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Urban transport lending by the World Bank: The last decade

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ABSTRACT

Over the preceding decade, the World Bank committed about US$7.5bn in loans for urban transport projects in its client countries, involving total project costs of nearly US$13bn. Projects are designed by the client city/national governments and the World Bank in an interactive, give-and-take process. As is common in development finance, urban transport projects entail an investment program and a set of policy and institutional initiatives. A majority of Bank-funded operations in this period focused on public transport modes. A clear and overarching strategic thrust is evident, favoring private delivery of services with a strong public role through city-specific regulatory agencies. Depending on the context, projects involved efforts to introduce private operators and competition into an all-public set-up, or tighten up weakly regulated, "informal" public transport markets. A notable feature of many projects in the latter context is the use of investments in bus rapid transit infrastructure to reach multiple goals: improve transport services, maintain affordability for low-income passengers, attract new passengers, reduce negative environmental impacts, and leverage complementary reforms of policies and institutions. The Bank's program in China, unique in its local context of a dynamic urban society moving away from a near-universal reliance on bicycles, initially did not focus on public transport but on urban roads and traffic management. Towards the end of the last decade, the motorization process and the outlook of decision makers entering a more mature stage, projects in China started to converge towards what the rest of the Bank's program was doing – searching for a more sustainable path to urban transport development.

Overall, the thrust of the Bank-funded program was in the sustainable direction, but it addressed only a part of a sustainability-oriented agenda. The major missing piece was a considered engagement with urban roads and general traffic within a sustainable framework. This would involve tackling street congestion and related negative impacts, shifting priorities between modes, and generating revenue to fund transport system operation and expansion.

1. Introduction

It is about 40 years since the World Bank approved its first development loans in the urban transport domain.[1] Over the intervening period, the Bank's perception of urban transport problems and the corresponding recommendations were well disseminated through a series of reports: Urban Transport – Sector Policy Paper (World Bank, 1975), Urban Transport – A World Bank Policy Study (World Bank, 1986), and most recently Cities on the Move (World Bank, 2002).[2] These documents were turned both outward – to prospective clients and partners in cities and countries, and inward – to guide the design of lending operations.

The *practice* of urban transport development lending is less well known, especially the recent operational experience. The current paper is an attempt to correct this lacuna. It is based on a just-completed study of the World Bank's program for transport in cities that covered all relevant operations begun in the preceding decade.[3] This set of project and policy (adjustment) loans, 50 in

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[1] The term "World Bank" as used in this paper does not distinguish between two members of the World Bank Group – the International Bank for Reconstruction and Development and the International Development Association. Both provide loans to member governments, the former working with middle-income countries, and the latter with low-income countries. Another member of the World Bank Group, the International Finance Corporation, lends to the private sector. A Guide to the World Bank (2011) is a comprehensive source on the institution and its activities.

[2] Other highly relevant documents address the two parent sectors – transport and urban. For example, see World Bank (1996, 2000, 2008a).

[3] The review actually covered more than a decade, including all operations approved in calendar years 1999-2009. Some earlier projects were included because they formed organic sequences with later operations. A full report of this review, including a database of profiles for project and policy loans, is in Mitric (2011). This research is a work-in-progress. When completed, the review will have covered all urban transport projects since the program started in 1972.

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total, included all free-standing urban transport operations (i.e. those with an exclusive or nearly exclusive focus on urban transport matters), and a few mixed-sector operations with significant urban transport content. There are several angles from which such a lending program, as a whole, could be analyzed. The angle this paper takes is strategic, in the sense that it identifies the key structural orientations in the 1999–2009 program, against the background of ideas contained in the most recent policy paper (Cities on the Move). Notable among these is the concept of sustainable transport.

The paper proceeds by providing, in the remainder of this section, a capsule-size statement of the main concepts behind development lending, and an equally brief summary of the strategic stances governing the Bank's engagement with urban transport.[4] Section Two is the heart of the paper: a 10-year review of lending programs in each geographic region, illustrated by details of select operations. The final section identifies the main patterns in this lending program as a whole, discusses the degree to which it helped cities move their transport systems in a sustainable direction, and identifies issues that need to be addressed in future operations so as to increase their contribution to a sustainable urban transport future.

1.1. Basic concepts in development lending

The term "development lending" refers to project and policy loans that the World Bank and other multilateral financial institutions provide to governments of low- and mid-income countries. Fundamental to this work, other than a transfer of investment funds, are place-specific agendas for economic and social change, from which objectives and strategies for lending programs are derived.[5] Early in the history of the Bank, this agenda was focused narrowly on economic growth and poverty alleviation. Over time, it was broadened to include a wider set of concerns, notably those related to relative roles of public and private sectors, especially during transformation processes experienced by Russia, China and other countries with previously state-dominated economies. The development agenda keeps evolving to encompass a large gamut of social concerns, with governance, corruption, and climate change being the most recent additions.

Each lending operation is a product of an interactive process involving the client government and the Bank. A project loan, most often with cities as clients, is the dominant operational instrument in the urban transport domain. Policy loans have only recently risen in importance, reflecting *inter alia* the importance of having national governments as partners in city-focused operations.

Projects commonly have a three-element structure, designed to meet a set of explicit objectives drawn from a developmental context relevant to the client city and country[6]:

- an investment program co-financed by the client government's equity and the Bank's loan, sometimes with additional co-financiers;
- an agenda of policy reforms relevant to the same context; and
- an agenda for institutional change relevant to the context in which investments are taking place.

Relative "weights" of these three structural elements vary from project to project. Some involve such large and complex investments that policy and/or institutional components may be minimal or none. Technical assistance projects fund only what will support policy or institutional change, e.g. training, diverse studies, study tours, information systems, and/or other capacity building services and goods. The main Bank instrument for non-project lending – a policy loan, has no investment program, only an agreed agenda for policy/institutional change.[7]

Making the tacit aspect of the above descriptions explicit, a good working definition for development loans, whether of the project or policy type, is that the funds lent are used to leverage policy and institutional reforms in the client country.

Three sources of benefits are expected in project lending:

- Type A: a stream of direct benefits to some target population generated through the investment component; it is these benefits that feature in both ex ante and post-implementation evaluation of investments, in economic and/or financial terms;
- Type B: a stream of benefits generated through the implementation of institutional and policy changes, albeit often in a less direct cause and effect sequence than that of project investments, and along a different time scale;
- Type C: benefits arising from a combination of using rigorous selection criteria for investments, and rigorous procedures for preparing and implementing them. These procedures originally included the guidelines for financial management of loan funds and the procurement of works, goods and services financed from the loan. As the development agenda expanded, the standards for carrying out fiduciary responsibilities were complemented by a list of safeguards on impacts considered universally important, e.g. environmental impacts, involuntary relocation, land compensation, and public participation. At the minimum, this category of benefits are expected from investment activities under the project in question, but would become much larger if these investment planning and implementation methods are adopted as standard by the client city or country.

Policy lending will only have Type B benefits. It follows that policy and institutional changes leveraged by this instrument should be high-priority and complex, requiring full attention of operational teams on both borrower and Bank side. Also, given that loan funds remain at the national level, the locus of the reforms should also be at that level.

A key assumption underlying the entire lending approach to development assistance is that a complement of actions and benefits, when applied to multiple operations and economic sectors – and replicated in other (non-Bank-funded) activities – will over time generate broad positive economic and social change in the client country.

1.2. Bank's strategic stances on urban transport issues in perspective

Urban transport, a focus area of the World Bank since the early 1970s, came to the foreground as a by-product of the Bank's then new involvement with fast-growing cities in the developing world (World Bank, 1972). Given that the majority of new urbanites were poor and sought work, the provision of urban transport infrastructure and public transport services was seen as critical to their

[4] Gwilliam (2013), provides a detailed review of ideas contained in "Cities on the Move" in the perspective of urban transport developments worldwide in the intervening 10 years since its publication.

[5] In current practice, the larger developmental context and an all-inclusive program of action for a given country are defined in a document called Country Partnership Strategy, made jointly by each country client and the Bank, and a Poverty Reduction Strategy, produced by the client (World Bank, 2011).

[6] This structure may be considered as a central tendency in the population of all development projects. See Baum and Tolbert (1985).

[7] Details on these and other types of Bank instruments are at http://www.worldbank.org/ibrd/, (under "Products and services"), or see A Guide to the World Bank [2011].