

TAKING STOCK: A REVIEW OF THE BANK'S URBAN DEVELOPMENT ASSISTANCE

World Bank Urban Portfolio

10. ***An Evolving & Diverse Urban Portfolio.*** The World Bank's portfolio of development assistance, like its member countries, has been urbanizing over time. Since its first urban lending operation was approved in 1972, a sites and services project in Senegal, the Bank has financed investments and technical assistance in more than 130 countries in the six regions and within those countries, in more than 7,000 cities and towns. The urban portfolio has included investment in shelter, infrastructure, slum upgrading, municipal development, local economic development, natural disaster management, environmental improvements, and social services. Today, the portfolio includes more than 155 operations in more than 60 countries amounting to US\$10.3 billion in lending commitments.

11. ***Upsurge in Urban Lending.*** After a steep decline in lending in FY2000-01, linked to the overall reduction in overseas development assistance and the Bank's shift away from infrastructure lending, the Urban Portfolio⁷ has rebounded. Today, total lending surpasses any previous volume over the past two decades with the sharpest increase in the most recent two years (FY2008-9).⁸ Likely contributing factors are (i) increased client demand for urban operations in response to urbanization pressures and the increasing urbanization of poverty, (ii) impact of the Bank's Infrastructure Action Plan (FY2004-7), and (iii) an increase in urban analytical work.

12. ***Evaluations of the Bank's Urban Strategy and Lending Portfolio suggest mixed results.*** Two urban sector reviews⁹ have been carried out since the issuance of the Bank's last urban strategy. Overall, their findings confirm that the urban sector has a "solid analytical sector strategy, providing an overall framework that is understood and supported by urban staff and well-regarded externally." However, they note that the Strategy has had limited impact. They recommend a major advocacy effort that "puts the urbanization challenge facing the developing world more centrally in the Bank's corporate agenda." Also, both reviews point to the need for a clearer direction in the urban sector with well defined product lines.

13. ***A focus on strengthening the strategic significance of urban development at the national level through Country Assistance/Partnership Strategies (CAS/CPS) is needed.*** The CAS/CPS is the most strategic level of engagement between the Bank and its client countries. For a number of reasons, however, urban issues and urbanization have not reflected as prominently in the CAS/CPS as they could be. In those countries where urbanization pressures are likely to continue and where government commitment exists to address them, the Bank will need to be an active partner in helping client countries develop appropriate strategies.

14. ***Overall, the Bank's Urban Portfolio has been performing well.*** Over 80 percent of the urban portfolio is rated satisfactory or above, which is higher than the Bank-wide average. This reflects historical trends in which urban operations have typically performed above the Bank average according to most criteria. Urban operations have generally taken larger shares of Emergency Recovery Loans (ERLs) and Adaptable Programmatic Loans (APLs), reflecting in the first instance the typical recourse to turn to urban teams with good "integrator skills" to design and supervise emergency recovery operations usually combining different types of infrastructure interventions and the typically vulnerable urban populations. The growth in APLs is consistent

⁷ For the purposes of this review, portfolio data refer to the composite total of entire projects or project components that address one of the four urban development thematic areas extracted from the Bank's Business Warehouse. These numbers do not include all investment activities financed or undertaken in urban space.

⁸ See Annex C for a more detailed breakdown of the Urban Lending Portfolio.

⁹ See Quality Assurance Group, World Bank 2003c. and Operations Evaluation Department, Gilbert 2003.

with the last strategy's recommendation, in which the need to diversify and design flexible instruments for longer term engagement was proposed. However, urban operations tend to be more complex than the average Bank investment operation, often requiring more time to prepare and at a higher cost. The typical urban operation also tends to be smaller relative to Bank-wide lending. Slum upgrading projects in particular have been for the most part narrow in scope and insufficient to deal with the scale of informality facing many developing world cities today; this will require a scaled-up approach to the city-wide and national level.

15. ***Policy instruments, which have come into favor more recently, have generally not been fully utilized to encourage policy reforms in support of urban development.*** This raises concerns going forward in addressing both the urban policy agenda and the expanding populations in secondary cities that will require broader reach in terms of financing and capacity development. A logical response would include: (i) scaling up policy-based interventions focused on housing sector policy reforms, land reforms, urban poverty, and urban planning regulations reforms, among other areas, and (ii) expanding the use of “wholesaling instruments” that enable broad coverage of local governments, such as the Municipal Development Projects.

16. ***Lessons Learned from the Evaluation of Municipal Development Projects.*** A recent IEG¹⁰ report assesses the performance of Municipal Development Projects (MDPs), the principal instrument used to help strengthen municipal management over the past decade. 190 operations supporting nearly 3,000 municipalities worldwide have been implemented over the period FY1998-2008, with Bank financing commitments of over US\$14 billion. Several key lessons learned are highlighted in the IEG report:

- ***“Wholesale MDPs”¹¹ had a stronger track record in delivering results.*** Eighty-five percent of these operations had satisfactory or higher outcomes, while only 67 percent of “Retail” MDPs obtained satisfactory or higher outcomes. This is generally attributable to the advantages of a “wholesaling” approach, which allows for: (i) spreading the downside risk of failure more broadly across many municipalities; (ii) encouraging competition among municipalities for resources based on well defined performance criteria; and (iii) devoting a higher percentage of project proceeds devoted to technical assistance, capacity building and institutional development.
- ***MDP support for strengthening municipal finance often yielded successful results.*** The evaluation found overall impact in strengthening municipal finances to be strong and recommends expanded support for improvements to municipal financial management, automation of systems accounts and reporting, raising of municipal own revenues, and facilitating access of municipalities to local credit markets when appropriate conditions are present.
- ***Data collection and monitoring of all municipalities served under the project was highly recommended.*** Tracking of each municipality by name, population, MDP investment and other project specific performance criteria is vital to developing a better understanding of the scope of MDP results. Such efforts also support overall sector monitoring, benchmarking, establishing performance targets, and integrating contestable resources into project design.
- ***More frequent use of project economic analysis was recommended to help MDP municipal clients select the best investments and achieve outcomes efficiently.*** The IEG report found that only half of all MDPs carry out such analysis with the best coverage in the Africa Region.

¹⁰ Independent Evaluations Group.

¹¹ “Wholesale” MDPs are classified as those that serve seven or more municipalities.

- ***The report also notes the limited extent to which MDPs target poverty.*** Many MDPs were not seen as targeting poverty because the Project Development Objectives (PDOs) did not state poverty reduction as an explicit objective. The IEG report called for more effort to address poverty and also to articulate what is actually being done on poverty in the PDOs. While instruments designed to directly address poverty in urban areas are slum upgrading projects and other urban services for the poor interventions (comprising 20 percent of the urban lending portfolio and ranking second in volume of urban lending at just under US\$2.7 billion from 1999-2008), more effort will be needed to specifically target the urban poor through MDPs.

17. ***A review of the specific indicators from the 2000 Urban Strategy confirms that many targets have been met.*** In other areas, there is scope for improvement and retooling to address the challenges over the coming decade. Several building blocks were established under the 2000 Urban Strategy, including: (i) support for national urban strategies; (ii) launching of city development strategies (CDS); (iii) scaling up services to the poor; and (iv) enhancing capacity building. Within these broad groupings, there were also a number of specific activities identified under the prior strategy, some of which are briefly assessed below.

18. ***National Urban Strategies remain vital frameworks to guide urbanization and urban policy, but more technical support is needed to strengthen their analytical foundation and improve prospects for implementation.*** Several countries over the past decade have prepared or updated their national urban strategies, in some cases with World Bank support. The impact of these strategies and their quality vary greatly. The record of *implementing* National Urban Strategies also varies widely. This and other factors have likely contributed to the limited treatment of urban issues in Country Assistance Strategies. What has been clearly lacking is a more structured diagnostic framework that explores the “urbanization” phenomenon more broadly. Such a framework could be used systematically to diagnose key areas where city systems are facing urbanization challenges, offer cross-country comparisons that would enable countries to benchmark themselves against their comparators, and develop an action plan with sequenced policy reform and intervention measures. As proposed in the following section, a new Knowledge Product – the Urbanization Review – would be aimed at addressing this deficiency.

19. ***The City Development Strategy or CDS has now become a mainstreamed approach and product supported by Cities Alliance since its inception in 1999.*** Its broad endorsement and use make it the preferred instrument of many cities and local governments. A total of 103 CDSs have been implemented over the last decade, in 48 countries, of which 11 are multi-regional. Guidelines and methodological tools developed over recent years have helped give structure and guidance to cities and local governments who chose to implement the CDS. The main shortcoming of the CDS approach is that while the tool itself is widely accepted, recent reviews of the program indicate that investment financing to implement them has either lagged or not materialized. This is an important lesson learned and in instances where cities have actively devoted time and effort at the pre-investment stage to identifying potential sources of financing, the outcomes have been more successful. Over the coming decade, it is expected that demand will continue to remain robust for the CDS, but that more attention will need to be paid to formulating viable capital investment plans with sources of financing identified. This is clearly an area where the Bank can help.

20. ***The Bank’s last Urban Strategy correctly pointed to a growing gap between conventional knowledge and approaches to urban development and the evolving challenges that cities and local governments face on the ground.*** In response, the first in a series of Urban Research Symposia (URS) was launched in 2002 under the theme of “Urban Development for Poverty Reduction: Towards a Research Agenda.” Subsequent URS focused on land use and land policy issues, and the fifth URS in June 2009 in Marseille, France was devoted to the topic

of Cities and Climate Change and attracted over 700 participants. Over 29 different sponsors contributed to the 2009 URS with technical inputs and financial support, including several bilateral development agencies, government ministries and agencies, UN agencies, city associations and the private sector. Now in its fifth generation, the URS is widely recognized as the premier venue for urban development research devoted to the developing world. A unique feature of the URS is its aim to promote research mentoring for emerging researchers and institutions in the developing world. Many developing world researchers have been sponsored to participate in the URS, which has spawned the establishment of an Urban Research Network that is an ongoing vehicle for urban research collaboration with over 500 members in 70 countries worldwide.

21. ***Client & Development Partner Feedback.*** In addition to the findings of evaluations of Bank urban development work as noted above, which indicate specific areas for retooling, scaling up, as well as other adjustments and improvements, the process of preparing the Strategy enabled consultations with client governments, cities and development partners who pointed to areas where they would like to see the Bank's urban teams focus in the decade ahead. These findings are summarized in the Annex E, Table E-1.