

Municipal Dev & Housing Reconstruction

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The Nepal Municipal Development and Earthquake Emergency Housing Reconstruction Project, supported by Credit 1988-NEP in the amount of US\$41.5 million, was approved in FY89. Substantial cancellations amounted to US\$20.2 million, and the credit was closed as planned in FY96. Cofinancing was provided by GTZ (US\$1.7 million) and UNDP (US\$5.1 million). The South Asia Regional Office prepared the Implementation Completion Report (ICR). The borrower prepared its own completion report, which is appended to the ICR.

The principal objectives of the project were to establish a financial intermediary for municipalities, provide loans to municipalities for infrastructure investments, and strengthen municipal financial and administrative capabilities. Shortly after the Municipal Development Project was appraised in 1988, an earthquake occurred, causing considerable damage to private housing and public infrastructure. To facilitate a rapid Bank response to this crisis, an emergency component was appended to the project to support housing reconstruction. The emergency component also included a few minor objectives: to improve earthquake resistant construction standards; to provide technical assistance and training to the housing sector; and to assess the environmental impact of heavy timber use in the housing industry.

Project results were disappointing. The major objectives of the project were not achieved. Political changes in Nepal affected the organization and structure of municipalities and, as a result, disrupted the preparation and approval of loans. The financial intermediary was created, but with limited autonomy, and it suffered from frequent changes in management. Technical assistance was ineffective as it coincided with a period of inactivity, and the absorptive capacity of the municipalities remained weak. After five years of little activity, a substantial part of the credit was canceled. However, the last two years were a little more successful, and a small number (24) of subprojects (15 percent of the original lending target) were implemented. About 53,000 households (80 percent of target) benefited from financial assistance for housing reconstruction. Part of the outstanding loans were converted into grants, while the repayment rate of the outstanding loans has continued to deteriorate. No action was taken to pursue the three minor non-emergency objectives due to lack of interest/commitment by the government.

The Operations Evaluation Department (OED) agrees with the ICR ratings of project outcome as unsatisfactory, sustainability as uncertain, institutional development as modest, and Bank performance as unsatisfactory.

The lessons of this project are that effective institution building requires early assessment of the legal framework and municipal capacity; donor coordination is needed to avoid competing lines of credit; and changing loan terms after they have been disbursed requires careful consideration.

The ICR is satisfactory. No audit is planned.