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City view of Bangkok, Thailand



## CITIES ALLIANCE IN ACTION

Over the past year, the Cities Alliance expanded its commitment to smaller cities by supporting preparatory strategy development and slum upgrading initiatives in Africa and Asia. Through small grants, typically \$75,000, the Cities Alliance provided cities with resources to undertake a range of preliminary activities—surveys, workshops, studies, engaging with Cities Alliance members—that generate information for use in designing larger, more substantial proposals for city development strategies and slum upgrading activities. The Cities Alliance has found that these grants can offer smaller cities the same opportunities as larger cities to outline the vision for their futures, and develop customised strategies.

At the other end of the spectrum, the Cities Alliance continued to support a large portfolio of programmes in Brazil, with significant dedicated funding from the Government of Italy. Activities in Brazil encompass large metropolitan areas with millions of inhabitants living in informal or “precarious” settlements. Technical assistance and support provided by the Cities Alliance and its members over the past years will reinforce the unprecedented investment programme announced by the Government of Brazil, the *Programa de Aceleração do Crescimento* (Accelerated Growth Programme). City, state, and national

leaders have been actively supporting programmes and policy reforms that target the poorest Brazilians, particularly with respect to improvements in housing and basic services.

This chapter provides an overview of these and other Cities Alliance activities over the past fiscal year. Highlighted are the urban challenges of land shortages, resource availability, and scaling up city development strategies to a national level; as well the solutions that come from increased planning, resource mobilisation, more competitive economies, and greater government involvement—from the local to the national level.

### Lessons from Slum Upgrading Activities

#### **Slum upgrading, and slum prevention: lessons from experience**

Cities with sizeable proportions of their populations living in slums invariably have a range of developmental challenges that require far more than a new housing or shelter strategy—such cities almost certainly require a fundamental re-examination of basic assumptions, and existing policies and practices. Many cities in Latin America, Africa and Asia have a major

## **Slum Upgrading and Prevention: MDG Target 11 priorities**

"In pursuance of our commitment to achieve sustainable development, we further resolve: ...to achieve significant improvement in the lives of at least 100 million slum-dwellers by 2020, recognizing the urgent need for the provision of increased resources for affordable housing and housing-related infrastructure, prioritizing slum prevention and slum upgrading..."

*Resolution of the 2005 Millennium, Review Summit,  
Article 56. September 2005*

Floral garland market on side street of Indian city

ity of their populations living in informal, precarious or slum conditions, indicating the depth and the breadth of the governance issues to be addressed. Simply stated, the global growth of slums cannot be reduced to a housing crisis, or a simple failure of housing markets. Rather, it is a very visible manifestation of a deeper set of policy failures.

When a sizeable proportion of a city's population is not recognised by authorities, or is viewed as temporary, a problem, or a burden, then it is likely that the city will weaken its capacity for economic growth. To improve its chances of economic growth and development, both city and national governments may need to undertake, as their first act, a thoroughgoing reappraisal of the official view of the urban—and urbanising—poor. As the United Nations recently noted: "*No country in the industrial age has ever achieved significant economic growth without urbanization.*"<sup>1</sup>

1. United Nations Population Fund. 2007. *UNFPA State of World Population 2007: Unleashing the Potential of Urban Growth*. New York: UNFPA: 1.





Far left: Programme launch of *Quiero mi Barrio* (I love my barrio) in Chile's Valparaiso region

Left: Community-led sanitation project in Sangli-Miraj-Kupwad Municipal Corporation, India

Yet, the dramatic growth experienced by cities over the past fifty years pales in comparison with the explosion projected for the next three decades. Cities in developing countries are expected to grow from 2 billion inhabitants to 4 billion by 2030. For a variety of complex reasons, including a hostile policy environment, this urban growth is occurring with decreasing densities, and could lead to a tripling in the amount of land used by urban areas globally.<sup>2</sup> Slums in developing-country cities are growing by an estimated 120,000 people per day, generally being forced to settle on the most marginal and precarious land. As the world belatedly wakes up to the threats posed by climate change, and the realisation that the consequences of this global threat will be managed increasingly by cities, so the wider dimensions of the growth of slums should become clearer, further reinforcing the need for a far-sighted multi-sectoral response.

The Cities Alliance has consistently argued against using sensation and fear to draw attention to the growth of slums, believing that it is far more productive—and historically accurate—to point to the need for cities and national governments to adopt policies designed to capture the positive impacts of urbanisation. As the United Nations Population Fund (UNFPA) noted in its landmark *State of World Population 2007* report, “a pre-emptive approach is needed if urbanisation in developing countries is to help solve social and environmental problems, rather than make them catastrophically worse.”<sup>3</sup>

Now in its seventh year of supporting city and nationwide slum upgrading initiatives, the Cities Alliance is observing that increasing attention is being paid not only to the upgrading of existing slums, but also to the equally important challenge of anticipating future urban growth. There is a modest but growing awareness of the need to introduce development policies that would have the effect of preventing the growth of new generations of slums, by planning and providing for the needs of future urban growth. However, it is also clear that this process needs to be dramatically speeded-up and expanded. Strategies that anticipate future growth patterns are generally far less costly, less socially disruptive, and less complex than those attempting to deal with the issue after the fact. A quick examination of Latin America’s cities will demonstrate the scale of the challenge of upgrading neighbourhoods 10, 20 and 30 years after people have settled. A key challenge for the Cities Alliance and its members is to help share such experiences in the hope that Africa and Asia can learn from them, and avoid the worst pitfalls that continued inaction will guarantee. A 2006/7 review of the Alliance’s slum upgrading portfolio (highlights below) points to some of the central elements and emerging lessons of curative and preventive upgrading strategies.

#### **Upgrading slums, and planning for city growth: the issue of land availability**

Central to the challenges of city growth, slums, and urban poverty is the issue of demand for well-located and affordable urban land. Access to urban land markets has been, and continues to be, a politically charged process, often shrouded in secrecy and

2. Angel, S., S.C. Sheppard, and D.L. Civico. 2005. *The Dynamics of Global Urban Expansion*. Washington, D.C.: Transport and Urban Development Department, the World Bank.

3. United Nations Population Fund. 2007. *UNFPA State of World Population 2007: Unleashing the Potential of Urban Growth*. New York: UNFPA: 2.



Residents traveling to new housing project, Lusaka, Zambia

### Cities Alliance Partners Focus on Land Issues

- UN-HABITAT, with support from the Swedish International Development Cooperation Agency and the World Bank, launched a Global Land Tool Network: a long-term effort to support and scale up ongoing initiatives on innovative, affordable, pro-poor and gender-sensitive land tools.
- The World Bank and partners devoted the fourth Urban Research Symposium in May 2007 to the issues of "Urban Land Use and Land Markets," including implications for city spatial growth, efficiency, and equity.

opaque procedures. Yet the manner of releasing land in a particular city has direct effects on how well that city functions and how efficiently its economy operates. In particular, it influences where people live, under what conditions, and at what cost. (See box 1 for an example in Brazil.)

As a recent policy document noted: "The reasons why the poor cannot find a place to build is rarely because there is a real shortage of suitable land. The failure is rather due to poor governance, an inappro-

priate institutional framework and non-functioning land markets. In some countries authorities try to discourage migration and deliberately limit access to land and services for new housing."<sup>4</sup>

While there is an increasing call for pro-poor land management and the development of equitable and transparent land legislation, many local governments face a legacy of limited authority, and poor land planning and management. Far too many cities in developing countries are now facing the reality of continued growth and the creation of new slums, even as their politicians debate whether and how to upgrade existing slums.

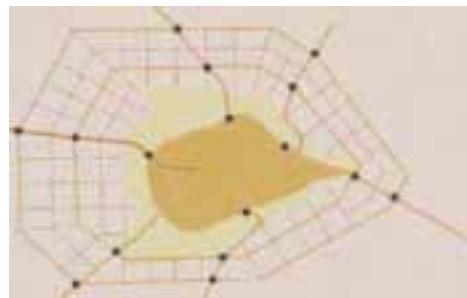
However, some interesting and innovative examples exist, demonstrating the possibility of planning for future growth. The Cities Alliance, in connection with a broader World Bank project, is supporting the Ecuadorian government in a bold initiative. Working with seven secondary cities, the government is antici-

4. Tannerfeldt, Göran and Per Ljung. 2006. *More Urban Less Poor: An Introduction to Urban Development and Management*. London: Sida and Earthscan: 58.

pating urban growth by making land available for future development, paying particular attention to the needs of low-income populations. Future urban expansion, new city limits and land acquisition for rights of way and service provision are also being planned. In assessing the prospective expansion and new boundaries of the cities over the next thirty years, the authorities have designed the preliminary layout of an arterial road grid covering the entire area designated for urban expansion. The right of way to build the roads is to be acquired by the municipality, and roads will be paved incrementally, as demand increases.

One of the main objectives of these Ecuadorian cities is to ensure that residential land remains affordable to the poor and to the city. Significantly, expanding the supply of accessible urban land will moderate land price increases and potentially reduce them.

Other cities are also taking steps to expand their boundaries, not only to accommodate urban growth and ensure land remains affordable for the urban poor, but as a critical step in promoting improved governance and economic performance. The city of Bangalore in the state of Karnataka provides one such example. Bangalore's growth over the past two decades, driven by its information technology sector, has seen the city emerge as a global competitor in a very competitive market. The value of its economy was approximately \$52 billion in 2006, and accounted for 38 percent of India's software exports. The reverse side of this economic growth and wealth creation has



From the final report: *Urban Expansion Strategy for Intermediate Cities in Ecuador* (December 2006)

Santo Domingo, Ecuador's local authorities plan for urban growth with an urban expansion grid, to connect and extend the existing urban network.

been an increase in the gap between rich and poor, as well as increased spatial and social marginalisation.

Part of the response was a bold decision by the Government of Karnataka to constitute Greater Bangalore, tripling the geographical area of the city to over 700 square kilometres, incorporating an additional 2.5 million inhabitants in eight adjacent local authorities, and 111 villages.<sup>5</sup>

The stated aims of this decision were to:

- Improve infrastructure development
- Upgrade urban civic services
- Strengthen administrative capacity and improve compliance
- Optimise expenditure, especially on staff.

The Cities Alliance and its members have been approached to provide support to Greater Bangalore as it deals with the consequences of these very significant changes.

In Tunisia, the city of Sfax has long been one of the country's premier manufacturing centres, although some of the sectors underpinning the local economy—such as textiles and bulk chemicals—are viewed as increasingly risky. The city has gradually been losing its competitive edge over other Tunisian cities since it has a weaker growth rate than Tunis and an increasing rate of unemployment, especially for women.

As a first step in responding to these structural challenges, the seven municipalities that make up Greater Sfax took the unprecedented step of drafting the Greater Sfax Development Strategy. Captured under a vision for Sfax 2016, this strategy aims to promote local development, rethink land use and planning policies, reduce urban poverty and promote



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Slum area in Bukit Duri, Jakarta, Indonesia

5. The challenge to Bangalore is succinctly captured in a paper entitled "Greater Bangalore—Governance Options," prepared by S. Krishna Kumar, IAS (Ret'd).

### **Box 1. Land Regularisation in Brazil**

Around eighty percent of Brazilians live in cities. Some 12 million urban poor households—more than a quarter of all households—live in informal settlements without secure land tenure. Millions of urban residents also lack basic services: 26 million lack access to water, 14 million are not served by rubbish collection, and 83 million are not



Mark Edwards/Still Pictures

connected to sewerage systems. Improvements in land planning and management have been viewed as a means to improve the situation of urban poor households.

Recognising the scale, severity and implications of the informal urban development process, the Brazilian government formulated a national policy in 2003 to orient all government programmes towards the regularisation of urban informal settlements. With support from the Cities Alliance, the Ministry of Cities has promoted land regularisation to improve living standards in precarious settlements.

From 2004 to 2006 the Ministry of Cities earmarked around \$14 million\* of the federal budget for municipalities, state governments, nongovernmental organisations, and public defender offices for the development of land regularisation actions in 397 settlements, encompassing 73 municipalities in 21 states. This was the first federal initiative on this issue, and it has resulted in 1.5 million regularisation processes currently underway, nationwide.

The Ministry of Cities has documented this experience in a recent publication, *Land Regularization*,\*\* including the preventative actions undertaken to avoid the formation of new low-income informal settlements. The publication recounts the many obstacles that municipalities have encountered in confronting the process of growing informal land development, as well as highlighting actions to address the issue, from transfers of federal budget resources and the use of federal and other public land for the poor to information dissemination and awareness-building activities.

\* In August 2006, US\$1 = R\$2.15 (reals)

\*\* *Land Regularization*. 2005. National Secretariat for Urban Programmes, Ministry of Cities, Brazil.

Favela Rocinha, the largest shanty town in Rio de Janeiro, Brazil

sustainable development for Greater Sfax. While the Greater Sfax Development Strategy made it possible to identify investment priorities, Cities Alliance assistance will help to incorporate these priorities into coherent sets of actions to maximise their economic, social, and environmental impacts.

Finally, the three governorates that constitute Greater Cairo in Egypt are embarking on long-term urban expansion strategies to upgrade existing sub-

standard settlements and provide opportunities for future urban growth. Cairo is a particularly challenging case as over 50 percent of households live in informal settlements, with 82 percent of these settlements built on agricultural land. The current mechanism for public land tenure and management is complex and often contradictory, governed by a complicated network of laws, by-laws and decrees, and subject to overlapping authorities.

Egypt's General Organization for Physical Planning recently commenced a large consultative process with the support of a number of Cities Alliance members [German Agency for Technical Cooperation (GTZ), Japan International Cooperation Agency (JICA), UN-HABITAT, and the World Bank] to develop a strategic urban development plan for Greater Cairo to 2050.

### Mobilising resources for slum upgrading

Even if the political will exists, very few cities in developing countries have been able to keep up with the basic infrastructure and service needs of growing urban populations. This is a huge challenge that requires long-term financing, often beyond the limited means of local governments, and points to the need for partnerships that include municipalities, slum communities, the private sector and other stakeholders. (See box 2 for an example of public-private partnerships in China.)

Two mechanisms for financing slum upgrading are particularly important: first, systems which allow city governments access to finance for public infrastructure; and, second, systems which allow the poor to access credit for home improvements. Ideally these financing mechanisms can work in tandem, underscoring the need for partnerships between city governments, community savings groups, and the private sector.

In the area of microfinance for housing, ACCION International released a study in May 2007 on scaling up shelter finance for the poor. The study points to some encouraging trends.<sup>6</sup> Drawing on the Cities Alliance-funded experience of Ecuador's Banco Solidario, Haiti's Société Générale de Solidarité (SOGESOL), and the Uganda Microfinance Union in launching housing microfinance products, and reviewing the experience of eight of ACCION's other partners in Latin America, the study revealed that:

- Rapid portfolio growth has occurred for the microfinance institutions (MFIs) offering housing microfinance, typically at a pace much higher than the expansion of the core microcredit portfolio.

6. ACCION. 2007. "Getting to Scale in Housing Microfinance: A Study of ACCION Partners in Latin America." *Insight*, No. 21, May.



Nini Kraan/Still Pictures

Slum on the outskirts of Cairo, Egypt

- Repayment rates of housing microfinance portfolios have been higher than for traditional microcredit portfolios (lending for businesses), likely due to clients' emotional (and practical) attachment to their homes and the priority they put on their housing stock as one of the household's most valuable assets.
- Before housing microfinance loans were offered by institutions, managers knew that customers often diverted some or all microenterprise working capital loans for home improvement. The market opportunity became much more obvious when MFIs started to offer specific housing microfinance products that truly addressed customers' needs.
- Lack of legal title to the home need not necessarily pose an obstacle to MFIs providing affordable housing solutions to low-income segments, as they already have methods to underwrite credit with non-traditional forms of collateral.

In Swaziland's capital city Mbabane, the private Swaziland Building Society (SBS) is responding to the city's developing slum upgrading programme by adapting microcredit products to meet the needs of the city's lower-income communities. Among the products SBS expects to launch for the urban poor—who are engaged in the informal economy, yet lacking secure land tenure (land titles are planned for the upgrading programme)—are unsecured loans for shelter improvements, with loan maturity periods, rates and repayment schedules tailored to this market.

## **Box 2. Yangzhou Engages Private Sector in Urban Upgrading**

In the Chinese municipality of Yangzhou, the city has ensured that the local private sector has been actively involved in developing an upgrading strategy for the historic city centre. Their engagement in the planning process—through workshops and interviews—has contributed to an upgrading strategy that taps into local private sector resources, introducing public-private partnerships in the provision of public services, as well as

promoting private sector involvement in the conservation and management of cultural heritage. Private construction companies and local materials suppliers have also participated in renovation and construction activities in the old city centre. The municipality has received support for its upgrading initiative from Cities Alliance members GTZ, the Asian Development Bank, and the United Nations Environment Programme.



Dr. Reinhard Goethert, Consultant GTZ

Above: Community action planning activities engaged residents in planning, financing, and implementation in collaboration with the municipal government

Left: Yangzhou, China's historic city centre is being rehabilitated, making it more attractive for residents and tourists, and creating job opportunities

Dr. Maria Jaimes/Consultant GTZ

The most significant new nationwide upgrading programme this year was the *Programa de Aceleração do Crescimento* (Accelerated Growth Programme) launched by the Brazilian Government of President Luiz Inacio Lula da Silva in January 2007, shortly after da Silva's electoral victory for a second term. The PAC, as it is popularly known, is an unprecedented package of investments in energy, and transport, as well as sanitation and slum upgrading. The programme is intended to generate a total of \$234 billion (2007-2010) in new public and private investments. Some \$8.5 billion will be invested in slum upgrading and basic sanitation through contracts between the Ministry of Cities and the states and municipalities over the next four years.

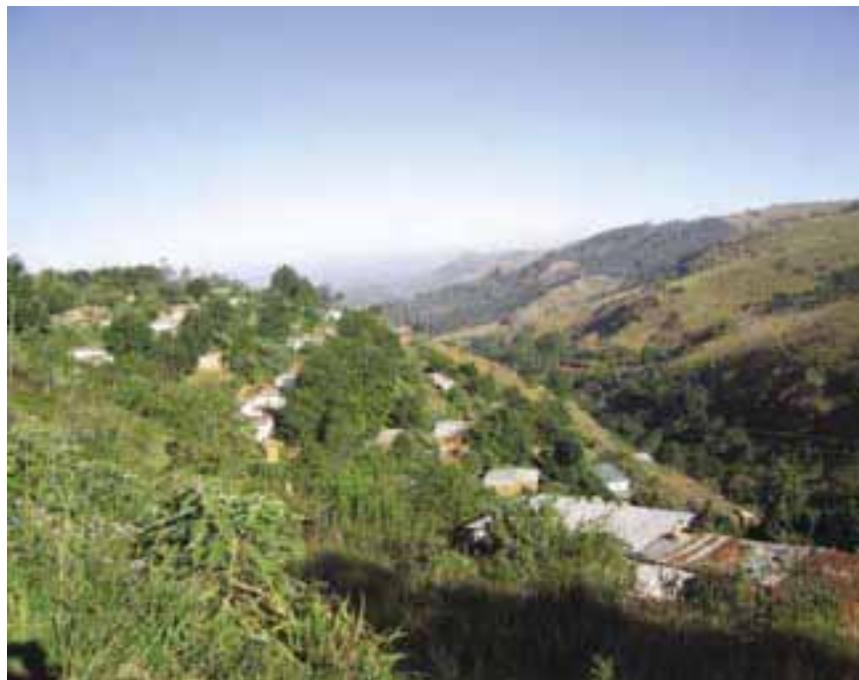
This will provide a huge and almost immediate boost to most large Brazilian cities' upgrading programmes, including those that have already been receiving Cities Alliance support. The new Governor of the State of Bahia, Jacques Wagner, has signalled his intention to continue his government's active collaboration with the Cities Alliance programme. The programme involves several Alliance members since it is financed by the Government of Italy and task managed by the World Bank. The Associazione Volontari per il Servizio Internazionale (AVSI) implements the programme. The State of Bahia will receive approximately \$700 million of federal assistance for slum upgrading. The area selected for PAC financing in the City of Salvador, the state capital, is part of the same macro-area (Bacia de Pituaçu) where Cities Alliance support is concentrated, allowing synergies and cross-fertilisation of efforts.

The Municipality of São Paulo, the largest in Brazil, is due to receive a total of about \$700 million for slum upgrading from federal and state resources over the next four years. The municipality is using Cities Alliance support to devise one of the most innovative, informed and comprehensive citywide upgrading programmes anywhere. Among the many interventions being utilised by the newly-energised team at the municipality is a detailed information system, combining the use of cadastral data, classifying the tenure systems of different settlements, updating the cartographic base, and analysing orthophotos—all of which will allow the city to arrive at a rational and defensible methodology to prioritise their interventions. The team is also tackling some of the most dif-

ficult policy issues normally associated with slum upgrading, classifying different categories of informal settlements, and providing a basis for determining which can (or should) be upgraded, and which will require relocation. Included in this mix is the need to differentiate between interventions on private land, and those on public land.

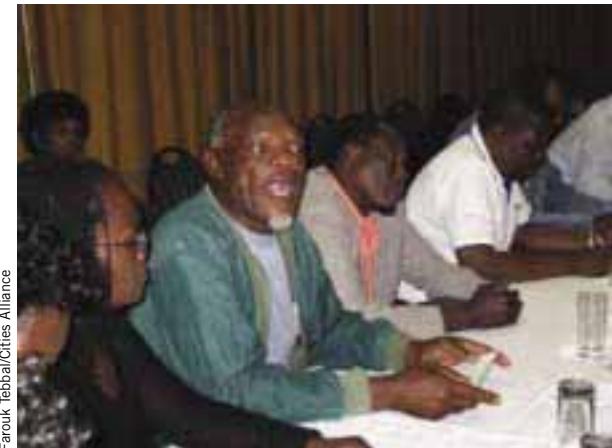
### **Field evaluation in Swaziland: lessons from Mbabane's upgrading experience**

Swaziland's land markets are still impacted by its traditional land tenure systems. Security of tenure on Swazi Nation Land, which accounts for about 60 percent of rural and peri-urban land, has normally been allocated by traditional chiefs on behalf of the King to



Farouk Tebbal/Cities Alliance

Slums on steep terrain in Mbabane, Swaziland



Farouk Tebbal/Cities Alliance

Mbabane's Neighbourhood Upgrading Facilitators discussing community priorities, Swaziland

Swazi nationals. In this context, security of tenure is underwritten more by customary practice than by legally entrenched and enforceable rights. Informal settlements have developed within and around formally proclaimed urban areas which offer proximity to work opportunities, while permitting traditional lifestyles. Some aspects of urbanisation require significant changes to lifestyles and budgets for newly-urbanised Swazis, such as finding resources to pay for essential services.

This phenomenon has been particularly pronounced in the Swazi capital city of Mbabane. To address these challenges, the Mbabane City Council decided to upgrade all informal settlements within the city's boundary. With support from the Cities Alliance, and building on the World Bank-funded Urban Development Project, the City Council set out to develop a comprehensive urban upgrading programme that improves roads, water services, sewerage facilities, electricity and streetlights, and ensures that residents have secure property rights.

In developing its citywide slum upgrading programme, the Mbabane City Council has had to address a range of diverse issues. The steep terrain on which informal settlements have been established pose costly topographical challenges to settlement upgrading. From a social and health perspective, the country's high rates of HIV/AIDS infection—affecting over 30 percent of the population—have a huge impact on the country's current outlook, while its impact on the future can only be speculated. Furthermore, Swaziland's classification as a middle-income developing country conceals the realities it faces: 69 percent of its citizens live below the national poverty

line, 25 percent depend on food aid, and some 30 percent are unemployed.

In 2007, the Cities Alliance Secretariat completed an evaluation of Mbabane's urban upgrading programme, which uncovered a number of significant lessons of relevance for other countries and cities undertaking comprehensive slum upgrading programmes:

- ***Provide for the implementation of a few small-scale activities, or 'quick wins.'*** Strategy development can raise expectations of imminent benefits: when these do not materialise, the resulting frustration can jeopardise any gains from community mobilisation. In Mbabane, community representatives (Neighbourhood Upgrading Facilitators) undertook significant work, including mapping exercises, but simple strategies—such as pegging plots to maintain momentum—were not initiated, resulting in fears that the original enthusiasm will dissipate.
- ***Strike a balance between expectations and available resources.*** Upgrading projects should be realistic, reflecting not only the available financial resources of the city and beneficiary communities, but future user charges and maintenance fees. For example, when allocating land, often a contentious issue, plot sizes may need to be reduced to ensure overall affordability and take into consideration density and locality. Likewise, infrastructure standards may need to be modified for these very reasons. This reality was articulately acknowledged by both the community beneficiaries and the Mbabane City Council.
- ***A committed and active city council is vital for success.*** While the involvement and contributions of community residents and the private sector are integral to any slum upgrading initiative, an effective local authority leading the process improves the chances of programme sustainability. Mbabane's City Council was actively involved in planning the city's slum upgrading framework, resulting in high levels of community participation and resolve.

Mbabane's upgrading programme revealed a number of lessons of wider relevance. The preparatory stage of an upgrading programme, where priorities and resources can be established, is particularly sig-

nificant. In this regard, the benefits of developing a slum upgrading initiative alongside a city development strategy become ever more apparent, especially insofar as this can also facilitate planning for future urban growth and preventing new slum formation.

## Lessons from City Development Strategies

### Trends in strategic city planning

Cities Alliance members continue to experience strong demand from cities of all sizes for support to respond to their governance and developmental challenges. The city development strategies (CDSs) supported by the Cities Alliance encourage cities to look beyond their most immediate and pressing problems, and sectoral problems like transport and sanitation, and take the time to consider the city as a whole. The logic behind this is straightforward and compelling—a mayor or a city manager cannot afford to respond to issues sector by sector, or crisis by crisis, although this still describes the approach of many cities.

Undertaking a set of carefully planned actions that will give a city and its citizens the opportunity to identify their strengths and weaknesses, to initiate essential reforms, and to implement a long-term city-wide strategy calls for a vastly different approach than that of short-term, sectoral projects. Preparing a city development strategy requires politicians to think beyond the next election, just as it requires development partners to think beyond the next financial year. Moreover, there is an increasing body of evidence, not just from the Cities Alliance portfolio, of the tangible benefits being reaped by those cities that take the time to analyse their own circumstances, talk to all residents, engage with the private sector and potential investors, obtain the support of different levels of government, and then devise a long-term strategy. These are the towns and cities that are turning to the Cities Alliance and its members for support. (See box 3 on tailor-made CDSs.)

Over the past few years, we have observed a trend whereby this approach has moved beyond the initiative of far-sighted or innovative mayors, and has become institutionalised at a national level. Notable examples of this trend include not just the Philippines, India, Brazil and South Africa, but also include



Pascale Chabriat

Site visit by Nigerien officials and Cities Alliance consultant to Gamkallé neighbourhood, Niamey Commune IV, Niger

significant developments in Egypt, Ethiopia, China, and Mozambique, to name a few.

### Scaling up local CDS initiatives

Scaling up local CDS initiatives to a national level has often occurred as a result of local initiatives, using local resources. National associations of cities have increasingly the capacity to influence national policy and institutional frameworks. One of the important implications that the Cities Alliance is starting to identify is that, except in rare instances, standalone CDS initiatives are rarely sustainable. To spread effects across cities within a country and over time under conditions of imperfect decentralisation, cities ideally need to work through their national associations. In doing so, they can obtain support, share learning, and improve the quality of their engagement with higher tiers of government, without whose support systemic and institutional reforms are rarely possible.

In the Philippines, a combination of the energy of the League of Cities, and a responsive national government, have combined to offer an excellent example of scaling up, with local CDS initiatives directly informing national policy changes. In 2007, the League of Cities and the Government entered into a Memorandum of Understanding with the Working Group on Decentralization and Local Government, created by the Philippines Development Forum. This Memorandum recognises the need to harmonise the national and local planning processes, and is part of the effort to institutionalise the CDS process in national planning. A year-long collaborative effort has also produced guidelines for reducing the often conflicting and contradictory requirements issued by various oversight agencies to local governments for

### **Box 3. Tailor-made CDS Guides Produced by City Networks and Associations**

Many cities and city-networks that have undertaken city development strategies are now developing their own CDS guides, guidelines and toolkits, thus enabling nationwide replication and institutionalisation of processes. Generally, these products bring together the building blocks of the methodology and situate them in the national context, legal system and development programmes. Informed by local city experiences, they provide lessons learned from successful local practices.

This knowledge-sharing exercise has been particularly strong in the Philippines, a country in its third CDS cycle. The CDS team at the League of Cities is revising their initial toolkit. Based on extensive city experience, an enhanced methodology has been developed, including several tools that can be downloaded from the national CDS Web site (<http://cdsea.org>).

Cities Alliance grants have also funded the development of CDS tools by other networks and associations of cities. In January 2007, the Moroccan Urban Forum produced a methodological guide in Arabic and French—*Stratégie de développement des villes: guide méthodologique*.

Based on conceptual approaches and insights from the experience in Tetouan, the guide provides a roadmap that Moroccan cities can use to develop their own strategies. The process is described in the guide as “one of the most innovative methodological tools for urban development of the last decade.” In Niger, the national Association of Cities also developed a CDS guide as part of the Cities Alliance grant for Dosso and Maradi—*Guide d’élaboration des Stratégies de développement de villes*. Although the CDS activities in Dosso and Maradi did not trigger the establishment of a national urban development strategy, the experience can be used to inform other

processes much needed to enable local strategic planning in one of the poorest countries in the world (see evaluation findings later in this section).

With a Cities Alliance preparatory grant, *Guidelines for Strategic Planning* was produced for the Government of Punjab (Pakistan), based on the CDS planning experiences of four municipalities in the province. The World Bank Institute provided resources to convert the guidelines into a practical learning tool, which will be used to expand the CDS planning methodology to at least 15 additional municipalities in Punjab.

These products stress that each CDS process is unique since each city has its own development path, challenges, priorities, and potential. However, all are based on common building blocks that aim to develop a strategic platform, and provide a foundation for long-term, sustainable development through the elaboration of comprehensive strategies. The 2006 Cities Alliance publication *Guide to City Development Strategies* also highlights many of the most common and essential elements of strategy development for cities.



Mark Edwards/Still Pictures

Families living in Bagong - Silansan, a new community housing project in Manila for families who scavenge landfill sites, the Philippines

planning, investment programming, and financial management. Cities Alliance support has been used strategically by the League of Cities to replicate CDSs in different cities, producing tangible results and building a groundswell of support at the city level.

To date, 65 Philippine cities have completed city development strategies, and many of these cities have the reputation for being among the best run in the country. A further two phases of the CDS programme are being designed to ensure that all 118 cities undertake city development strategies, which would make the Philippines the first country to achieve total coverage. The Government of the Philippines has also decided to join the Cities Alliance, and will host the Alliance's 2007 annual meetings comprising the Public Policy Forum, a thematic event to which non-Alliance members are invited, and the Consultative

Group meetings, in which Alliance governance and programming are discussed.

In Vietnam, CDS development has emerged as a strategic tool for cities of all sizes to identify ways to meet the challenges of urbanisation and decentralisation. The first two cities to undertake strategy development were Ho Chi Minh City and Haiphong in the late 1990s. Since then, Haiphong has produced a second city development strategy, with a much greater emphasis on local control. CDSs have also been produced by the cities of Da Nang, Dong Hoi, Nam Dinh, Ha Long, and Can Tho, the latter two with Cities Alliance support. The growth in the use of city development strategies as an urban planning tool arose largely as a result of the 2004 Cities Alliance-funded international CDS conference in Hanoi. The conference created local and regional interest, and

Woman on her way to the floating market in Can Tho, a city on the south bank of Hậu Giang, a branch of the Mekong River. The area's river and canal settlements will be upgraded as a result of a recently-completed city development strategy.



Pelle Persson/Cities Alliance

provided a platform for reconsidering centrally-controlled urban planning practices.

In Vietnam, the integration of CDS processes into broader development plans has made considerable progress within a relatively short period of time. Increasingly, strategy development is being used to coordinate and integrate existing plans and put them into action. Challenges for the future are: (i) generating the resources to implement CDSs, (ii) sharing CDS experiences with more cities nationwide, (iii) institutionalising the CDS process, and (iv) creating a support structure for cities that wish to undertake a city development strategy.

In India, the primary national urban development programme, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), continues to gather momentum. JNNURM advocates government promotion of city efficiency, economic growth and poverty alleviation, and supporting these through central government grants for cities. Billed as the country's most ambitious programme ever for urban development, the \$22 billion programme funds the expansion of economic and social infrastructure in some 63 towns and cities based on a local city development plan, which has similarities to a CDS. To support Government of India efforts, the Cities Alliance has provided preparatory support that will feed into preparations of a National Urban Strategy (projected to the year 2025). The strategy will guide the Government of India's Planning Commission in establishing a framework of urban reforms and initiatives in

which urban growth issues and poverty reduction can be addressed.

Additionally, a Cities Alliance preparatory grant is being used as seed funding to assist Cities Alliance members in responding to a request to design a significant capacity support programme, enabling them to access national and state JNNURM funds. The project will provide technical assistance to help cities prepare strategic city development plans, and improve revenue management, service delivery, accountability, and budget planning execution, through better citizen interface. It is also expected to increase the knowledge base of elected officials in municipal finance and administration.

### Promoting a city's competitiveness

A second trend among CDS activities is an increasing emphasis on promoting a city's competitiveness, with the aim of enabling stronger and more inclusive economic growth. Experience has demonstrated that a thorough understanding of local economic conditions, and being able to identify a city's comparative and competitive advantages, is the foundation necessary for developing effective strategies to facilitate economic revitalisation and job creation. Yet, developing a clear and constructive profile of a local economy has proven to be one of the most challenging aspects of city development strategies.

However, some notable examples have materialised in which cities have analysed their local economic structure and urban competitiveness, and then successfully translated their economic findings into concrete investments aimed at retaining existing, and attracting new, economic activities.

The Alexandria, Egypt CDS relied on two principles to increase the likelihood of sustainability of the strategic planning and local economic development effort: (i) broad-based public, private and civil society stakeholder participation, formalised as a Partnership Forum, and (ii) using the CDS as an overarching mechanism to organise and leverage donor support.

The CDS process and consequent investments identified essential infrastructure that would improve the living conditions of people, and tackle key constraints to private sector development and economic growth. Through the same process, key barriers to investment and building local capacity were also identi-

Panoramic view of São Paulo, Brazil



fied. The latter included the streamlining of business start-up procedures, easing the process of property registration, enhancing private sector participation in the management of industrial estates, and strengthening city capacity in managing local assets and sustaining strategic planning processes.

The Alexandria CDS, and the resultant capital investment plan that will be partly implemented under the project, resulted in a shift in local development practice in Egypt away from the traditional top-down, supply-driven process. The latter had been criticised for (i) its narrow focus on infrastructural issues and limited emphasis on local economic dynamics, needs and institutions, (ii) limited private sector participation and understanding of market dynamics and trends, and (iii) the non-participatory nature of the planning, decision making and implementation. Instead, the Alexandria CDS and follow-up investments rely on a bottom-up approach where ownership rests with the municipality and local partners, jointly formulating a long-term vision and identifying development programmes.

The success of the Alexandria CDS has been monitored by other cities and governorates in Egypt, and a similar process is in its early stages in Greater Cairo with the support of Cities Alliance members.

### Situating development in national strategies

Notwithstanding the Cities Alliance's focus on city development and slum upgrading strategies, the challenge of scale invariably requires the active co-operation and support of policymakers in higher levels of government, both state and federal. To improve our collective understanding of the major impediments to growth and employment creation, and to study the relationship between different tiers of government in designing possible policy solutions, the Cities Alliance has partnered with the World Bank in undertaking a study entitled "Urban and the Growth Agenda—Assessing and Promoting the Roles of Cities."

With inputs from case studies in Dhaka, Lagos, and São Paulo, this two-level exercise aims at capturing knowledge on (i) assessing the linkages of urban areas to national growth, and (ii) identifying specific actions to reduce the constraints for economic growth at the city level. The study is intended to strengthen national and local dialogue on the promotion of growth and



Courtesy of Addis Ababa Housing Development Project Office

Hollow concrete block production by a small enterprise for housing development in Addis Ababa, Ethiopia.

employment creation. It will also disseminate lessons from the different approaches to assessing the impediments to growth and removal of bottlenecks. The World Bank also envisions using the study to build the analytical basis for integrating urban development into investment climate surveys.

The body of analytic knowledge generated by the firm surveys and household surveys has been a critical element of the forward-looking and action-oriented growth strategy for Lagos. The work has led to a strategic operational intervention supported by the World Bank through the Lagos Metropolitan Development and Governance Project. The project leverages Lagos's own resources alongside project resources to target investments to improve the productivity of firms and households in the metropolitan area. (See box 4 on assessing the local economy in Lagos.)

The São Paulo strategy work has been completed, discussed with governments—dissemination included a three-day workshop in Brasilia where the results were presented—and parts are being translated into Portuguese. The Dhaka case study is not yet complete, as it was interrupted due to political problems.

The World Bank will gather lessons learned over the past ten years and share that knowledge globally through 2008. The study will support the analytical basis for understanding the essential role of cities in economic growth. In addition, the report will help the World Bank's client countries and their cities in understanding the microeconomics of cities, analysing the economic potential of cities, and designing strategies based on economic and business tools being tested in developed countries. Globally, it will help raise awareness and improve the technical tools used

#### **Box 4. Lagos: Assessing the Local Economy**

The work undertaken in Lagos offers insights for cities wishing to develop growth and employment strategies, particularly those with insufficient detailed data on firms of different sizes and different sectors, formal and informal. Lagos is a quasi city-state and one of thirty-six states in Nigeria. It generates about 20 percent of Nigeria's gross domestic product (GDP) or 35 percent of Nigeria's non-oil GDP, making it of significant macroeconomic importance. Given Lagos's population growth rate of 4.8 percent per year, and the visible expansion of the informal sector, employment creation remains a key concern for Lagos State Government. Fiscal stability, local infrastructure provision, market efficiency, improved business registration practices, and access to finance are all essential and well-known factors for successful business growth – but these alone did not provide Lagos with options for directly influencing employment creation through microlevel interventions.

To better understand the structure of the economy and employment, and establish an economic intelligence unit to monitor economic changes over time, the Lagos State Government undertook a comprehensive set of firm surveys covering all sizes and spectrums of the economy.

Preliminary analysis highlights that the *large manufacturing firms* in Lagos do not constitute a dynamic sector of the economy. They are not challenged, there are few newcomers, and they have made limited investments in expansion and upgrades. There has been no search for new markets, and only 18 percent export their products—and even then, largely within Africa only. Given that electricity and access to finance, both major requirements for business growth and expansion, require federal-level interventions, Lagos could take steps in the critical areas over which it has control. One step could be scaling-up public-private partnerships for infrastructure, particularly to reduce flooding. Floods in Lagos impact households, firms and infrastructure. Annual flooding affects nearly one-third of the population annually. Expenditures on medical treatment for waterborne diseases, property damage, and lost infrastruc-

ture and productivity are the result. To reduce flooding and minimise flooding-related expenditures, Lagos could ensure public-private oversight of solid waste and drain management parastatals.

The *large service-sector firms*, by contrast, have grown rapidly since 1999. More than half of these firms regard the licensing requirements as reasonable, but they are even more concerned about infrastructure than the large manufacturing firms. The small, medium, and micro enterprises (SMMEs) in Lagos are entrepreneurial, displaying growth across all sectors. Despite constraints affecting all private sector activity in Lagos, 29 percent of SMMEs had expanded, and profits and turnover increased for 58 percent of enterprises. Ninety-three percent of the SMMEs reported finding permit requirements reasonable. They were not constrained by wages, did not feel they needed to export to grow, and did not fear export competition. To generate employment, Lagos could increase market demand for the products of SMMEs through support for marketing and promotion. Ninety-one percent of informal sector firms had never tried to register, so improving business registration is unlikely to affect SMMEs or the informal sector, both dominant generators of employment in Lagos. Seventy percent of informal firms reported expansion, 93 percent expected to sell more products the next year, and 53 percent wanted to make new investments.

The study not only highlights the determinants of firm growth in Lagos, but also locations where there is the highest density of firms that possess the determining characteristics for growth in Lagos.

To map service delivery at the household level, Lagos also undertook a comprehensive assessment of access to a variety of services by households and mapped them to geographical coordinates. This detailed household-level data now provides a baseline for prioritising and spatially targeting infrastructure investments, planning, and budgeting over the medium term, and monitoring the impacts of service delivery.



Crowded street  
in Lagos, Nigeria

Courtesy of Government of Nigeria

in preparing strategies for growth and employment at the city level.

#### **Building an economic corridor in northeast China**

The Cities Alliance has supported the ongoing development of an economic corridor comprising three large cities in Heilongjiang Province in northeast China—the cities of Harbin, Daqing and Qiqihar. It is believed that the future economic growth of these cities can be enhanced through Ha-Da-Qi Corridor-wide planning and coordinated development. Examples of co-operation being promoted include: (i) shared infrastructure along the corridor, (ii) cross-corridor initiatives to improve inputs for industry clusters, and (iii) coordinated national and international marketing of the corridor, its municipalities, and industrial zones.

The corridor planning process has encouraged government to support industry clusters, not by choosing winners and losers, but by helping each cluster get the economic inputs needed to grow and become more competitive. It has emphasised that corridors and regions are able to form, expand, and attract business clusters when they provide competitive advantages in particular economic categories, such as innovation, environment, land availability, transportation and logistics, finance, and human resources. A corridor development entity convenes and works with all the clusters, each at different stages of lifecycle development, to identify challenges, prioritise strategic initiatives, and promote the corridor. This entity also helps to coordinate among corpora-

tions, institutions, municipal and provincial agencies, and national programs to improve the alignment of their services with the needs of the corridor's cluster portfolio.

#### **State of the Cities Reports**

Over the past few years, the Cities Alliance and its members have identified the enormous potential that exists in the production of national state of the cities reports. A well-executed process can provide an excellent mechanism for a country to better understand the main trends and challenges facing local authorities. Report preparation includes analyses of cities' economic contributions to the national economy, examination of the state of intergovernmental (including fiscal) relations, discussions among representatives of organised local governments, and encouragement for these organisations to engage with their members. These activities raise national awareness about the main issues facing cities of all sizes, and also engage different tiers of government.

In 2006 the South African Cities Network (SACN) completed its second *State of the Cities Report (SoCR)*, with the support of Cities Alliance and other partners. The highly acclaimed report highlights the trends in urban performance and the dynamics of the forces that shape the country's 21 largest cities. It explores how city development strategies have stimulated economic growth, and the extent to which cities have provided access to services, amenities, and opportunities for all residents. The report delivers a positive message about the growth potential of South



Courtesy of South Africa Department of Housing

Brickfields Social Housing Project (completed in 2006) with more than 700 housing units in New Town, Central Johannesburg, South Africa

Africa's cities, and provides a wealth of data and analysis for policymakers. Moreover, the SACN and its members are using the report as an effective advocacy tool to influence national urban policies. The South African example also shows the benefits of turning the SoCR into regular state of the cities reporting to chart progress over time and develop effective planning tools.

South Africa's widely-read *State of the Cities Reports* have generated interest, particularly among countries in sub-Saharan Africa. The Cities Alliance has now received preliminary and formal requests to support the preparation of country SoCRs for Ethiopia, Kenya, Nigeria, and Tanzania. The Alliance welcomes these opportunities to support SoCR development and to further explore how it can be used to give voice to local governments, especially insofar as these have the potential for Cities Alliance members to make a positive contribution to strengthening local government and promoting good urban governance.

#### **Field evaluation in Niger: using CDSs to improve development in small African cities**

Niger is one of the world's poorest countries, with a GDP per capita of \$280, and the bottom ranking on



Pelle Persson/Cities Alliance

Concluding evaluation discussions with mayors, stakeholders, and representatives of the Niger Association of Cities

the United Nations Human Development Index. Of Niger's 14 million inhabitants, 3.3 million live in cities (23.3%). The country is characterised by high population growth rates (3.5 % countrywide and over 6% in urban areas), a weak economy based mainly on agro-pastoral production, a weak natural resource base with rapidly increasing desertification, and a low level of human development (the literacy rate for children under 15 is less than 30%).

Since independence in 1960, the country has faced several military coups, the last in 1999. However, since the return of democratic rule in 1999, the push for increased democratisation and decentralisation has become increasingly important. In 2004 further progress was made with the holding of the first municipal elections in the country's history. Some 4,000 representatives in 265 newly-established communal parliaments were elected.

The Association of Cities of Niger (AMN), now representing local governing bodies, submitted a proposal to the Cities Alliance to develop two CDSs, in the secondary cities of Dosso (population 70,000) and Maradi (population 305,000).

The proposal was supported by the World Bank and the Agence Française de Développement (AfD). Key CDS objectives were to reduce urban poverty,

develop institutional mechanisms to increase the impact of development programmes, and disseminate the CDS approach to all urban communes in Niger.

The agreement between the Cities Alliance and the AMN was client-executed, and managed by a co-ordinating team located in the office of the prime minister. The work started in early 2004, and finished near the end of 2005. The process was based on a participatory approach involving household surveys, meetings with elected councillors and traditional leaders, and extensive discussions with major stakeholders—a new experience for both communities. (See box 5 for comments from stakeholders.)

**Key challenges.** During the initial diagnostics, it became apparent that the two cities faced enormous challenges:

- The quality of life for the most vulnerable groups was extremely low.
- There was considerable untapped economic potential in developing markets and transport-related trade.
- The quality of the local infrastructure was poor.
- The institutional and financial capacity of each municipality was extremely weak, with only about one dollar per capita in investment funds available.

### Box 5. CDSs in Niger Triggered Innovative Action

Residents of Dosso told project evaluators that they appreciated the knowledge they gained while involved in the CDS process. A neighborhood chief (*chef de quartier*—a traditional leadership position) said this:

"I learned that there were 10,000 people in my *quartier*—this was something I didn't know before! It showed us about many aspects of the life of the people. It also showed that there were many problems, but at least it proposed solutions!"

In Maradi, private sector needs were identified in the CDS. To address the needs of transporters, city hall and a transporters association organised the construction of a truck parking and reloading facility to improve efficiency and revenue collection from border traffic. The action was taken by people in the city, without any external support.



City and national officials visiting the new truck parking and unloading facility in Maradi, Niger

Pelle Persson/Cities Alliance



Pelle Person/Cities Alliance

Shop in Dosso's main market, Niger

**Outcomes.** The CDS identified four areas of strategic development comprising better social integration, local economic development, investments in infrastructure, and improved urban management. The strategic areas were accompanied by a list of priority projects in the form of an action plan: 22 projects in Dosso, and 23 in Maradi. In most cases, specific projects in the action plans were not linked directly to financiers or finance sources such as government transfers and international donors. However, the action plans have been widely used by city representatives to attract funding from partners. The most promising possibility is a \$16 million World Bank credit, the Local Infrastructure Development Project, focusing on solid waste management, central market improvement, truck parking and upgrading of informal settlements.

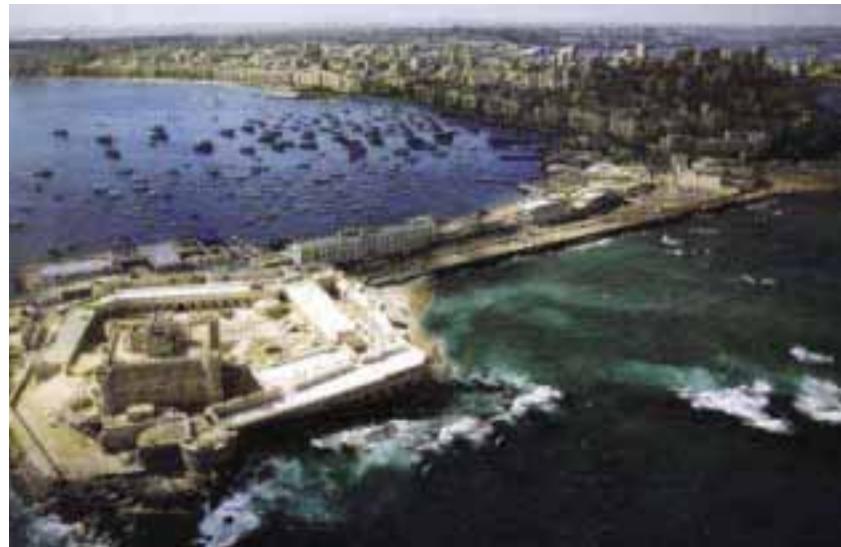
All outputs from the two CDSs, including detailed urban poverty mapping, were used to inform the Plans de Développement Communal for the two cities.

Based on the findings in Niger, the following lessons have emerged:

- **The decentralisation of functions needs to be balanced with increased fiscal transfers.** The decentralisation of roles and responsibilities from the national to the local level is currently taking place without the appropriate transfer of resources, such as funds and skilled staff.
- **Involve the private sector.** Much bolder action needs to be taken to bring in the private sector as a strong development partner to stimulate economic growth and job creation. As in many other African countries, it is the public sector that is expected to play the most significant development role. Early and sustained involvement of the private sector, however, could increase possibilities for economic growth and job creation, particularly in the expanding agricultural trade and added-value chain. This potential is currently under-recognised by governments and donors.
- **Coordinate donor assistance and build local resources.** Niger is highly dependent on grant financing from bilateral and multilateral organisations. Stronger donor coordination, with budget support channelled through a monitored government-donor mechanism, is needed to develop a programmatic approach and minimise donor financing of stand-alone projects. However, such funds can only be catalytic—cities also need to rely more on local resources, both financial and human, and mobilise private capital. Particular priority should be given to economic growth activities that can build local tax revenue.
- **Local government should facilitate co-ordinated development.** The methodology for programming local development is scattered, with many programmes pursuing different tools. Government needs to take a lead and design streamlined directives for local development planning. Donors should support such unified coordination efforts.
- **Participation empowers stakeholders and builds ownership in the CDS process.** The CDS process is particularly beneficial if a range of stakeholders are involved from early in the planning process. Local government authorities, city associations,

civic groups, NGOs, businesses, and potential financiers are more likely to support a process in which they have been invited to participate, and have seen their views respected. Broad involvement and training also help spread more accurate information about the process and build trust.

- **Develop realistic expectations and sets of actions.** Initiating a CDS process will raise expectations. With early stakeholder involvement, planning authorities work to develop realistic expectations and an agreed timeline for implementation.
- **Cities Alliance should enhance its coordination role at the local level.** The Cities Alliance should facilitate the sharing of information about CDS activities with local and national authorities and Alliance members working in-country.



Courtesy of Bibliotheca  
Alexandrina, Alex-Med

Coastal view of Alexandria, Egypt

## Sustainable Financing of Investments

### Linking cities with domestic capital—lessons learned

All Cities Alliance activities, whether undertaken as citywide slum upgrading strategies or city development strategies, should also assist cities, national governments, and their development partners in moving towards a more modern, self-sustaining financing system. Learning from CDS and slum upgrading grants in countries as diverse as Niger, the Philippines, Swaziland and Vietnam strongly suggests the need for systems that assist city governments in raising commercial finance, creating infrastructure and paying for their use over an appropriate length of time.

As the twin global trends of urbanisation and decentralisation continue, there is increasing international recognition that traditional systems of financing which rely on *ad hoc* grants or unstable revenue streams will not succeed in addressing the existing backlog of essential civic infrastructure.

Furthermore, direct lending to cities and financial institutions by bilateral and international development institutions underscore both the importance and the value of establishing a more accountable financing relationship with city governments. For example, Agence Française de Développement supports a blend of loans and grants to financial institutions, such as the Caisse des Prêts et de Soutien aux Collectivités Locales in Tunisia. AfD also supports direct loans to Ouagadougou, Burkina Faso's capital, to

finance its central market. USAID's Development Credit Authority has provided partial credit guarantees to assist small and medium cities in India to directly access markets. Multilateral institutions, such as the World Bank-International Finance Corporation Sub-national Technical Facility, and the Asian Development Bank's Sub-Sovereign Window, have begun making direct loans and guarantees.

Sustainable financing systems imply that cities are empowered with sufficient authority to provide and charge for services, and can design the use of their assets based on an inclusive medium-term prioritisation of needs. While there are a few good examples of such cities, the majority of cities in developing countries are not so empowered—indeed, they are far more likely to have limited financial autonomy or manoeuvrability, and be beholden to the vagaries of unstable and unpredictable fiscal transfers from higher tiers of government.

Yet, international experience shows that empowered cities have been better positioned to attract commercial finance. In the 1990s larger cities such as Ho Chi Minh (Vietnam), 14 cities in India (including Ahmedabad, Bangalore, and Nagpur), Douala (Cameroon), Johannesburg (South Africa), and cities in Michoacán State (Mexico) have reorganised their finances to leverage grants with commercial finance.

Smaller cities have used commercial intermediation to pool their financing needs—examples include: the Infrastructure Finance Corporation Limited (INCA) in South Africa, Financiera de Desarrollo Territorial (FINDETER) in Columbia, Tamil Nadu Urban Development Fund (TNUDF), and the Karnataka Urban Development Infrastructure Finance Corporation (KUDIFC) in India.

This movement from traditional to more modern financing systems is not merely a change in the means of financing, but is one of the most important and essential adjustments to intergovernmental institutional arrangements required to help cities and countries manage the consequences and, ideally, reap the benefits of rapid urbanisation. This repositioning involves fiscal systems of transfers that are untied, rational, and linked to buoyant taxes. The intergovernmental fiscal framework in South Africa, the Mexican decentralisation of the 1990s, common local body laws in some Indian states, and the Local Government Code in Philippines, embody the principle of empowering municipalities to finance and create infrastructure. As this repositioning involves the transfer of real powers, as well as significant responsibilities, it is often resisted, both as a consequence of a reluctance to cede power, but also due to fears of capacity constraints at the city-government level.

In most countries, these kinds of institutional and fiscal reforms will require a paradigm shift through which city governments move from unequal relationships with national governments—and aid agencies—to that of responsible local authorities dealing with local commercial financial institutions on equal terms. This kind of systemic change is most effective when achieved in a consultative manner, in the form of partnerships among cities, national governments, and their development partners.

The Cities Alliance and its members have supported this shift at two levels: at a macro level, by supporting knowledge products, and on a more micro level by working with cities and national governments in specific city and country contexts. Examples include work in Ghana, Zambia, and Russia in the Chuvash and Stavropol Republics. This annual review provides an early opportunity to reflect on the extent that these macro and micro interventions have been able to trigger and support systemic change—measured by the improved prospects of city governments

to repeatedly access commercial finance for public goods, and for the urban poor to obtain financing for home improvements.

International experience and the learning from Alliance grants suggest that three types of interventions are essential to enable a sustainable financing framework:

- **City-level actions** that demonstrate a clear revenue stream through efficiency improvements, especially own-source revenue management.
- **National-level policy actions** to enable a new market for private capital to finance public infrastructure, such as a regulatory framework for municipal debt, removal of fiscal distortions, and systems that encourage non-collateral-based lending.
- **Partnership with the private sector** in supporting mechanisms for pooling demands of small and medium cities.

### Learning from grants

Described below are initiatives supported by the Cities Alliance to improve the links between city financing needs and domestic capital in Zambia, Ghana, South Africa and India.

In the 1970s and 1980s, Zambia's local government system was one of the best performing in post-colonial Africa. Fuelled by high prices for copper, Zambia's city and municipal governments were generally well managed and provided services in a sustainable manner. With the combination of the international collapse of copper prices and a move towards increasingly centrist policies in the 1980s, the country's local government system has been in a process of slow decline for about 20 years.

Zambia is engaged in key design work that will allow a well-functioning intergovernmental fiscal system to emerge, with some additional support from the Cities Alliance. This work will include specification of strategic planning processes—in essence city development strategies—that will be the basis for funding to city governments through the decentralised fiscal system. This reform process, which includes the clear articulation of roles of different levels of government and parastatals, is the basis for a framework for private financing of public infrastructure.

The impact of these reforms will be to establish a clear enabling environment for local governments in

Zambia, clear rules of access that should empower local governments to access recurrent and capital grants, and the preparation of credible development strategies based on predictable budgets.

The first step towards fiscal empowerment of cities was taken in early 2007 by the commitment to move finances to local levels and the adoption of an intergovernmental fiscal transfer framework. (See box 6 for a statement on Zambia's decentralisation policy.) This legislative measure provides an excellent platform to move onto the next effort which could be to assist the cities and municipalities to formulate restructuring plans within the CDS approach. The quantitative impact of this work could be significant, with possibilities of stable flows to local governments through a harmonised, budget-support approach.

Children collecting water from a community pump,  
Lusaka, Zambia

#### Box 6. Zambia's Decentralisation Policy

**Extract from the 2007 Budget Speech of the Honorable Ng'andu Peter Magande, Minister of Finance and National Planning, Republic of Zambia**

*Mr. Speaker, with the launch of the Decentralisation Policy in 2004, the government has continued to progress towards the devolution of functions to the local levels. With this devolution, certain functions in some ministries will move to the district level by the end of 2007. Sir, an intergovernmental fiscal transfer system, through which funds shall be transferred to the district councils, has been designed. To this effect, this budget has provided for the restructuring, recurrent and capital grants to assist district councils achieve solvency, fund retrenchments and ensure that they do not get back into the debt trap. The government intends to continue with the decentralisation sensitisation process to ensure that each and every Zambian is not left behind in this important national process.*



Through the late 1990s, Ghana had a good track record of fiscal devolution through the District Assembly systems. Further still, the macro framework allowed for the beginning of a growing debt market for sovereign bonds. Alongside these developments has been rapid economic growth in Accra and medium cities such as Kumasi and Tema.

The need for a more modern financing framework became apparent to the government, and, accordingly, the Ministry of Local Government and Rural Development has established significant partnerships across levels of governments and the private sector. The government has also used Cities Alliance support to develop a framework for sustainable financing. This framework provides a basis for an investment loan that can blend commercial finance with long-tenor multilateral and bilateral support. The main issues addressed in the design are to better align responsibilities and powers.

To achieve this, the government has drafted a Local Government Finance Bill, which provides process guidelines for selecting cities, based on specific reforms that they are required to undertake. The steps also include city-level measures to address leaks in property taxes—at present private collectors are paid commissions for property tax collections. This has led to a situation where collectors have concentrated on a few areas where the costs of collection are low and the rewards are high. This has left large sections of cities ignored.

Cities Alliance support to the Government of Ghana, implemented by the World Bank, provides a template for reform-driven investments in cities and is available for implementation. These investments could comprise three defining elements: (i) reforms (on both the demand and supply side) to enable city governments to design, finance and pay for infrastructure; (ii) investment by cities through institutionalised loan-grant blends, based on access criteria for cities (such as collection efficiencies etc); and (iii), investment in basic services in slums.

The process of empowering city governments is perhaps best illustrated by the South African example. The Local Government Municipal Systems Act 2000 provides the enabling framework for the sharing of powers and responsibilities. Further, legislation has been backed by Municipal Infrastructure Grants requiring municipalities to prepare three-year capital



Courtesy of South Africa Department of Housing

Construction of Brickfields Social Housing Project in New Town, Central Johannesburg

investment programmes. The Municipal Finance Management Act (MFMA) 2003 provides a transparent framework for cities to access commercial finance. The MFMA itself is an outcome of a national process of putting in place an intergovernmental system which rewards performance at the municipal level, and provides a borrowing framework and active support for intermediation for small and medium cities through the Infrastructure Finance Corporation Limited (INCA).

In this context, the South African National Treasury is using Cities Alliance assistance to develop a policy tool for tracking the financial health of cities so that early action can be put in place for recovery. It also attempts to avoid moral hazard problems in an intelligent manner. This is work in progress, though it is designed for South Africa (specific to provisions of its constitution and the MFMA) and has generic elements for applications elsewhere, with Brazil, India, and Mexico being obvious examples.

India is in the midst of implementing a major national programme, the Jawaharlal Nehru National Urban Reforms Mission (JNNURM), to energise its major cities through a centrally-sponsored mechanism. As discussed in more detail in the CDS section of this chapter, key features of the reform include strategic planning at the city level. The Cities Alliance is assisting the Government of India in the two major objectives of the Mission, namely, reforms at the city level and enabling frameworks to guide cities to a sustainable growth path for financing their investments.



View of Varanasi, India from the Ganges River

Curt Carnemark/  
World Bank Photo Library

The positive aspects include: the first policy action by the Government of India to move from scattered financing of *ad hoc* programmes into reform-based capital investment of a significant size, links with the 74th Constitutional Amendment empowering local governments, and the use of structured partnerships with states and cities in an organised manner.

Cities Alliance is assisting the Government of India and a World Bank-led partnership with the aim of mapping out the reform agenda, with specific focus on municipal finance. Since the term for the Mission is seven years, it is useful for the World Bank and other development partners to use this opportunity to support the Indian Government's attempts to bring greater coherence in the country programmes both thematically and geographically.

The challenges for JNNURM are to address what has been until now a list of reforms not entirely relevant to local constraints, an incomplete mechanism for financial support to city governments, and a lack of a typology for slum upgrading. Further still, there is the need for the national government to position

itself as the facilitator of a new market, rather than a supplier of grant finance without adequate involvement of the states.

As Thomas Issac, the Finance Minister of Kerala recently stated: "The role of Government of India needs a critical examination. It is often thought that fiscal decentralisation to local governments is a state issue. But this needs reconsideration. For proper fiscal federalism the imbalance between the state and the centre has to be first addressed for a balance to be struck between the state and the local government."<sup>7</sup>

On the supply side of finance, the Cities Alliance supported the Russian Republics of Chuvash and Stavropol to define their development strategies and clarify demarcation of municipal and oblast responsibilities—a design which could be replicated for other oblasts. This work has been completed and, in the case of Chuvashia, also led to a successful domestic

<sup>7</sup>. Speech at the Roundtable on Urban Fiscal Decentralization, Kochi, India, April 2006.

market financing, thereby linking the investments prioritised in the CDS with domestic private capital. (See box 7).

### Global Knowledge Products

The Cities Alliance supports and develops partnerships at the global, country, and city levels. For municipal finance, these include the established Municipal Finance Task Force (MFTF), detailed below, and an upcoming urban finance tracker incorporating inter-governmental fiscal relations (IGFR) and the role of intermediation in financing small and medium cities.

As national governments and cities decentralise, there is a need to track these reforms and provide access to information on efforts being undertaken globally. Standardised information is routinely being provided for Organisation for Economic Co-operation

and Development (OECD) countries through publications for the European Union by Dexia. Cities Alliance members have expressed the need to generate similar information for developing countries—an information system which allows national governments and cities to track their performance over time and compare with other frameworks elsewhere in the world.

At a global level, the Cities Alliance shares information about municipal finance through the Municipal Finance Task Force Web site, launched in 2005. This resource has become important to a variety of users—policymakers, researchers, financial institutions—through providing an information-sharing platform to assist cities in mobilising domestic long-term capital. The Web site provides a platform which allows practitioners to analyse and share the knowledge and experience of cities which have successfully

A Yangzhou, China pilot project provided homeowners with technical support and subsidies to upgrade their houses and found a public implementing agency to improve infrastructure



Dr. Zhu Longjin/Consultant GTZ

### **Box 7. Chuvash Republic, Russia: Linking CDS with Domestic Market Financing**

The Cities Alliance financed a CDS grant for the design of a regional capital investment strategy and prioritisation of capital expenditures for the Chuvash Republic, Russia. Given the Republic's massive infrastructure investment needs, the Republic is seeking financing from official and private funding sources on the basis of its own financial strength that include:

- A regional development strategy, key elements of which included a well-defined capital investment plan.
- Regional-city partnerships for raising infrastructure investment, defining the Republic's responsibilities for infrastructure service provision, and prioritisation of capital expenditures.
- Review of specific investment projects for accessing market-based finance.

A joint World Bank-International Finance Corporation (IFC) team engaged with the Republic to identify the potential for financial support through an IFC partial credit guarantee for the Republic's RUB1 billion bond issue.\* The key outputs of Cities Alliance support of \$250,000 included the IFC partial credit guarantee of 23 percent of the bond's principal, which helped lengthen the bond's maturity, reduce the cost of capital and improve liquidity. The bond was placed successfully in mid-2006 and achieved a one-notch upgrade over the Republic's standalone rating by Moody's.

\* In July 2007, US\$1 = RUB25.4.

mobilised long-term private capital, as well as the frameworks necessary, at all levels of government, to facilitate this process. Users from over 50 countries worldwide regularly download information from the MFTF Web site, with the commercial sector being the dominant user group.

In parallel the Cities Alliance has supported the initiative of United Cities and Local Governments (UCLG) in establishing a global commission on local finance. This commission is working on two major issues: the design of rational fiscal systems, and domestic sources of financing for small and medium cities. (See box 8.)

In summary, the Cities Alliance, during the year under review, has supported cities in mobilising domestic capital at two mutually reinforcing levels: (i) assistance for cities and national governments to reform their enabling frameworks to develop more self-reliant financing systems through improved intergovernmental fiscal relations, and (ii) supporting knowledge products that facilitate information sharing.



Courtesy of CAIXA

IDB-financed housing programme in Vila Sô Neném neighbourhood, Juiz de Fora (Minas Gerais State), Brazil

## Box 8. The UCLG Committee on Local Finance

### What is the UCLG Committee on Local Finance and Development?

Created at the United Cities and Local Governments (UCLG) World Council in Beijing (June 2005), the Committee on Local Finance and Development, chaired by Gilberto Kassab, Mayor of Sao Paulo, aims to advise UCLG members on matters related to municipal finance and resource mobilisation. The Committee meets twice a year and is supported by the Cities Alliance.

### Why local finance matters

*Creating more autonomy and flexibility for local governments to control their finances is a crucial dimension of decentralisation.* There is no decentralisation process without local governments being able to raise sufficient financial resources to fulfil the functions assigned to them by the law. To provide services to their citizens, local governments must be assigned sufficient own-source revenues and have access to external funding.

*The scale of the need in terms of local public infrastructure in developing countries is necessitating new thinking on how to finance these investments.* Local governments in developing countries cannot contribute effectively to the achievement of the Millennium Development Goals without accessing or developing additional financial resources. The financing of local public goods or local public infrastructure remains insufficient, unless access to external funding is provided and own-source revenue increases drastically.

Besides the mobilisation of domestic private capital, other financial means, like development bank loans and international aid, need to be even more directed to the cities of the South, which face the challenges of rapid urbanisation.

### What UCLG can do

UCLG intends to address these issues through the activities of its Committee on Local Finance and Development.

### Assist UCLG members to mobilise their own revenues and improve their governance:

- Gather information on successful practices from UCLG members and partners.
- Develop toolkits based on lesson learned, particularly in developing countries.
- Promote research on local finance reform in developing countries.

### Promote local government access to finance for local public infrastructure:

- Contribute to the analysis of strategies and frameworks to mobilise long-term capital.
- Contribute to discussions with financial institutions on developing access to funding—domestic and international.
- Develop innovative funding mechanisms for local government, namely through actively engaging in the initiative to create a World Bank of Cities.
- Develop partnerships with financial institutions to make them aware of the funding needs of local authorities.
- Provide advice and act as a sounding board to the Municipal Finance Task Force within Cities Alliance to strengthen the linkages between city finance needs and demands, and financing options.



Courtesy of UCLG

UCLG World Council Meeting in Marrakesh, Morocco