



Squatters in a former market area of Saigon, Vietnam

## CITIES ALLIANCE IN ACTION

This year's Annual Report marks the beginning of a period of transition for the Cities Alliance, as it begins to shift towards longer-term, programmatic support to cities and national governments. This is a process that will take some time, and a number of adjustments through the process. The Cities Alliance will also continue to service its traditional line of business—accepting proposals for support to cities and countries grappling with the challenge of slum upgrading, and the economic, social and environmental sustainability of cities.

At the same time, the Cities Alliance is applying lessons from its portfolio over the past years, and is thus increasing better positioned to guide partner cities and countries towards some of the more tested, successful approaches to development. By paying more attention to monitoring and evaluation of activities, and developing a more systematic approach to the management and dissemination of knowledge arising therefrom, the Cities Alliance is becoming more adept at identifying and sharing not only the most significant lessons but, also, the largest and most persistent knowledge gaps.

However, the support that the Cities Alliance and its members provides to developing countries and cities will continue to provide the most direct and effective vehicle of engagement, for the foreseeable future. As is well-reflected in the following sections, the quality and variety of these activities vividly demon-

strate the value of this support, and the catalytic impact that it can achieve.

### TRANSFORMING APPROACHES TO SLUM UPGRADING

A half-century of experience in slum upgrading has demonstrated many ways to upgrade slum communities—some successful, others less so. There certainly have been inspiring responses to urban shelter and service deprivation—public, private, joint partnerships, and, of course, those emanating from the urban poor themselves—but they remain the exceptions. With slums in developing-country cities growing by an estimated 120,000 people a day, the exceptions are not enough. Approaches to slum upgrading that provide for impacts at scale are critical.<sup>1</sup>

In line with the Alliance's Medium-Term Strategy, the need for delivery at scale and systemic change is guiding the Cities Alliance's slum upgrading programme with increasing vigour. As a starting point for analysis and a central criterion for its portfolio, the Alliance is working to identify and support approaches

1. Gordon McGranahan, Diana Mitlin and David Satterthwaite, "Land and Services for the Urban Poor in Rapidly Urbanizing Countries" in *The New Global Frontier: Urbanization, Poverty and Environment in the 21st Century*, ed. George Martine, Gordon McGranahan, Mark Montgomery, and Rogelio Fernández-Castila, Earthscan, London, p. 77.

... taking a more positive attitude to urbanization is clearly not enough. Conventional approaches to improving informal settlements do not need to be expanded, they need to be transformed.<sup>1</sup>

to citywide and nationwide slum upgrading that hold the greatest promise of scale and sustainability. These approaches include

- City and national governments **moving beyond short-term projects to long-term activities**, tackling the systemic causes of slum formation. For their international partners, this approach argues for **long-term programmatic engagement**.
- **Pursuing a citywide, multisectoral approach.** Slums are not the result of shortcomings in just one sector; rather they result from policy and resource deficiencies across a broad spectrum of sectors. A comprehensive approach allows the shack to become the house, the slum to become the suburb, and the slum dweller to become the citizen.
- Recognising urban upgrading as a lengthy process that requires **continuity of effort**: continuity of political and financial support from local and national authorities; and long-term, consistent, and reliable support from development partners.
- Paying attention not only to upgrading existing slums but also to **anticipating and planning for future urban growth**.
- Meeting the basic infrastructure and service needs of growing urban populations with **long-term, sustainable financing**. Among other actions, mobilising private sector investments in informal settlements is critical to achieving impacts at scale.

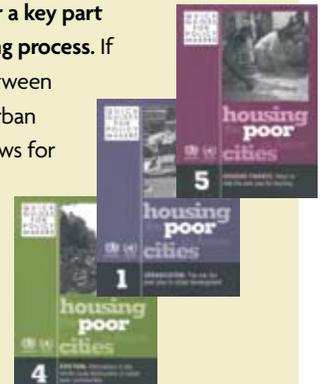
### Box 1: A Comprehensive Approach

In 2008, UN-HABITAT and the United Nations Economic and Social Commission for Asia and the Pacific published a set of seven *Quick Guides* for policy makers addressing central issues related to housing the urban poor in Asian cities. The significance of a comprehensive approach is highlighted as follows in the first volume of the series:

**Solving problems on many fronts: Instead of depending on a single solution, it's better to think comprehensively.**

- **It is important to aim to solve all the city's housing problems, not just a few projects.** Housing policies should benefit the larger population living in slums and squatter settlements in a city, not just a few [residents] here and there.
- **Remember to plan for the urban poor households who have just arrived in the city.** In addition to improving existing settlements, there is a need to develop programmes for housing newly formed urban poor households.
- **Remember that rental housing is a viable option for many poor households.** Policy makers tend to pay little attention to rental housing as an important part of the housing stock that is affordable to the poor.
- **Make housing for the poor a key part of the larger urban planning process.** If there can be close links between low-income housing and urban planning, it will be good news for the poor and good news for the whole city.

**Note:** The seven volumes of *Housing the Poor in Asian Cities: Quick Guides for Policy Makers* are available at <http://www.housing-the-urban-poor.net>.



## Box 2: Private Sector Participation in Slum Upgrading

Although much has been learned about the dynamics of slums, the private sector's role has not figured prominently in many discussions. A forthcoming World Bank report on private sector involvement in slum upgrading examines the challenges and opportunities for scaling up private sector participation in urban upgrading and highlights some innovative approaches to upgrading that rely on the private sector and offer potential for scaling up.

Poor people's purchasing power, estimated at more than \$5 trillion, represents an uncaptured market for the formal private sector. Although the fact that the poor regularly pay a price premium demonstrates that there is real demand and ability and willingness to pay, a cautious private sector may require further evidence to assuage the perceived risks of servicing slum dwellers. A number of promising approaches to attract the private sector to urban slums are emerging, including the following mechanisms to build trust and facilitate payment:

- **Project trust funds:** Community members make deposits in a trust fund toward payment of the installation costs of a new utility that a private company may plan to invest in, such as a water main, sewage line, or street lighting. If sufficient funds are not deposited, refunds to community members can be made from the trust and the project cancelled; if the deposits demonstrate sufficient demand, then the company has already collected all or part of the cost of installation and can proceed with greater confidence.
- **Client grouping:** Because the income of the poor can be quite volatile, collective incomes of groups offer greater stability, enabling individuals within groups to cover the payments of others if necessary in the short run. A community-based organisation or the community leadership can take responsibility for collecting payment from individuals, lowering both the administrative cost and the risk assumed by the private company.
- **Prepayment and auto-pay technology:** This approach can be used to adjust to the poor's payment abilities and preferences, accommodating inconsistent income flows. Prepayment and pay-per-use for services can offer the poor greater control over their budgets. Technologies, such as the Aquacard, that allow for auto-



Courtesy: Municipality of São Paulo.

### Partnering with the city in waste management

payment for services lower the risk of late payment or nonpayment to both businesses and poor clients.

### Cement Producer Makes Progressive Housing for the Poor More Affordable

Historically, the progressive housing market in Mexico has consumed 30–40 percent of the country's cement production. Mexico's leading cement producer, Cemex, has capitalised on the lack of credit for construction available to low- and middle-income families (whose daily incomes range from \$10 to \$15) who are building their homes one room at a time. Cemex offers an alternative to the traditionally expensive, long, and chaotic process of housing construction that the families face. Under Cemex's *Patrimonio Hoy* programme, households can sign on to a 70-week programme in which they make weekly payments in return for scheduled deliveries of cement at key intervals in the construction process. The price is locked in the day the household signs up, and technical assistance is available as part of the club fee charged to all programme members. The credit provided for the purchase of cement and the technical assistance and storage provided to decrease loss of materials have enabled families to add an additional room in 60 percent less time, with 35 percent less cost, and at a higher technical quality. *Patrimonio Hoy* has been an entirely commercial venture and has gained a strong foothold in the lower- to middle-income construction market. More than \$92 million in loans has been provided under the programme, with close to a 100 percent repayment rate. Its success has led Cemex to extend it to the other countries where the company has operations.

Source: Judy Baker and Kim McClain, forthcoming, "Private Sector Involvement in Slum Upgrading," Working Paper, World Bank, Washington, DC.



Farouk Tebbal/Cities Alliance

Rebuilding in Novoprimavera, Mozambique

### Tackling the Core Issues

Cities Alliance members are partnering with local and national authorities who have taken the decision to tackle the issues, policies, and city- or nationwide reforms that could bring about lasting improvements in the living conditions of urban poor people. Alliance members also have welcomed the spotlight on the rule of law as it relates to exclusion and poverty through such initiatives as the Commission on Legal Empowerment of the Poor, which has been supported by a number of Alliance members (Canada, Norway, South Africa, Sweden, and the United Kingdom) among others, including eminent policy makers and practitioners around the world.<sup>2</sup>

Recognising the fact that the majority of the world's poor are systematically excluded because they live in an informal economy, the Commission examined how poverty could be reduced by expanding legal protec-

tion and economic opportunities to all citizens. Often criticised for having too narrow a focus on freehold property titling, the Commission nonetheless contributed to a global debate about the causal role of social exclusion in fostering poverty.

In fiscal year 2008, the overwhelming majority of the Alliance's financial support for slum upgrading focused on fundamentals for sustainable upgrading at scale, including institutional frameworks, legal and regulatory environments, housing subsidy policies, resource mobilisation, national urban upgrading strategies, and prevention of new slum formation. The following are some of the initiatives that Cities Alliance members are supporting.

### South Africa's New Policy Approach to Nationwide Slum Upgrading

Having committed to reduce the number of slum dwellers in the country to zero by 2014, the South African government is in the process of developing a detailed rollout strategy and programme for informal settlement upgrading across the country. Roughly 2.3

2. Cochaired by former U.S. Secretary of State Madeleine Albright and Peruvian economist Hernando de Soto, the Commission on Legal Empowerment of the Poor's final report, "Making the Law Work for Everyone," was launched in June 2008 and is available at <http://www.undp.org/legalempowerment>.

million households in South Africa currently live in shacks—a number increasing at an annual rate of 8 percent. The National Upgrading Support Programme aims to introduce more flexible approaches to subsidising and financing informal settlement upgrading, with new approaches to location, density, and urban efficiency; more flexible credit for the poor; and increased private sector investment in upgrading. An additional focus will be the design of appropriate institutional frameworks for implementing the new programme, including coordination between national and provincial departments and effective systems for managing the funding flows.



Clete Silveiro/Municipality of São Paulo

New housing for the urban poor in São Paulo

*Partners:* Department of Housing, Government of South Africa; World Bank; United States Agency for International Development (USAID)

### **Liberia Prioritises Slum Upgrading and Prevention**

Following 16 years of war, Liberia’s reconstruction needs are enormous. Among the priorities identified in its Poverty Reduction Strategy Paper (PRSP) for 2008–11 are improving the living conditions, infrastructure, and service delivery in the country’s urban centres. The PRSP specifically recognises slums as areas of particular concern for the capital Monrovia; and it identifies the need to develop a national housing policy for low-income housing, including options for upgrading housing in slum areas and preventing the formation of new slums. Against this background, the city of Monrovia asked the Cities Alliance to support its efforts to bring key stakeholders together to identify the causes of slums and the obstacles to their upgrading as the first step in preparing a large-scale, citywide slum upgrading initiative.

*Partners:* Mayor, Monrovia City Corporation; World Bank; the United Nations Human Settlements Programme (UN-HABITAT)

### **Brazil Addresses Its Housing Challenges**

In recent years, a series of measures have been taken to initiate a significant policy reform agenda for Brazil’s housing sector, including the adoption of a constitutional amendment guaranteeing the right to adequate housing for all Brazilians (2001); the creation of a Ministry of Cities (2003); the formation of an Inter-Ministerial Working Group to discuss issues and policy actions related to the housing sector (2005); and the launch of the Programme for the Acceleration of Growth (PAC) (2007), which designates housing as one of five priority sectors for investment. Significant housing challenges remain, however. Urban informal settlements in Brazil are growing four times faster than average urban growth. Around 3.2 million households—12.4 million people—live in slums. An estimated 65 percent of new households formed annually cannot afford the most basic house produced in the formal market. With support from the Cities Alliance, the country’s Ministry of Cities is developing a national housing plan and subsidy policy designed to increase the poor’s access to adequate housing through development of the institutional



Courtesy: City of Manila, the Philippines.

Housing for the poor in Muntinlupa, Manila, the Philippines

and legal framework for housing, the housing finance market, and a system of subsidies for the poor.

*Partners:* Brazil's Ministry of Cities, World Bank, and Italy

### Upgrading at Scale

The scale of some of the more recent national upgrading programmes around the globe is unprecedented. India's \$22 billion Jawaharlal Nehru National Urban Renewal Mission (JNNURM) aims to accommodate the 9 million additional urban residents the country anticipates annually. The programme is designed to encourage urban reforms at state and city levels, greater efficiency in urban infrastructure and service delivery mechanisms, community participation, and accountability of Urban Local Bodies and parastatals toward citizens.

Among the municipal-level reforms mandated by JNNURM is the provision of tenure security at af-

fordable prices for the urban poor. Legal title to land and/or houses is provided under slum improvement schemes—be it *in situ* upgrading, construction of new dwellings and infrastructure facilities, or relocation—to which households contribute a minimum of 12 percent of the costs. The reform applies not only to upgrading schemes funded under the JNNURM but to all schemes implemented in cities seeking central government assistance under the JNNURM. It marks a change from the former discretionary provision of security of tenure across projects.

Within the scope of Brazil's multibillion-dollar Programme for the Acceleration of Growth, the federal government has launched a large investment programme to upgrade slums countrywide. As of March 2008, around \$6.7 billion had been committed by the Ministry of Cities for 544 slum upgrading projects, involving 282 municipalities and 723 million families.



Cetece Silverio / Municipality of São Paulo

Paraisópolis, with the São Paulo city skyline in the background

### **Box 3: Building Institutional Capacity for Slum Upgrading**

The scale of resources committed for slum upgrading and integration under Brazil's Programme for the Acceleration of Growth is unprecedented. The size and reach of the programme, however, present new challenges for those responsible for managing it. Strengthening the institutional and implementation capacity of the local authorities charged with undertaking the slum upgrading interventions will be central to the programme's success.

In that regard, Brazil's Ministry of Cities and the University of São Paulo, partnering with Caixa Econômica Federal, the World Bank Institute, and Italy, and with support from the Cities Alliance, have developed a distance learning course for the professional municipal and state practitioners who will undertake the integrated interventions in areas of upgrading, land regularisation, application of housing policy legislation, and promotion of social development and community participation.

The course aims to foster discussion of problems that may be faced and the means to address them, and it encourages the exchange of experiences. It has also been designed with a view to its potential for replication, for future use elsewhere in Brazil and internationally in countries facing similar challenges.

## Improving the lives of slum dwellers is one of the best ways to reduce urban poverty.

—“Plan for Accelerated and Sustained Development to End Poverty 2005/06–2009/10,”  
Ministry of Works and Urban Development, Ethiopia

Perhaps of greater importance than the amounts pledged is the very principle of national and local governments making slum upgrading core business with budgetary commitments and the valuable signals of political resolve that this sends. In that respect, the upgrading initiatives of a growing number of Least Developed Countries (LDCs) are no less impressive. The Cities Alliance’s portfolio alone points to significant slum upgrading initiatives under way in a host of LDCs, including Cambodia, Liberia, Mali, Mozambique, Nepal, Senegal, Sierra Leone, and Tanzania.

### Partnerships for Systemic Change

In response to the need for systemic change and in line with the longer-term programmatic approach that the Cities Alliance is advocating, a number of countries are developing strategic slum upgrading initiatives within the framework of a partnership agreement with the Cities Alliance.

In Nigeria, for instance, the Ministry of Environment, Housing and Urban Development plans to hold a National Slum Summit as a first step to raising a national debate and as a contribution to the development of a national strategy on slum upgrading.

Within the partnership programme that Ghana has been shaping with the Cities Alliance are plans to address housing, sanitation, and slum upgrading, as set out in its national Growth and Poverty Reduction Strategy (GPRS II) for 2006–09. In the first of a three-phase work programme, focus will be on assisting municipalities to mobilise much-needed capital for infrastructure

development and service delivery, such as water and sanitation facilities. To this end, private sector partnerships with global financing institutions, such as Evensen Dodge International, will also be promoted.

As recognised in the Alliance’s MTS, long-term partnership arrangements with Cities Alliance members hold their greatest potential where governments are demonstrating the political commitment to address the needs of their urban poor. The comment of Ghana’s Deputy Minister for Local Government, Rural Development and Environment on signing the country’s agreement with the Cities Alliance reflects such resolve:

We may have to admit that as a country we have not anticipated urbanization rightly....The urban development situation in Ghana involves a mixture of stand-alone policies....Under the Ministry of Local Government, Rural Development and Environment, a National Urban Development and Growth Policy is anticipated and it is expected to promote the right synergy, necessary for ensuring that urban development is pursued in a more coordinated and effective way so as to achieve a more positive impact.

Ethiopia’s Ministry of Works and Urban Development is equally clear in describing the context for its urban development plan, which includes

Achieving Millennium Development Goal 7, Target 11—improving the quality of lives of slum dwellers—is a major challenge....Inadequate shelter, combined with poor sanitation; overcrowding and a high proportion of vulnerable women, youth, children,

**There is [a] need for long-term planning in order to realize sustainable settlements where all have secure tenure, decent housing and adequate access to the basic infrastructural services. There is [a] need to put in place the necessary policy framework to ensure sustainable human settlements development.**

—“State of Uganda Population Report 2007,” United Nations Population Fund

**The growing incidence of slum development in Ghana has been the result of rural-urban migration, limited supply of land, and regulatory frameworks that are, at best, indifferent and hostile to the needs of the poor.**

—Ghana's GPRS II

elderly and destitute with very low incomes, results in a high risk of disease and a poverty trap for many urban residents.<sup>3</sup>

### Colombia Plans for Its Urban Poor

Like most Latin American countries, Colombia has experienced rapid urban growth: its urban population almost doubling in 50 years, with a further 30 percent growth expected between 2004 and 2020. The result has been a dramatically escalating demand for shelter and urban services, particularly for the lower-income population, and both public and private sectors unable to respond. In 2006, the housing deficit was estimated at 2.2 million houses, most of

3. Ministry of Works and Urban Development, Federal Democratic Republic of Ethiopia, December 2007, "Plan for Urban Development and Urban Good Governance," *Plan for Accelerated and Sustained Development to End Poverty (2005/06–2009/10)*, Addis Ababa, p. 2.



Andrea Merrick/Cities Alliance

Upgrading in Medellín's Santo Domingo neighborhood provides space for children to learn about the environment (Colombia)

them for low-income groups. Housing production in 2007 totalled around 163,000 units, with only 81,000 of those for low-income people.

Recognising that the country's formal housing and land markets have not been responding to almost half of the population of its cities, the Colombian government, in partnership with the World Bank and with support from the Cities Alliance, undertook to devel-

### Box 4: The Cities Alliance and Vietnam: The Course of a Sustained Partnership

Urban upgrading is now accepted as an appropriate approach for addressing infrastructure and service deficiencies in the densely populated, low-income areas of Vietnam's cities. Cities Alliance members, particularly the World Bank have been party to this very significant policy shift.

The Alliance support for Vietnam's urban practice dates from 2000. Over the course of the Alliance's engagement with Vietnam, the country's focus on urban poverty has sharpened noticeably. A national urban upgrading programme is now being developed. Underpinning this initiative are a number of substantive studies funded by the Cities Alliance, which also helped the government to develop a national policy on the provision of shelter and access to basic infrastructure services for the urban poor. At the same time, a growing number of Vietnamese cities have been turning to CDSs as a strategic tool to identify ways to meet the challenges of urbanisation and decentralisation.

With sustained support from its donor community, Vietnam has been moving from pilot upgrading projects to broader upgrading programmes. The interest being shown in the preparation of the national urban upgrading programme, which will develop a national upgrading strategy as well as a National Upgrading Investment Plan to 2020, bodes well for the institutionalisation and continued scaling up of urban upgrading in Vietnam.

### Box 5: Facilitating Private Sector Participation in Mumbai's Slum Upgrading

Facing the daunting challenge of housing the poor in Mumbai, the government of Maharashtra launched the Slum Rehabilitation Scheme in 1995, using encroached land as a resource to facilitate the construction of housing units for 800,000 households living in the city's slums. Under the scheme, slum dwellers are being provided, free of cost, single-room housing units of 225 sq. ft. in multistorey complexes, constructed largely by private developers, along with NGOs, and slum dwellers' societies. The scheme is not funded by the state but by the private sector developers. To recover the costs of constructing slum rehabilitation tenements, the developers are provided an incentive Floor Space Index that facilitates construction of tenements for sale in the open market. The area allowed for sale in the open market is equal to the area of tenements constructed for rehabilitating slum dwellers.

The state government has established an independent and autonomous Slum Rehabilitation Authority as a corporate entity to provide single-window clearance of slum rehabilitation proposals. Development Control Regulations have been amended to include clear and transparent regulations for facilitating the rehabilitation of slum dwellers. The scheme is now being replicated in



Slum scene in Mumbai, India

other towns in Maharashtra, such as Pune and Nagpur, and the potential for replication in other cities in India is being assessed.

**Note:** For more information, visit <http://www.sra.gov.in>.

op a new national urban policy on land and housing for the poor.

The new policy is now enshrined in an urban chapter, *Ciudades Amables* (Liveable Cities), of the country's National Development Plan (2006–10). It marks one of the few national policy statements in Latin America that endorses slum upgrading and specifically articulates the need to massively open land and housing markets to the urban poor as a way to prevent the formation of new slums. Some extracts from *Ciudades Amables* demonstrate the tenor and commitment behind the policy:

...The National Government and the regional entities shall promote a functional network of cities, provided with efficient infrastructure that will mobilise the economy and strengthen the productive, envi-

ronmental, and cultural complementarities among cities. Likewise the urban poor should be provided with services and benefits that improve their living conditions and increase their social and physical capital, as well as improving their capacity to generate income. Avoiding that the largest cities continue growing without appropriate planning, achieving a consolidated network of social services in intermediate-size cities, and improving the living conditions in the smaller cities becomes a fundamental strategy to support the governance of cities.

To accomplish these objectives it is important to design an integrated strategy that will press forward to achieve a more equitable society with shared aims, linked to making cities adequate places in which to live and socialise. In this way, building *Ciudades Amables* is based on a model of planned urban development and the efficient use of land...to accomplish sustainable urban development.

The *Ciudades Amables* strategy, developed by the country's Ministry of Environment, Housing and Territorial Planning and the National Department of Planning, focuses on poor people's access to formal housing and land markets, identifying policy and legislative actions to remove bottlenecks from the production of land and low-cost housing.

The national government is committing major resources to demonstrate this can and should be done via a national programme of *Macroproyectos*—ambitious, large land development projects in cities designed to jump-start the production of houses for the poor. The objective is to use central government authority to assemble land in partnerships and joint ventures with private developers, landowners, and others, thereby bolstering municipal capacity to take on vast development programmes.

In 2008, the Cities Alliance undertook an evaluation in Colombia to gain a deeper understanding of this national urban policy initiative, its implementation dynamics, and the lessons that can be drawn from the experience, both substantive and in terms of the Alliance's own grant procedures. Among the findings:

- National policies become an important point of reference and indicators of national development goals for cities to follow. A national strategy focused on land and low-income housing for the poor can help focus efforts toward this issue.
- However appropriate the policy framework, implementation of the policy needs to be carefully planned and supported. In this regard:
  - Municipalities have pivotal implementation roles in national programmes for which local political will and leadership are critical.
  - An integral part of a national housing strategy for the poor is helping municipalities commit to the task and strengthen their ability to respond at the requisite scale.
  - Early involvement of municipalities in the policy formulation process is important, not least to ensure that municipal concerns are voiced and considered.

## SCALING UP CITY DEVELOPMENT STRATEGIES

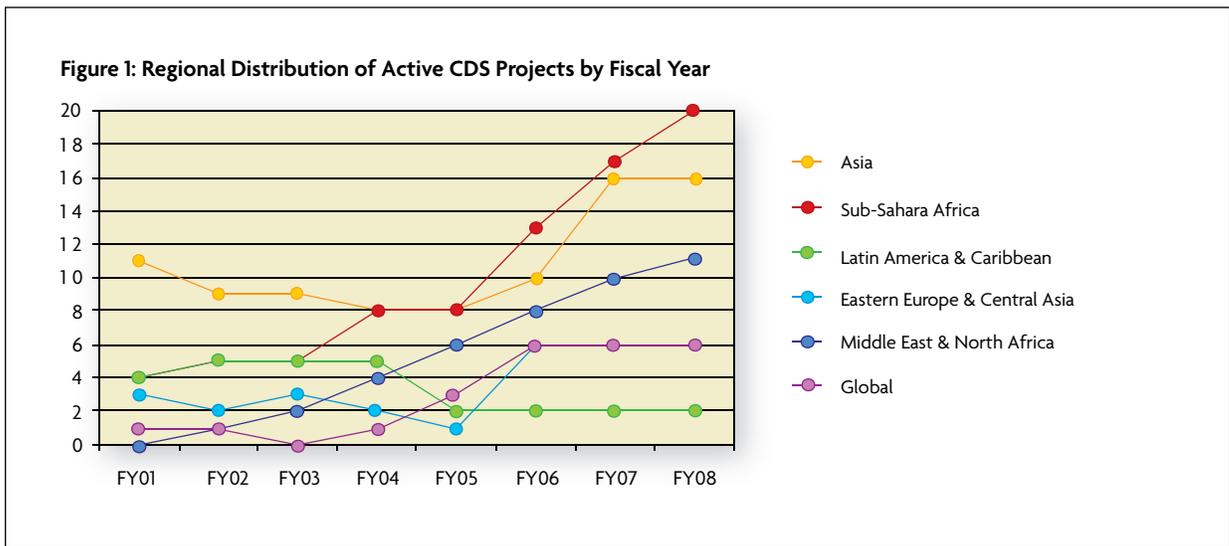
### Focus on Africa

At the 2003 Consultative Group meeting of the Cities Alliance in Brussels, sub-Saharan Africa was identified as a priority. The region is experiencing extremely rapid urbanisation amid some of the world's greatest developmental challenges. The vast majority of the world's LDCs—almost 70 percent—is found in Africa. In fact, every one of the 22 countries classified by the United Nations Development Programme (UNDP) as having achieved low human development (Human Development Index [HDI] < 0.5) is found in Africa, and only one African country ranks among those nations with high human development (HDI > 0.8).

The upcoming *World Development Report 2009: Reshaping Economic Geography*—recognises the policy challenges arising from spatial disparities in sub-Saharan Africa and the growing gaps between Africa and the rest of the world. The report addresses what governments can do to facilitate the spatial transformations needed to sustain economic development and to efficiently address the social and environmental challenges that arise during this process, threatening its sustainability.

Since 2003, the number of Cities Alliance supported city development strategy initiatives in the region has more than tripled, comprising one-third of the CDS portfolio in fiscal 2008. During last year alone, the Cities Alliance approved CDS grants in Benin, Ethiopia, Malawi, Nigeria, and Swaziland.

Guided by its MTS, Cities Alliance members increasingly will be able to contribute support to African governments by engaging with individual countries and cities on a longer-term basis. For example, during the fiscal, the government of Nigeria proposed a Memorandum of Understanding (MOU) with the Cities Alliance for long-term, programmatic support from the Alliance and its members to advance the country's urban development agenda. The MOU is oriented around Nigeria's National Economic Empowerment and Development Strategy (NEEDS - 2) for 2008–11, which emphasizes urban renewal and slum upgrading as a key strategy for development and growth.



The government of Ghana also proposed a MOU with the Cities Alliance in support of the Urban Development, Housing, and Upgrading component of the country's GPRS II. Key areas of focus include municipal finance reforms, development of a national strategy for slum upgrading, and preparation of a State of the Cities Report.

Through these types of longer-term agreements with select countries, the Cities Alliance hopes to create an even more robust pipeline of activities in the sub-Saharan Africa region over the next few years.

### Systemic Change at Scale

Another trend during the past year that underscores the Cities Alliance's MTS is the growth of CDS activities as part of wider reforms in cities and countries. As the map of the CDS Portfolio on page 13 indicates, several countries have had three or more successive Cities Alliance-supported CDS projects. In many cases, the successive projects build on previous experiences, working toward scale, replication, and institutionalisation.

In general, the Cities Alliance has found that the work of its members is likely to have maximum traction in those countries that have already made a firm commitment to change and are in a general state of promoting reforms. During the past year, the Philippines, India, Indonesia, and Swaziland all requested assistance to further their reform efforts at the city or national level.

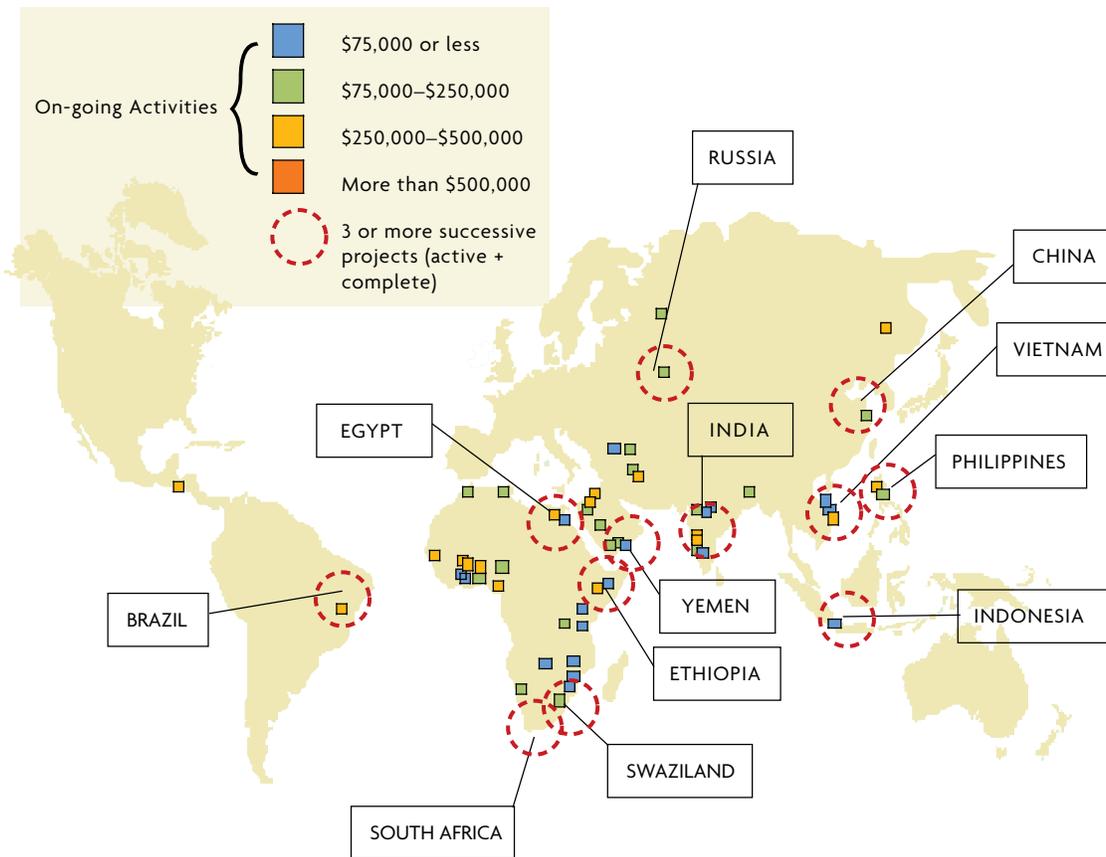
It has now been more than eight years since the launch of the CDS programme in the Philippines. Thus far, 65 of 120 Philippine cities<sup>4</sup> have prepared CDSs. This year the Alliance approved a new grant for the League of Cities of the Philippines to conduct a strategic assessment of the CDS programme to capture lessons and recommendations for making CDSs more effective and relevant and to prepare a Philippines State of the Cities Report.

The government of the Indian state of Maharashtra has received a new grant to support phase two of the successful Mumbai Transformation Programme. Phase two is expected to further develop the public consensus and technical details needed to implement the reforms and investments identified under the action plan to develop the Mumbai metropolitan region as a world-class region.

An evaluation of previous CDS activities in Indonesia revealed that although consultative approaches to strategic planning have taken root, financing arrangements between central and local governments are still in formative stages, with multiple bottlenecks in decision making and risk management. UN-HABITAT received a grant to work with Indonesia's Ministry of Public Works to prepare a grant proposal, for submission to the Cities Alliance, to address these urban investment issues. The work is expected to result in better procedures for more public investments in more sectors and in more cities.

4. The total number of Philippine cities is as of June 2007.

**Cities Alliance CDS Portfolio**



After receiving two previous Cities Alliance grants, Swaziland’s Ministry of Housing and Urban Development, the Office of the Deputy Prime Minister, and the Ministry of Justice and Constitution will be supported in designing a system of local government that incorporates city development strategy principles. To assist the government as it establishes new local authority political boundaries and administrative structures, the Alliance will fund analytic support on economic, sociodemographic, physical, environmental, and financial inputs (see Box 6 for more details).

**Client Execution**

Furthering a primary objective of its MTS to increase ownership and leadership of cities and countries systematically, the Cities Alliance has approved several client-executed CDS grants during 2007. Experience has shown that an activity’s success often is directly

related to the extent that it is conceived, designed, proposed, and managed by the entity requesting the assistance. During the fiscal year, the cities of Lilongwe (Malawi), Cairo (Egypt), Aleppo (Syria), and Abomey (Benin) have requested the support of Alliance members for strategic planning to help them better manage their urban challenges.

After attending the July 2007 City Future Workshop in Johannesburg, organised by United Cities and Local Governments of Africa, the Lilongwe City Assembly decided to seek support from the Cities Alliance to develop a CDS that would help them achieve the Millennium Development Goals. Under the mentorship of Johannesburg, the city will use the preparatory grant to conduct a participatory situational assessment and draft a full-scale proposal for a CDS.

Three urban governorates—Cairo, Giza, and Qalyubia—that make up Greater Cairo will receive assistance from Cities Alliance for ongoing efforts to pre-

## Box 6: Designing a CDS-Based Local Government in Swaziland: Improved Opportunities for Participatory Governance

In 2006, the Kingdom of Swaziland ratified a new Constitution that enshrines the principles of decentralisation by mandating the creation of an accountable and sustainable local government across the country. This milestone aims to address the dual system of governance established during the British colonial period, which created a very limited number of local governments around centres of commerce and administration. The rest of the country (about 60 percent of the land area), in which the majority of Swazis reside, remained under traditional administration through chiefs ultimately responsible to the king. Today, the two city councils Mbabane and Manzini and the 10 town councils/boards are home to approximately 30 percent of the population. These local governments—together with the Swaziland Electricity Company and the Swaziland Water Services Corporation—provide a comparatively high level of urban infrastructure and services. However, the roughly 70 percent of Swazis who live in traditionally administered jurisdictions do not enjoy access to most basic municipal services, and private investment in the traditionally managed areas is largely ad hoc and unplanned. More critically to service delivery, the traditional system is not designed to mobilise capital for significant investments nor can it sustainably operate and maintain such investments.

Recognising the disparities in access to resources, and in an effort to bring government closer to Swazi citizens, the Deputy Prime Minister's Office and the Ministry of Housing and Urban Development have requested assistance from the Cities Alliance to support analytical work that will inform the design of a new local government system. As articulated in the new Constitution, the aim of a countrywide local government system is to increase public participation in the economic, social, political, and cultural life of the nation. The support from the Cities Alliance will enable the government of Swaziland to complete the following critical tasks in the process of designing a new local government system:

1. Under the auspices of the national consultative process led by the Deputy Prime Minister's Office, support consultations between communities and civil society to inform proposals for administrative boundaries and decentralisation structures;
2. Review governance models that offer guidance and solutions for the integration of traditional and municipal authorities;
3. Identify and analyse centres of growth and investment potential with particular emphasis on regions currently under traditional administration. The centres of growth will be mapped to include their associated demographic and economic catchment areas;
4. Support delineation of a system of local government jurisdictions that will address the four key Alliance principles of sustainability, inclusion, productivity, and good governance; and identify the intergovernmental fiscal requirements for basic social and municipal services.

To initiate this challenging work programme, the World Bank hosted a workshop in Washington, DC, with the principal secretaries of Finance, Economic Development and Planning, the Prime Minister's Office, Housing and Urban Development, Regional Development, and Youth Affairs, and the Director for Decentralisation on June 4–6, 2008.

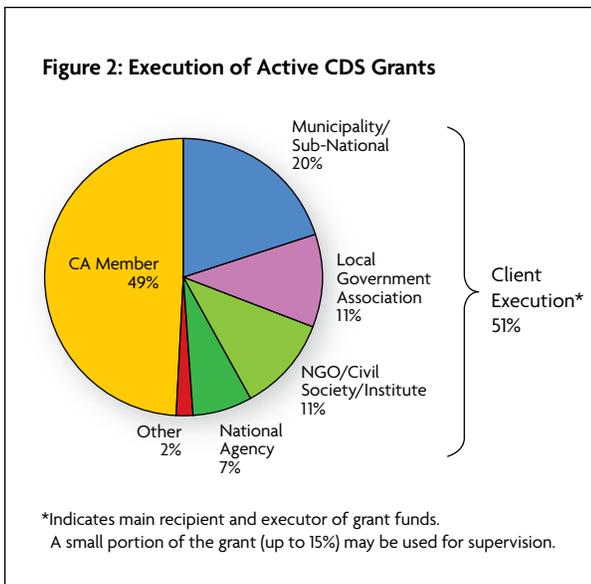
Over two days of excellent discussion with Bank experts on decentralisation, solid progress was made in identifying key principles that should guide the process in Swaziland. A team of experts supported through the Alliance grant will begin work in Swaziland at the end of July; and over the next eight months, a truly Swazi solution to the challenges of providing accountable, effective local governance to all Swazis will begin to emerge.



Upgraded settlement in Mbabane, Swaziland.



Youths at play in São Paulo, Brazil



pare a Greater Cairo strategic plan. An analysis of the existing situation was presented at an international workshop in December 2007. Since then, Cities Alliance members, including UN-HABITAT, the Japan International Cooperation Agency (JICA), the German Agency for Technical Cooperation (GTZ), and the World Bank, have provided support for detailed analysis of physical planning, urban upgrading policies, land economics, competitiveness, and urban transport. In the workshop planned for the coming year, these thematic and sectoral studies will be presented to help stakeholders begin to shape a vision for their futures.

Two historic cities representing different regions and cultures, both committed to preserving their cultural heritage—Aleppo (Syria) and Abomey (Benin)—will be supported by Cities Alliance in their efforts to rehabilitate their cultural assets and modernise their governance systems while planning for future growth.

These examples represent grants approved in fiscal 2008. As indicated in Figure 2 just over half of the active CDS grants are client executed—clients that include municipal and national government agencies, local government associations, and non-governmental organisations (NGOs).

### **Box 7: The Mumbai Transformation Support Unit Executes Cities Alliance Grants in Support of the City's Transformation Agenda**

The government of Maharashtra established a special unit to coordinate and support its efforts to transform Mumbai into a world-class city. The Mumbai Transformation Support Unit (MTSU), which was set up within the All India Institute of Local Self-Government, is headed by an Indian Administrative Service officer posted by the government of Maharashtra as project manager and guided by in-house experts in various fields, such as health and education, housing, transport, and communication.

The MTSU received a second grant from the Cities Alliance to support its key functions, which include

- Anchoring the transformation process;
- Administrative and technical support to the Citizens Action Group, subgroups, empowered committee, and government departments;
- Administrative support to the Secretary (Special Projects), ; in coordination, communication, monitoring, and reporting;
- Technical support for strategy, sectoral plans, and policy framework;
- Management support for "Quick Wins";
- Consultation facilitation with stakeholders and partner institutions;

- Communication and consultation;
- Networking with NGOs, institutions, and experts.

The MTSU works in a consultative capacity to facilitate the process of Mumbai's transformation. Conceptually, its focus areas are physical and social infrastructure, environment, housing, governance, strategic planning, and economic growth. It functions in three capacities—initiation, facilitation, and monitoring of all activities that concern Mumbai. It has used Cities Alliance grant funds to initiate various studies, base papers, and policy papers for sectoral reforms in the field of education, economic growth, governance, health, housing, transport, and a business plan for the Mumbai metropolitan region. It facilitates pilot projects and consultations on the sectoral issues for the government of Maharashtra, and offers advisory support to the state government on all matters concerning the evolution and future of Mumbai. It monitors the progress of all projects and policy reforms concerning the Mumbai metropolitan region through a Web-enabled information system. MTSU also provides a convergence platform for people and agencies to meet and work in harmony for the city's betterment.



Waterlogged slum housing in Mumbai, India

Mark Edwards/Still Pictures

### Box 8: Training a Cadre of Urban Management Professionals to Meet Future Urban Demand in Ethiopia

In July 2006, the government of Ethiopia's Ministry of Works and Urban Development launched a new initiative to scale up urban management education and training. The approval by the Council of Ministers of a national Urban Development Policy in March 2005 and the creation of the Ministry of Works and Urban Development in October of that year demonstrated the importance the government gave to an "emerging urban agenda" in terms of national policies, strategies, and programmes. This was reflected in the government's Plan for Accelerated Development to End Poverty (PASDEP) 2005/06–2009/10. The \$3.5 billion urban component of the PASDEP was developed during the first half of 2006 and is now being implemented.

To meet the need for professionals and managers to guide and implement the urban policies, strategies, and

programmes, the government decided to scale up the existing undergraduate, postgraduate, and short-course programmes. In March 2007, a new Urban Management Master's Programme was launched at the Ethiopian Civil Service College, with 390 participants from all of Ethiopia's nine regional states and two chartered federal cities. On August 27, 2008, 357 of the first batch of "scaled-up" master's programme participants graduated with these completed in eight specialisation areas, such as finance, transport management, and so forth. Compared with an approximate total of 80 graduates since the programme began in 2000 this figure represents a significant increase. In March 2008, the second batch of 592 students started the 18-month course, putting the government within reach of its target to enroll 1,000 students per year.

### Small and Medium-Size Towns— "Where Urbanisation Will Take Place"

Though not yet at the forefront of the urban agenda, the evidence suggests that future urbanisation will take place primarily in secondary cities and towns. One-third of the population of Africa and Asia live in towns of between 2,000 and 200,000 people. In Africa, Asia and Latin America, the number of people living in towns is expected to double within 15 years and double again within 30. These small cities often have fewer financial and human resources than their mega- or primate city counterparts and yet will be faced with a tremendous influx of migrants in the coming years.

Moreover, the Commission on Growth and Development has just presented evidence suggesting that cities promote economic growth, provided the largest city in a country does not grow too large compared with the others.<sup>5</sup> The commission's re-

5. The mandate of the Commission on Growth and Development, established in April 2006 under the leadership of Nobel laureate Mike Spence, is to take stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and next generation of policy makers. The Commission is sponsored by the Australian Agency for International Development, the Dutch Ministry of Foreign Affairs, SIDA, the U.K. Department for International Development, the William and Flora Hewlett Foundation, and the World Bank Group.



Courtesy: Slum Dwellers International

Youth participation in urban planning



Ceres Silverio/ Municipality of São Paulo

Street scene in Paraisópolis, São Paulo, Brazil

port—*Cities: Engines of Growth and Prosperity for Developing Countries?*—argues that “the priority for policy should be to prevent or curb the worst imbalances in urbanisation rather than attempt to slow it down or reverse it. Broadening the focus from within-city efficiency to between-city efficiency even suggests that reducing the obstacles to the reallocation of factors and activities across cities is a highly desirable policy objective....Instead of restricting the influx of people into the cities, the second pillar of urban policies in developing countries should be to favor the mobility of resources across cities and regions, while avoiding their concentration in only one primate city.”

In Ethiopia, for example, urbanisation will occur in 800 small towns—not only in Addis Ababa, the country’s primate city. The country’s overall population of about 85 million is expected to grow to 170 million by 2050 and its urban population of about 13 million will increase to approximately 50 million, primarily in secondary cities. In anticipation of this phenomenon, the Cities Alliance is supporting establishment of an Ethiopian Cities Network. GTZ, as the main sponsor, will support the process. However, as is starkly evident in Ethiopia, the secondary and tertiary towns and cities face enormous resource, capacity, and personnel constraints. As described in

Box 8 the government has begun to take proactive steps to address these realities.

In 2008, the Cities Alliance also approved a grant to support the preparation of participatory Municipal Development Strategies (MDSs) in 15 small towns of Azerbaijan. Although the capital city of Baku has experienced some economic growth since the country began its political and economic transition, the country’s secondary cities are lagging behind. They lack both the technical and financial capacity to manage their own assets and deliver sustainable services to the local population. The grant will be used to develop a practical manual to guide municipalities through strategic planning processes and to support the government in drafting necessary legal reforms to institutionalise the MDSs.

### **Metropolitan Management**

While urbanisation trends point to the need for both policy makers and development agencies to pay more attention to small and medium-size cities and towns, the fact cannot be ignored that large metropolitan areas are both driving economic growth and grappling with its serious challenges. Many clients of the Cities Alliance are large metropolitan areas struggling with issues of cross-jurisdictional governance, service delivery, land management, and poverty reduction in the face of rapid, often uncontrollable urban growth. During the last year, several metropolitan CDS efforts were initiated, spanning the globe from Brazil to Tunisia.

In Brazil, the Minas Gerais State Secretariat for Regional Development and Urban Policy recently launched a CDS to identify priority investments that could enhance economic development and reduce poverty in the Metropolitan Region of Belo Horizonte (MRBH). The region comprises 34 municipalities with a total population of approximately 4.5 million. They have formed a metropolitan pact to develop a consensus-based strategy to stimulate the development of the region, contributing to poverty reduction by identifying and implementing investments in the activities and/or services of common interest. The CDS is the tool that will be used to define the development path.

The seven municipalities of Greater Sfax, Tunisia, received a grant to develop phase two of the Greater Sfax Development Strategy that they initiated in 2003. Within the framework of their strategy, the municipalities aim to define an economic development strategy for the metropolis while preparing an urban integration strategy for their old city centers and poverty-stricken neighborhoods. During 2007, the Cities Alliance also signed an agreement with the Al-Fayhaa Union of Municipalities to support the preparation of a Sustainable Development Strategy for the metropolitan area of Tripoli, Lebanon, which comprises three distinct cities.

In Palestine, the cities of Ramallah, Al-Bireh, and Beitunia established a small but well-placed Joint Coordination Unit to coordinate and drive the collaborative actions among the municipalities as part of their CDS project, which was evaluated this year. The partnership between the three municipalities was considered groundbreaking and is the single factor of success most emphasised by the partners. It has allowed the three municipalities to initiate some joint projects and activities around transport planning, waste collection, and physical planning.

### **Cities with Jobs**

Creating employment opportunities and local economic development is a top priority among mayors and local leaders. This priority is reflected in the number of approved applications for CDS support received by the Cities Alliance—one-third of which focus on local economic development.

However, cities seldom have either the authority or the capacity to address economic development alone. Essential elements of a successful local economic development strategy include a conducive national policy framework, stable and predictable support from higher tiers of government, and the ability of the city's mayor and managers to respond to the investment concerns of the private sector.

Over the last few years, the Cities Alliance has paid far more attention to local economic development as a part of a city's overall strategy. Recently, this has been further strengthened by a new agreement with the International Labour Organization (ILO), supported by the Swedish International De-

velopment Cooperation Agency (Sida) and UN-HABITAT, to develop a Policy Advisory Note and a Work Programme for Cities Alliance members.<sup>6</sup> The Policy Note will provide guidance to municipalities on how cities' strategic processes can better support job opportunities at the local level. The Work Programme will assess what is needed to boost urban employment and what different actors—including Cities Alliance members and partners—can do to improve the situation through city development and slum upgrading strategies.

### **Lessons from Field Evaluation: Economic Revitalisation by Cities in Heilongjiang Province, China**

The 2008 field evaluation of a CDS activity in three cities of northeastern China revealed that although the project was managed professionally and deliverables were of high quality, more emphasis should have been placed on designing the CDS process toward results, involving a broader range of stakeholders, and laying the foundation for continued improved collaboration among them.

The activity, which follows CDS activities in nine Chinese cities, was designed to contribute to economic development and industrial restructuring along the industrial corridor between the cities of Harbin, Daqing, and Qiqihar (referred to as the Ha-Da-Qi Corridor). The main objective of the activity, which was implemented by the World Bank from October 2005 to December 2007, was to assist the three corridor cities in enhancing the effectiveness, equity, and financial sustainability of their CDS, with a focus on

- Local economic development and industrial restructuring
- Urban poverty alleviation, including issues related to unemployment, migrants, and women
- Improvement of the urban environment and related public services

6. The initiative stems from the Consultative Group Meeting in 2006 at which Cities Alliance members expressed their strong interest in more effectively integrating employment into urban development strategies and programmes and better designing technical cooperation and external funding modalities to facilitate job creation. Employment creation was seen also to be a key to the success of the Millennium Goal for Cities Without Slums (Goal 7, Target 11), which was inspired by the Cities Without Slums Action Plan produced by the Cities Alliance.



Pelle Persson/Cities Alliance

Commercial centre in Heilongjiang

**Box 9: Main Outputs of the Economic Revitalisation by Cities in Heilongjiang Province**

1. “Ha-Da-Qi Corridor: China’s New Frontier” and “Ha-Da-Qi Corridor Options” (including strengths-weaknesses-opportunities-trends [SWOT] analysis and economic cluster portfolio assessment)
2. City of Daqing: [Economic] Diversification Opportunities
3. City of Daqing Marketing Strategy
4. City of Qiqihar Water and Wastewater Sector Strategy
5. City of Harbin: Notes on Urban Planning
6. Urban Environment and Services Review for the Northeast of China
7. Profile of the Three Cities: Income Analysis/Urban Poverty Study

- Establishment of a regional economic corridor between Harbin, Daqing, and Qiqihar
- Related investment programmes and financial instruments.

A major strength of the activity was the professional quality of the consultancy studies (listed in Box 9) and project management. The reports introduced new ideas about regional economic development, including economic cluster analysis; new strategic directions for the corridor, such as establishing the city of Harbin as its flagship; and taking a collaborative approach among the three cities and between the public and private sectors to achieve economic development goals. The research methodology and analysis generally were appreciated by the clients, and activities were characterised by a high level of commitment by some key participants in the project.

On the other hand, the evaluation revealed that the process of CDS elaboration could have been designed in a more results-oriented way. In some parts of the CDS process, provincial and municipal government stakeholders played an active role, while the other stakeholders outlined in the grant proposal—especially poor and vulnerable groups, as well as the

private sector—were involved only marginally. All reports were prepared by international consultants, only some of whom partnered with Chinese consultants. Local stakeholders, therefore, criticised some of the outputs for demonstrating a lack of local knowledge. The outputs were also criticised for their lack of implementation or action plans for moving forward with the strategic recommendations.

In fact, behavioural changes were difficult to observe. Although the project approach and recommendations have the spirit of changing the way in which the province and cities work and interact, no government unit stated that it had tried or planned to adopt the procedural recommendations presented in the reports—especially those related to collaboration.

The evaluation mission found that, despite a proposed focus on reducing urban unemployment and developing poverty alleviation strategies, the outputs emphasise economic issues far more than social issues. Recommendations on environmental aspects in this former “rustbelt” region, which served as China’s heavy industry base until the 1970s, are underdeveloped relative to economic revitalization issues.

The main lessons and recommendations from the evaluation are as follows:

The **ownership** by the provincial and city actors who should implement and *live* the changes was limited because they were not the executors of the different tasks. Their involvement in procurement, instructions, and management of consultants could have been more profound. **Client execution** and increased ownership of a strategy process (including responsibility for the budget, the procurement, output monitoring, and so forth) may have increased the effectiveness of the Cities Alliance–financed activities.

**Involvement of stakeholders**, other than government officials, was weak throughout the project process and seems to be almost nonexistent after the completion of the study. This lack of involvement underscores the need to make a concerted effort up front to involve stakeholders more meaningfully in the process of strategy formulation, and to prompt Cities Alliance members to play a greater role when necessary to ensure that private and nongovernmental actors are engaged with the public sector.

Because **process orientation** (as presented in the procedural recommendations of the Ha-Da-Qi Corridor strategy) seems to be hard to sell in the Chinese context, it should be backed up by action. The procedural recommendations in the documentation are considered interesting by public authorities, but have not been internalised. Pilot exercises on new approaches would have provided on-the-job training and could have been used to verify the applicability of the recommendations.

It is critical to get **environmental issues** higher on the agenda of all cities in China. On both the provincial and municipal levels, long-term environmental analysis should be better integrated into economic policies. In particular, urgent attention needs to be paid to handling the consequences of private car ownership and restructuring cities' energy production away from coal and oil to renewable fuels.

In the cities of Harbin, Daqing, and Qiqihar, the greatest challenge concerning implementation follow-up of the Ha-Da-Qi CDS is to **strengthen collaboration** along the corridor. As a starting place, the cities could determine the possible advantages of and define incentives for collaboration across jurisdictions and with private stakeholders.

Experience from the project should inspire the Cities Alliance and its members in China to question

### **Box 10: Project Activities of the Economic Revitalisation by Cities in Heilongjiang Province**

**Phase 1 (December 2005–June 2006):** Launch workshop held at the provincial level, followed by city-level consultations; SWOT analysis produced in cooperation with city and provincial governments.

**Phase 2 (July 2006–June 2007):** Detailed analytic reports produced on regional economic development of the corridor, economic diversification, and marketing opportunities in the oil city of Daqing; profiles of income/social assistance in each city, environmental infrastructure investment needs and finance, and metropolitan governance in China.

**Phase 3 (January–December 2007):** This phase focused on dissemination [AU: of what?] and learning; mayors participated in the Harbin International Fair, two knowledge-sharing workshops, and a U.S. study tour on collaborative approaches to regional (corridor) development; the final CDS workshop in Harbin was held and a completion report with all final documentation was submitted in December 2007.

local interventions in one city or region and to seek mechanisms for more long-term commitment of project partners to work together. It should further inspire the Alliance to make best use of its global outreach to support a larger number of Chinese cities. One such mechanism could be to promote **exchanges among Chinese and African urban officials and professionals**, as has been planned by GTZ for late 2008. These exchanges can be a vehicle for the Alliance to promote south-south cooperation, draw on lessons learned, and share examples of successful planning and cooperation approaches from its long-standing engagement in both regions.

For **its activities globally**, the Cities Alliance should ensure that proposed impacts and expectations are realistic, given the scope of the target area, available funds, and the political and social context. This project demonstrated that there is a need for greater due diligence at the project design stage to understand how the proposed activity fits into the larger context. Cities Alliance members may want to further encourage applicants to first apply for preparatory grants (up to the current maximum of \$75,000) to deter-

mine how an intervention can be of maximum relevance and to tailor the local client participation for highest overall programme effectiveness.

## SUSTAINABLE FINANCING OF INVESTMENTS

The Cities Alliance and its members provide support to cities and countries where persistent underinvestment in urban infrastructure compounds the impact of an increasing urban population. In general terms, however, it is possible to identify several encouraging trends, including: (1) the ability of certain multilateral or bilateral donors to lend directly to municipalities without national government guarantee (subsovereign loans); and (2) the development of a number of new tools, such as partial guarantees, credit enhancement, and pooled financing, all of which increasingly should facilitate municipal access to capital markets.

### Box 11: Municipal Finance Task Force Web Site

The Municipal Finance Task Force (MFTF) Web site regularly documents and updates these trends and new tools. Launched in 2005, the site is a considerable reference and archival tool. However, the MFTF has been less successful in generating a dialogue among interested parties, and the Cities Alliance commissioned a review to assess options. The review observed that “the website has the potential to become a very valued ‘must-have’ resource for those individuals working on municipal finance initiatives within the developing world.” The Cities Alliance Secretariat will continue to seek ways of making this tool more useful to members and partners alike.

The MFTF website can be found at <http://www.mftf.org/>



New housing for the poor in Muntinlupa, Manila, the Philippines

Chii Akporji/Cities Alliance

### **Box 12: Russia—Linking CDSs to Market-Based Financing**

The Russian republics of Chuvashia and Stavropol were provided with an innovative form of assistance by the Cities Alliance. Two CDS grants provided support for the preparation of regional development strategies that incorporated explicit analysis of market-based financing as part of a wide range of potential sources of investment. The assistance was an outcome of the Cities Alliance effort to focus attention on innovations in municipal finance that can help mobilise resources from domestic financial markets to support city development.

The assistance provided through the grants to both regional governments included: (1) well-defined capital investment plans for the regions that defined and prioritised investment options, (2) an enabling environment for region–city partnership for raising infrastructure investment, and (3) identification of specific investment projects that would be able to access market-based financing.

The capital investment planning process was carefully designed to involve both city and regional government decision makers. It provided an improved methodology

for identifying, selecting, appraising, and prioritising projects for the regional plan. Priority regional infrastructure projects were ranked in terms of their impact on improving quality of life, income generation, and economic growth. Projects were then matched with potential sources of funding that included the Russian federal government, multilateral development banks, and the Russian financial market.

Although the Republic of Stavropol is still considering its financing options, the Republic of Chuvashia already has moved ahead with a successful financing in the local bond market while maintaining its prudent budget management record. As a result of the Cities Alliance assistance, the RUR 1 billion Chuvash bond issue was assisted by a joint World Bank–International Finance Corporation (IFC) team that structured credit enhancement for the bond through an IFC partial credit guarantee. This made the infrastructure project more affordable by lengthening the bond's maturity, reducing the cost of capital, and improving liquidity.

The present and emerging portfolio of the Cities Alliance clearly reveals two tendencies: (1) financing issues seem to be progressively integrating with other activities, and (2) there is an emerging demand for developing financing investment systems at the national level.

#### **Integration with the CDSs and Slum Upgrading Activities**

The interrelations between a comprehensive city development strategy and the city's capacity to access domestic and/or international sources of finance are numerous and obvious. Indeed, one of the most consistent messages from the Cities Alliance portfolio is that the capacity to elaborate a comprehensive and accurate strategy for local development probably is the best signal a potential borrower can send to private investors and donors. A well-articulated CDS would include a realistic multiyear plan that:

- Identifies funding resources;
- Proposes ways to improve the collection of local resources;
- Strengthens the city's borrowing capacity;
- Commits to high standards of efficient management and transparency;
- Is uncompromising in tackling corruption.

The CDS is the appropriate tool for addressing all these goals, especially if the local government can do so in partnership with civil society and the local private sector. A CDS that includes those aspects will enhance the market's analysis of the city's credit quality by enhancing security for the lenders, who attach a high value to the feasibility of investment plans in both physical and financial dimensions and to the credibility of local management. The positive impact of a clear financing strategy within a CDS is clearly visible in the case of two cities in Russia (Box 12)

The same evolution has been emerging, albeit to a lesser degree, with slum upgrading activities. However,

slum upgrading is somewhat more difficult because, by definition, the recipients are generally the very poorest and most marginalised citizens, often with extremely limited capacity to pay for essential services. Notwithstanding these obstacles, the Cities Alliance actively promotes the inclusion of financial strategies within slum upgrading programmes. In addition, the Alliance has provided an umbrella for two initiatives designed to test specific approaches, the Community-Led Infrastructure Financing Facility (CLIFF) and UN-HABITAT's Slum Upgrading Facility (SUF), designed to mobilise domestic savings and capital for financing slum upgrading operations (Box 13).

Through loan guarantees, technical assistance, and catalytic grants, SUFs are targeted at area upgrading projects, with project finance loans negotiated from commercial lending institutions and combined with other inputs. A SUF also targets individual home improvement programmes, with wholesale loans secured for on-lending through local institutions. The SUF approach has been financed by Cities Alliance members United Kingdom, Norway, and Sweden.

### Box 13: CLIFF and SUF

The community-driven development projects of the "Indian Alliance," based in Mumbai, India, exemplify the power and capacities of slum communities to develop, fund, and implement their own slum upgrading projects. Financing for capital expenditures from the CLIFF to a company set up by the Indian Alliance helped it significantly scale up its development efforts. In leveraging CLIFF financial support with local private and public sources, the Alliance (comprising the National Slum Dwellers Federation, Mahila Milan, and SPARC) is now developing complexes of multistorey dwellings housing hundreds of families, and is building community toilets that serve thousands.

The Alliance's experience also has helped put it in position to negotiate and partner with the Maharashtra state government in its plans for the development of Dharavi, the huge slum agglomeration in central Mumbai. Funded by the United Kingdom and Sweden through the Cities Alliance, and implemented by Homeless International of the United Kingdom, the CLIFF has expanded to locations in Kenya and the Philippines, with prospects for further expansions to other countries in the future.

UN-HABITAT's SUF is another programme helping to catalyse the integration of commercial finance into slum upgrading. Operating in four pilot countries, the SUF is working with local partners to establish finance facilities to help community group access credit from local commercial banks. The local finance facility helps bring together key players involved in city- and national-level slum upgrading strategies to address the challenge of financing.



Visiting CLIFF projects in Nairobi, Kenya

Madhavan Balachandran/Cities Alliance

## Strategies for Developing Financing Investment Systems at the National Level

The Cities Alliance also contributes to the elaboration of different comprehensive strategies for financing urban investments at the national level, particularly in the context of decentralisation. A good example is the support for Ghana to develop a municipal finance framework implemented by the Mu-

nicipal Finance and Management Initiative (MFMI). This support, which began in 2006, is now entering its second stage. As part of the Alliance's MTS, a partnership agreement has been signed between the government of Ghana and the Cities Alliance. Among other things, the agreement reinforces the Alliance's support through the MFMI. It begins with a grant for creating the business plan of a municipal fund, the Municipal Finance Authority (Box 14).

### Box 14: Supporting the Municipal Finance and Management Initiative in Ghana

With the support of the Cities Alliance and its members active in Ghana, the MFMI was launched two years ago to assist municipalities in generating adequate funding for the development of infrastructure and service delivery. A Technical Advisory Committee was formed to focus on four issues: (1) legal and regulatory framework, (2) fiscal and financial instruments, (3) capacity building, and (4) identification of pilot projects. Subcommittees were tasked with addressing these challenges. The subcommittees delivered a comprehensive report recommending: (1) the implementation of a new legal framework to be instituted by a Local Government Finance Law, and (2) the further establishment of a special-purpose vehicle for financing investments in major cities.

The Local Government Finance Bill was drafted and discussed in February 2008 at a technical workshop for parliamentarians, donors, and development partners. The final text of the draft legislation will be presented before the National Assembly. At the same time, the creation of the special-purpose vehicle, called the Municipal Finance Authority [MFA] was approved by government.

At this stage, a partnership agreement was signed between the Cities Alliance and the government. This agreement provides the platform for a long-term partnership between the Cities Alliance and its members and the government of Ghana. The first action in this framework was to support the MFA in creating a business plan.



Market scene in Accra, Ghana

The objective of the MFA is to provide debt finance and eventually to mediate between domestic debt market and city financing demands. The business plan will provide the MFA the necessary estimates of: (1) the capacity of potential clients to access commercial finance over the next years; (2) the consequent capitalisation of the MFA, based on estimated credit demand; and (3) projected financial statements. The business plan is a step in the operational process and an essential element in the quest for capitalisation.

Curt Carnemark/World Bank Photo Library



Street scene from Mercato market, Addis Ababa, Ethiopia

© Paul Springett/Still Pictures

To be successful, decentralisation presupposes a set of conditions: the local authorities have the appropriate remits, they possess the necessary resources or are able to raise them, they have access to funding, and they have the needed know-how and human resources.

Considering the great diversity that affects decentralisation in different countries, a strategy to support the cities' empowerment can take a variety of forms. In many cases, the process of decentralisation is far from complete, and the demand for support concerns essential areas—such as transfer of resources, devolution of taxation, public finances, and a special-purpose vehicle for financing local investments—at the national level. Certain issues interfere with public policies in specific sectors. For example, the financial autonomy of local authorities probably will remain elusive without a genuine capital market at the national or regional level. In this regard, the situation seems particularly acute in Africa, where financing systems are often weak or old-fashioned (if they exist at all), while the already considerable needs are set to increase dramatically during the next decades. To clarify the debates and enlighten the strategic choices that decision makers are facing at national and local levels, the Cities Alliance and several partners have launched a research programme on the financing of African cities (Box 15). The study is jointly funded by the Cities Alliance and Agence Française de Développement (AFD) and is being undertaken in partnership with the African Development Bank (AfDB) and United Cities and Local Governments (UCLG). The results will be published as a concise book in English and in French and will be supported by a dissemination campaign, including a series of workshops on the continent.

### **Box 15: Financing African Cities: A Study**

The African continent has some of the world's highest urban growth rates. It has been estimated that, over the next few decades, African cities of all sizes will need to absorb about 350 million additional inhabitants. Considerable investment will be needed to sustain this level of growth and to address resulting challenges. At the same time, decentralisation has resulted in increased responsibilities for local government. In most cases, however, institutional reforms have been carried out without the transfer of sufficient resources, and local capacities in governance and project management are weak.

Which mechanisms will finance these extensive needs, and how will African local governments meet these needs? Specifics on how to finance African cities have not been studied. The actual scale of the market has not been grasped fully. A systemic approach to this market is difficult because of its diversity (country size, institutional context, characteristics of the urban network, availability of a capital market, currency, and the like) and a lack of data. Donors' assistance methods in the sector are disparate, marked by disputes between different schools of thought; and special-purpose vehicles created by donors operate according to a variety of methods and with wwide-ranging and sparsely disseminated results.

What is the best way to transform these systems, often antiquated in many respects, into modern financing systems that facilitate access to domestic markets, mobilise local savings, and reinforce local government autonomy? There is certainly no single answer to that question in regard to such a variety of institutional and economic contexts. The main objective of the proposed study on financing African cities is to clarify the debates and to enlighten the choices of African decision makers at local and national levels. This objective will be realised in five steps: (1) a summary of basics of investment theory and financing investments; (2) an inventory of existing systems in Africa and their typologies (by countries, by instrument types); (3) a set of case studies identified as particularly relevant to the issues; (4) a perspective on existing systems, based on a literature review of themes and methodological questions framing current debates and using information from experiences on other continents; and, (5) a collection of information sheets informing the target audience about various techniques drawn from the prospectivestudy, along with concrete data on how to proceed.