Report Number: ICRR0023357

1. Project Data

Project ID P133653	**Project Name** Municipal Governance and Services Proje
Country Bangladesh	**Practice Area(Lead)** Urban, Resilience and Land

L/C/TF Number(s) IDA-53390	**Closing Date (Original)** 30-Jun-2020	**Total Project Cost (USD)** 361,545,122.24
Bank Approval Date 14-Jan-2014	**Closing Date (Actual)** 31-May-2022	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	410,000,000.00	0.00
Revised Commitment	410,000,000.00	0.00
Actual	371,893,840.76	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Katharina Ferl	Peter Nigel Freeman	Kavita Mathur	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to the Project Appraisal Document (PAD) (p. 7) and the Financing Agreement of February 10, 2014 (p. 5), the objective of the project was “to improve municipal governance and basic urban services in participating Urban Local Bodies (ULBs), and to improve Recipient’s capacity to respond promptly and effectively to an Eligible Crisis or Emergency”.

b. Were the project objectives/key associated outcome targets revised during implementation?
Yes

Did the Board approve the revised objectives/key associated outcome targets?
Yes

Date of Board Approval
25-May-2017

c. Will a split evaluation be undertaken?
No

d. Components
The project included four components:

Component 1: Municipal Governance and Basic Urban Services Improvement (appraisal estimate US$246.35 million, actual US$233.75 million): This component was to provide financial support to 26 pre-selected ULBs with high economic growth and job creation potential, located along the three growth corridors and three district towns in the South. This component consisted of two sub-components:

Sub-component 1a): This sub-component was to provide financial support to pre-selected ULBs for the carrying out of sub-projects aimed at improving the delivery of basic urban services comprising: i) Base Allocation to pre-selected ULBs, on an annual basis, based on population and classification of respective ULBs; and ii) Performance-based Allocation to ULBs that demonstrate performance improvements in municipal planning, social accountability, public financial management and revenue mobilization, evaluated against ten performance indicators.

Sub-component 1b): This sub-component was to provide financial support for operations & maintenance (O&M), on a declining basis, over the project period to the 26 pre-selected ULBs for structured routine preventive maintenance of roads, drains, streetlights, markets, public toilets, street cleaning and solid waste collection, with ULBs increasing their annual O&M budget allocations proportional to the declining IDA financial support.

Component 2: Bangladesh Municipal Development Fund (BMDF) Institutional Improvements (appraisal estimate US$171.50 million, actual US$124.39): This component was to provide demand-based sub-credits by BMDF to eligible ULBs for basic urban services improvement investment costs, at an 80:20 grant to loan ratio. ULBs will be required to finance 10 percent of investment costs.

Component 3: Capacity Building and Implementation Support (appraisal estimate US$53.91 million, actual US$53.91 million): This component consisted of three sub-components:

Sub-component 3a): This sub-component was to finance capacity building for ULBs undertaken by Local Government Engineering Department (LGED), implementation support for LGED, and support for development of a National Municipal Performance Evaluation System and a GIS-based Urban Property and Asset Management System.

Sub-component 3b): This sub-component was to finance capacity building for ULBs supported by BMDF, and long-term road map study and implementation support for BMDF.

Sub-component 3c): This sub-component was to provide support for third party monitoring for the Governance and Accountability Action Plan (GAAP) managed by Local Government Division (LGD).

Component 4: Contingent Emergency Response Provision (appraisal estimate zero, actual zero): This component was to support, at the government's request, response and reconstruction activities following an adverse natural or man-made event that causes a major disaster, by re-allocating the IDA credit to this component.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project was estimated to cost US$471.76 million. Actual cost was US$412.05 million.

Financing: The project was financed by an IDA credit in the amount of US$410.00 million of which US$371.89 million was disbursed.

Borrower Contribution: The Borrower was to contribute US$61.76 million. Actual contribution was US$40.16 million.

Dates: The project was restructured three times:

- On May 25, 2017, the project was restructured to:
  - (i) modify the Results Framework: a) the PDO indicator on improving municipal governance was refined to clearly define and measure "demonstrating improvement"; b) the PDO indicator on contingent emergency response was revised to "number of people benefitting from local infrastructure that are rehabilitated or reconstructed as a result of a crisis or calamity"; c) the intermediate indicators on municipal governance was refined to better measure project achievements in these aspects; d) an intermediate indicators for improving service delivery was added; e) the capacity building targets were revised as a result of redefining the approach and scope of capacity- building activities;
  - (ii) reallocate funds between disbursement categories; and
  - (iii) modify components and costs.
- On March 9. 2020, the project was restructured to:
  - allocate US$35.8 million from component 2 to Component 1, specifically to benefit host communities in Cox's Bazar District (i.e., Chakoria, Cox's Bazar and Teknaf ULBs); and
  - extend the project closing date by one year to June 30, 2021, to allow time for completion of all project activities, including implementation of the then proposed new Cox's Bazar District sub-projects.
- On February 4, 2021, the project was restructured to extend the project closing date by 11 months to May 31, 2022, to allow for the completion of project activities in particular those in Cox's Bazar District, which were delayed by the unexpected and unavoidable stoppage of project activities from March to September 2020 due to the COVID-19 pandemic.

This validation does not apply a split rating since during the restructurings the scope of the project was not changed, and the indicators were refined to better monitor the PDOs.

3. Relevance of Objectives

Rationale

Country and Sector Context. According to the PAD (p. 1) since the 1980s, Bangladesh had experienced sustained urbanization fueled by strong economic growth. Despite remarkable progress in reducing poverty during the two decades before project appraisal, Bangladesh remained the poorest country in South Asia. Bangladesh's rapid urbanization put a sustained pressure on basic urban services, especially in district towns and municipalities. In 2013, 32 percent of the country's population lived in urban areas. However, urban areas faced several challenges such as poor roads, not well-planned drainage systems, inadequate and unsafe water supply, weak solid wasta management practices and high pollution levels.

At the time of appraisal, Bangladesh had 331 ULBs, comprising 10 city corporations, and 321 municipalities. ULBs were facing challenges to function as strong, responsive and inclusive local government institutions despite the progress made on the decentralization reform agenda. ULBs lacked adequate own source revenues to finance new investments or operations and maintenance (O&M).

Alignment with the Government Strategy. In order to address these issues, the government developed the Sixth Five Year Plan (2011-2015) which aimed to enhance participation of various urban stakeholder groups in service delivery; provide greater clarity in the roles and responsibilities of ULBs; improve municipal finances; strengthen systems of financial accountability; improve physical and sectoral planning and implementation capacity; improve coordination among various service agencies and promote private-public partnerships. The project supported these objectives. Also, the objective of the project was in line with the government's eighth five-year plan (FY20-25) which aims to move the country to upper middle-income status and meet the sustainable development goals (SDGs) by FY31.

Alignment with the Bank Strategy. The objective of the project was in line with the Bank's Country Partnership Framework (CPF) (FY11-14) which, planned to double support to Bangladesh to achieve middle-income status by 2021. Specifically, the project supported the CPF's objective 1 (Accelerated growth to increase transformative investments and enhance the business environment) and objective 4 (Enhance accountability and promote inclusion). Also, the objective of the project was in line with the Bank's CPF (FY16-20) (extended to cover FY21-22), which aimed to improve livability of cities, strengthening growth, creating more and better jobs and lifting greater numbers of people out of poverty.

Previous Bank Experience. The Bank has been engaged in the development of the local government sector for a long time. Under the Municipal Services Project (MSP) (1999-2012) the Bank supported the government in: i) improving urban services in 17 ULBs; ii) building capacity for ULBs through the Municipal Support Unit (MSU) under the Local Government Engineering Department (LGED); and iii) provide demand-based financing for ULBs through the establishment of the Bangladesh Municipal Development Fund (BMDF). As the follow-on project to the MSP, this project aimed to address weak governance and municipal management, insufficient planning, under-investment in basic infrastructure services, and operations and maintenance deficiencies.

Taking everything together, the project's relevance of objective is rated **High**.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improve municipal governance in participating ULBs.

Rationale

Theory of Change: The project's theory of change was based on the premise that project outputs such as the development of ULB performance assessment reports on municipal planning, social accountability, public financial management and revenues, as well as capital investment plans being prepared, delivering capacity development activities for implementing entities and ULBs, and developing and installing systems, software and ICT equipment were - to result in the outcome of improving municipal governance in participating ULBs.

The project made the following assumptions: i) ULBs are committed to participate in the performance assessment; ii) government is able to designate qualified staff to complete training curriculum, support institutional development activities, and provide counterpart financial resources; iii) ULBs are cooperative with LGED and BMDF in the implementation of urban infrastructure investments; iv) political commitment to sustain improved ULBs performance is available; vi ULBs are able to satisfactorily sustain operations of completed urban infrastructures; and vi) political and economic conditions in the country remain stable.

Outputs:

- 26 ULBs were provided "annual base-grant allocations" based on ULB population size and classification as well as "performance-based grant allocations," which were determined based on the ULB's scores against 10 performance indicators in the following areas: i) municipal planning processes; ii) social accountability strengthening; and iii) public financial management.
- 28 ULBs had approved capital investments plan, achieving the original target of 26 ULBs and the revised target of 28 ULBs.
- 78 ULBs had Revenue Enhancement Action Plans (REAP), achieving the target of 78 ULBs.
- 28 ULBs had approved O&M plans, not achieving the original target of 100 ULBs but achieving the revised target of 28 ULBs.
- 52 Grievance and Redress Cells (GRC) were formed and were functional, achieving the target of 52 GRCs.
- 33,480 ULB staff including community people were trained by LGED and BMDF, not achieving the original target of 144,000 staff but achieving the revised target of 16,400 staff.

- 73 revenue generating facilities were constructed/rehabilitated, exceeding the original target of 70 facilities and the revised target of 60 facilities.
- The percentage of the BMDF's incremental operating cost being covered by own source revenue increased from 25 percent in 2013 to 100 percent in 2022, achieving the target of 100 percent.

Outcomes:

- The loan repayment ratio from ULBs borrowing from BMDF increased from 40 percent in 2017, to 87.3 percent in 2022, nearly achieving the target of 90 percent. The loan repayment performance indicated improved municipal governance in public financial management.
- 26 ULBs achieved an aggregate rating of at least 60 percent in the project's performance assessment on municipal planning, social accountability, public financial management and public revenue, achieving the target of 26 ULBs.

The loan repayment performance indicated improved municipal governance in public financial management. Also, the improvement in aggregate rating of municipal planning, social accountability, public financial management and public revenue of 26 ULBs, indicates improvement in municipal governance in participating ULBs. Th achievement of this objective is substantial.

Rating
Substantial

OBJECTIVE 2
Objective
Improve basic urban services in participating ULBs.

Rationale
Theory of Change: The project's theory of change intended that project outputs such as urban infrastructure being constructed or improved, O&M counterparts provided by ULBs to match O&M allocations, and existing ULB assets being maintained were to result in the outcome of basic urban services being improved in participating ULBs.

Outputs:

- 401 sub-projects in urban transportation, urban service delivery, health environment and sanitation were completed. These sub-projects included the construction/rehabilitation of roads, bridges, drainages, water supply, public markets, parks, and community buildings.
- Two rounds of performance assessment for 26 ULBs were conducted.
- 989.82 kilometers of roads were constructed/rehabilitated, exceeding the original target of 640 kilometers, and the revised target of 900 kilometers.
- 18 local facilities were constructed/rehabilitated, not achieving the original target of 45 facilities and achieving the revised target of 15 facilities. According to the ICR (p. 32) the target was revised from 45 to 15 facilities due to the lack of available land for construction.

- 437 kilometers of drainage were constructed/rehabilitated, exceeding the original target of 300 kilometers and the revised target of 369 kilometers.

Outcomes:

- 94.3 percent of beneficiaries were satisfied with basic services under the project, exceeding the target of 80 percent of beneficiaries. Of these beneficiaries, 89 percent were female, exceeding the target of 80 percent of beneficiaries.
- 7.01 million people were provided with improved urban living conditions, exceeding the original target of 3.43 million people and the revised target of 3.45 million people. Of those people, 3.34 million were female, exceeding the original target of 1.8 million females and the revised target of 1.67 million females.
- The project commissioned a Third-Party Monitoring Study (TPMS) that assessed the results of subprojects and the satisfaction of beneficiaries. It covered 114 subprojects and involved 844 households in 26 ULBs. For road subprojects, the study noted that “people can now move easily, travel cost and time have been reduced to half, and waterlogging addressed”.

The project investments rehabilitated/constructed basic urban infrastructure, exceeding the original and revised beneficiaries. 94.3 percent of beneficiaries were satisfied with basic services under the project. The achievement of this objective is high.

Rating
High

OBJECTIVE 3

Objective
Improve Recipient’s capacity to respond promptly and effectively to an Eligible Crisis or Emergency.

Rationale
Theory of Change: The project’s theory of change envisioned that project activities such as goods, works, and consultants being procured to support response and reconstruction was to result in the outcome of the government’s capacity to respond promptly and effectively to an eligible crisis or emergency.

This objective refers to the Contingency Emergency Response Component (CERC), which was not triggered since there was no declaration of an emergency. As a result, the achievement of this objective has not been rated.

Rating
Not Rated/Not Applicable

OVERALL EFFICACY

Rationale

The project's achievement of the first PDO "improving municipal governance in participating ULBs" was Substantial. This is demonstrated through the increase in the loan repayment ratio from ULBs borrowing from BMDF as well as the achievement of 26 ULBs obtaining an aggregate rating of at least 60 percent in the project's performance assessment on municipal planning, social accountability, public financial management and public revenue. The achievement the second PDO "improving basic urban services in participating ULBs" was high. This is demonstrated through the satisfaction level of beneficiaries in regard to basic services. The achievement of the third PDO is not rated since the CERC was not triggered.

Taking everything together, the project's overall efficacy rating is **Substantial**.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic efficiency:

The PAD (p. 9) stated that since ULBs were to finalize eligible sub-projects only during the project implementation phase, economic analysis at appraisal was based on the feasibility studies of 704 sub-projects proposed by participating ULBs in five focus areas: i) drainage; ii) urban transportation; iii) sanitation and municipal facilities; iv) water supply; and v) solid waste management. The Net Present Value (NPV) for component 1 (taking 94 percent of total component cost into account) was US$206.6 million and the Economic Rate of Return (ERR) was 21.8 percent, using a discount rate of 10 percent. The NPV for component 2 (taking 66 percent of total component cost into account) was US$138.4 million and the EIRR was 26.5 percent. This analysis indicated that such investments are economically worthwhile.

The ICR (p. 18) conducted a cost-benefit analysis on 319 road and drainage sub-project investments, which accounted for 80 percent of the sub-projects under components 1 and 2, and 64 percent of the project's cost. The NPV was US$458 million and the EIRR was 29 percent, which was higher than the 12 percent social discount rate applied in Bangladesh.

The ICR (p. 18) stated that it was not possible to conduct a financial analysis for income generating projects such as public markets, community centers etc., which accounted for 18 percent of the sub-projects under components 1 and 2 (21 percent of the total project cost) due to limited financial data. However, the Local Government Engineering Department (LGED) and BMDF prepared economic analyses in the evaluation reports, which found that these sub-projects were economically viable even if only taking non-financial benefits (e.g., savings from reduced deterioration in the quality of market products, increases in the economic value of land in the catchment areas of sub-projects).

The ICR calculated the unit costs of 35 road sub-projects, which ranged from US$0.090 million to US$0.098 million per kilometer of road, and US$0.232 million to US$0.269 million per kilometer of drain in seven drainage sub-projects. These unit costs were comparable to the unit cost of another donor implemented project in Bangladesh, which ranged from US$0.69 million to US$0.161 million per kilometer of road, and US$0.285 million to US$0.884 million per kilometer of drain.

Operational efficiency:

The project utilized 99.96 percent of its total credit. The project's implementation period was extended twice, for a total of 23 months as a result of procurement delays and weak capacity at the LGED and BMFD.

According to the ICR (p. 17) LGED was able to shift from smaller to larger, and more efficient investments with the average cost of sub-projects increasing from about US$0.40 million (during 2016-2019) to US$0.65 million (in 2020). Also, BMDF sub-project's average cost ranged from US$0.53 million to US$0.75 million (during 2015-2018) to US$1.52 million in 2021.

Taking everything together, the efficiency of the project is rated **Substantial.**

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal	✓	21.80	52.00 ☐ Not Applicable
ICR Estimate	✓	29.00	79.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the objective is rated High given its alignment with the Bank's most recent Country Partnership Framework (FY16-20) (extended to cover FY21-22), which aimed to improve livability of cities, strengthening growth, creating more and better jobs and lifting greater numbers out of poverty. Efficacy and Efficiency are rated Substantial. Taking everything together, the project's outcome rating is Satisfactory.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The risks to the development outcome can be classified into the following broad categories:

Financing: The project provided 26 ULBs with performance-based incentives and counterparts grants for O&M. Since this type of financing stopped when the project closed, there is a substantial risk that the performance of those ULBs will deteriorate. Also, through the performance-based mechanism, the project allowed ULBs to make minimal improvements in own source revenue and other governance measures allowing to support O&M of infrastructure and services. However, according to the ICR (p. 27) due to the COVID-19 pandemic, the government faces fiscal constraints that might impact the financing for ULBs to maintain their assets and service delivery. According to the Bank team (February 22, 2023) a new Bank project (Resilient Urban and Territorial Development Project (P178985), US$400 million financing) is currently under preparation as a follow-on operation. The new project is taking an added approach to focusing investments beyond individual municipal boundary to improve urban-rural linkage and to invest in larger, more strategic, climate induced resilient infrastructure. Therefore, this risk is assessed as modest.

Technical capacity: O&M for the facilities constructed under the project will also require technical capacity. The continuation of capacity building activities, which will be challenging in times of tight fiscal capacity, will be critical to ensure the sustainability of project outcomes. Also, the ICR (p. 27) stated that data management/archiving/tracing system at the PIU and the PMUs is weak. As a result, there is a need to develop a digital data management system for ULBs to ensure that the asset inventory is being complemented by digital data. This risk is assessed as substantial.

8. Assessment of Bank Performance

a. Quality-at-Entry

According to the ICR (p. 21) the project design was built on lessons learned from previous Bank engagement in this area. These lessons learned included: i) using a framework approach to give ULBs more choice in deciding on their priority investments; ii) incentives such as performance-based grants and Operation and Maintenance (O&M) support on declining basis to improve municipal governance, financial stability, and O&M assets; and iii) capacity support for all PMUs and PIUs to strengthen very limited technical capacity. One shortcoming of the project design was that the annual base and performance-based allocations resulted in smaller than planned sub-projects during the first two years of project implementation.

According to the PAD (p. 8) the Bank identified several risk factors. Project implementation risk was rated Substantial due to implementation agency risks related to weak governance, inadequate capacity, and weak service delivery. Monitoring and sustainability risks were rated Substantial, and project design risk was rated High.

Project design included mitigation measures, by both LGED and BMDF, to mitigate the above risks including providing consultant services support to ULBs, oversight of contract award decisions, and joint measurement of works and approval of payment certificates before payments were to be made to contractors. Some of the mitigation measures were insufficient and weak capacity in procurement resulted in delays. Also, even though the procurement of large service contracts is a systematic challenge in the country, the Bank did not provide any mitigation measures. Furthermore, the Bank team did not identify the risk of the BMDF obtaining full institutional commitment to develop its capacity transform into a fully functioning Municipal Development Fund during the implementation of the project. According to the ICR (p. 21) by project closure, the BMDF was only endorsed for the study of Operation Support and Capacity building (OSCB) by its Board and had not implemented any of the recommendations.

The project's Results Framework had several shortcomings (see section 9a for more details).

The quality-at-entry was **moderately satisfactory**.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

According to the ICR (p. 22) the Bank team conducted a total of 15 supervision missions to provide technical support in several areas especially the following: i) enhancing the project's operations manual; ii) revising the design and administration of the annual base allocation to allow implementation of sub-projects with larger development impacts; iii) modifying the design and administration of the O&M allocations; iv) establishing a dedicated project management unit (PMU) at the BMDF to manage activities implemented by the BMDF; v) facilitating project preparation support for ULBs to develop larger sub-projects; and vi) refocusing capacity building activities to directly support the PDO. Also, the Bank team mobilized an additional Trust Fund "Bangladesh Accelerating Local Government Development for Improved Service Delivery" to provide analytical and capacity building support for improvements in strategic planning, financing, management and the delivery of basic local public services.

Furthermore, the ICR (p. 26) stated that the Bank team kept the project rating at Moderately Unsatisfactory to exercise pressure on the government for the LGED and BMDF to implement agreed actions to compensate for procurement related delays.

The Bank team restructured the project three times to modify the Results Framework and address implementation challenges. The Bank team was flexible, and when it realized that the BMDF would not be able to fully spend its allocation, the team reallocated US$35.8 million from component 2 to component 1 to improve the quality and capacity of urban infrastructure and services in communities hosting the Rohingya refugees.

The quality of supervision was **satisfactory**.

With moderately satisfactory quality-at-entry and satisfactory quality of supervision, the overall Bank Performance was **moderately satisfactory**.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project's objectives were clearly specified. The project's theory of change and how key activities and outputs were to lead to the intended outcomes was sound. However, the indicators included in the original Results Framework had several weaknesses which were addressed during the first two project restructurings. For example, the PDO indicator on improving municipal governance was refined to clearly define and measure "demonstrating improvement". Also, the PDO indicator on contingent emergency response was revised to "number of people benefitting from local infrastructure that are rehabilitated or reconstructed as a result of a crisis or calamity". Furthermore, intermediate indicators on municipal governance were modified to better measure project achievements in these aspects. Also, additional intermediate indicators for improving service delivery were added and capacity building targets were revised as a result of redefining the approach and scope of capacity- building activities.

According to the PAD (p. 7) the LGED and BMDF were responsible for the project's M&E activities. The LGED PMU was to prepare six monthly progress reports, in accordance with the format outlined in the Project Implementation Manual. BMDF was to submit six monthly progress reports which were to include lending commitment levels, lending portfolio status, loan maturities, non-performing loans, etc. Performance and monitoring indicators were also to be required from each ULB borrowing from the BMDF.

The ICR (p. 23) stated that no methodology to collect and analyze the required data was developed at appraisal, which resulted in difficulties in setting up an operational M&E system during the initial years of project implementation.

b. M&E Implementation

As stated above, the project's Results Framework was restructured twice to better measure outcomes.

The ICR (p. 23) stated that even though LGED and BMDF did not have integrated M&E systems, they were able to prepare basic monitoring reports including periodic progress reports, procurement plan, and environmental and social safeguard reports. Since LGED and BMDF had separate M&E set-ups, the project faced difficulties during the early stages of implementation, which did not allow for a consistent approach for data collection and analysis. From the second year of implementation onwards, M&E tools, templates, and procedures for integrating LGED and BMDF M&E processes were developed. Also, the project provided trainings on accurate data collection and remote input to municipal engineers of ULBs. The ICR (p. 23) stated that as a result, the project's M&E performance improved.

According to the Bank team (email dated February 22, 2023), M&E data were adequate to capture project implementation status, prepare periodic reports, and inform key management decisions. These were detailed enough to present the physical and financial progress and specific issues in the scope of work of individual subprojects. During missions, evidence of reported results was further interrogated, and measurements reviewed and verified before they were accepted as actual results and reported in

AMs and ISRs. Laboratory reports on concrete tensile strength and malleability were subjected to Bank mission team's further study and re-examination/verification to ensure that quality reported were achieved. The reports received from the M&E systems were found to be accurate and appropriately dependable.

c. M&E Utilization

According to the ICR (p. 23) M&E data was used to inform project management decisions such as the decision to reallocate funds from component 2 to component 1 to support the communities hosting the Rohingya refugees. Also, during the peak of the COVID-19 pandemic, M&E data was used to determine revised completion dates for several sub-project investments.

Despite weak M&E design, the project's Results Framework was restructured twice to better measure outcomes. Overall M&E was substantial.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was classified as **category B** and triggered the following three Bank's safeguard policies: OP/BP 4.01 (Environmental Assessment), OP/BP 4.12 (Involuntary Resettlement), and OP/BP 4.10 (Indigenous People). According to the ICR (p. 24) the project developed an Environmental Management Framework (EFM), which detailed the procedures to be adopted to assess and manage environmental risks, once the details of the sub-projects were known. Also, the project performed site specific Environmental Assessments during project implementation which were also disclosed. Environmental impacts due to project activities included noise and dust pollution which were mitigated by implementing the environmental management plan. During the initial stage of project implementation, the project experienced some non-compliance issues. However, throughout implementation compliance improved and at project closure environmental safeguard compliance was rated Satisfactory.

According to the ICR (p. 24) the project also developed a Social Management Framework (SMF) to address any social risks. Also, Social Management Plans (SMPs) were prepared for all sub-projects and identified social risks and impacts such as the dispossession of existing land by affected encroachers and temporary and voluntary relocation of affected vendors. Furthermore, the project prepared Resettlement Action Plans (RAPs) for sub-projects involving involuntary relocation of non-titled formal or informal residential settlers and businesses. The Bank team stated (in the email dated February 22, 2023) that tribal people were among the beneficiaries in one of the project cities, but no indigenous characteristics were found in them per OP 4.10 except that they were of indigenous origin. The project facilitated the tribal people to access project benefits equally as for the mainstream population including preferential allocation of shops in developed markets.

According to the Bank team (email dated February 22, 2023) the project also triggered Bank Cultural Heritage policy (OP/BP 4.11) and adopted a chance find method for implementation. Project activities did not affect any heritage sites for integrity or access restriction per OP 4.11.

The ICR (p. 25) stated that the project also had a grievance management system in place. Complaints and writ petitions were submitted for four sub-projects under BMDF and two sub-projects under LGED. The ICR further stated that complaints were also submitted to the Banks Grievance Redress System and addressed appropriately. Also, the ULBs responded to the complaints proactively as per the Social Management Framework and to the writ petitions as per the legal framework.

b. Fiduciary Compliance

Financial Management: According to the ICR (p. 25) the project complied with the Bank's financial management policies and requirements. The LGED and the BMDF prepared and submitted withdrawal application seamlessly as well as submitted quarterly financial reports to the Bank regularly, which were in most cases accurate. Also, both entities submitted annual audit reports on a timely basis. The ICR (p. 25) stated that when the Bank sought clarifications of the material audit observations, the two entities provided clarifications. When the project closed, LGED had ten outstanding audit observations, on which it was working with the Director General, Foreign Audit Project Audit Directorate. The ICR further stated that two rounds of operational audits to assess the physical, financial, and operational aspects of implementation showed that there was a need to strengthen the control framework and project management practices.

Procurement: According to the ICR (p. 25) the project experienced several procurement related delays during the first three years of project implementation due to systematic issues at the portfolio level in Bangladesh when procuring large contracts, and lack of a dedicated project management unit and technical capacity. The LGED and BMDF provided continued procurement and contract management support to the ULBs to enhance their procurement and contract administration function. Also, the Bank provided ongoing support through prior reviews of contracts, annual procurement post reviews, periodic capacity assessments and mitigation measures in procurement risk assessment and management system. Throughout project implementation annual procurement post reviews found non-compliances, which did not require any legal remedy by the Bank.

The ICR (p. 25) stated that the COVID-19 pandemic negatively impacted procurement and contract management as a result of supply chain disruptions, restrictions of movement, and closing of public offices which resulted in delays. However, while the scope of a few contracts had to be modified, LGED, BMDF, and ULBs were able to complete all contract within the project implementation period, which was extended twice, for a total of 23 months.

Furthermore, according to the ICR (p. 26) the Bank team identified a conflict of interest in having the same group of consultants responsible for the preparation and appraisal of sub-projects, which resulted in poor quality of some of the sub-projects in the pipeline.

c. Unintended impacts (Positive or Negative)

According to the (p. 17) even though the CERC was not triggered, the project benefitted three ULBs in Cox's Bazar District. When the district experienced a rapid influx of Rohingya refugees from Myanmar in 2019, that resulted in the need for urgent support to rehabilitate local urban infrastructure, the project was able to assist host ULBs to implement works and improve health and safety standards during the COVID-19 pandemic. The project reallocated US$35.8 million between project components without having to trigger CERC.

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Quality of M&E	Modest	Substantial	Despite weak M&E design, the project's Results Framework was restructured twice to better measure outcomes. Overall M&E was substantial.
Quality of ICR	---	Substantial	

12. Lessons

The ICR (p. 28) included several lessons learned, which were adapted by IEG:

- **For performance-based grants to have long lasting effects they need to be institutionalized**. The experience of this project indicates that performance-based grants are effective in promoting governance reforms at the ULB level. However, these grants need to be institutionalized and the following steps need to be taken: i) designating the entity responsible for administering the performance-based program; ii) scaling-up the program to cover all ULBs; iii) making monitoring and publishing the performance of all Local Government Institutions (LGIs) by the government mandatory; iv) providing an incentive for LGIs to benchmark and constructively compete with each other; v) establishing a legal basis for the National Government to allocate funds for performance-based grants on an ongoing basis either from internal government resources or from development partners; and vi) establishing a strategy for LGIs to graduate.

- **Providing local entities with the right tools and understanding as well as encouraging them to plan beyond their respective political jurisdictions can allow for the identification of larger scale investments that benefit more people**. In this project, the introduction of Capital Investment Planning allowed ULBs to identify larger scale investments with greater impact on their constituents.

- **When a country has systematic procurement challenges it is critical to identify appropriate mitigation measures during project preparation**. This project experienced procurement related delays and might have benefitted from multiple smaller consultancy packages to reduce the risk associated with larger contract procurement.

A lesson added by IEG:

- **Participation and empowerment of women was a fundamental feature of this type of project resulting in the project exceeding the target for female beneficiaries.** In this project, sub-projects were prioritized through a local participatory process with women actively engaging and presenting the plans. Also, the project promoted greater economic opportunities for women through the Social Management Plans, which provided commercial infrastructure for women. As a result, the project benefitted 3.34 million women against a target of 1.67 million.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided an adequate overview of project preparation and implementation and included appropriate Economic analysis. Also, the lessons learned can be useful for future projects in this area. The ICR was internally consistent and relatively concise. The ICR would have benefitted from being more outcomes driven and provided data to support information such as (p. 15) “road investments helped reduce traffic congestion” or that infrastructure investments contributed to local economic growth as well as rental revenues for ULBs from stalls in markets. Also, the ICR did not mention that the project also triggered OP/BP 4.11 (Physical Cultural Resources) and OP/BP 4.04 (Natural Habitats). Overall, the ICR quality is rated **Substantial**.

a. Quality of ICR Rating

Substantial