones a cambio de reformas estructurales en las ciudades. Se duplicaron los esfuerzos para reducir la pobreza urbana, dedicándose a este

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de politique urbaine de la Banque de 1991 (Banque mondiale 1991) s'est concentré sur trois P : Productivité (urbaine), réduction de la Pauvreté et du Contrôle de la Pollution. Il a particulièrement réussi à continuer à axer le portefeuille sur la diminution de la pauvreté. Les praticiens urbains se sont rarement attaqués au thème de la productivité urbaine. Le problème de la pollution était traité, mais les performances des projets d'environnement urbain étaient faibles à l'époque.

La troisième décennie —les années 1993–2000—ont vu une activité soutenue du portefeuille. L'Afrique a accueilli la plupart des projets, mais l'Amérique latine recevait encore la majorité des prêts. Globalement, les projets satisfaisants ont diminué pour ne représenter que 71 pour cent du total. Le point le plus bas s'est situé en 1995, l'année de la conclusion de 12 projets préparés au moment de la réorganisation tumultueuse de la Banque en 1987. Depuis 1995, un rétablissement sensible a été observé. Les projets urbains ont contribué à renforcer la gestion municipale et le sous-secteur du logement. Les MDP ont utilisé des intermédiaires financiers pour re-prêter les fonds de la Banque et d'autres fonds aux autorités locales en échange de réformes structurelles au niveau des villes dans toutes les régions. L'attention accordée à la réduction de la pauvreté urbaine s'est intensifiée, en caractérisant plus de la moitié du portefeuille de l'époque. Les activités urbaines de cette décennie montrent aussi la sensibilisation à la recommandation de l'étude de 20 ans de l'OED de renforcer la

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90 urban projects worldwide, 68 percent of projects had objectives focused on improving the living conditions of the urban poor, the highest proportion to date. Self-evaluation by the Quality Assurance Group (QAG) and

the latest supervision missions suggest 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 on 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 U.N. Habitat urban indicators. Through triangulation with urban project ratings, it found robust evidence of positive project impacts on 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 strain borrower resources and capacity are nega-

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fin más de la mitad de la cartera. Las actividades urbanas durante esta década también fueron influenciadas por el denominado estudio de 20 años efectuado por el OED, donde se recomendaba una mayor congruencia entre los objetivos

de un proyecto y su diseño, gracias a lo cual mejoraron los resultados. Se incorporaron componentes específicos a casi todos los proyectos destinados a mejorar la habitabilidad y la gobernabilidad con el fin de contribuir a la obtención de esos objetivos. En cambio, el Banco tuvo menor incidencia en el desarrollo de lineamientos para el monitoreo y la evaluación (M&E) y en la implementación de sistemas de M&E específicos para cada proyecto, según había sido recomendado por el OED.

El reto de la cuarta década (2001 y años subsiguientes) consiste en implementar el nuevo USP del Banco aprobado en 1999, cuyo principal objetivo es mejorar la habitabilidad—una calidad de vida aceptable para todos, incluso los pobres— mediante la gobernabilidad, la confiabilidad financiera y la competitividad, todas ellas dimensiones de las ciudades sostenibles (definidas a continuación). En sus comentarios al borrador del USP en 1999, el OED aprobó la nueva estrategia, especialmente la matriz de indicadores de desempeño para monitorear los resultados relativos a cada uno de estos cuatro pilares estratégicos, si bien indicó que era necesario un mayor esfuerzo de cara a la implementación. No obstante, las perspectivas para implementar el programa de habitabilidad son hasta ahora prometedoras. En una cartera de 90 proyectos urbanos en curso en todo el mundo, el objetivo del 68 por ciento de ellos incluía mejorar las

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congruence des objectifs et de la conception des projets pour obtenir de meilleurs résultats. La majorité des projets qui visaient à améliorer l'habitabilité et la gouvernance incorporaient des composantes spécifiques afin

d'aider à parvenir à ces buts. Cependant, la Banque n'a pas été aussi active pour développer des directives de contrôle et d'évaluation, et mettre en œuvre des systèmes de contrôle et d'évaluation des projets recommandés par l'OED.

La quatrième décennie—2001 et au-delà—pose le défi de l'exécution du nouveau USP de la Banque approuvé en 1999, dont le but principal est l'amélioration de l'habitabilité—qualité de vie décente pour tous, y compris les pauvres—à travers la bonne gouvernance, la bancabilité et la compétitivité de villes durables (définies ci-dessous). Dans ses commentaires de 1999 sur le projet de l'USP, l'OED s'est réjoui de la nouvelle stratégie, en particulier de sa matrice d'indicateurs de performance visant à surveiller les résultats selon les quatre piliers stratégiques, mais a indiqué l'importance de travaux supplémentaires sur sa réalisation. Jusqu'à présent cependant, les perspectives de mise en œuvre des mesures liées à l'habitabilité sont prometteuses. Dans le portefeuille en cours de 90 projets urbains de par le monde, les objectifs de 68 pour cent des projets sont centrés sur l'amélioration des conditions de vie pour les pauvres urbains, la plus grosse proportion à ce jour. L'autoévaluation par le Groupe d'assurance de la qualité de la Banque (QAG) et les dernières missions de supervision suggèrent la bonne qualité future de l'évaluation finale des résultats de ces projets.

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tively correlated with project performance. Based on OED evaluations, the Bank's overestimation of borrower institutional capacity was typically detrimental to outcomes. *Building on prior experience*: Urban projects that in-

corporate 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 percent of the time. Because 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 on 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 percent of their populations living in cities—the lower limit of the top tercile) were 81 percent satisfactory, but in less urbanized countries (fewer than 34 percent living in cities), only 59 percent of projects were satisfactory. Gross domestic product (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, re-

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condiciones de vida de los pobres en medio urbano, el más alto porcentaje a la fecha. La auto evaluación efectuada por el Grupo de Evaluación de Calidad del Banco (QAG, por sus siglas en inglés) y las más recientes misiones de su-

pervisión sugieren que los índices del resultado final de estos proyectos serán buenos.

Mejores Proyectos en las Ciudades: Mejores Vidas para los Pobres

A pesar de que se ha producido una deseable reorientación de los proyectos urbanos hacia la mitigación de la pobreza, las pruebas fehacientes de su impacto sobre la habitabilidad de las ciudades han sido escasas, especialmente a nivel estratégico o sectorial. Ante la ausencia de datos, este estudio recurrió a otra fuente, a saber, los indicadores urbanos del programa de Hábitat de las Naciones Unidas a nivel de ciudad. La triangulación de estos datos con las calificaciones de proyectos urbanos produjo pruebas fehacientes del impacto positivo de los proyectos sobre la habitabilidad. Entre 1993 y 1998, la cobertura de servicios de agua potable, alcantarillado y recolección de desechos sólidos aumentó significativamente mas en 24 ciudades clientas del Banco donde se implementaban proyectos urbanos que en otras 37 ciudades comparables y similares en todos los otros aspectos pero no beneficiarias de estas operaciones. Este resultado confirmó el mejor comportamiento de las ciudades con proyectos urbanos concebidos para ampliar la cobertura de servicios dentro de la urbe. El estudio también utilizó un modelo de regresión simple con estimadores mínimos cuadráticos para identificar

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De meilleurs projets dans les villes : des vies meilleures pour les groupes pauvres

En dépit du changement d'orientation souhaitable des projets urbains en faveur de buts concentrés sur la pau-

vreté, l'impact réel de ces derniers en terme d'habitabilité dans les villes est faible, en particulier au niveau des stratégies ou des secteurs. En l'absence de données sur les performances, le présent examen s'est tourné vers d'autres sources, les indicateurs urbains au niveau des villes d'Habitat (ONU). A travers la triangulation avec les évaluations des projets urbains, des preuves solides ont été trouvées quant à l'impact positif des projets sur l'habitabilité. Entre 1993 et 1998, l'élargissement de la couverture des services d'eau, d'égouts et de déchets solides était beaucoup plus sensible dans les 24 villes clientes de la Banque et abritant des projets urbains que dans 37 autres villes ne bénéficiant pas de telles opérations. Ce résultat a confirmé que les villes dotées de projets urbains conçus pour étendre la couverture des services au sein de leurs zones urbaines ont obtenu de meilleures performances. L'étude a aussi utilisé un modèle de régression des moindres carrés afin d'identifier les facteurs déterminant les performances des projets et devant de ce fait être pris en compte lors de la conception du projet.

Facteurs d'un projet : Une pression élevée sur les ressources et sur la capacité de l'emprunteur est corrélée de manière négative avec les performances d'un projet. Sur la base des évaluations de l'OED, la surestimation de la Banque de la capacité

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sources (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 among three factors conventionally associated with project performance: (1) 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; (2) partnerships with cofinanciers appeared to have no impact on performance, despite expectations of high “transaction costs” of such arrangements; and (3) 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; for example, for country dialogue.

Improving Lives in Cities by Implementing the Strategy

How much Bank urban assistance will continue to improve the lives of the poor in cities in the future will depend on 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.

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los factores que determinan el resultado de un proyecto; estos factores, por supuesto, deberían ser considerados en el diseño de proyectos.

Factores relacionados con el proyecto: Los altos niveles de

exigencias que ponen a prueba los recursos y la capacidad de los prestatarios se correlacionan negativamente con el éxito del proyecto. El OED estima que la sobreestimación de la capacidad institucional de los prestatarios por parte del Banco ha tenido frecuentemente efectos adversos. Aprovechar experiencias anteriores: Los proyectos urbanos que incorporan las lecciones aprendidas de la experiencia con proyectos anteriores (que cubren la mitad de la cartera en 31 países) dan mejores resultados. La participación de los beneficiarios, especialmente durante la identificación del proyecto, tiene una correlación positiva con los buenos resultados. Un 89 por ciento de los proyectos que contaron con un alto grado de participación de los beneficiarios dieron buenos resultados. Hay que señalar que menos de la mitad de las operaciones completadas contaron con este alto grado de participación, sin embargo, quienes conciben los proyectos deben hacer más para incorporarla en el futuro. La participación de los prestatarios, presente en mayor grado en el diseño de los proyectos, tiene similarmente un impacto positivo sobre sus resultados. La excelencia del servicio prestado por el Banco—que se traduce en una actuación satisfactoria durante la identificación, evaluación y supervisión—es también un factor clave en la obtención de buenos resultados.

Factores relacionados con el país: Un 81 por ciento de los proyectos comple-

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institutionnelle de l’emprunteur a généralement porté tort aux résultats. Une leçon à tirer : les projets urbains qui incorporent les leçons des projets précédents (couvrant la moitié du portefeuille dans 31 pays) obtiennent de

meilleurs résultats. La participation des bénéficiaires, en particulier pendant l’identification du projet, est corrélée de manière positive avec de bons résultats. Les projets caractérisés par une forte participation des bénéficiaires ont obtenu des résultats satisfaisants dans 89 pour cent des cas. Du fait que moins de la moitié des opérations terminées bénéficiaient d’un degré de participation non négligeable, les concepteurs doivent cependant intensifier leurs efforts pour incorporer cet élément dans l’avenir. La participation des emprunteurs, incorporée à la conception de projet dans une plus large mesure, a un impact positif similaire sur les performances. L’excellence des services de la Banque—à travers de bonnes performances pendant l’identification, l’évaluation et la supervision—est aussi un élément-clé pour des résultats positifs.

Facteurs du pays : Les projets réalisés dans des pays plus urbanisés (avec plus de 58 pour cent de la population vivant en ville—la limite inférieure du tercile supérieur) étaient satisfaisants à 81 pour cent, mais dans les pays moins urbanisés (moins de 34 pour cent vivant en ville), 59 pour cent des projets seulement étaient satisfaisants. Le produit intérieur brut (PIB) par tête est lié à l’urbanisation et, de ce fait, sa relation avec les performances d’un projet est similaire. Des pays plus

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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 healthier

and more 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 on livability goals and dovetail neatly into the Bank's own poverty reduction mandate (OD 4.15, 1990), which espouses the inclusion of the poor through healthier and more productive lives. USP indicators for monitoring livability outcomes (for example, urban poverty rates, infant or child mortality, rates of waterborne diseases, and ambient air and water quality) and outputs (for example, 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

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tados en los países más urbanizados (donde más del 58 por ciento de la población vive en ciudades —el límite inferior del tercio superior) fueron calificados como satisfactorios, pero en países menos urbanizados (donde

menos del 34 por ciento de la población vive en ciudades), solamente un 59 por ciento de los proyectos eran satisfactorios. El producto interior bruto (PIB) per cápita se correlaciona con la urbanización, y por consiguiente tiene una correlación similar con los resultados de los proyectos. En los países más urbanizados y con ingresos más elevados los prestatarios tienen más experiencia del desarrollo urbano, así como más recursos (incluyendo financiación aportada por las contrapartes), y capacidad institucional para producir mejores resultados. Los administradores de proyectos urbanos no tienen necesariamente poder para cambiar estas condiciones, pero deben ser conscientes de ellas.

Este análisis estadístico no pudo encontrar relaciones significativas entre los tres factores convencionalmente asociados con el resultado de un proyecto: (1) objetivos enfocados en la pobreza —factor que los administradores de operaciones relacionan a menudo con un peor resultado debido a la menor demanda efectiva por parte de los beneficiarios más pobres— no pareció afectar los resultados; (2) tampoco pareció que las asociaciones con otros prestamistas afectarían los resultados, a pesar de los altos “costos transaccionales” que se anticipaban para estas operaciones; y (3) solamente unos pocos proyectos —18 de 99— fueron precedidos por trabajos económicos y sectoriales (ESW, por sus siglas en inglés), y su resultado

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urbanisés et à revenus plus élevés donnent aux emprunteurs une expérience de développement urbain plus importante, des ressources (y compris des fonds de contrepartie) et une capacité institutionnelle pour de

meilleures performances. Les gestionnaires de projets urbains sont peut-être incapables de changer ces conditions, mais ils doivent certainement en être conscients.

Cette analyse statistique n'a pas pu établir de relation significative entre les trois facteurs traditionnellement associés aux performances des projets : (1) objectifs concentrés sur la pauvreté—souvent associée par les gestionnaires de tâches à des performances plus mauvaises du fait d'une demande moins efficace de la part de bénéficiaires plus pauvres — n'ont pas semblé avoir un effet sur les résultats ; (2) les partenariats avec les co-bailleurs de fonds n'ont pas semblé affecter les performances, en dépit des prévisions de coûts de transaction élevés liés à de tels dispositions ; et (3) les études économiques et sectorielles de la Banque (ESW) ont précédé une minorité de projets seulement—18 sur 99—dont la performance n'a pas été vraiment différente de celle de la majorité des projets urbains préparés sans ce type d'études. Dans certains cas, les études économiques et sectorielles ont été menées dans d'autres buts que l'amélioration des performances des projets, par exemple, pour favoriser le dialogue de la Banque avec le pays en question.

Amélioration de la vie dans les villes par l'exécution de la stratégie

La portée de l'assistance urbaine de la Banque sur l'amélioration de la

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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 (and housing finance and infrastructure reforms. How to monitor these

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no fue significativamente diferente al de la mayoría de proyectos urbanos preparados sin ESW. En algunos casos, dichos trabajos no se efectuaron para mejorar el resultado del proyecto sino para otros fines, por ejemplo para fomentar el diá-

logo con el país en cuestión.

La Implementación de la Estrategia Mejora Vidas en las Ciudades

La asistencia urbana ofrecida por el Banco continuará mejorando en el futuro las vidas de los pobres en las ciudades en la medida en que la nueva estrategia urbana se implemente con éxito y los resultados se monitoreen con atención. La matriz de indicadores de desempeño del DEU será de utilidad, pero todavía esperamos los resultados de monitorearlos a nivel estratégico. Los resultados requeridos se indican a continuación para cada pilar estratégico.

Habitabilidad – buena calidad de vida y oportunidades para todos, especialmente los pobres: Al ser enfocada en los pobres, la habitabilidad merece ser el principal pilar del DEU. Es el medio del que se sirve el Banco para contribuir a que las vidas de los pobres en las ciudades sean más saludables y productivas. Además de su contenido asistencial, este elemento establece condiciones para el crecimiento de la economía urbana que beneficiarán a todos los ciudadanos. Los nuevos proyectos urbanos en curso privilegian la habitabilidad como objetivo y se ajustan estrechamente a la misión del Banco de reducir la pobreza (OD 4.15,1990), favoreciendo la inclusión de los pobres mediante vidas más saludables y productivas. Muchos de los indica-

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vie des pauvres en ville dans l'avenir dépend du succès de l'exécution de la nouvelle stratégie urbaine et du niveau de contrôle des résultats. La matrice de performance de l'USP peut apporter une aide, mais nous devons encore at-

tendre les résultats du contrôle de ces performances au niveau stratégique. Les résultats nécessaires sont soulignés ci-dessous pour chaque pilier stratégique.

Habitabilité—qualité de vie décente et débouchés pour tous, en particulier les groupes pauvres : En tant que repère essentiel sur les pauvres, l'habitabilité est à juste titre le pilier principal de l'USP. Grâce à cet indicateur, la Banque cherche à rendre la vie des pauvres dans les villes plus saine et plus productive. Au-delà de sa portée en terme de bien-être, l'habitabilité établit les conditions de la croissance de l'économie urbaine qui va bénéficier à tous les citoyens. Les nouveaux projets urbains en cours se concentrent sur des buts d'habitabilité et cadrent bien avec le propre mandat de la Banque de réduire la pauvreté (OD 4.15,1990), qui épouse l'inclusion des pauvres grâce à la possibilité d'une vie plus saine et plus productive. Les indicateurs de l'USP pour surveiller les résultats au niveau de l'habitabilité (par exemple les taux de pauvreté urbaine, le taux de mortalité des enfants ou nouveaux-nés, les taux de maladies hydriques, ainsi que la qualité de l'eau et de l'air) et les rendements (par exemple, la couverture de services urbains) sont, pour la plupart, pertinents par rapport aux buts stratégiques de l'USP et bien connus des praticiens urbains. Beaucoup plus de travail reste à accom-

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results will be a major challenge for urban practitioners, given that city-level data are scarce for several proposed indicators. Currently, fewer than 10 percent 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 1999 comments to the Committee on Development Effectiveness (CODE) of the Bank Board of Directors on the USP, 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 on building good economic governance that emphasizes the comparative advantage of their city economy.

Recommendations

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

Systematic M&E and reporting of results—especially of poverty alleviation—from the city to the sector and 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 regularly report on them.

Revision of the USP's business strategy to ensure successful implementation: This would provide explicit targets and determine priorities that link

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dores del USP que monitorean los resultados relativos a la habitabilidad (por ejemplo, las tasas de pobreza urbana, la mortalidad infantil, las tasas de enfermedades transmitidas por el agua, y la calidad del aire y el agua ambientales)

y los productos tangibles (por ejemplo, la cobertura básica de servicios urbanos) son relevantes a los objetivos estratégicos del DEU y conocidos de los urbanistas. No obstante, queda mucho por hacer para monitorear los resultados relacionados con la pobreza en la práctica. Podremos afirmar que las inversiones del Banco en las ciudades han mejorado las vidas de los pobres solamente si esas afirmaciones se basan en evidencia convincente.

Gobernabilidad – inclusión y responsabilidad a nivel local: Para demostrar que la gobernabilidad da resultados, los urbanistas necesitarán más orientación del Urban Sector Board del Banco, en particular asesoramiento sobre métodos cuantitativos para medir esos resultados. Por lo tanto, la evidencia anecdótica sugiere que muchos proyectos urbanos completados han fortalecido la gobernabilidad a nivel local gracias a las relaciones directas establecidas con las autoridades municipales. Si están bien gobernados, los municipios están en mejor postura para liderar programas que mejoren la habitabilidad de sus ciudades. El instrumento más completo para mejorar la gobernabilidad local es la Estrategia de Desarrollo Urbano (CDS, por sus siglas en inglés), si bien los proyectos también influyen gracias a la asistencia técnica y la capacitación, así como la gestión intensiva de abastecimiento por parte de los prestatarios. La gobernabilidad municipal

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plir, cependant, afin de surveiller les résultats sur la pauvreté dans la pratique. Nous pouvons seulement annoncer de bons résultats des investissements de la Banque en milieu urbain pour les conditions de vie des pauvres

si nous pouvons nous fonder sur des preuves convaincantes.

Bonne gouvernance—intégration et responsabilisation au niveau local : Pour que les praticiens urbains rassemblent les preuves de résultats au niveau de la gouvernance, ils ont besoin de plus d'informations de la part du Urban Sector Board de la Banque. En particulier, ils ont besoin de conseils ou de mesures quantitatives de performances. Entre-temps, les preuves anecdotiques suggèrent qu'en traitant directement avec les autorités municipales, de nombreux projets urbains réalisés ont renforcé la gouvernance au niveau local. Si les municipalités sont bien gérées, elles sont plus prêtes à mener à bien des programmes axés sur l'amélioration de l'habitabilité dans les villes. L'instrument le plus complet pour l'amélioration de la gouvernance locale est la stratégie de développement de la ville (CD). Les projets renforcent aussi la gouvernance par l'intermédiaire de l'assistance technique, de la formation et de la gestion intensive par les emprunteurs du processus d'approvisionnement. La gouvernance municipale peut être améliorée en permettant la participation du secteur privé dans la prestation de services au sein d'un environnement compétitif.

Bancabilité—solidité financière et solvabilité : Les indicateurs de performances au niveau de la bancabilité

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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.

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puede ser incrementada si se promueve la participación del sector privado en la prestación de servicios dentro de un marco competitivo.

Confiabilidad financiera – solidez financiera y solvencia: Los

indicadores del USP relativos a la confiabilidad financiera de los gobiernos locales figuran entre los más sólidos y más fácilmente cuantificables de la estrategia. En la práctica, el Banco ha podido aumentar los ingresos de los gobiernos locales gracias a los proyectos de desarrollo municipal. Las evaluaciones del OED muestran cómo diversos gobiernos locales en Brasil, Ghana, Filipinas, Túnez y Venezuela obtuvieron ganancias fiscales que pueden ser atribuidas a proyectos financiados por el Banco. Por el contrario, se ha progresado en menor grado para aumentar la solvencia municipal, el segundo aspecto del pilar de confiabilidad financiera del USP. Aún así, muchos urbanistas creen que, en la medida en que se requiere gobernabilidad para ello, se debe seguir promoviendo la solvencia de los gobiernos locales.

Competitividad – mercados eficientes en las ciudades: Otro objetivo del USP

es mejorar la operación de los mercados urbanos tanto inmobiliarios como laborales o crediticios, así como también aumentar la inversión en infraestructuras o en viviendas, utilizando instrumentos tales como las estrategias de desarrollo urbano y las reformas de financiación de la vivienda y de la infraestructura. Encontrar un método para monitorear estos resultados será un reto importante para los urbanistas puesto que los datos a nivel de ciudad generados por varios de los indicadores pro-

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proposés par l'USP pour les autorités locales figurent parmi les indicateurs stratégiques les plus solides et les plus faciles à quantifier. En pratique, les projets de développement municipal ont permis à la Banque de ren-

forcer les recettes des autorités locales. Les évaluations de l'OED mettent en évidence des gains fiscaux des autorités locales imputables aux projets financés par la Banque au Brésil, au Ghana, aux Philippines, en Tunisie et au Venezuela. Les progrès au niveau de la solvabilité municipale, le second aspect du pilier de la bancabilité de l'USP, ont été beaucoup plus limités. Cependant, de nombreux praticiens urbains pensent que la poursuite de la solvabilité, dans la mesure où elle requiert une bonne gouvernance, reste un but tout à fait honorable.

Compétitivité—marchés efficaces dans les villes : L'USP vise à améliorer le fonctionnement des marchés urbains pour l'immobilier, la main-d'œuvre, le crédit et les facteurs de production de l'infrastructure et du logement en utilisant des instruments tels que

les stratégies de développement financier du logement et réformes de l'infrastructure. Le mode de surveillance de ces résultats sera un défi majeur à relever par les praticiens urbains, étant donné que les données au niveau des villes sont rares pour plusieurs indicateurs proposés. Aujourd'hui, moins de 10 pour cent des projets urbains incluent la compétitivité, en partie parce que les praticiens urbains ne sont pas sûrs du sens de ce mot et des moyens de l'encourager. Le terme doit être précisé, afin de clarifier ses objectifs sous-jacents et de détermi-

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puestos son más bien escasos. Actualmente, la competitividad representa un factor de concepción en menos del 10 por ciento de los proyectos urbanos, en parte porque los urbanistas no saben a ciencia cierta cómo definir la com-

petitividad ni cómo propiciar su emergencia. Hay que profundizar en el tema para definir el término, clarificar los objetivos subyacentes y determinar su aplicación práctica. En sus comentarios de 1999 sobre el USP dirigidos al Comité sobre la Efectividad del Desarrollo (CODE) de la Junta Directiva del Banco, el OED expresó sus inquietudes sobre la ambigüedad del concepto de competitividad y la incertidumbre sobre la manera de tratar esta cuestión. Es importante que los urbanistas del Banco ayuden a los alcaldes a estructurar una buena gobernabilidad económica que ponga en relieve las ventajas comparativas de la economía de su ciudad.

Recomendaciones

Para que el programa de créditos urbanos contribuya más eficazmente a obtener resultados tendientes a la mitigación de la pobreza urbana dentro del actual marco estratégico, el OED recomienda:

Monitoreo y evaluación sistemáticos y generación de informes sobre los resultados—especialmente en lo que se refiere a la mitigación de la pobreza— tanto a nivel de ciudad como a nivel sectorial y estratégico: El Banco debe trascender los indicadores ilustrativos del USP y debe implementar un programa de monitoreo y evaluación que mida los resultados de las inversiones efectuadas en ciudades, debiendo asimismo generar informes periódicos.

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ner son application pratique. Dans ses commentaires de 1999 devant le Comité sur l'efficacité du développement du conseil d'administration de la Banque (CODE) sur l'USP, l'OED a soulevé la question de l'ambiguïté du

concept de compétitivité et de l'incertitude quant à la façon d'aborder le concept. Il est important que les praticiens urbains au sein de la Banque aident les maires à se concentrer sur une bonne gouvernance économique capable de mettre l'accent sur les avantages comparatifs de l'économie de leur ville.

Recommandations

Pour aider le programme de prêts urbains à se concentrer avec plus d'efficacité sur la réduction de la pauvreté dans le cadre stratégique actuel, l'OED recommande :

Contrôle, évaluation et publication des résultats systématiques—concernant la réduction de la pauvreté en particulier—aux trois niveaux: de la ville, des secteurs, et des stratégies : La Banque doit aller au-delà des indicateurs illustratifs de l'USP et mettre en place un programme de contrôle et d'évaluation afin de mesurer les résultats des investissements de la Banque et de les publier régulièrement.

Révision de la stratégie d'attaindre de l'USP afin de garantir une mise en œuvre réussie : Il serait alors possible de définir des cibles explicites et de déterminer les priorités liant les quatre instruments-clés de l'USP—augmentation des services aux pauvres, stratégies de développement de la ville, stratégies urbaines nationales et renforcement des capacités du

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Revisión de la estrategia operativa del USP para garantizar una implementación exitosa:

Con ello se fijarían metas explícitas y se determinarían las prioridades vinculando a los cuatro instrumentos clave del USP –ampliar los servicios

ofrecidos a los pobres, estrategias de desarrollo de las ciudades, estrategias urbanas a nivel nacional y fortalecer la capacidad de los gobiernos locales– con los cuatro pilares estratégicos –habitabilidad, gobernabilidad, confiabilidad financiera y competitividad– para mitigar la pobreza urbana.

Para los urbanistas, definición del concepto de competitividad y las consecuencias operativas derivadas de aplicar este pilar del USP:

Una posibilidad es publicar lineamientos específicos a cada región que expliquen a los administradores del Banco, a los administradores de los proyectos designados por los prestatarios, así como a los alcaldes de las ciudades y otros funcionarios, cómo conseguir resultados tendientes a la mitigación de la pobreza urbana mediante la implementación de este pilar.

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gouvernement local—et quatre piliers stratégiques—habitabilité, bonne gouvernance, bancabilité et compétitivité—pour réduire la pauvreté.

Clarification, pour les praticiens urbains du concept et des conséquences opérationnelles de la compétitivité comme pilier de l'USP :

Une des manières de procéder pourrait être au travers de l'émission de directives spécifiques à chaque région expliquant aux gestionnaires de projets et programmes de la Banque, aux gestionnaires des emprunteurs, aux maires des villes et aux autres représentants comment obtenir des résultats en matière de réduction de la pauvreté grâce à la mise en œuvre de ce pilier.

ABBREVIATIONS AND ACRONYMS

AGETIPs	<i>Agences d'Exécution des Travaux d'Intérêt Public</i>
APPI	Aggregate Project Performance Indicator
CDF	Comprehensive Development Framework
CDS	City Development Strategy
CIDA	Canadian International Development Agency
CODE	Committee on Development Effectiveness (of the Board of the World Bank)
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 (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
MDG	Millennium Development Goal
MDP	Municipal development project
NGO	Nongovernmental organization
OECD	Organisation for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
OED	Operations Evaluation Department
OD	Operational Directive (World Bank)
OP	Operational Policy (World Bank)
PAHO	Pan American Health Organization (<i>Organización Panamericana de la Salud</i>)
PPAR	Project Performance Assessment (formerly Audit) Report (OED)
PRSP	Poverty Reduction Strategy Paper
PTI	Poverty-targeted intervention
QAG	Quality Assurance Group
RBM	Results-based management
TA	Technical assistance
UNCHS	U.N. Habitat (formerly United Nations Centre for Human Settlements)
UNDP	United Nations Development Programme
UPP-91	1991 Urban Policy Paper, <i>Urban Policy and Economic Development</i>
USP	Urban Strategy Paper, <i>Cities in Transition</i>
WDIs	World Development Indicators
WDR	<i>World Development Report</i>

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 a 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 Web site: <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, and Operational Policies).

Possible ratings: high, substantial, modest, negligible.

Efficacy: The extent to which the project's objectives were achieved, or are 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 with 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, toward the achievement of development objectives and sustainability.

Possible ratings: highly satisfactory, satisfactory, unsatisfactory, highly unsatisfactory.



Context and Methods

This study deals with an important line of business for the Bank, which invests US\$6–7 billion—some 30 percent¹ of all its lending—in cities where some 525 million poor people reside. Five percent of all Bank lending is for urban development projects reviewed in this report—infrastructure, housing, and municipal development operations—most of which is focused on 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 of 525 million urban poor currently living in cities corresponds to 25 percent of the 2.1 billion inhabitants of cities in developing countries today. Worldwide, this makes cities home to some 30 percent of all the poor, compared with 70 percent 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 does not go as far as it does in the countryside.

The study updates progress since the Operations Evaluation Department’s (OED) 1994 review. Since then, 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 in 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.

The study assesses the implementation challenges of the Bank’s new urban strategy (referred to as the *Strategy* throughout this volume). Presented to the Committee on Development Effectiveness (CODE) in July 1999 and to the Board of Directors in November 1999, the *Strategy (Cities in Transition: World Bank Urban and Local Government Strategy* [World Bank 2000a]) has guided Bank operations since its adoption. The present review examines the obstacles that stand in the way of full implementation of the *Strategy*, as well as the likelihood of achieving desired strategic outcomes of improved urban lives, especially for the poor. Through pointing to what we have learned thus far, the review sug-

gests where Strategy efforts are most likely to succeed, as well as where greater efforts are needed to overcome strategic weaknesses.

Poverty alleviation goals in general and meeting the 2015 Millennium Development Goals (MDGs) call for results that 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 on poverty alleviation. The study asks if we are getting results. Can urban projects help halve poverty in cities by 2015, as the MDG implies? How can the Bank implement the current Strategy to help achieve this? This study seeks answers to these and related questions by drawing on the operational and policy lessons of what now amounts to three decades of urban lending by the Bank.

Developing-Country Cities and the Poor

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 percent. Although there are many more large cities today, most urban residents live in cities of fewer than 1 million people, the

most common 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.

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 (a) 44 country reports to the Bank's 2002 *World Development Report*, (b) 132 developing-country cities reporting to the U.N. Habitat Urban Indicators Program for 1998, and (c) recent estimates at the Johns Hopkins University (Bloomberg School 2001).³ The estimate needs further refinement, of course, not least 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.

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

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 (%)	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) ^a
Urban poor (% of urban population)	33	25	25	25 (12.5) ^a

Note: Developing countries include those defined as middle and low income by the World Bank for 1970–90.

a. MDG target figures in parentheses.

Source: (a) urban population and growth—1970–90 (World Bank 1991), 2000 (*World Development Indicators* 2001 CD-ROM), 2015 (U.N. Habitat 2001a); (b) large cities (U.N. Habitat 2001a);

(c) urban poor—1970–90 (World Bank 1991), 2000 (World Bank 2001a for 44 countries), 2015 share assumed unchanged.

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: 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 they 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 million⁴ people out of poverty every year for the next 15 years, a daunting task indeed.

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 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

This review was based on a desk study conducted during July 2000–December 2001. It fo-

cused primarily on 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. These other projects generally lacked explicit urban (or rural) spatial references needed for a review like this one. As their spatial dimension becomes clearer, their impact on urban (and rural) poverty will also be amenable to assessment in the future. Meanwhile, this review's assessment was complemented by reference to the very rich academic and professional literature on urban affairs in developing countries, as well as to Bank non-lending activities, particularly urban sector policy advice.

To take advantage of the wide array of sources of data related to urban development, this review relied on six different instruments of evaluation: (1) reassessment of OED's earlier review of urban lending, a study of 20 years of lending; (2) 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; (3) intensive interaction with urban practitioners within the Bank through the Urban Sector Board, Urban Forums, OED “urban breakfasts,” and direct contacts with anchor and Regional staff; (4) a worldwide telephone survey of borrower managers of 45 of the 99 completed urban projects; (5) comparative analysis of changes in livability in Bank client cities and others during 1993–98 (61 cities worldwide); and (6) review of academic and other professional literature.

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, because the objectives of 92 percent of these operations were aimed explicitly at medium-term (outcomes) and/or long-term (impacts) results.

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 on results assessments in evaluation and the monitoring and evaluation (M&E) that this implies.



Evolution of the Bank's Urban Portfolio

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 (table 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 (figure 3.1), as better performing operations approved since 1993 entered the portfolio of completed projects.

Across Regions, Africa now hosts the largest number of urban projects, both ongoing and recently completed. Latin America (LCR) 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 the Middle East and North Africa (MNA) and had improved in the previous decade in Europe and 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 the timeline in figure 2.1.

The First Decade: 1972–82 Initial Focus on Poverty

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 Robert McNamara's 1975 Annual Meetings' speech, which 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).¹ 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.

Table 2.1 The Bank's Urban Portfolio at a Glance

		First decade 1972–82		Second decade 1983–92		Third decade 1993–2000		Fourth decade plans: 2001→	
By exit year:	Projects completed (number/year)	1.5		9.9		12.4		15.0 ^a	
	Actual total lending (US\$m/year)	18		460		825		1,033 ^a	
	Average loan size (US\$m/project)	15		46		67		69	
	Percent with satisfactory outcomes	88		78		71		90 ^b	
By entry year:	Projects approved (number/year)	7.1		12.4		12.6		—	
	Planned total lending (US\$m/year)	245		980		863		—	
	Planned average loan size (US\$/project)	35		79		69		—	
	Percent with satisfactory outcomes	81		71		100 ^c		—	
		No. of projects	% Sat	No. of projects	% Sat	No. of projects	% Sat	No. of projects	% Sat ^b
By Region (exit year):									
	Africa	5	100	21	86	30	63	24	83
	East Asia	4	100	21	95	14	79	18	89
	Europe and Central Asia	1	100	2	0	6	80	17	100
	Latin America and the Caribbean	4	75	33	64	24	79	10	89
	Middle East and North Africa	2	50	11	100	13	92	16	93
	South Asia	—	—	11	73	12	42	5	80
	Worldwide	16 ^d	88	99 ^d	78	99 ^d	71	90 ^d	90

Note: Decades are “flexible.” All years are calendar years. % Sat = Percentage rated satisfactory.

a. Assumes 90 projects completed over 6 years.

b. Latest supervision self-evaluation of project achievement of development objectives.

c. Refers to 12 completed out of 102 urban projects approved since 1993.

d. Actual number of projects.

Source: OED Urban Database.

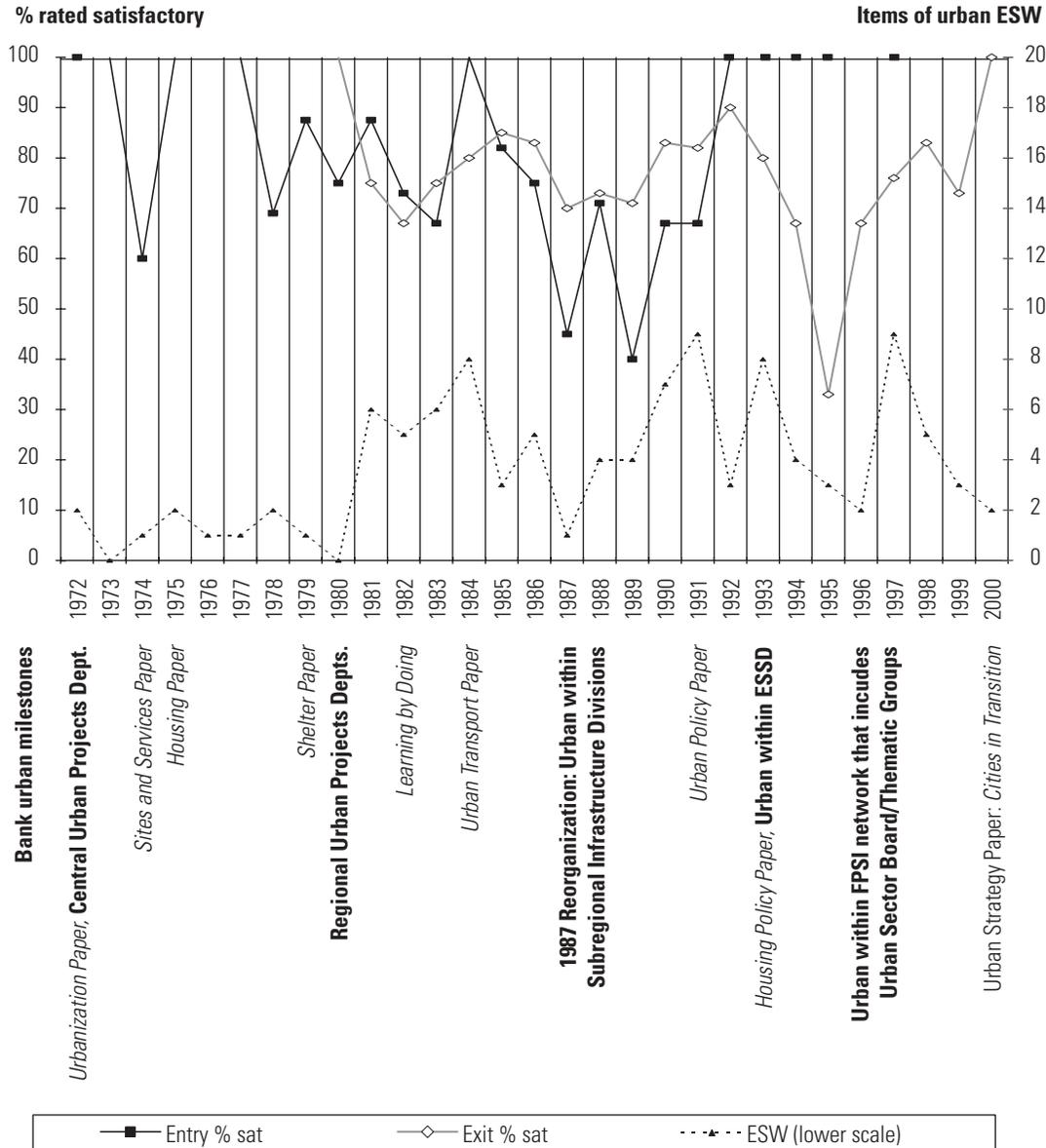
Bank policy and technical papers on urban development during this decade (World Bank 1972, 1974, 1975a, 1975b, 1980) emphasized what today we would call “livability improvements,” affordable to the poor. The first decade ended with a Bank self-evaluation of the incipient sector (World Bank 1983). It concluded that affordable infrastructure and housing standards had been an important achievement, but to reach more people, the Bank had to wholesale benefits through 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: 1983–92 Rapid Expansion after the Debt Crisis

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 (ID) at this time, while 40 percent of projects remained focused on the urban poor. With 78 percent 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 ex-

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



pansion of Bank urban lending for reconstruction after natural disasters (see Gilbert and Kreimer 1999 for details). Integrated urban development projects were less successful in bringing about innovation. Several of these projects—including operations in Calcutta, India (Cr756); Recife, Brazil (Ln2170); and Guayaquil, Ecuador (Ln1776)—foundered under the weight of their multisectoral complexity.

The end of this decade saw the publication of the Bank's paper (see table 2.2) on urban policy and economic development (UPP-91, World Bank 1991). It presented a policy framework of the "three P's"—*productivity* enhancement, *poverty* alleviation, and *pollution* abatement—and supported a call for further research in those areas. 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; Richardson 1971, p. 47). While 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, Carmona,

and Kolstee 1997, p. 21). Nor was the concept widely applied, being incorporated into only two urban operations during this period² and very few subsequently. More important, UPP-91 reaffirmed the priority of tackling poverty as well as taking on board the growing environmental agenda.

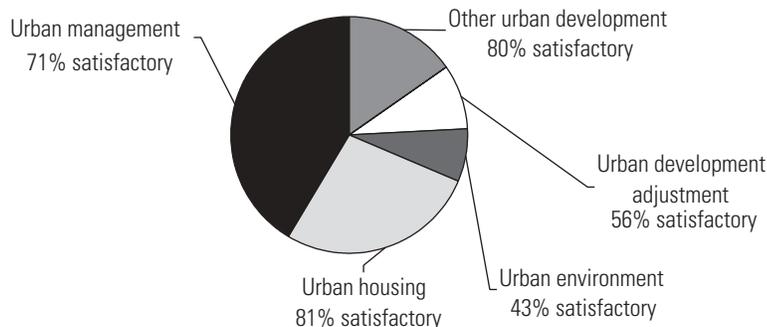
Also at the end of this decade, OED began its first assessment of the Bank’s urban portfolio. Its study encompassed 20 years of lending for urban development, from 1972 to 1992. The 20-year

Table 2.2

Urban Policy and Economic Development, UPP-91

	Productivity	Poverty	Pollution	Research
Issues to tackle	Constraints on 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	(a) Strengthen management of urban infrastructure, (b) make citywide regulatory framework more market efficient, (c) improve municipal financial and technical capacity, (d) strengthen financial services for urban development	(a) Government-supported, labor-intensive productive activities; (b) regulatory reform to ease access by the poor to urban services, credit, and markets; (c) facilitate women’s employment; (d) spend more on basic services for urban poor; (e) better access of poor to infrastructure and housing; (f) recognize and support self-help community and NGO efforts	(a) More information about the urban environmental crisis, (b) city-specific environmental strategies, (c) curative clean-up actions in cities, (d) formation of national and urban policies on the environment	(a) Assessment of existing urban research; (b) broad, long-term urban research strategy; (c) mobilizing resources for urban research, especially in the developing countries
Expected results on the ground	(a) Faster growth of the urban economy, (b) market-friendly behavior by national and city authorities	(a) Fewer urban families below the poverty line, (b) higher share of population with access to urban infrastructure and services	Lower levels of pollution in urban areas	(a) Research results in the literature, (b) greater urban data available
Related Strategy themes	Competitiveness/governance	Livability	Livability	—

Source: World Bank 1991.

Figure 2.2**Subsector Shares of Urban Projects and the Percent Satisfactory by Exit Year, 1993–2000**

(Shaded areas are proportional to sub-sectors' shares of urban projects in portfolio)

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 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) 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. The 20-year study made four recommendations, adopted by the Bank to differing degrees during the following decade, as discussed below (table 2.3).

The Third Decade: 1993–2000 Managing Cities and Market Reforms

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 from 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 percent 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 percent satisfactory rate applies only to the 12 operations completed by July 2001 (table 2.1). The portfolio of completed projects during this period focused heavily on the urban management and urban housing subsectors, strong performers that together accounted for two-thirds of all operations (figure 2.2). These subsectors incorporated the decade's emphasis on 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 agencies, but with less private sector involvement than planned. Urban environment was the weakest performing subsector, because of the failure of three projects with large sanitation or solid waste components.³ Urban development adjustment performed badly, too, though this was a poorly defined group with

few common features among its nine component projects.

This period saw increased attention by completed urban projects to poverty alleviation, which was addressed by objectives of 53 percent of all operations, up from 40 percent in the previous decade. They aimed to improve the lives of the poor through slum upgrading, for example, which 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 (for details, see 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).

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 percent of MDPs as having substantial or high borrower involvement in preparation, making them a particularly appropriate follow-up to 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 nonparticipants

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	Still limited attention to economic linkages. Only 24 percent of projects had objectives explicitly focused on enhancing economic development.
Strengthen the congruence of objectives and design.	Agreement, but urban projects remain intrinsically complex.	Medium	86 percent of projects with livability (see table 2.4) objectives had livability components. Seventy percent 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 percent of projects, according to OED. But beneficiary participation was a major project emphasis for only 28 percent 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 percent of projects incorporated M&E indicators into design. Only one-fifth of projects with M&E had performance indicating substantial supervision.

Source: OED data.

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 ongoing projects aimed at particular cities, Bank loans were always to the national government.

Bank urban activities during this decade were strongly influenced by UPP-91 (table 2.2), but did not implement all aspects of the policy. UPP-91 did help keep the portfolio focused on 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 on the productivity of the urban economy, however, a theme rarely taken up by urban practitioners. As to the fourth aspect of 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.

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 on 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. However, OED had the least success in convincing the Bank to develop guidelines for M&E and implement project-specific M&E systems, as recommended by both the 20-year study and restated in OED's 1999 Evaluative Note to CODE. Insufficient attention to monitoring results of Bank urban assistance continues to be an unfortunate feature of urban lending, as discussed in Chapter 4 of this report. OED's recommendation for urban projects to tap their economic and other linkages, although supported in principle by the

Bank, led to few cases of operations paying attention to the urban economy.

Into the Fourth Decade: 2001 and Beyond Putting Cities in a Global Context

In *Cities in Transition* (the *Strategy* 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 the Strategy is to improve livability using the three other strategic dimensions or pillars—good governance, bankability and competitiveness—to achieve this goal (see table 2.4). How this can succeed—taking into account what has been learned thus far—is the focus of more detailed discussion in Chapter 4 of this report.

When the Strategy was first presented to CODE in July 1999, OED's Evaluative Note to the committee welcomed the draft of the new strategic document. OED stated then that the Strategy was better prepared for implementation than its predecessor, 1991-UPP, especially because the Strategy 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 to measure the results of Bank-supported interventions, however, OED suggested to CODE that additional work would be needed, such as (a) guidance to help Bank task teams incorporate M&E into projects; (b) clarification of baselines, or points of departure, from which change indicators can be measured; (c) suggestions for cost-effective methods of monitoring; and (d) Bank partnership with others, particularly U.N. Habitat. Having explicit targets to achieve would also increase the urgency and relevance of M&E for 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.

Among the 90 ongoing urban projects, the focus on the poor has never been stronger. The objectives of 69 percent—compared with 53

Table 2.4**Cities in Transition: World Bank Urban and Local Government Strategy, USP**

	Livability	Good governance	Bankability	Competitiveness
Definition	Decent quality of life and equitable opportunities for all—including 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 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.	(a) Cities' lack of access to capital markets, inequitable and unsustainable local finance systems.	Inefficiencies in these markets.
Strategic instruments	(a) Scaling up services to the poor, (b) slum upgrading.	(a) Enhanced capacity building, (b) municipal development rooted in market-based initiatives, (c) city development strategies (CDSs).	(a) Public-private partnership in municipal services, (b) financial innovations to bring cities to capital markets, (c) risk-pooling.	(a) National urban strategies, (b) CDSs.
Expected results on the ground	(a) Fewer urban families below the poverty line, (b) higher share of population with access to urban infrastructure and services, (c) less pollution.	(a) Local government more responsive toward and inclusive of the poor, (b) more professional staffing of local government.	(a) More creditworthy municipalities, (b) more sound municipal finances.	(a) Well-functioning urban markets, (b) efficient use of urban inputs in production and livability.
Selected indicators (complete list in Annex 1 of this report ^a)	(a) Child mortality rate, (b) households below poverty line, (c) households with water and sewerage connections, (d) homicide rate.	(a) Local government employees per 1,000 people, (b) wages as percent of local government budget, (c) less corruption.	(a) Shares of local government income deriving from taxes, user charges, transfers, and debt; (b) debt-service charge.	(a) Housing price–income ratio, (b) travel time to work.
Related UPP-91 ^b themes	Poverty/pollution.	—	—	Productivity

a. Taken from Annex D of the USP.

b. See table 2.2.

Source: World Bank 1991, 2000a.

percent during the previous decade—aim at alleviating urban poverty, principally through improving livability. Across Regions, Africa, EAP, and ECA give most attention to livability, which is addressed by the objectives of more than 70

percent of all projects. As of July 1, 2001, they included three concurrent urban projects in Ghana, and six major operations presently address *kampung* improvement in Indonesia (see Annex 4 for a complete list of projects). Good governance is

also a major target, addressed by 62 percent 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 percent. Within this limited coverage, the Africa urban portfolio is ahead of other Regions in addressing competitiveness through project objectives. Bankability, however, seems to have met with little attention in any of the regions.

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 percent also had livability components (up from 86 percent 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 on bankability, only 40 percent had relevant components. Of the nine projects aimed at competitiveness, only 33 percent 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.

Self-evaluation of ongoing urban projects points to likely successful outcomes, however. The latest supervision reports rated 90 percent of them satisfactory in achieving their development objectives. This would imply an 80 percent satisfactory OED rating for outcome at completion, if current “disconnect” factors between self-evaluation and OED ratings of 10 percentage points hold. Quality Assurance Group (QAG) 100 percent satisfactory quality-at-entry ratings of a sample of 23 ongoing urban projects, and 92 percent satisfactory supervision for another sample of 48, support the positive trends observed.



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 on livability in cities has been thin, especially at the strategic or sector level. But with the publication of illustrative performance indicators in the Strategy (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 Strategy progress to the Board of Directors in October 2001 did not report results of monitoring these indicators or describe M&E under way that might produce results in the near future.

In the absence of project-level data, the present review turned to another source, city-level U.N. 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 cov-

erage, when a modest increase was the expected result. After this “data cleaning,” the analysis used a good-quality dataset covering 61 cities—24 Bank clients and 37 comparators¹—and 7 indicators for the 2 years in question.

Bank Support Makes a Difference

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 were most readily available for water, sewerage, and solid waste disposal services. Because they are

collected independently of the projects themselves, the U.N. Habitat Urban Indicators data provide 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:²

- **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 percent 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 percent in Bank client cities, but by only 4.9 percent in comparator cities. Urban projects in Armenia and Lesotho (Cr2400), among others, 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 percent in Bank client cities, versus only 1.5 percent 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 percent during 1993–98 in Bank client cities, compared with an increase in comparator cities of 285.0 percent. Urban projects such as those in Benin and Belize helped bring about improvements of this kind.

Furthermore, the analysis found that the higher the project rating (measured by OED's Aggregate Project Performance Indicator [APPI]³), 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).

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, although 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 percent, but it was 153 percent 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 percent, but it fell in comparator cities by only 2.4 percent. Second, housing 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 percent in Bank clients, compared with 71 percent in comparator cities. The desirable result would be for this indicator to fall, of course.

Clearly, there is a need for more data to test these and other hypotheses. Building on the U.N. Habitat Urban Indicators, which still cover relatively few cities for both 1993 and 1998, would be a good place to start. In the U.N. 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 U.N. Habitat's efforts to extend and improve the dataset, starting with the next survey scheduled for 2003. U.N. Habitat's work is also currently under way—and should be encouraged—to consolidate a single City Development Index measuring overall livability based on (a) city product, (b) infrastructure, (c) waste, (d) health, and (e) education (U.N. Habitat 2001b). Broader and more consistent coverage would allow better urban liv-

ability impact analysis. It would also be relevant to all Bank sectors that invest in cities—education, health, transport, energy, and water—and share the common aim of improving the lives of the poor.

Rebound of Project Performance Ratings

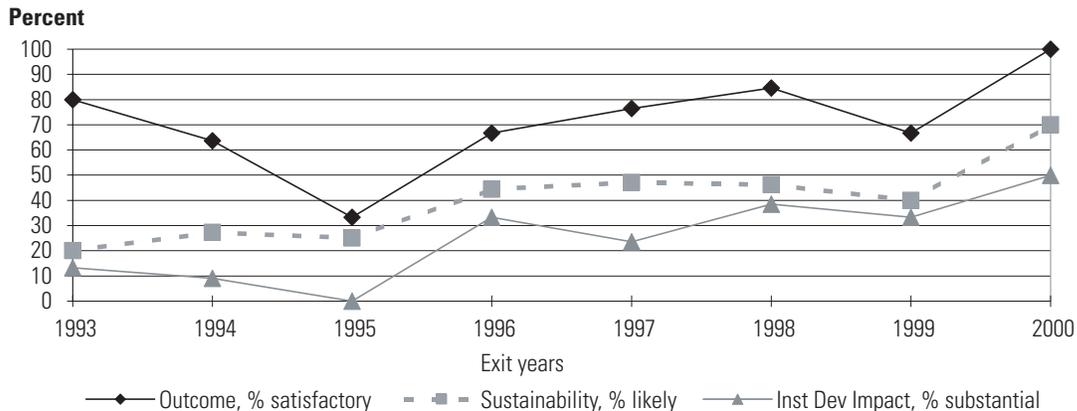
Figure 3.1 shows the positive trend of urban project performance ratings since their nadir in exit year 1995, when only 33 percent of (12) urban projects were rated satisfactory. That year saw the evaluation of a number of operations prepared around the time of the Bank’s disruptive 1987 reorganization, 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 percent satisfactory, a level significantly below the previous decade’s 78 percent. This leaves the urban portfolio, which had been a good practice leader in the past, with ratings only slightly above the Bankwide average of 69 percent satisfactory. Recovery looks set to continue, though, given the positive QAG ratings reported at the end of Chapter 2.

As a component of the overall outcome rating, OED evaluators also assess the relevance⁴ of a project’s objectives to country policies and Bank sector strategies (such as the Country Assistance Strategy). Of 65 projects thus rated, 88 percent were considered substantially or highly

relevant. All but one of the seven with the highest relevance rating—which included urban projects in Benin, Brazil-Salvador, and Ghana (Cr2157)—had project objectives and components focused on 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.

As with the components of the final outcome rating, OED assessed urban project performance in meeting objectives (efficacy) and 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 percent 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 goal of provision of serviced land affordable to low-income households were fully met. Clear and realistic objec-

Figure 3.1 Ratings Have Rebounded Strongly since 1995



tives of projects contribute to project efficacy. OED evaluators rated the efficiency of urban projects to be high or substantial only 51 percent 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 (ERRs), which averaged 26.6 percent, compared with appraisal estimates of 25.1 percent. 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.

Urban project sustainability—understood as the resilience of project benefits over time—has improved less dramatically, but more consistently, since 1993 (figure 3.1). Still, only 38 percent of the 99 urban projects reviewed had likely sustainability, below 51 percent for all Bank projects and down from 42 percent 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 Cameroon, Ethiopia, and Mozambique (Cr1949)—where five-year-old street pavement was broken and water distribution networks were not operating—and cost recovery failed in Nigeria (Ln2925) and Sri Lanka (Cr1697). Because larger projects perform better, 55 percent of all urban disbursement was sustainable, versus 60 percent for Bank disbursement overall. Fewer urban projects with likely sustainability are 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 are scarce.

ID impact ratings shadow outcome ratings, with a substantial improvement since 1995. Only 25 percent of the 99 urban projects had substantial or better ID impact, though, below the Bankwide figure of 34 percent and down from 29 percent in the previous decade. For the recent

period, evaluators gave more “modest” and fewer “negligible” ratings for ID impact. Nevertheless, the MDPs mentioned above 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

Given that the impact of an urban project on livability depends on 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, and 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 multicollinearity from the model)
- Estimating the results of the regression model (yielding R^2 of 0.48) (table 3.1).

Project Factors of Success—Things that Managers Can Work on

Reduce “demandingness”: Urban projects should avoid straining borrower implementation capacity or resources—in other words, not be too demanding. Only 42 percent of urban projects reckoned by OED evaluators to be highly demanding for 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: (a) complex designs involving

Table 3.1

Results of Least-Squares Regression of Factors of Urban Project Performance

Dependent variable	Independent variables			
	1	2	3	4
	(project factor a) Demandingness	(project factor b) Beneficiary involvement	(project factor c) Poverty-focused objective	(management/ country factor) Predicted overall borrower performance ^a
OED APPI				
Coefficient	-0.900	0.601	0.028	1.714
t statistic	-3.451 ^b	2.660 ^b	0.079	1.777 ^b
Correlates	<i>Positive:</i> Project complexity. <i>Negative:</i> Previous project, project quality at entry, country GNP per capita.	<i>Positive:</i> Bank performance, borrower involvement.	<i>Positive:</i> Previous project.	<i>Positive:</i> M&E, borrower involvement, country urbanization, Bank performance. <i>Negative:</i> Country interest rate, urban population growth 1993–98.
Interpretation	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Greater beneficiary involvement during project preparation makes for better project performance. • Greater government involvement has a similar effect. 	<ul style="list-style-type: none"> • Incorporating poverty-focused objectives does not undermine project performance. • A poverty-focused design is more likely in follow-on projects. 	<ul style="list-style-type: none"> • 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	$R^2 = 0.48$	$F\text{-value} = 8.93$ (significant at 99%)	$n = 54^c$	

a. 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 (Country Policy and Institutional Assessment [CPIA]), urbanization, and urban growth (t-test 90% or higher).

b. Significant: t-test 90% or higher.

c. 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 per capita, country GDP growth, poverty focus, and borrower and Bank performance.

Source: OED urban database.

myriad components and implementing agencies; (b) assuming a policy framework to be in place that does not actually exist, as occurred with urban projects in Mozambique (Cr1949) and Vanuatu; or (c) project design based on ideal institutional arrangements that in fact are not in place, as happened with housing in Argentina (Ln2997) that presumed a nonexistent 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.

Build on experience: Where such operations exist, managers should build on 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 percent satisfactory, compared with 65 percent 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.

Involve beneficiaries: Beneficiary participation is positively correlated with good project outcomes. When beneficiary involvement in project identification is high or substantial, 89 percent 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 (OED 1997).⁵ Although the recommendation of OED's 20-year study to secure more beneficiary ownership of projects (see table 2.3) has been well accepted in principle, more has to be done to engage beneficiaries in practice, because 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.

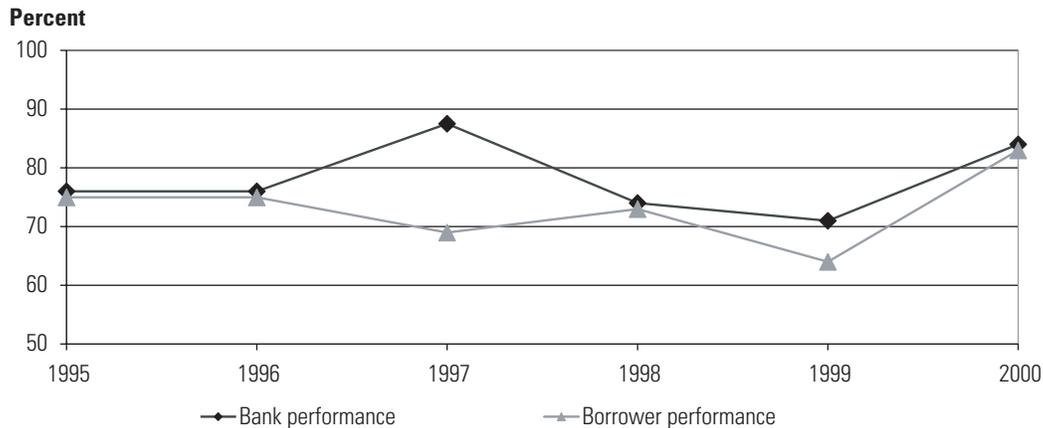
Engage the borrower: Borrower involvement also is very significant for project success, echoing the recommendation of OED's earlier 20-year study to secure borrower ownership (see table 2.3). This lesson seems to have been well learned, because borrowers were highly or substantially involved in the preparation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

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 percent of all completed projects as having satisfactory Bank performance (above the Bankwide average of 74 percent). Of these, 82 percent had satisfactory overall outcomes. There is a positive payoff in project performance from good Bank performance, especially if it goes into preventing unduly demanding project designs and 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 would indicate.

Nurture good borrower management: The model found a positive and significant relationship between borrower performance⁶ and project outcomes. Nearly all of the 74 percent 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 percent satisfactory), but has changed little in recent years (figure 3.2).

Figure 3.2

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



Country Factors—Things that Managers Need to Take into Account

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 percent of their populations living in cities—were 81 percent satisfactory. The equivalent rating for the least urbanized countries—that made up the lower tercile with 6–34 percent of their people in cities—was only 59 percent. More urbanized countries, which are also higher income, have more experience in managing urban development and more resources than those with rural-based economies. However, faster urban population growth was found to correlate negatively with project outcomes, because resulting strains on urban services and widening financial deficits undermine urban project management.

GNP per capita: The analysis for this review confirmed what 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 percent satisfactory—performed significantly better than those in low-income countries, where 66 percent were satisfactory.⁷ 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

The study model was unable to point to a statistically significant relationship among 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.

First, poverty focus in urban project objectives did not lead to weaker performance, as many practitioners expected. 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 percent of the 52 completed projects that targeted poverty in their objectives and components were rated satisfactory. Although somewhat above the average for the urban portfolio as a whole, the difference was not found to be statistically significant across the samples analyzed.

Second, the performance of the 37 completed urban projects that featured partnerships with cofinanciers was also not significantly different from that of stand-alone Bank operations. 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.

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. Although 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?

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 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 Chapter 4 to a more detailed review of each of the strategic pillars of the current urban Strategy.



Improving Lives in Cities by Implementing the Strategy

How much Bank urban assistance will continue to improve the lives of the poor in cities in the future will depend on 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.

For monitoring results, a Strategy 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 before in this report, we await the results of the monitoring of these indicators at the strategic level of the Strategy. The need and potential for getting these results is discussed below, pillar by strategic pillar.

Livability—Decent Quality of Life and Opportunity for All, Especially the Poor

Livability is deservedly the principal pillar of the Strategy. By continuing to focus on it, as under

different labels in the past, the Bank can help improve the lives of the urban poor by making them healthier and more 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 on livability goals that dovetail into the Bank's own poverty reduction mandate (OD 4.15—1990 and its successor), which espouses the inclusion of the poor through healthier and more productive lives.

Strategy indicators for monitoring livability outcomes¹ (for example, urban poverty rates, infant or child mortality, rates of waterborne diseases, and ambient air and water quality) and outputs (for example, basic urban service coverage) are, for the most part, relevant to Strategy strategic goals and familiar to urban practitioners (see Annex 1 for a 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 MDG. 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.

At the project level, too, more could be done to monitor poverty results in practice. Of all urban operations completed during 1993–2000, 53 percent focused at least one of their objectives on the poor, but ICR and OED evaluations drew poverty-related lessons for only 10 percent of projects. Even fewer reported impact indicators related to urban poverty. At the closing of an urban project, we typically still do not know who the poor beneficiaries were or how the operation made their lives better. Even the present study's findings of the poverty impact of livability improvements are premised on (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 known how they were obtained.

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

- MDGs, especially reducing poverty and infant mortality in cities and improving the lives of urban slum dwellers (see Chapter 2).
- Priorities of the *World Development Report [WDR] 2000/2001: Attacking Poverty* (World Bank 2000b): (a) opportunity, through improving livability of the poor in cities; (b) empowerment, through substantial participation of poor beneficiaries in project design and implementation; and (c) security, through legal tenure and mitigating the risks from natural disasters.
- Poverty Reduction Strategy Papers (PRSPs): As of December 2001, 42 have been prepared, 24 of these by countries that have borrowed from the Bank for urban projects. Altogether, 18 PRSPs² address urban poverty directly and explicitly as recommended by the *PRSP Sourcebook* (World Bank 2001b).
- Priorities of the *WDR 2002: Building Institutions for Markets* (World Bank 2001a): The important role assigned to institutions at the local level can draw upon the urban portfolio's rich experience in 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.

To successfully raise the Strategy 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 Strategy. Altogether, 37 of the 45 interviewed reported substantial learning about alleviating poverty, especially through targeted infrastructure provision. Third, other studies have reported that city mayors in particular

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 before. Among strongly performing follow-on operations was the MDP in Rio Grande do Sul, Brazil, which benefited from a similar predecessor operation in the neighboring state of Santa Catarina (Ln2623). Tunisia's MDP (Ln3507) was the first of its kind there, but could draw on a long and solid experience of city management elsewhere within the country.

Good Governance—Inclusion and Accountability, Especially at the Local Level

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 Strategy. Although the 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, Kraay, and Zoido-Lobaton 1999b, p. 1). An environment of good governance—without corruption and 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.

Indicators recommended by the Strategy for monitoring governance outcomes (for example, local government responsiveness to the poor, citizen trust in local government, and service efficiency) cover relevant topics, but they do not lend themselves readily to quantitative or systematic measurement. To a lesser extent, this is

also true of the governance output indicators (for example, partnerships with local governments, public consultation in budgeting and investment decisions, sharing local government staff with professional qualifications), some of which are really input indicators, as OED informed CODE previously. 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.

In the 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.

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 4.1).

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 percent 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 ef-

ficient procurement processes means greater transparency and accountability, and it can contribute to anticorruption efforts (Klitgaard, Maclean-Araroa, and Parris 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).

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 develop-

Box 4.1

City Development Strategy

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*” (OED 2000a, p. 64).

To date, more than 80 CDSs 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 on Bank and other donor assistance. Because 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 on 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 a way similar to that of the Bank CASs in guiding 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 in the city of Haiphong, Vietnam, see Campbell (1999).

ment projects for the foreseeable future (Kessides 1997, p. 23).

Public and private sector cooperation nevertheless prospered under the first urban project in Zimbabwe (Ln2445), when city governments provided serviced land, while private (mortgage-lending) building societies financed the construction and/or sale of the house, although macroeconomic 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), 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, which strengthen the inclusion aspect of governance, do engage the informal private sector through self-help efforts by communities themselves. Although 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

Proposed Strategy bankability performance indicators—exclusively concerned with local government—are among the Strategy's most robust. Both outcome indicators (for example, balanced budgets, investment capacity, creditworthiness) and output indicators (for example, 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.

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, the 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.

Progress with municipal creditworthiness, the second aspect of the Strategy's bankability pillar, has been much more limited. Bank urban lending has been to 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 misgivings about local governments, especially if they lack autonomy to raise revenues or reduce expenditures, are likely to continue to bar many from the capital markets (Dillinger and Yussuf 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 percent of worldwide municipal revenues of US\$347 billion³ per year and less than 0.01 percent 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

Through its competitiveness pillar, the Strategy seeks to improve the workings of urban markets for land, labor, credit, and infrastructure and housing inputs to enhance livability. Strategic instruments for achieving this include CDSs (which double as instruments of governance—see box 4.1) and housing finance and infrastructure reforms.⁴ 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 Strategy proposes to monitor this through several outcome indicators (for example, urban employment, urban incomes, foreign direct investment in cities, satisfaction with business climate) for which data are scarcely available at the city level. The same is true of output indicators (for example, 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.

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 also shares with its earlier counterpart a general neglect by urban practitioners. Fewer than 10 percent of completed and ongoing urban operations addressed market issues of competitiveness in their objectives or components.⁵ 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 to that expressed through a poll taken of participants of the Bank's Urban Forum in 2000. Why is this sector strategy objective neglected?

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 report brought up disparate interpretations of competitiveness—such as business environment, job creation, and backward/forward linkages, and locally grown businesses. Each idea deserves scrutiny, because 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?

The academic literature, which the Strategy 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 nontradables, and yet competition theory applies only to the tradable part of that economy (Begg 1999; Ingram 1998, p. 1032). Therefore, for cities, 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.

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 Strategy 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* (Porter 1990), describes how spatial clusters of high-tech, innovative, and risk-taking companies in cities are the primary source of economic growth. But the analysis is of clusters in rich Organisation for Economic

Co-operation and Development (OECD) countries only. By 1990, according to Porter, only Korea and perhaps Brazil among developing countries had competed their way into this game (Porter 1990, pp. 544–56). 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).⁶ 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, pp. 145–47). Of course, firms and other services in close physical proximity in developing-country city neighborhoods are often called clusters, and they can promote efficiency through agglomeration economies. But they lack the innovative and risk-taking features of the dynamic clusters that are behind the 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, may help explain practitioners' reluctance to bear the competitiveness standard.

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 an English dictionary 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 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 television sets.⁷ Several other cases of what has been called a “race to the bottom” and “predatory competition” are documented for both devel-

oped and developing countries.⁸ The Bank's recent keynote paper, “Globalization, Growth and Poverty” (Collier and Dollar 2001), 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.” It is important for urban practitioners in the Bank to help mayors avoid the downside risks of competition and help them focus on building this good economic governance.

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 on 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 in cities to exploit these comparative advantages. As leaders of local public administrations, city mayors can help by posing questions such as “what can *we* do to encourage what is different and advantageous about our city?”⁹ 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 also help build national prosperity. After all, cities account for more than 50 percent of GDP (Begg 1999; World Bank 1996).

Looking Ahead

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: 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 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 pred-

ecessor 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 in Chapter 5.



Recommendations

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

- **Systematic M&E and reporting of results**—especially of poverty alleviation—from the city to the sector and 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 regularly report on them.
- **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, CDSs, 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 THE
URBAN STRATEGY PAPER

Output indicators	Outcome indicators
Livability	Livability
Percentage of households with access to piped water, sanitation, power, heating, and social services	Urban poverty rates, especially for female-headed households
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	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
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 ensure efficient and effective service delivery	
Public access to information about local government decisions (for example, policy and regulatory contract awards, procurement service delivery and budgetary performance, and so on)	
Bankability	Bankability
Tax collection rates (or tax effort relative to revenue base)	Balance of local government budget
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)

Bankability (continued)

Repayment record of municipal credit funds
 Local government debt-service ratio
 Improved cost recovery on revenue-earning services

Bankability (continued)

Integration of municipal finance and mortgage finance into
 the country's overall financial systems

Competitiveness

Trends in infrastructure service quality and efficiency
 (telephone call completion rates, power and water
 service interruptions)
 Functioning land markets (with land use reflecting
 market value)
 Mean travel time to work
 Regulatory delays for real estate transactions and
 approval of business licenses
 Availability of microcredit
 Access of firms to information technology and
 financial services

Competitiveness

Growth and diversity of urban employment
 Growth of median urban incomes
 Share of urban employment in informal sector
 Growth and structure of investment in urban areas
 Growth of foreign direct investment in urban areas
 City product per person ("city GDP")
 Satisfaction with business climate expressed by firms of dif-
 ferent types and sizes (including informal sector firms)

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

ANNEX 2: SELECTED PERFORMANCE DATA—URBAN PORTFOLIO, 1993–2000

Table A.2.1 Project Factors of Urban Project Performance

Factor	Total number of projects	Percent of row total			
		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
	Poverty-targeted intervention	9	89	33	44
Loan size (US\$ millions)	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.2.2**Management Factors of Urban Project Performance**

Factor		Total number of projects	Percent of row total		
			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.2.3**Country Factors of Urban Project Performance**

Factor		Total number of projects	Percent of row total		
			Satisfactory outcome	Likely sustainability	Substantial ID impact
Country income category					
	Upper-middle	19	79	68	42
	Lower-middle	35	74	40	20
	Low	44	66	25	21
Least-developed country					
	Least-developed countries	22	59	18	18
Country credit rating (Moody's) ^a					
	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 urbanization (% 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 (average 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

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, Kraay, and Zoido-Lobaton 1999a).

a. Moody's ratings refer to sovereign debt issued in 2001, which, although rated, is not formally graded as corporate debt. Nevertheless, "investment grade" and so forth are noted here as a metaphor for equivalent-quality commercial paper in the financial markets.

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

ANNEX 3: URBAN PORTFOLIO: COMPLETED PROJECTS, 1993–2000

Country	Project Title	Loan #	Date Approved	Date Closed	Loan Dist. (US\$m.)	Outcome	Sustainability	ID Impact
Region: Africa								
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
Côte d'Ivoire	Urban Development III	L2789	3/24/1987	6/30/1994	118.3	Unsat	Unc	Neg
Côte 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

Country	Project Title	Loan #	Date Approved	Date Closed	Loan Dist. (US\$m.)	Outcome	Sustaina- bility	ID Impact
Region: East Asia and the Pacific								
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. of	Housing	L3329	5/23/1991	6/30/1995	100.0	Sat	Lik	Sub
Papua New Guinea	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								
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	

Country	Project Title	Loan #	Date Approved	Date Closed	Loan Dist. (US\$m.)	Outcome	Sustaina- bility	ID Impact
Region: Latin America and the Caribbean								
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	Paraná 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
Region: Middle East and North Africa								
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. of	Taiz Flood Disaster Prevention	C2160	6/14/1990	12/31/1998	15.0	Sat-M	Unc	Mod

Country	Project Title	Loan #	Date Approved	Date Closed	Loan Dist. (US\$m.)	Outcome	Sustaina- bility	ID Impact
Region: South Asia								
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

Key:

Sat-H:	Highly Satisfactory	Lik:	Likely	Sub:	Substantial
Sat:	Satisfactory	Unl:	Unlikely	Mod:	Moderate
Sat-M:	Moderately Satisfactory	Unc:	Uncertain	Neg:	Negligible
Unsat:	Unsatisfactory				
Unsat-M:	Moderately Unsatisfactory				
Unsat-H:	Highly Unsatisfactory				

(*) Projects with OED field assessments (PPARs).

(#) Projects in Bank client cities reviewed by this study (Chapter 3).

(+) Projects whose managers were interviewed by telephone for this study.

ANNEX 4: URBAN PORTFOLIO: ONGOING PROJECTS*

Region: Africa

Country	Project Title	Loan #	Date Approved	Loan Commitment US\$m.
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
Côte d'Ivoire	Urban Land Mgmt.	CN036	11/5/1997	10.0
Côte 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 V	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 Dev. & Decentralization	CN004	12/13/1996	80.0
Mauritania	Infrastr. & Pilot Decentralization.	C2835	3/26/1996	14.0
Niger	Urban Infrastructure Rehab.	C2957	5/29/1997	20.0
Senegal	Urban Dev. & 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 Rehad.	C2867	5/23/1996	105.0
Togo	Lomé Urban Development	C2620	5/31/1994	26.2
Uganda	Nakivubo Channel Rehab.	C3203	5/6/1999	22.4

Region: East Asia and the Pacific

Country	Project Title	Loan #	Date Approved	Loan Commitment US\$m.
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

* As of October 1, 2001.

Region: East Asia and the Pacific

Country	Project Title	Loan #	Date Approved	Loan Commitment US\$m.
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.	N/A	6/12/2001	2.6
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

Region: Europe and Central Asia

Country	Project Title	Loan #	Date Approved	Loan Commitment US\$m.
Albania	Land Dev.	C3066	5/12/1998	10.0
Azerbaijan	Pilot Reconstruction	C3100	7/2/1998	20.0
Bosnia- Herzegovina	Local Dev.	C3191	4/13/1999	15.0
Bosnia- Herzegovina	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 the Caribbean

Country	Project Title	Loan #	Date Approved	Loan Commitment US\$m.
Argentina	Municipal Dev. 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: Middle East and North Africa

Country	Project Title	Loan #	Date Approved	Loan Commitment US\$m.
Algeria	Low-Income Housing	L4361	6/25/1998	150.0
Egypt	Private Sector Tourism, Infrastr., & 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	Fès/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	N/A	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, Rep. of	Public Works II	C3168	1/28/1999	50.0

Region: South Asia

Country	Project Title	Loan #	Date Approved	Loan Commitment US\$m.
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.W. Frontier Prov. Community Infrastr.	C2829	3/14/1996	21.5
Sri Lanka	Colombo Env. Improvement	C2757	6/29/1995	31.2

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 toward 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 interrelatedness 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.

III. Summary of OED Recommendations with Management Response

OED Recommendation

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 nonlending 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 multiyear 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 Web site 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.** 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 ongoing 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 Macroeconomic 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 macroeconomic 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 tradeoffs 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 ongoing 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 overburden 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. Mem-

bers 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

ENDNOTES

Chapter 1

1. Estimated as follows: Of Bank investment in education, health, transport, water, and energy, 40 percent goes to cities, their share of the total population. For agriculture, environment, finance, mining, oil and gas, and also for nonspatial lending, 0 percent 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 and 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 by 142 million to 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 on the 1.2 billion people living on less than a dollar a day. According to IFAD's estimate (2002), urban areas account for 25 percent of this group, or 300 million (extreme) urban poor altogether. A recent, unrelated estimate made for U.N. 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 percent of the urban population of developed countries, but this estimate does not explicitly state that all slum dwellers are poor (Herr and Karl 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).

Chapter 2

1. There was also a much earlier upgrading project in Africa, Zambia: Lusaka Upgrading and Sites and Services (Ln1057).

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

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

Chapter 3

1. 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 affect 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, and so forth) were not significantly different (*t*-test at 90 percent, 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, Lomé, Maputo, Maseru, Nizhny Novgorod, Nouakchott, Ouagadougou, Rabat, Riga, Santa Cruz de la Sierra, Santiago, Semarang, Surabaya, Tirana, Tunis, Vilnius, and Yerevan. Cities with more than 5 million inhabitants were not included, because a single project was not expected to have a perceptible citywide impact at this scale. Chosen comparator cities were those that best matched the Bank client cities by Regional location, city population size, city population growth, country gross national product (GNP) per capita, country gross domestic product (GDP) growth, and country urbanization. The means of these variables were not significantly different between the two groups of cities (*t*-test at 90 percent level, assuming equal variances). The 37 comparator cities were Addis Ababa, Amman, Asunción, 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 Sal-

vador, Sana'a, Tallin, Tbilisi, Ulaanbaatar, Vilnius, Windhoek, Yaoude, and Zagreb.

2. 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 percent level or higher.

3. APPI simply consolidates OED's three principal ratings into a continuous numerical index (with values from 2 to 10) that is amendable to quantitative analysis by aggregating the following values: (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 (OED 1999a, p. 39).

4. This is not the same concept as the Strategy'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" (OED 2000a, p. 61).

5. 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, for instance (OED 2002, p. xxvii).

6. 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 look at how well the government and 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.

7. Upper-middle-income urban client countries were Argentina, Brazil, Chile, Croatia, Korea, Mexico, St. Lucia, and Venezuela. Lower-middle-income client

countries were Albania, Algeria, Belize, Bolivia, Bosnia and Herzegovina, China, Djibouti, Ecuador, El Salvador, Fiji, Guatemala, Iran, Jordan, Morocco, Papua New Guinea, the Philippines, Sri Lanka, Thailand, Tunisia, and Vanuatu. Low-income client countries were 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.

Chapter 4

1. The Strategy lists both output and outcome indicators. In 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 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.

2. Countries that have addressed this in detail are Algeria, Bolivia, Cameroon, Chad, Georgia, Honduras, Mauritania, Vietnam, and Zambia; less so are Benin, Burkina Faso, Cambodia, Gambia, Guinea, Guinea Bissau, Kenya, Mongolia, Mozambique, Nicaragua, and Niger.

3. 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.

4. A key Bank instrument aimed at stimulating competitiveness over the past two years—in the ECA Region especially—has been the local economic development 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.

5. 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 and Mini 2000).

6. It is important to be able to identify existing clusters. New ones cannot be created from scratch because they depend on a preexisting critical mass of enterprises and skills. Historical chance has been an important factor in the creation of clusters (Porter 1998a, p. 84; 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 the USP's governance agenda.

7. As reported in the *Financial Times*, October 19, 2001, p. 13.

8. See, for instance, Duffy (1995, pp. 4–5), Scott (2001, p. 22), Begg (1999, p. 805), and Boddy (2000).

9. 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).

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