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INTERNATIONAL DEVELOPMENT ASSOCIATION



Urban Development

HARNESSING URBANIZATION FOR
GROWTH AND POVERTY ALLEVIATION

IDA at WORK

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SUSTAINABLE DEVELOPMENT NETWORK



THE WORLD BANK

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Urbanization is a defining phenomenon of this century. Over the next two decades, 90 percent of urban growth will take place in developing countries. In the two poorest and least urbanized regions – Sub-Saharan Africa and South Asia -- the urban populations are projected to double. The poorest developing countries today face the dual challenge of expanding services to urban populations in slums, while proactively preparing for new urban growth, fueled in part by rural migration.

This booklet describes how the International Development Association (IDA), the concessional lending arm of the World Bank, supports countries as they seek to promote economic growth and reduce poverty in urban areas. Improving access to services, releasing the constraints that trigger the emergence of slums, and enabling cities to attract private investment and create new economic opportunities are just a few of the approaches promoted by the World Bank. This booklet offers several illustrations of how poor countries have proactively addressed this agenda, while also responding to the spread of informal settlements.

Decentralization has placed greater responsibility in the hands of local governments, but fiscal resource transfers have often not kept pace. The international development community has recognized the importance of promoting locally-owned approaches to ensure sustainable development. Increased donor support is needed to help establish local governments on a sound footing through capacity building, the promotion of participatory approaches to local planning and budgeting, and the provision of financing that will help to address the backlog of urban service delivery requirements.

The World Bank remains committed to supporting its partner countries in preparing their cities and towns for the urban transformation ahead. We look forward to working with other donor agencies and partners in advancing this important development agenda.



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The World Bank

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Harnessing Urbanization for Growth and Poverty Alleviation

Of the nearly 6 billion people on the planet, more than half now live in cities. The crossing of this demographic milestone signals a key development challenge, particularly in the developing world. Over the next 20 years the United Nations projects that 90 percent of urbanization will take place in developing countries, which are projected to grow by almost 2 billion during that time, equivalent to almost 70 million each year. Urban populations in Africa and Asia will double in this period. By 2030, developing countries will host 80 percent of the world's urban population. This demographic transformation raises important questions about how to deliver development assistance in the decades ahead.

No country has reached a higher stage of development without urbanization. Nearly all countries become at least 50 percent urbanized before reaching middle-income status, and all high-income countries are 70-80 percent urbanized. Economic research shows that urbanization and economic growth move in tandem. Over time, developing countries are rapidly increasing the urban shares of their economies, with most countries already surpassing 60 percent. But the forces of urbanization also exact costs. Existing infrastructure is

strained as population increases. Traffic clogs the streets and smog pollutes the air. Land and housing become prohibitively expensive, which is why the poor are often found living on hillsides and in flood plains, along railroad tracks, waste dumps and in densely packed slums.

Over the past decade, many countries have learned an important lesson – that while its pace may vary from one country to the next, urbanization is inevitable. The challenge is no longer framed as one of how to stop it, but rather how to harness its power in enabling growth and improving the prospects for the poor. The International Development Association (IDA) has played an important role in helping governments facing the challenges that come with urbanization in some of the world's poorest countries. Over the past decade, IDA contributed US\$6 billion to 101 operations in more than 70 countries. The number of IDA operations doubled over the past decade and IDA funding now comprises over 40 percent of the World Bank's urban development portfolio. More than half of IDA-funded urban projects are in African countries.

At a Glance

- In IDA borrowing countries, there are some 800 million people who live in urban settlements now comprising almost one-third of the population. By 2030, the least urbanized regions of the world -- Africa and South Asia -- are projected to become half urban.
- An estimated 1 billion or 32 percent of urban residents worldwide live in slum settlements, a disproportionate number of them in IDA countries.
- Over the past decade, US\$6 billion of IDA funds were provided for urban development activities in 101 operations in over 70 countries.
- In fiscal year 2009, 85 percent of IDA projects involving urban development were rated as satisfactory or highly satisfactory by the World Bank's Independent Evaluation Group.



IDA CONTRIBUTIONS & RESULTS ON THE GROUND

IDA has assisted many countries to deal with the profound changes and effects of urbanization. By supporting projects that bolster economic development, IDA has helped open doors to economic progress. At the same time, by supporting efforts to cushion the challenges that can accompany the process of urbanization, IDA programs and projects have helped minimize the consequences for the most vulnerable urban populations.

IDA's approach to development of cities – like urbanization itself – has been multi-faceted and embraces many economic and social sectors. Many urban projects have multiple, but related objectives. For example, in Lagos, Nigeria, the Lagos Metropolitan Development and Governance Project includes activities as wide-ranging as slum upgrading, drainage management, solid waste management, public finance and budget reforms. In addition, this project focuses on strengthening of local statistical

capacity which is critical in facilitating evidence-based policy making, budgeting, expenditure targeting, and performance management of public sector agencies. Ultimately, these activities are designed to improve the livelihoods and access to services of the urban poor.

IDA's support to cities and local governments is provided through five business lines. These include: (i) City Management, Finance and Governance; (ii) Urban Poverty and Slum Upgrading; (iii) Cities and Economic Growth; (iv) Urban Land, Housing and Planning; and (v) Urban Environment, Climate Change, and Disaster Management.

Improving Urban Governance and Management.

A central issue in urban management is the inadequate or unequal provision of basic infrastructure—water, waste disposal, and power—to urban residents. Over 50 percent of the urban population in South Asia and 40 percent of the urban population in Sub-Saharan Africa still lack access to sanitation services. At the same time, statistical data mask

large discrepancies in service levels by socio-economic status or area of the city. For example, over 80 percent of Africa's urban population has access to an improved water source, but the figure in some cities is less than 20 percent. These deficiencies have real economic consequences. In the case of Latin American cities, poor or missing infrastructure is estimated to have reduced urban economic output by 10 to 15 percent. The burden is even higher on small firms and home-based enterprises, which cannot afford to provide their own power if it is unavailable or unreliable.

Decentralization of both decision-making and resources is one key to improving the quality of life for all urban residents. As cities expand their footprint – often spilling over existing boundaries – municipal governments become saddled with an ever-growing list of responsibilities, services and activities to manage. This increase in responsibilities, however, is often not accompanied by increased resources. The challenge is greatest for cities in the poorest countries in the developing world where the situation is often compounded by constrained national budgets, uneven local capacity, and lack of trust among city residents.

One way IDA is working to address these issues is by focusing on capacity building for local governments, and helping to establish the concept of municipal contracting. In Senegal, the IDA-funded Local Authorities Development Program is building the capacity of 67 municipalities to deliver much needed infrastructure by implementing ongoing management training and municipal contracting procedures. Municipal contracts provide a formal set of “rules” and a framework to combine governance reforms with financing incentives to make wise choices about urban investments. Local governments that perform well or meet the contractual stan-

dard are rewarded with additional grant funds. Poor performers may lose access to such funds until they meet their contractual obligations. While formal evaluations have not yet been carried out, IDA experience in Senegal, Uganda, Tanzania, Ethiopia, India's Andhra Pradesh, and Punjab in Pakistan has been promising.

Helping cities to strengthen data collection and management systems – and training managers to use these systems – will be a key focus of urban development support for IDA in the decade ahead. The new Global City Indicators Program, which was established by the World Bank with a number of other development partners, will help IDA countries in this regard. Its aim is to provide a standardized set of indicators that will enable cities to compare and benchmark their performance against their peers. With regard to training, the city management certification tool implemented in India by the World Bank Institute demonstrates good practice. Certification courses are taught at local institutions to train government administrators in municipal financial management, municipal services management, and municipal governance including procurement and contracting. The impact of the certification in India is evident across many cities and in many facets of the government, notably in property tax system reform, systems of self-assessment, and improved service provision.

Cities and Economic Growth.

Stimulating economic growth is critical to addressing poverty. The highest payoff for economic growth lies in infrastructure that functions at the scale of the urban or broader metropolitan region, or where urban infrastructure assets are key hubs in national or even international networks. Research has shown that the stock and quality of electricity networks, road and

other transportation systems, and telecommunication systems matter most for national growth. In India, the quality of transport linkages between cities is closely related to urban growth and urban productivity. Other evidence shows that improving urban airport accessibility and size in countries such as Uzbekistan and Honduras can reduce total air transport costs by 10 percent. Similarly, improving urban seaport efficiency, port infrastructure and handling can reduce shipping costs by more than 12 percent. The opposite also is true. An analysis of the global competitiveness of Africa's manufacturing sector find that power failures in Tanzania account for the equivalent of a 10 percent sales loss for the median manufacturing firm.

Improving the investment climate within a country is often the first place to start in attracting investment to cities. Over the past several years the World Bank has expanded the scope and coverage of sub-national surveys of investment climate in cities within IDA client countries such as Dar es Salaam, Tanzania; Lusaka, Zambia; and Phnom Penh, Cambodia, among others. These surveys provide critical information about a city's ability to attract investment based on a private sector perspective. Cities can compare their performance to their peers and establish benchmarks for improvement.

City development strategies are another tool with a strong local economic development focus, and are administered in partnership with Cities Alliance. The strategies help IDA clients consider how best to leverage their economic assets and mobilize subsequent donor financing and technical assistance. In Aden City, Yemen, for example, the City Development Strategy enabled the identification of priority small-scale investments, such as a local fish market as part of a broader seafront redevelopment



initiative. Completion of this work has resulted in substantial increases in the number of fishermen that dock their boats in the adjoining bay area, in the number of fish sellers, and in the number of fish restaurants in the vicinity of the fish market, ultimately contributing to an increase in economic activity.

Urban Poverty and Slum Upgrading

Across all the regions where IDA is engaged, the share of urban poverty is increasing. Recent estimates show that more than one-third (36.5 percent) of urban populations are living in slums globally. Sub-Saharan Africa has the highest share at 62 percent. Much of the growth in urban slums in developing countries is fueled by in-migration from rural areas, although in some places the natural rate of population growth exceeds that of in-migration. The persistence of informality within cities and informal settlements along the fringes of cities in places such as Lagos, Mumbai and elsewhere poses a special challenge. Slums are the nexus of poverty, poor housing, inadequate infrastructure and services, crime and violence, evictions, and now, increasingly, man-made and natural disasters. Countries that are farthest from reaching the slum improvement targets under the Millennium Development Goals are mainly in Sub-Saharan Africa where local governments do not have sufficient capacity to plan for and accommodate the influx of new residents.

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Helping countries meet the Millennium Development Goals is a priority for IDA assistance. IDA has helped cities prepare to absorb the expected demographic growth and avoid further expansion of informal settlements and urban slums in many countries. Vietnam is an example that stands out for its success in growth and poverty reduction, in both urban and rural areas. The country invested heavily in infrastructure, prioritizing large infrastructure investments over rural infrastructure, targeted to regions with high numbers of poor people and high growth potential. The idea was to promote urban centers where capital and skills were more plentiful and to redistribute returns through public transfers to rural areas. The growth and poverty impact of this strategy has proven to be very successful. Between 1992 and 2003, urban poverty in Vietnam was lowered by an impressive 11 percent per year (notwithstanding the reductions in rural poverty of 4.2 percent per year).

Local level initiatives have also been effective when linked to other social programs and done in partnership with local community organizations. For example, a program in Bolivia focused on enhancing transportation mobility and expanding sewerage coverage incorporated women's needs into every aspect of the project, from design and job creation to empowering women through titling and community organizations. In places as diverse as Latin America, Tanzania and Yemen, IDA investments in social infrastructure for day care, youth training, and health care are combined with physical upgrading of slums.

Encouraging Progressive Land and Housing Markets

Land scarcity is as much or more likely to result from ill-considered policies and regulations than from natural, physical limitations. In Mumbai, for example, strict limits are placed on the amount of floor area

Georgia: Municipal Development & Decentralization Project II: Solving the Road Problem in Leonidze Street in Kutaisi



BEFORE



AFTER

that can be put on a lot, in an effort to discourage both density and further in-migration to the city. However, migrants keep coming, attracted by the opportunities the city offers. The limitations on land and housing development result in a city that is comprised of mostly low-rise buildings with densely packed “illegal” slums, and land and housing costs beyond the reach of much of the population. Similarly, restrictions in many countries on land use conversion from rural to urban uses also produce shortages of affordable land resulting in high land and housing costs. In many African and Asian cities, the average ratio of the median house price to the median annual household income is twice that in many large U.S. cities. In Bangladesh where the per capita income (US\$1,230) is less than 3 percent of that in the US (US\$44,070), prime land prices in the capital city Dhaka are similar to those in New York City.

Land and housing markets in many IDA countries are further hampered by the insecurity of tenure that prevails among the urban poor. Lack of tenure leaves residents living in constant fear of eviction, prevents families from building up assets and accessing credit, inhibits use of their home for income generating activities, and discourages public investments in infrastructure and service provision.

To address these issues, IDA has provided technical assistance to governments on public land management, and that work is paying dividends. While not all governments are large land holders, those that do control a large stock in the public sector need to be strategic in the way they manage those assets. IDA technical assistance for public land management has addressed issues of inventorying and accounting for public land assets, clarification of rules and decision making chains related to the use of these lands, and improving information

systems related to these assets. Where appropriate, governments are advised on the design and execution of market-based auctions of some public land assets. In recent years, such auctions have raised significant sums in places like Bangalore, Cairo, and Mumbai, which can in turn be invested in needed infrastructure.

During the last decade, IDA has helped local governments in Africa implement a system of street addressing to fill the very large gap left by conventional land administration projects. Street addressing projects have now been implemented in over 50 African cities. These projects set out to map existing settlement patterns regardless of the land tenure or ownership complexity and record that information. Although it stops short of full titling, addressing recognizes occupancy and enables agencies to deliver urban services by making it easier to locate residents, respond in emergencies, and enforce collection for user-pay services, such as water and electricity.

Promoting Safe and Sustainable Cities

A majority of the world’s cities are located on coasts or river flood plains, especially mega-cities like Dhaka, Mumbai, and Lagos. Worldwide, some 360 million people live in urban areas in coastal zones, thus increasing their vulnerability to climate change impacts considerably. Recovering from disasters is also particularly difficult for the poor as they do not have resources or adequate safety nets, and public policies often prioritize rebuilding in other parts of the city.

The urban poor often live in environmentally unsafe areas, such as polluted sites near solid waste dumps, with open drains and sewers, and near industrial sites as these are the only lands available. The sites are typically more vulnerable to floods,

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landslides, and earthquakes, with substandard housing. For example, the IDA-funded Taiz Municipal Development and Flood Project in Yemen provided new flood channels that benefited an estimated 10,000 households and 1,000 businesses in the city by improving safety and access within the city and greatly reducing the loss of lives and property due to flash floods.

For IDA countries in particular, environmental health, energy efficiency and livability concerns are linked to their sustainability for the future. Adaptation to climate change will require investments in improving living conditions for the poor, and in some cases may entail the resettlement of whole communities from precarious locations. In addition, greater emphasis needs to be placed on public transit, and affordable technologies in new, safer and higher density construction. Many structurally sound, low-cost, low-tech green technologies exist in developing countries. For example, in India, some 6,000 units of low-income housing are being built

using a new technology that has virtually eliminated the use of energy-intensive bricks. Aside from achieving substantial reductions in carbon emissions, the units are affordable and the technology transferable. Future IDA projects will focus on helping cities achieve environmental sustainability as part of the broader objective of increasing economic prosperity.

LESSONS LEARNED

A number of reviews have been carried out in recent years to assess our work and distill key lessons learned on policy and implementation issues relating to urban projects in IDA countries. This assessment process is important to continued improvements in the work that we do.

A recent evaluation by the World Bank's Independent Evaluation Group on Municipal Management Projects is an important one as such projects represent a substantial portion of our portfolio. The review had a number of interesting findings such as the relative success of wholesale municipal development projects, i.e. those that simultaneously serve a large number of municipalities (greater than six), as compared to retail approaches which serve just a few municipalities. This approach has several advantages. For one, the risk of failure is spread more broadly across many municipalities. For another, it can be used to encourage competition among municipalities for scarce resources based on well defined performance criteria. Finally, it creates economies of scale in capacity building and institutional development among municipal staff. All this is important because secondary cities are the fastest growing in many countries, and wholesaling is the best way to deal with the simultaneous challenges of multiple urban centers.

The evaluation found the overall impact of our projects on strengthening municipal finance to be



strong and recommends expanded support for improvements to municipal financial management, automation of systems accounts and reporting, raising of municipal own revenues, municipal contracting and facilitating access of municipalities to local credit markets when appropriate conditions are present. Ultimately, cities and local governments that are able to collect local revenues commensurate with the level of services they deliver will be the most sustainable.

Data collection and diagnostic tools also are critical to helping national governments and their municipal partners understand the dimensions of the problems they are trying to address. New technologies such as satellite imagery and computerized geographical information systems, have on the one hand, made it easier to get a “bird’s eye view” of urban conditions. Yet, information on the ground – even for such basic items as the number of households and businesses served by infrastructure, the family composition of informal settlements, and the ownership of contested parcels of land – often is unknown. Here, lack of information becomes an impediment to action. IDA, along with the World Bank Institute and other partners, is in a unique position to help build the capacity of client countries to create and maintain these systems.

Starting in the early 1990s, many developing country governments and donors adopted an “enabling markets” approach to housing based on policies encouraged by the World Bank. This approach focused reforms on issues such as securing land property rights, providing access and cost recovery for infrastructure, and improving the balance sheets of housing institutions. Despite some successes, affordability problems persist and informality in the housing and land sectors abounds in IDA client countries. To address dysfunctional

housing and land markets, the general principles of enabling markets are still valid, but must be combined with sensible policies and pragmatic approaches to urban planning and targeted subsidies for the urban poor.

Finally, expanding and replicating successful slum upgrading efforts is essential. So, too, are policies promoting macroeconomic stability, defined property rights, a good investment climate, responsive governments, well-functioning markets, and broad access to infrastructure, health services, and education. These are the conditions that ensure that efforts to alleviate poverty are lasting.

THE WAY FORWARD

Going forward, a focus on the strategic importance of urban development at the national level is needed. Despite the urgency of the urbanization challenge, urban issues remain somewhat marginal in many low-income developing countries. In IDA countries, particularly, urbanization often is viewed as competing with agriculture or, even worse, contributing to its decline. In fact, urbanization can spur demand for agricultural products and lead to greater productivity in fields and farms.

Indeed, urban growth is a prerequisite to greater productivity in almost all sectors of the economy. The message is clear. Urbanization is not and cannot be resisted. Instead, countries should embrace its promise of growth while anticipating its downside effects by ensuring cities are ready and able to handle the urban transformation ahead.

Benin: Improving Access to Urban Services

Challenge

Benin is a small, poor country with a population of about 8.7 million and a per-person income of approximately US\$550, which is below the average for Sub-Saharan Africa. Poverty remains widespread. Nearly half of Benin's population lives in cities—and for many, the simple tasks of everyday life are demanding. As a consequence of continued rural-to-urban migration, large pockets of dense, poorly planned slums ring Benin's cities. There, people suffer from poor access to basic services, limited infrastructure, and difficult living conditions.

Approach

The IDA-financed Second Decentralized City Management Project (PGUD-II) was launched in 2005 to improve access to infrastructure and basic services in Benin's primary cities of Cotonou, Porto Novo, Parakou, and the selected secondary cities of Abomey-Calavi, Kandi, and Lokossa. The primary beneficiaries were the poorest of Benin's urban poor, who live in select slums. Specifically, about one-half of project funds aimed to provide better access to water and sanitation services, as well as shore up flood protection—thereby protecting the poorest neighborhoods from devastating seasonal flooding; an additional one-third targeted transport infrastructure, namely improving road maintenance. Building on lessons from the previous IDA-funded PGUD-I that ran from 2000 to 2004, it integrated well with Benin's national poverty-reduction strategy—which had identified urban development as essential to promoting economic growth and improving the quality of life for many of its poorest citizens.

Results

As of June 2009, the project rehabilitated the paving and drainage for 19 kilometers of dense urban roads, thereby providing 180,000 residents better access to economic assets located in city centers (78 percent of end-of-project target); and constructed 4.5 kilometers of new, primary drainage network, protecting

Highlights

- **Job creation.** The project supported the Government's efforts to create jobs by hiring community members to do the work where appropriate.
- **Community participation.** Community Initiative Support Units were created in all six cities for outreach. Neighborhood Development Committees were established in all 14 poor neighborhoods that the project targeted. Local community members helped plan and implement the work.
- **Stronger city finances.** The project instituted better tools for service delivery, infrastructure maintenance, and fiscal management in the selected main cities. As a result, by the end of 2007 (just two years into the five-year project term), five out of six cities had already exceeded the target of raising their own revenue by 30 percent. More specifically, as of June 2009, Lokossa had exceeded its target by 275 percent, Abomey-Calavi by 55 percent, Porto Novo by 40 percent, and Cotonou by 10 percent.
- **Solid waste management in Porto Novo.** The project is in the process of completing the construction of a new landfill site in Benin's second-largest city, Porto Novo. A new Solid Waste Management Department opened at the Municipality of Porto Novo and currently oversees solid-waste collection systems. The new landfill has yet to be completed, but progress is on target.

IDA Contribution

The Second Decentralized City Management Project was launched in March 2005. The total project cost—including an additional credit approved in 2008—is \$75 million, which IDA provided in its entirety. Given the success achieved under PGUD-I & -II, an additional financing of US\$40 million was prepared rapidly to scale up the gains to serve more people and communities.

Partners

Government partners include: the Ministry of Labor, Social Affairs and Equal Opportunity, the Ministry of Education, the Department of Strategy and Donor Coordination and the Albanian Institute of Statistics. The United Nations Development Programme (UNDP) and the UK's Department for International Development (DFID) provided multi-year financial support.



As of June 2009, the project rehabilitated the paving and drainage for 19 kilometers of dense urban roads, thereby providing 180,000 residents better access to economic assets located in city centers.

Uganda: Public Service Delivery Through Decentralized Government

Challenge

Despite almost two decades of macroeconomic stability, Uganda remains in the lower tier of low-income developing countries and carries substantial debt. Local service delivery lags as central and local governments face capacity constraints. In the mid-1990s the Government of Uganda devised a strategy for economic reform, the cornerstone of which was implementation of a decentralized system of governance with improved service delivery. Accountability at the local level, transparent and participatory decision-making, and monitoring of implementation were vital to the implementation of this strategy.

Approach

IDA funded two projects in Uganda, the Local Government Development Program and the Second Local Government Development Project (LGDP II), to support local governments and communities in better managing economic and social development. LGDP I was designed to support decentralization through a sustainable, timely, and value-conscious system of transferring development funds from the central to local governments. The second project continued this support, with additional attention to building local government capacity.

Results

By 2007, all major local governments had a three-year rolling development plan and almost all submitted final accounts on time to the Ugandan Office of the Auditor General. Many of these local governments registered an increase in their revenue base of 20 percent or more.

Highlights:

- Several innovations continue beyond the lifetime of the project. The Local Development Grants are now funded by the Government of Uganda, and the Capacity Building Grants have become institutionalized.
- Policy reforms under this project were accepted and implemented by government because there was a high level of ownership. Government played an important role in the preparation of analytical work, including identifying issues, preparing terms of reference, and recruiting and supervising consultants. IDA supported this process through advice and technical assistance.
- The project has also been instrumental in creating a national 'market' for training. Local governments procure training services from a list of accredited private and public providers in a competitive bidding process.
- LGDP-financed projects have generated significant employment growth at the local level and increased opportunities for female workers.
- The project has provided discretionary development budget for local governments to deliver basic social services (primary education, primary health care, water & sanitation, roads, and agriculture extension) based on local needs and demands – services previously provided by sector ministries.

IDA Contribution

- IDA contributed US\$80.9 million to fund LGDP I with an additional US\$9 million funded by both the Government of Uganda and participating local governments.
- Under LGDP 1, IDA assisted with the development of the software necessary for systematic input and output monitoring.
- IDA's support for LGDP II came in two bundles: a US\$50 million credit and a US\$75 million grant (for debt vulnerable countries).
- IDA's resources were provided increasingly as budget support when Uganda developed a systematic budget-performance monitoring tool that reports on resource utilization.

Partners

The success of LGDP I attracted four development partners who joined IDA in funding LGDP II: Danish International Assistance contributed US\$2.40 million, the Government of Austria contributed US\$0.30 million, the Government of Ireland contributed US\$7.50 million and the Government of the Netherlands provided US\$15 million.

Next Steps

In parallel with LGDP I and II, IDA financed the Second Economic and Financial Management Project (EFMP II) to improve the effectiveness of public expenditure management. In response to EFMP II and LGDP II, the government requested a follow-up operation. IDA is currently supporting the Local Government Management and Services Delivery Adaptable Program Loan with a US\$170 million credit.



By 2007, all major local governments had a three-year rolling development plan and almost all submitted final accounts on time to the Ugandan Office of the Auditor General.

Georgia: Developing Municipal Infrastructure, Improving Lives

Challenge

Following the break-up of the Soviet Union, Georgia's transition to independence was a rocky path. During the 1990s, the country experienced a precipitous economic slump. Basic urban services, especially water, wastewater, roads, and solid-waste suffered a decline in quality, coverage, and maintenance, which dramatically reduced Georgian

Approach

IDA financed a series of projects to improve Georgia's basic urban services. The IDA-financed Municipal Development and Decentralization Project (MDDPI) was launched in 1997 to restore infrastructure services and support the decentralization process. The MDDPI established the Municipal Development Fund (MDF) to help finance infrastructure and manage capacity-building activities. The Second Municipal Development and Decentralization Project (MDDPII) followed in 2003 to further develop the legal framework of decentralization and municipal development. In 2008, IDA approved financing for a third project, the Regional & Municipal Infrastructure Development Project (RMIDP), to help improve the efficiency and reliability of select municipal infrastructure and assist conflict-affected people by restoring infrastructure, services, and housing conditions.

Results

The first and second MDDP completed 129 investment projects in 20 Georgian cities. Measurable improvements were seen in roads infrastructure (paving 40 kilometers), water supply systems (improving delivery for 200,000 housing units), street lighting, education services (fixing roofs and installing heating systems in schools), urban transport (maintaining the electrical supply of Tbilisi's metro system), and solid waste management (purchasing

garbage-collection vehicles). The closed MD-DPII project (2003-07) helped improve living conditions of citizens in 9 cities where almost 50 percent of Georgia's total population and up to 80 percent of the country's urban population lives.

Highlights:

- Water access increased. In Gori, Ozurgeti, and Tbilisi, 100,000 inhabitants have improved access to water. Safe water supply was restored to 130,000 inhabitants in Tbilisi after the flood of 2005.
- Roads improved. Roads were improved and their capacity was increased, resulting in reduced travel time and reduced travel costs. Street lighting made conditions safer for pedestrians and traffic.
- Energy saved and costs decreased. Energy-efficient water supply and street lighting resulted in cost savings for local utilities. Energy savings were attained by shifting to gravity-based systems in water supply and using energy efficient fixtures, bulbs, and cables for street lighting.

IDA Contribution

Under MDDPI (1997-2002), IDA financed US\$20.9 million, of a total US\$28.1 million. The MDDPII cost was US\$30.9 million, of which IDA financed US\$19.4 million. The current RMIDP (2008-12) has a total cost of US\$65.4, of which IDA finances US\$40 million. The RMIDP includes the implementation of 43 infrastructure subprojects throughout the country, especially in secondary cities and towns, and the construction of durable houses and infrastructure for internally displaced peoples in conflict-affected areas.

Partners

The World Bank and the U.S Millennium Challenge Corporation (MCC) entered into an innovative partnership around the Municipal Development Fund.

Under this partnership the Millennium Challenge Corporation provides US\$60 million for municipal infrastructure development over the period 2006 to 2010, and the World Bank provides technical, safeguards and procurement quality assurance and supervises implementation under a fee-for-service arrangement. Thus, the Millennium Challenge Corporation is leveraging impact with the accumulated expertise of the World Bank. Similarly, the World Bank and the European Commission shall enter a partnership agreement (2009-10) through which the European Commission provides Euro 3 million co-financing to the RMIDP toward the improvement of housing and infrastructure conditions. Other parallel financing, most notably from the European Bank for Reconstruction and Development, German Cooperation (KfW), Asian Development Bank, and Government of Japan, also targets improving municipal services and infrastructure through the Municipal Development Fund.

Next Steps

Georgia appears to be on target to achieve the Millennium Development Goals pertaining to water and sanitation by 2015. However, significant investment is still needed to rehabilitate poor water, wastewater, solid-waste management, and road infrastructure, as well as to continue institutional capacity building. Meantime, the Municipal Development Fund, which helps finance infrastructure and capacity building, has grown steadily as viable financial intermediary with a loan portfolio increasing from US\$2.3 million in 2001 to US\$18.6 million at the end of 2006. The Municipal Development Fund is expected to continue to grow and leverage additional financing for municipal infrastructure. It also aims to strengthen the capacity of local governments by supporting reforms in the legal and administrative framework of decentralization, and improve financial management procedures.



The closed MDDP II project (2003-07) helped improve living conditions of citizens in 9 cities where almost 50 percent of Georgia's total population and up to 80 percent of the country's urban population lives.

Vietnam: Urban Upgrading Project

Challenge

Vietnam is rapidly urbanizing, with an estimated one million new urban residents added each year. By 2020, 40 percent of Vietnam's population of 100 million will live in urban areas/cities. As urbanization rapidly increases, the number of urban poor is also expected to increase, with major problems of access to infrastructure and basic services. Low-income urban areas are facing the challenges of low quality housing, high densities, poorly maintained infrastructure, health and environmental hazards, frequent flooding due to poor drainage, and inadequate social services.

Approach

The Vietnam Urban Upgrading Project, launched in 2004, is intended to alleviate poverty in urban areas by improving the living and environmental conditions of the urban poor using participatory planning methods, and influencing planning processes so they become more inclusive and pro-poor. These objectives are reflected in components of the project, including use of partnerships between communities and local governments to upgrade basic tertiary infrastructure and other services in low-income areas, providing affordable housing to low-income families that have to be resettled as a result of upgrading, establishing a housing improvement loan program for low-income households in upgraded areas, and providing technical assistance to improve land administration processes in the project cities.

Results

Mid-way through project implementation, over 200,000 low-income people have already benefited directly from improved infrastructure, such as health centers, kindergartens, community centers and primary schools.

Highlights:

- Major drainage and wastewater works have been completed in several cities benefiting over 400,000 additional people.
- Over 36,000 housing improvement loans have been made to low-income households in targeted communities with 95 percent repayment rates.
- Households with valid land-use certificates have increased from about 50 percent before the project to over 80 percent in targeted communities.
- Property values in upgraded low-income communities have increased 2 to 4 times.
- Participatory planning and community supervision of works has been introduced in all targeted cities.
- The National Urban Upgrading Strategy was approved by the Prime Minister in 2009.
- Phase 2 has now begun and will include upgrading of low-income areas for over 600,000 additional people, plus major investments in drainage and flood control, waste water collection, canal improvements and road networks.
- All told, about 1,865,000 residents are expected to benefit directly, and another 1,070,000 residents will experience indirect benefits from the project.

IDA Contribution

IDA contributed US\$222.47 million to the Vietnam Urban Upgrading Project. In July 2009 an additional US\$160 million of IDA funding was approved to complete the Tan Hoa – Lo Gom canal improvement project in Ho Chi Minh City which will benefit about 1 million people.

Partners

Local community groups contributed US\$4.15 million, the Japan Ministry of Finance contributed US\$4.84 million, and the Social Republic of Vietnam allocated over US\$150 million of their budget to the program. Cities Alliance funded much of the original policy work leading to the program.

Next Steps

This project has paved the way for future planning by providing government capacity building, technical support for land and housing management, and the preparation of the National Urban Upgrading Program. IDA and the Social Republic of Vietnam are currently preparing the Second Vietnam Urban Upgrading Project (VUUP2) which will focus on cities in the Mekong Delta Region highly vulnerable to climate change. The proposed project will focus on improving living conditions and the environment of the urban poor by providing critical tertiary infrastructure in low-income areas and support infrastructure in selected cities in the Mekong Delta Region.



Mid-way through project implementation, over 200,000 low-income people have already benefited directly from improved infrastructure, such as health centers, kindergartens, community centers and primary schools.

Yemen: Local Economic Development in Yemen Port Cities

Challenge

Yemen is facing the economic challenge of reducing its dependence on rapidly-depleting oil reserves, while developing other promising sectors by attracting private investment. The cities of Aden and Sana'a are experiencing rapid population growth, as well as high levels of poverty and unemployment, limited capacity at the local level, and low foreign investment. Ninety-eight percent of the manufacturing and service sectors are made up of micro- and small-enterprises, indicating constraints limiting growth into larger enterprises.

Adequate infrastructure and service delivery is integral to attracting private investment, as poor quality infrastructure can reduce business efficiency and productivity. In Yemen's major cities, low revenue collection and low expenditures on service provision have compromised efficient delivery of critical services, such as road transport, solid waste management, water and waste water, and power, which have not kept pace with urban growth.

Approach

Yemen's Port Cities Development Program (PCDP) aims to improve the investment climate and encourage growth and the creation of employment opportunities in three port cities: Aden, Hodeidah, and Mukalla. The 12-year program began with small-scale infrastructure investments and led to the drafting of city development strategies for each port city.

Results

City Development Strategies (CDS) have been developed for all three cities, laying the foundation for economic competitiveness.

Highlights:

- The strategies introduced a participatory approach to urban planning—including workshops and consultations with key stakeholders— which departed from previous centralized practices. These strategies actively engaged civil society and private sector stakeholders for the first time in strategy formulation and updating of the city master plans and are now being implemented by the newly established Local Economic Development Departments at the government level staffed by civil servants and supported by private consultants.
- In Aden, the CDS has introduced policies to develop the Port, Airport and Free Zone (the 'Core'); to multiply economic value from the Core to the city economy through supply chain linkages; to create an enabling business environment for new and existing investment (by streamlining regulatory procedures, and providing efficient private sector support institutions); to market Aden to national, regional, and international investors; to develop a competitive labor pool and responsive skills development; and to create livable and well-serviced urban environments.
- One of several subprojects financed by PCDP has resulted in a profound transformation in a seafront fish market in Aden. The physical development of the area provides an important link to an adjoining tourist attraction— an ancient Portuguese castle on Sira Island – in addition to improving the working conditions and attractiveness of the market for Aden residents and visitors.
- Fishing boats that dock at the market have increased from 60 boats at project inception in

2003 to 200 boats in 2009. The number of fish sellers in the market has gone from 50 to 230, and the number of fish restaurants in the area has more than doubled. Management of the fish market has been contracted out to the local Fishermen's Association (a model of good practice), which cleans the facility and leases out stalls to small-scale fishermen, generating a new revenue stream for the local government of about US\$25,000 annually.

- Promising results to date include a major upgrading of a small-scale industrial area, inner city road and mobility improvements, and restoration of two facilities that now serve as a city visitor center and investor services office. Involvement of the local community and tangible improvements to the city have inspired local businessmen to contribute funds to the newly-established Private-Public Partnership Fund, including over US\$350,000 to build a training center and initiate training programs in Aden.
- City development strategies and updated master plans have been completed for the other port cities of Mukalla and Hodeidah and investment project design is underway to promote

IDA Contribution

The project cost is estimated at US\$96 million in three phases over 12 years. IDA has committed US\$23.4 million in the form of an adaptable program loan for phase one. IDA technical assistance has also been mobilized in parallel, to advise on the development of a new port sector strategy, and in collaboration with the IFC in developing the city level investment promotion capacity. IDA also organized a study tour and learning exchange with the city of Rotterdam to provide Yemen's port city officials with a best practice example of port city rehabilitation and measures to integrate port activity with the city economy.



City Development Strategies (CDS) have been developed for three port cities: Aden, Hodeidah, and Mukalla, laying the foundation for economic competitiveness.

Yemen

Partners

- The Arab Fund for Social and Economic Development is providing over US\$44 million equivalent in co-financing to support the expansion of a major causeway linking two commercial districts of the city.
- The City Development Strategies were developed with support from Cities Alliance, including funding to carry out competitiveness analysis for each city, support for participatory workshops, and development of capital investment plans.

Next Steps

The second phase of the Program, planned to begin in 2011, is expected to focus more investments on Hodeidah and Mukalla; investigate the creation of a value chain that could deliver local economic growth within four to five years; and improve the management capacity of the three port cities, Aden, Hodeidah, and Mukalla.



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