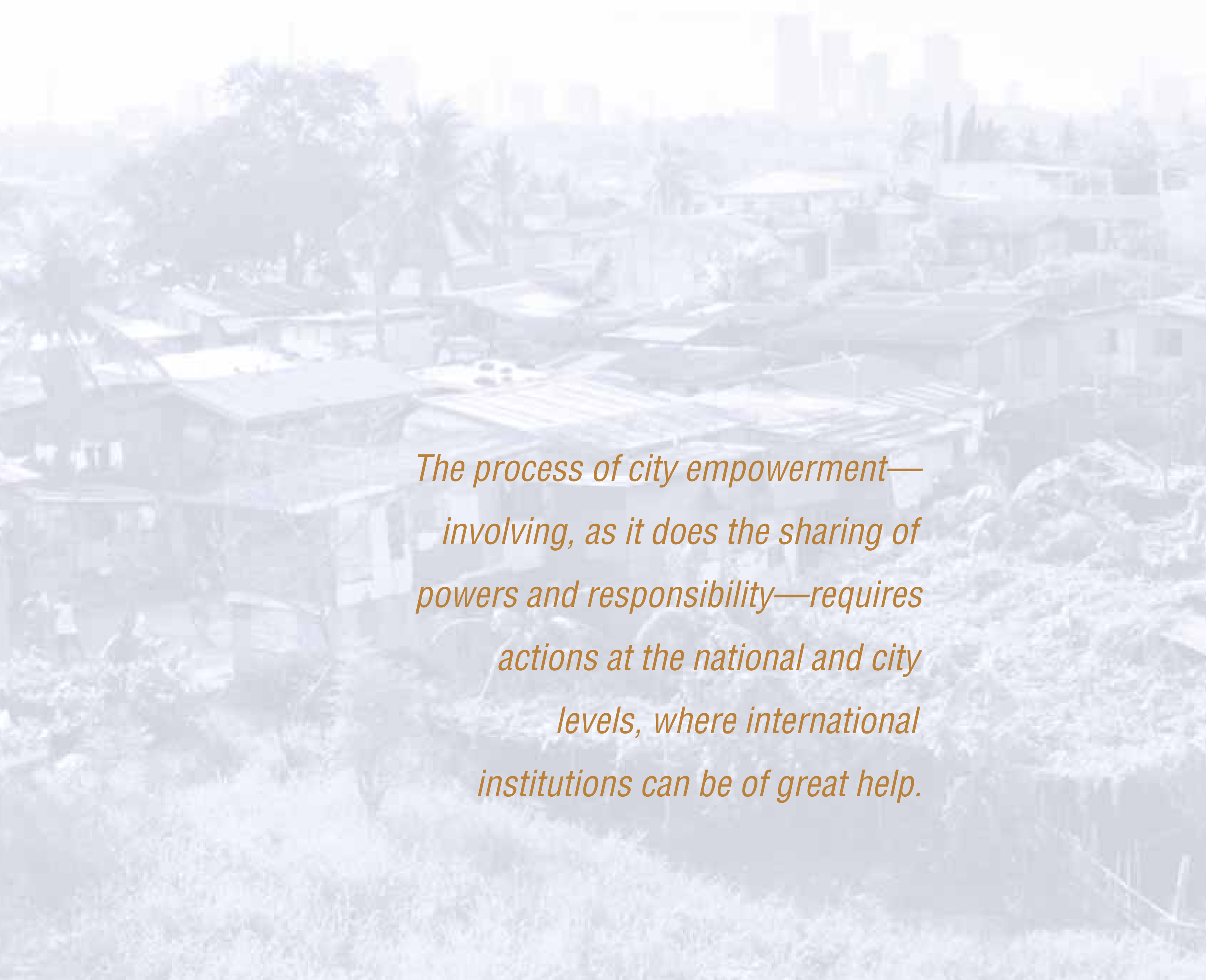
CITIES ALLIANCE IN ACTION



The process of city empowerment—involving, as it does the sharing of powers and responsibility—requires actions at the national and city levels, where international institutions can be of great help.

However uneven the process, international recognition is growing of the role that empowered cities can play in responding to the needs of citizens and in creating the conditions that facilitate local and national economic growth. Although lack of experience and skills is a very real constraint for many cities in the developing world, especially after decades of acting as the administrative arm of national governments, more and more national governments recognize the long-term benefits of encouraging cities to act as autonomous partners in governance and development.

This evolving situation is a vital part of the context within which the Cities Alliance works and focuses on helping cities to:

- Prepare city-level strategies and investment plans based on realistic resource commitments;
- Improve access of the urban poor to basic services through citywide slum upgrading programmes;
- Adopt sustainable financing for investments linked to domestic sources of capital.

All these strategies are successful to the extent that they address the needs of, and enjoy the support and consent of, the people for whom they are designed.

This chapter reviews the efforts of cities, national governments, and their development partners to move towards scale in tackling issues of urban poverty, economic growth, and good governance. This review also provides an opportunity for us to reflect on some of the lessons emerging from Cities Alliance grants explicitly designed to facilitate learning and to promote a comprehensive developmental approach.

Lessons from City Development Strategies

The premise of the city development strategy (CDS) is that well-positioned and well-timed strategic interventions by the public sector, the private sector, and civil society can significantly alter a city's development path.[1] In other words, a combination of vision, leadership, and concerted action by local leaders and citizens can dramatically and permanently alter a city.

Cities in developing countries face enormous challenges and considerable uncertainty, as have many developed cities before them. These challenges include unprecedented rates of urbanization, poorly maintained and outdated urban infrastructure, extreme urban environmental degradation, and declining economic prospects. To compound these difficulties, global warming is expected to lead to rising sea levels over the next decades, threatening hundreds of millions of people in industrialized and developing cities alike.

Given a competitive and uncertain economic environment, developing cities need sound approaches to most effectively use their limited financial and technical resources and to attract new resources and investments. However, while local authorities may have some political authority, they generally control only a small portion of the resources they need to put their cities on a new development path. The real resources they need are with private interests and civil society and can be mobilized through public, private, and civil society partnerships.[2]

A key function of a CDS is providing an opportunity for cities, higher levels of government, and their development partners to define growth trajectories that are inclusive. The CDS process would ideally operate at two mutually reinforcing levels. First, it would operate at a micro (city) level, enabling the city to pause; take stock of its core business, namely, facilitating the production of growth-inducing and environment-enhancing public goods; identify gaps; and then prioritize an inclusive and financially sustainable growth strategy. Second, it would operate at higher levels, with cities working in partnership with higher levels of governments to identify the systemic reforms needed to technically, managerially, and financially empower cities.

A good example of this iterative process at work at two levels of policy and city actions is the Cities Alliance grant to cities in the Philippines; these cities range in size from small and fairly rural towns, such as Bais and Dumaguete, to large cities in Metro Manila, such as Muntinlupa City and Marikina City. These city governments have used CDSs to take stock, identify infrastructure needs, and prioritize, ensuring links to domestic financing. Investments are made in initiatives ranging from growth- and mobility-inducing facilities, such as roads to connect fragmented cities; to environment-enhancing assets, such as compost yards; to major upgrading of slums in cities such as Marikina (see box 5 in previous chapter).

The way the League of Cities of the Philippines (LCP) has used CDSs has neither subverted traditional physical planning nor supplemented existing processes. For example, the CDS, driven by economic and environmental considerations, has identified new investments in public goods; these investments have been grafted onto the physical master plan, which of course has the statutory authority. The CDS process has also identified key institutional constraints on the ability of the cities to create infrastructure. Of particular concern are the incomplete implementation of the Local Government Code and the need to strengthen intergovernmental fiscal relations. The LCP members are using CDSs to argue more systemically for strengthened fiscal capacities and in partnership with the World Bank's new line of credit of $100 million.


Jorgen Schytte / Still Pictures

The Manila skyline at a busy traffic intersection.

Similarly, but in a vastly different geographic and institutional context, the Oblast of Vologda has used the CDS grants to redesign institutional issues of intergovernmental responsibilities for service delivery at the macrolevel, as well as to define a cluster-based growth strategy for the Vologda region at the microlevel. This experience has probably energized other oblasts, particularly Stavropol and Chuvashia, to use CDS grants catalytically, but embedding them in existing systems to mitigate the risk of reliance on unsustainable donor-driven approaches.

In contrast, recent evaluations from the Indian city of Hyderabad suggest that the CDS (see box 1 in previous chapter) insufficiently integrated key state agencies involved in services such as water. This fact, along with the lengthy process, impacted negatively on the direct investments needed to give the CDS process credibility in the citizens' eyes. Similarly, in Indonesia, the CDS had a mixed outcome, largely because of its failure to promote necessary changes at the national level or to enable links with domestic financing.

At least three major lessons can be drawn from CDSs to date. First, to spread effects across cities within a country and over time under conditions of imperfect decentralization, cities need to work with the higher tiers of government to promote the necessary systemic and institutional reforms. Conversely, mere macro level strategies or intense microattempts that ignore institutional constraints tend to weaken the prospects of change.

Second, cities need to work with systems and avoid the temptation of *ad-hoc* initiatives. When national governments and their development partners have a clear vision of their respective expectations and measure outcomes at both levels by looking at impacts on the quality and quantity of public goods that the cities are in the core business of producing, the prospects for sustainability and replication improve.

Third, cities should never implement a CDS in a vacuum: there is always an existing system, however imperfect, within a legal framework. The greatest challenge for cities in the developing world is to deliver on their core business: the proactive development of environmental and growth-inducing infrastructure.

This focus requires empowered city governments with the authority to create, finance, and pay for public goods for their citizens over time. A successful CDS will unblock institutional constraints and promote partnerships with national governments, all classes of residents, and the private sector. In short, a CDS will almost invariably require a change in a city's assumptions, priorities, decision making, and power structures.

What, then, constitutes a high-quality CDS? The Mumbai CDS is a good example of a coalition, with defined roles, using the CDS as a thinking and strategic forum to identify better ways of creating infrastructure and managing the processes of growth and poverty reduction.

The experience of the Cities Alliance to date points to the importance of several key strategic thrusts within a successful CDS. These include:

- Local governments playing a key role in facilitating economic growth, the central feature of a CDS;
- Realistic assessments of the resources and opportunities available; and,
- The involvement of investment partners in the CDS process from the outset and the identification of domestic sources of financing.


Jorgen Schytte / Still Pictures

Busy street scene in Ouagadougou, Burkina Faso.

Economic growth—the key to urban poverty reduction—needs to be facilitated by local government.

The economic future of all countries will more and more be determined in their urban areas. In an uneven process, decentralization is shifting power and resources to cities and their citizens, raising the importance of good city management and a city's economic performance. As the cities will increasingly rely on their own economic abilities and advantages, a CDS should have a local economic development strategy at its core.

Cities and local governments can play a critical role by providing conditions that actively encourage private investment, risk-sharing, and economic growth. They can maintain the appropriate regulatory framework; ensure the provision and maintenance of public goods, such as infrastructure and essential services; provide an effective and impartial administration; and systematically tackle corruption. Evaluations of completed CDSs demonstrate that partnerships and the quality of city governance are really key ingredients of a successful CDS; indeed, it is often the quality of urban governance that divides declining cities from prosperous ones.

The Aden CDS is instructive. Aden, the port city of Yemen, recognized that private sector development was instrumental to its future. The city realized that to attract private sector investment, building trust in the quality and consistency of local governance was a critical step. The subsequent evaluation of the Aden CDS showed that the strategy emphasized building investor confidence, improving the business environment, and streamlining regulation. Local stakeholders praised the process as positive and innovative, particularly for starting a dialogue between the private sector and local government in a country where relations between the business community and government have historically been characterized by high levels of distrust. As Yemen presently lacks domestic resources for local infrastructure investments, World Bank credits were to prove instrumental in implementing the CDS action plan. While these first investments are important, over the medium to long term the prime driver of the strategy will be the private sector. Because of the nascent state of private sector development in Aden, investments are still low, but they should increase significantly.

Cities in different parts of the world have recognized that involving the domestic private sector, including small and medium-sized enterprises, microenterprises, and representatives of the informal economy, is critical to overall success. CDS processes can give a voice to the private sector and thus help the local government define its facilitative role in private sector investment.

The Bobo-Dioulasso CDS in Burkina Faso has a strong focus on private sector development. One of the major outcomes of the CDS in Karu, Nigeria, was the creation of the Business and Economic Development Committee (BEDC) to represent local businesses, which opened channels for discussion between the private sector and state and local governments on local and regional planning issues. The CDS for the region around Yogyakarta, in Indonesia, includes an important component on the local and regional economy, and the CDS cities in the Philippines have built up a marketplace for private investment through their active and innovative use of the CDS process.

However, there are limits to what can be achieved by one tier (or sphere) of government working alone. It is vital to coordinate city-level economic development planning with the processes at the regional and national levels, since policies at these levels directly and indirectly influence local economic growth and urban competitiveness. In Aden, as elsewhere, all levels of government make critical

Stephen Karam / World Bank

The port city of Aden, Yemen.

decisions affecting private sector investment. Port and airport investments, for example, both essential to Aden's economic growth, are the responsibility of national-level officials. Both national and local policy and regulatory reforms will be needed to create an enabling environment for local enterprise development, investment, and growth.

Finally, within a national enabling framework, it is at the local level where policy, regulatory reforms, and public investments can most effectively assist the poorest residents. For example, in Niger, with the Dosso and Maradi CDSs, each city mapped poverty at the neighbourhood level and analyzed prospects for economic development, focusing particularly on the challenge of reaching the urban poor. Although the process is still incomplete, the Niger government encouraged the growth of cities by implementing policies to enhance political decentralization, with official seats on municipal councils being filled directly from local populations. These councils now freely exercise their legal powers, particularly in such areas as local economic development, poverty reduction, environmental conservation and protection, and, more generally speaking, improvements in the living conditions of residents.

A realistic assessment of the city's resources and opportunities is key to implementable CDSs.

Good-quality assessments, undertaken at the outset, are the underpinning of the CDS process—the stronger the assessment, the more likely it is that the strategy can be targeted, which is particularly important for pro-poor strategies. The initial assessment should identify the main driving forces of change, scan the overall features of the city, focus on some of the more important ones (an activity often called scoping), identify indicators, and set benchmarks for measuring the changes that the CDS process will trigger.

Each city needs to understand and fully exploit its comparative advantages and focus on those goods or services that generate broad-based employment. Priorities in assessment processes include identifying ways of improving the city's overall performance and efficiency, fostering the national and international competitiveness of the city, and promoting broad-based employment that intentionally includes the informal sector in job creation.

In Egypt, the Alexandria Local Economy Assessment and Competitiveness report included two main reasons to explain why only 31 percent of the governorate's population was active in the labour market: age and gender. An estimated 51 percent of Alexandria's population is under the age of 20 years, and participation by women in the labour force is very low. Yet, to respond to the 1.2 million increase in population expected over the next 15 years (from 3.7 million in 2006 to 4.9 million in 2021), at least 40,000 new jobs will have to be created every year for new entrants in the job market.

Tourism is one of the sectors envisioned as underpinning the Alexandria CDS. This sector would include cultural heritage tourists, MICE travel (meetings, incentives, conferences, events); SAVE travellers (scientific, academic, volunteer, educational); summer and family holidays; cruises; adventure travel (yachting, water sports, archaeological diving); and festivals. The Alexandria CDS team has completed a comprehensive assessment of the sector's weaknesses and growth potentials, opening the way for the governorate to investigate some projects to develop the tourism sector, in partnership with the private sector.

The success of Alexandria's consultative process had a positive influence on the Egyptian government, which recently decided to mainstream the CDS as a broader based approach to urban development. The CDS strategic planning process is now mandatory for all other governorates, as articulated under the new "Unified Construction Code".

Lessons from CDS assessment processes demonstrate the general importance of:

- Formalization and structure of the assessment process;
- Links to wider and regional or national processes;
- Capacity of groups involved in the assessment, roles of elected leaders, use of external consultants, and degree to which the cities make use of research and data from partners and other resources within the city; and,
- Stakeholder participation, breadth of participation, and its aims (data or information input, strategic insight, or validation of assessment).

The early involvement of investment partners is key to success.

An essential element of a CDS that sets it apart from conventional approaches to local development is the importance attached to identifying potential investment partners as early as possible in the CDS process. This serves two purposes. Most obviously, it allows for potential investment partners—be they multilateral development banks, bilateral overseas development assistance providers, or private and public sector investors—to provide their own input. It also ensures that the strategy is based on a realistic and pragmatic assessment of the financial situation and doesn't become a wish list for which funding is subsequently solicited.

Examples of early planning to attract investment, taken from Cities Alliance proposals and evaluations for 2005, are the following:

- China has abundant domestic capital available for local-authority investments in infrastructure. In the case of the Chengdu CDS (see box 8), the financial analysis established the city's fiscal capacity to implement the resulting plan.

The analysis included an assessment of total revenues and expenditures (on and off budget), current and projected debt loads, adequacy of operation and maintenance funding, and institutional setup. A first task was to create a complete picture of the municipality's financial situation to use as a basis for discussions with investment partners and lenders.

- The Alexandria CDS process succeeded in attracting many new projects and investments for the city to be financed by the Government of Egypt and donor agencies (GTZ–KfW, UN-Habitat, Social Fund, Bibliotheca Alexandrina, Canadian International Development Agency (CIDA), International Finance Corporation (IFC), and UNICEF–AUDI). The Government of Egypt has requested a World Bank project, an Alexandria Growth Pole project, and an Aden Growth Pole project (Specific Investment Loan), $100 million over five years, basically to implement the three components of the CDS. The proposed project builds on a strong donor partnership built under the CDS process with GTZ–KfW, UN-Habitat, the United States Agency for International Development (USAID), the Japan Bank for International Cooperation (JBIC), and the Social Fund; most of them were fully engaged in the CDS work in Alexandria and showed a commitment to supplying parallel financing or funding to the project proposed in Alexandria. All these new investments and projects are coordinated and designed within the scope of the new strategic framework, which ensures a long-term sustainable development for the city. The commitment from all local stakeholders, central government, and donor agencies and the successful broad-based consultation process established under the first CDS provide a tangible asset for the next phases.


Ullstein—Joker / Still Pictures

View of the Bay of Alexandria.

- In India, as elsewhere, the defining trend of the last decade has been decentralization and, with it, the growing recognition that cities need to transform themselves into proactive developers of infrastructure if they are to meet the challenges of growth and urban poverty. This process of empowerment is the basis of the Government of India's national initiative, launched in 2005, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The JNNURM has, as its fundamental premise, three interrelated actions that need to be taken so that cities can finance, create, and pay for basic infrastructure. These actions are: (i) institutional reforms that empower cities; (ii) inclusive city strategies, with explicit recognition of the problems of the slums; and (iii) sustainable financing of city requirements through improved links to domestic markets. The entire process of implementation involves continual interface with civil society, as well as having rating agencies do performance monitoring of the cities, promoting greater accountability of city governments' management and provision of basic services.

The huge costs of JNNURM will be covered by public sector finance from the central and state governments, as well as by funding leveraged from the local capital market by local urban bodies. To apply for grants under JNNURM, the government requires eligible cities to:

- Formulate a medium-term City Development Plan (CDP);
- Prepare project proposals;
- Define a schedule for implementation of reforms; and,
- Identify cofinancing sources to match government funds.

JNNURM holds the promise of making Indian cities more economically productive, efficient, equitable, and responsive to the needs of their populations.

Challenges

The CDS can function as an extremely effective tool for raising the rate and sustainability of local economic growth, allowing local governments to move beyond mere administration of the city to the stimulation of private sector investment and employment generation. A good CDS helps local governments identify priorities, improve administration, strengthen citizen involvement, and identify specific actions to reduce constraints on investment and employment.

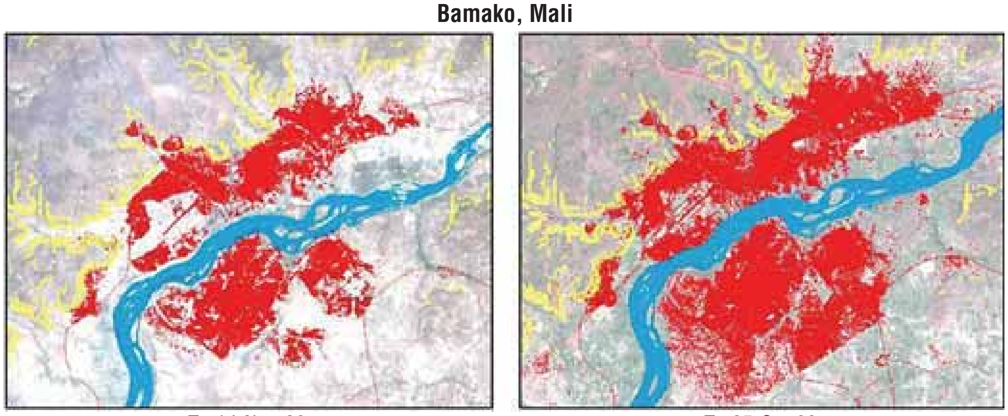
Cities within the same country often suffer from many of the same obstacles and constraints. National associations of local governments can be effective in obtaining the necessary political and programmatic support from national government. National cities networks such as the League of cities of the Philippines (LCP), the South African Cities Network (SACN), the South African Local Government Association (SALGA), or the network of eight CDS cities in Latvia can offer valuable strategic support and capacity.

Lessons from Slum Upgrading Activities

The second substantive platform of Cities Alliance assistance is support for cities undertaking citywide slum-upgrading programmes and, thus, implementing strategies that anticipate future urban growth and thereby help to prevent the growth of the next generation of slums.

From the perspective of the Cities Alliance and its members, analysis of the global slum problem has paid too much attention to debating the size and extent of the problem, rather than focusing on the

Bamako, Mali



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Source: The Dynamics of Global Urban Expansion, Angel, Sheppard and Civco. p 115.

BOX 9. SCALING UP SLUM UPGRADING IN THAILAND

"We all need to think about the processes that will allow all "slum" and squatter households in a nation to achieve the "significant improvements" that the Millennium Development Goals demand. Many upgrading and new housing development programmes have "significantly improved the lives of slum dwellers", but almost never on a scale that significantly reduces the problem. In most nations, more is needed than just increasing the support to conventional upgrading and new housing projects."[a]

In January 2003, the Thai government announced two new programmes for the urban poor, seeking to reach 1 million low-income households within five years. The first was the Baan Mankong ("secure housing") programme. This programme channels infrastructure subsidies and housing loans directly from the government to poor communities, which plan and carry out improvements to their housing environment and basic services. The Community Organisations Development Institute (CODI) carries out the Baan Mankong programme. Among the features of this programme are the following:

- Urban-poor community organizations and their networks are the key actors, and they control the funding and the management. They (rather than contractors) also undertake most of the building, which makes funding go much farther and allows for their own contributions;
- More than physical upgrading is involved. Communities design and manage their own physical improvements, stimulating deeper but less tangible changes in social structures and managerial systems and instilling confidence among poor communities. The programme also changes their relationships with local government and other key actors; and,
- Urban-poor communities are developed as an integrated part of the city. People plan their own upgrading within the city's development framework, so their local housing development plan is integrated within city planning and CDS.

The second is the Baan Ua Arthorn (We Care) programme, through which the National Housing Authority designs, constructs, and sells ready-to-occupy flats and houses at subsidized rates to lower income households that can afford rent-to-own payments of $25–$37 a month.

Jearanaikul-UNEP / Still Pictures

Bangkok cityscape.

Source: Somsook Boonyabancha, "Baan Mankong: Going to scale with 'slum' and squatter upgrading in Thailand", *Environment and Urbanization* 17 (1): 21–46.

a. Somsook Boonyabancha, director of Community Organisations Development Institute (CODI) and founder and secretary-general of the Asian Coalition for Housing Rights (ACHR).

main causes of the growth of slums, and identifying strategies that will allow cities and countries to address existing backlogs and get ahead of the curve.

Viewed from a global perspective, the prime cause for the proliferation of slums remains a combination of weak governance and inappropriate policy frameworks, often guided by an anti-urban-growth attitude and a deep-seated hostility toward the urban poor. The need for a decisive shift to forward-looking and inclusive policies is extremely urgent, especially in much of sub-Saharan Africa and in south and Southeast Asia.

Consider the known facts. Over the last 50 years, the global population living in slums has risen more than 25-fold, from 35 million to more than 900 million. Much of this growth in slums is driven by growth in the urban population, whether from in-migration or from natural population growth. Unless governments combine the vision and resources needed to anticipate and provide for this urban growth—which is certain, predictable, and unstoppable—this number could double again in the next 30 years.

Given current trends, with average urban densities declining at an annual global rate of 1.7 percent, this doubling of the developing world's urban population will triple the size of urban areas.[3] As a recent landmark study pointed out, national and local authorities in developing countries should be making realistic, if minimal, plans for urban expansion, designating adequate areas to accommodate the projected expansion, investing in basic trunk infrastructure to serve it, and protecting sensitive land from the incursion of new urban development.[4]

Anticipating this growth is critical for cities and countries if they are to benefit from higher performance urbanization and have an impact on poverty alleviation and prevention, environmental sustainability, and higher standards of living.

Another reason to move beyond debating the mere scale of the problem is that it obscures the very real progress being made in many cities and countries in different parts of the world. In countries as diverse as Chile, Egypt, Ethiopia, Morocco, India, the Philippines, Senegal, and Thailand, the Cities without Slums message (United Nations Millennium Development Goals [MDGs] target 11) is gaining momentum, with new policy initiatives and programmes being implemented. In these and other countries, the political will to upgrade slums is growing, and the Cities Alliance is pleased to be supporting more local and national governments in long-term, citywide and nationwide approaches to tackle the systemic causes of inequality, social exclusion, and economic decline. However, these trends need to be urgently scaled up, and also reinforced by more proactive assistance from international development agencies, many of whom have yet to adopt forward-looking urban policies.

Building on its slum upgrading efforts to date, the Senegalese government, together with the Association of Mayors of Senegal and with support from Cities Alliance members, is developing a national *Villes sans bidonvilles* (Cities Without Slums) programme, with a 10-year action plan to upgrade existing slums and introduce policies to avoid the development of new ones.

Slum upgrading is a national priority in Morocco, where a coalition of Cities Alliance members is actively supporting a six-year nationwide *Villes sans bidonvilles* programme to provide decent accommodation for the 212,000 households living in urban slums across the country.

In Thailand, the government has undertaken to provide and facilitate housing delivery for 1 million households over five years. Its ambitious and largely home-grown cities without slums programme is

BOX 10. UPGRADING 200 BARRIOS IN CHILE

Chile has a resolute history of targeted social investments and one of the most consistent housing policies in the developing world. Over the past three decades, Chile has centred its housing policy on an ambitious and robust subsidy programme for housing the poor. The country has implemented a wide range of housing programmes funded through a combination of savings, subsidies, and credits at market rates. The centrepiece approach has been the large-scale production of modest but completed houses on serviced land for low-income households. Although this strategy has produced a large housing stock, it has also contributed to new social problems and the creation of some ghettoes. In addition, the government has struggled to reach the very poorest in its subsidy programme and has had very limited success in attracting the private sector as a risk-sharing partner in the bottom segments of the market. Notwithstanding the fact that Chile arguably now offers the highest capital housing subsidy in the developing world, it also has a growing underserved population that is below the national standard of housing and is marginalized from the full range of services.

Responding to this scenario, the new government of President Michelle Bachelet has introduced a bold and wide-ranging programme aimed at remedying some of the more obvious inequities evident in this society, some of which are legacies of the dictatorship. Hoping to avoid the more glaring mistakes, which left some public-housing blocks under consideration for demolition, the administration is turning to shelter programmes as vehicles for social inclusion.

The Bachelet administration now places far more emphasis on consultative and participatory approaches to housing and urban development. Among the four priority programmes is a multidisciplinary programme to promote the integrated social regeneration of some 200 communities throughout Chile. It is a national programme of upgrading, community participation, and social integration; the goal is to improve the neighbourhoods *and* build communities of participating citizens. These poor neighbourhoods, or *barrios*, have the worst concentrations of urban poverty and social vulnerability, or they represent significant social deterioration.

The 200 *Barrio* goals are attainable because there are already good signs of progress and good experiences to build on. Recently, with the support of the GTZ and the Cities Alliance, a special Ministry of Housing programme made subsidies more accessible to the poorest communities and encouraged municipalities to use them to upgrade housing and neighbourhoods. For example, Mayor Castro Medina, in the small municipality of Santa Juana, drew on the community-participation approach and helped the very poorest break out of appalling living conditions and move into well-located, humane, and habitable housing.

Cities Alliance

New housing scheme, Santa Juana, Chile.

both unconventional and highly innovative and is based on a communal approach to citywide slum upgrading.

This approach relies on a high level of social mobilization and organization, with communities, local governments, and affected stakeholders planning an upgrading process to improve all communities within the city. The Thai initiative highlights how citywide slum upgrading and CDS can go hand in hand and, with strong community participation, take upgrading to scale.

In China, where urban-policy discussions have generally focused on producing new urban areas at the edge of existing cities or on creating whole new urban centres in rapidly urbanizing regions, the existing built-up areas, including an extensive housing stock built at least 20 years ago or more, have been neglected.

In the urban areas of Yangzhou, where about 15,000 apartments spring up each year, the municipal government is developing a citywide upgrading strategy that would incorporate the older stock of buildings into the overall CDS, to maintain and support social and economic inclusion.

In Tanzania, the Dar es Salaam city council and its three municipalities, Ilala, Kinondoni, and Temeke, have a citywide strategy to address the challenges of unplanned and unserviced settlements, working with the urban poor and the private sector to achieve a Dar es Salaam without slums by 2015. With approximately 70 percent of the population living in unplanned and unserviced settlements and the city attracting some 100,000 migrants annually, Dar es Salaam developed its strategy in collaboration with the national government. The strategy aims to prevent the growth of new slums and overdensification by regularizing land tenure and issuing residential certificates to provide security of tenure and increase the city's revenue base. The Dar es Salaam city council has also had the foresight—lacking in so many other cities—to include the design of a long-term sustainable financing strategy for settlement upgrading as a central part of this citywide programme.

The Cities Alliance is supporting Metro Manila's Cities without Slums initiative to develop a 15-year citywide strategy that includes shelter and neighbourhood upgrading and components for social development and improved income security for the poor. The experiences will be closely monitored and documented to inform policy and facilitate national replication.

For Nigeria's coastal city–state and former capital, Lagos, the state government has come to see slum upgrading, and policies to prevent the growth of future slums, as the only realistic option for improving the lives of the poor. With a current estimated population of 11.14 million,[5] larger than that of 37 African countries and growing annually at 4.8 percent, Lagos is expected to be home to more than 17 million people by 2015. Close to

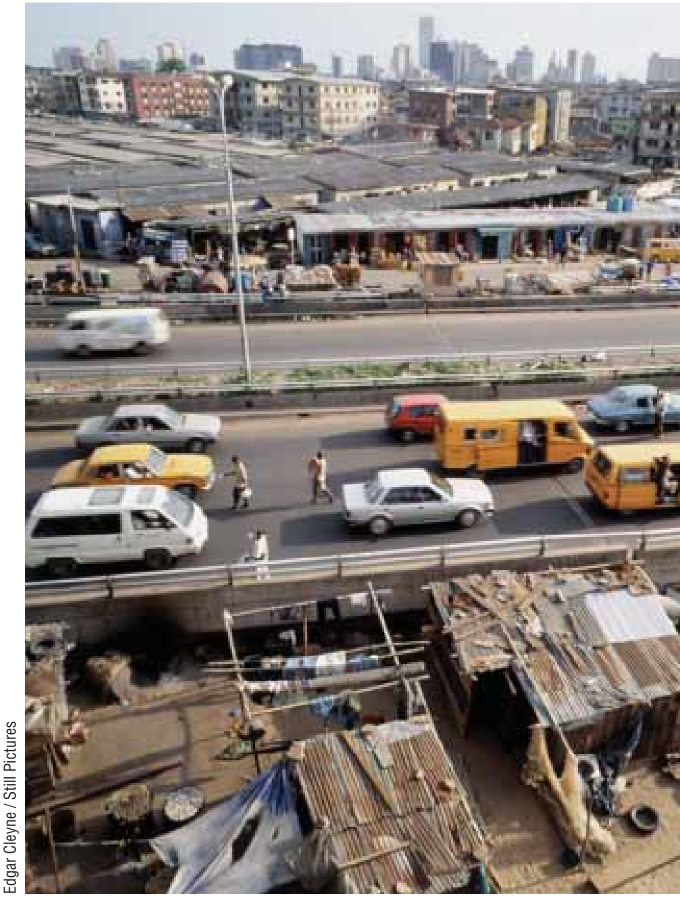
Charlotte Thege / Still Pictures

Dar es Salaam, Tanzania, with the port in the background.

70 percent of the city's population currently lives in slums—and growing at 8.9 percent per year. These slums remain a stark manifestation of poor urban policy, particularly with respect to shelter and land.[6]

A major challenge under current budget constraints is providing social services and developing infrastructure for this economy. The state of Lagos has an annual budget of about $650 million. By contrast, Mumbai and Jakarta—each, like Lagos, with populations of 11 million—have annual budgets of $1.6 billion and $1 billion, respectively.[7]

The demonstrated commitment of Lagos State's elected officials to formulate explicit development strategies in consultation with the private sector and civil society was catalytic in sparking an intense and comprehensive policy dialogue with the World Bank in 2003. Since then, through the use of cross-cutting analytic tools, Lagos has identified strategic, optimal and local interventions for private sector-led job creation and improved service delivery, to tackle simultaneously growth and poverty reduction. These include targeted investments in the economic and social infrastructure sectors, as well as substantial reforms for sustainability, some of which are being supported by the Lagos Metropolitan Development and Governance Project. In keeping with the partnership principles of coherent donor efforts to support Lagos government priorities, the UK Department of International Development (DFID) is working with Lagos to sustain the gains made by the state government on the revenue side, while the World Bank is supporting improved budgeting, expenditure management and results monitoring. Additional support from the Open Society Initiative, the Ford Foundation and DFID complement Lagos' own pioneering initiatives to enhance access to justice, particularly for the poor.


Edgar Cleyne / Still Pictures

Lagos cityscape.

As already noted, the political will to undertake and sustain slum upgrading is evidently growing, and more countries will soon rise to the challenge of developing city- and nationwide slum-upgrading strategies. Experience to date has underscored a number of essential ingredients for sustainable upgrading strategies:

- Making slum upgrading a core business, nationally and locally, particularly through a budgetary commitment;
- Implementing necessary policy reforms related to land, finance, and institutional frameworks;

- Setting clear national and city targets and engaging stakeholders in planning and monitoring results to ensure public sector accountability;
- Mobilizing non–public sector resources, engaging the private sector as a risk-sharing partner and engaging the slum dwellers themselves, who have both the ability and the interest to promote upgrading;
- Recognizing and facilitating the contribution of the informal sector to shelter production, economic growth, and the provision of services;
- Ensuring open and transparent land markets, to discourage corruption, patronage, exploitation of the urban poor;
- Promoting flexible approaches to resolve land ownership uncertainty and to provide secure tenure;
- Integrating the poor into decision-making processes and building the social capital in poor communities for sustainability; and, most critically,
- Taking urgent steps to prevent the creation of the next generation of slums.

Arguably, the world's slums constitute the greatest concentration of development deficits. This issue cuts across the MDGs for poverty, education, gender inequality, child mortality, disease, degraded environments, and so on. While the greatest impact of slum upgrading would clearly be on the lives of slum dwellers, most particularly women and children, social and economic benefits would also accrue to society at large and the public and private sectors.

However, where local governments fail to provide services and the poor are left to fend for themselves, one of the most insidious outcomes is the creation of informal, parallel markets, the main beneficiaries of which are the informal service providers or their intermediaries. The primary parties both lose—the local authority, because it does not receive the revenue for services rendered; and the consumer, because he or she invariably ends up paying the highest unit cost for essential services. The costs of parallel markets created by policy failure—be they increased costs of services, lost revenue, protracted governance problems, or the premium paid by the poor—only reinforce the need to prepare for future growth and prevent new slums.

With respect to the huge challenge of upgrading the slums and providing new housing, the Government of Maharashtra has decided to withdraw from directly providing housing and maintaining certain buildings. It has concluded that constant state intervention over the past 30–40 years has not led to any significant improvement in the city's housing scenario.[8]

The scale of the problems is enormous: for example, an estimated 19,000 buildings, most of which are more than 50 years old, have been badly neglected as a result of rent-control policies. Elsewhere, it is estimated that the city will need to recover some 100 kilometres of pavement from the families that have been living there, in many instances for more than 20 years. The city resettled the first 83 families in 2006, setting an important precedent. Some 25,000 families are due to be resettled over a two-year period.

Other major initiatives are the following:

- Redevelopment of Dharavi slum, reputedly Asia's largest, over seven years, and the rehabilitation of some 52,000 families;
- Complete replenishment of Mumbai's ancient taxi fleet;

BOX 11. TRANSFORMING MUMBAI

Defying its many sceptics, the ambitious transformation of Mumbai is beginning to take shape, and change is slowly becoming visible in this enormous city. Driven initially by the private sector, which had become increasingly concerned by the long-term decline of India's commercial capital, the Government of Maharashtra is now leading efforts to transform Mumbai into a world-class city.

The city of Mumbai lies at the core of the larger Mumbai Metropolitan Region, which comprises seven municipal corporations and 13 municipal councils and has a population of around 20 million. The per capita GDP of the metropolitan region (Rs 62,000 [Indian rupees]) is more than double that of the rest of Maharashtra (Rs 28,000).[a]

Joerg Boethling / Still Pictures

Traffic on Marine Drive, Mumbai.

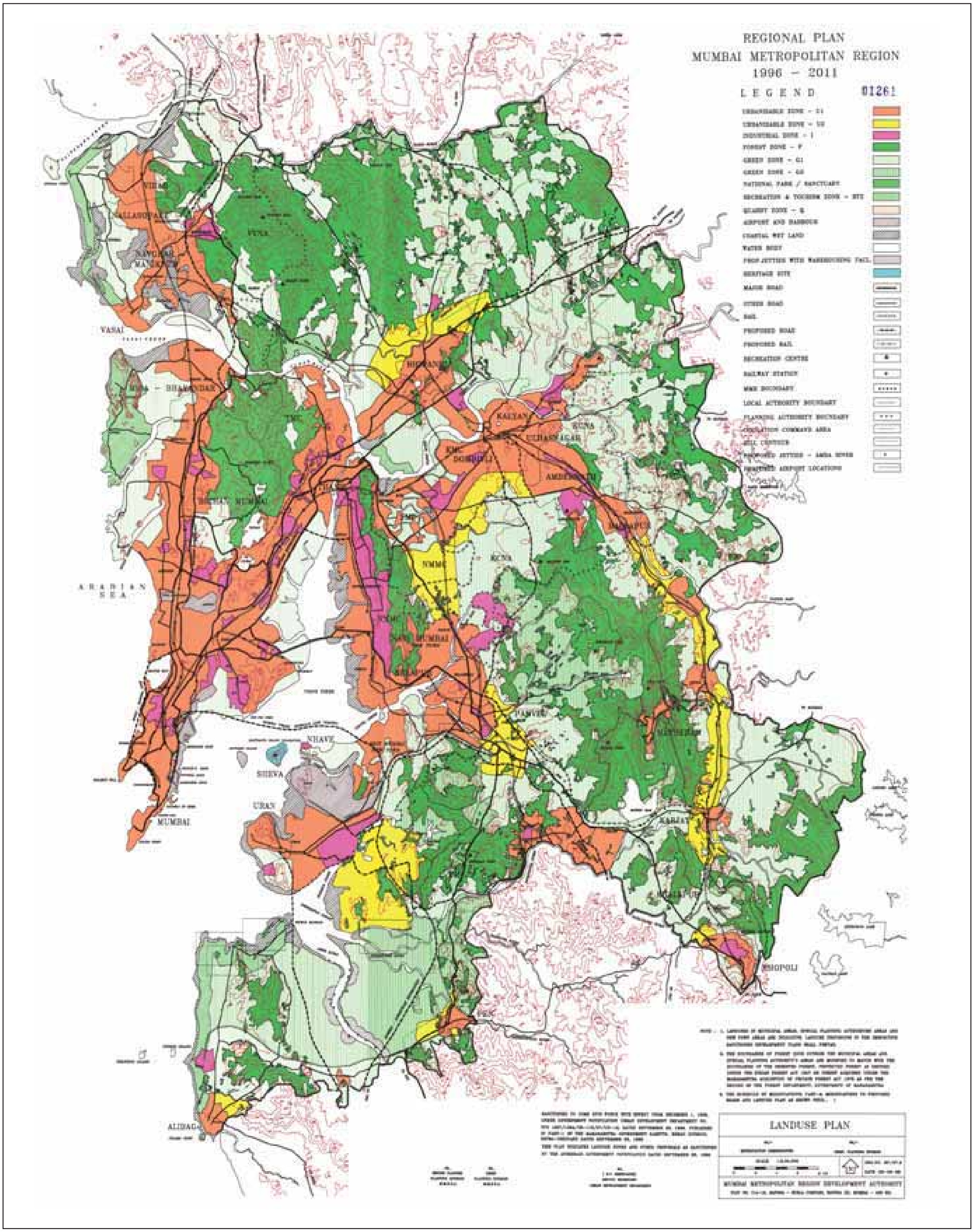
However, for Mumbai to significantly transform itself, the Government of Maharashtra believes that the metropolitan region will need to sustain an economic growth rate of 10 percent per year. Such an ambitious growth rate would require some fundamental reforms, including those that have been consistently neglected, even though they have long ago been identified.

Central challenges include outdated regulatory regimes that constrain Mumbai's land markets and often result in land and property prices that are higher than in Manhattan or Shanghai. These prices ensure that not only the very poor live in Mumbai's slums, which are currently home to about 54 percent of the population. The real estate market is constrained by, *inter alia*, the Urban Land Ceiling Act and an outdated rent-control regime that does not allow the city to capture revenue from increased real estate values.

Despite the extremely high real estate values, the state of the public infrastructure in Mumbai is extremely poor. The consequences of decades of underinvestment in infrastructure and maintenance, particularly in sewerage, storm water drainage, and solid waste management, were painfully exposed in the flooding that caused widespread damage to people and property on July 26, 2005.

The Mumbai transformation is predicated on a number of core strategies to achieve a significantly higher rate of growth and greatly enhanced tax revenues. Central to the city's transformation is giving priority to improved infrastructure. The Government of Maharashtra has estimated investment requirements of some $60 billion, focusing on the road and rail networks, reliable power supplies, the port and the airport, and water and sanitation systems.

[a] As of September 2006, the exchange rate was $1 = 46.67600 Indian rupees.



MMRDA

Mumbai Land Use Plan.

- Redevelopment of Mithi River and the consequent resettlement of 3,600 slum dwellers;
- Expansion of a rail-based mass transit system;
- Completion of the dramatic Bandra Worli Sea Link Project and the Worli-Nariman Sealink Project, a highway built above the sea and running parallel to and 150–200 metres from the shore; and,
- A proposed 22 kilometre six-lane trans-harbour bridge, to be entirely funded by private equity.

The Cities Alliance has contributed to these efforts by funding a number of World Bank studies for the Government of Maharashtra and, more importantly, by funding the Mumbai Transformation Support Unit (MTSU). This unit provides dedicated and high-quality support to the Government of Maharashtra and, in particular, to the director of special projects, a post created specifically to oversee the transformation.

Sustainable Financing of Investments

Often, a measure of the sustainability of an urban development strategy can be a city's continued access to domestic sources of finance. Cities can best secure this access by demonstrating a stable and predictable revenue stream over time, providing comfort to potential investors. Key ingredients for linking city financing needs with domestic capital include:

- City development and investment strategies with resource commitments and priorities consented to by the governed;
- On-budget investments that make provision for the needs of the urban poor
- Rational, predictable devolution of powers to local authorities, with legal frameworks for borrowing;
- Domestic market–oriented financial intermediaries working with cities; and,
- The fiscal space to enable affordable long-term interest rates for financing city infrastructure.

Clearly, the actions needed to access finance and design city strategies reinforce each other. For private investors to feel comfortable lending to cities, broad-based inclusive investment plans and city-level fiscal and managerial autonomy are key. These factors determine the markets' perception of credit quality and enhance security for lenders. Naturally, when assessing credit quality, commercial financiers attach a high value to the comprehensiveness and realism of investment plans and the predictability of transfers and local management.

City experiences in accessing markets show that the usual risks associated with political cycles are mitigated if the proposed investments are part of a broad strategy that has wide public support, are transparently procured, and are financed by taxes and charges affordable to the people they are designed to serve. For example, a wastewater investment based on affordable user charges and covering all sections of the urban population has a greater chance of finding private sources of credit than investments in better-off neighbourhoods without sufficient geographic–demographic linkages. Further, experience demonstrates that private capital requires greater security when investments have been perceived as exclusive and procured on a noncompetitive basis. Public infrastructure, even if financed through private sources, is ultimately paid for from public sources of finance, such as taxes and user charges, and a

Mark Edwards/ Still Pictures

Road construction in Bogota, Colombia.

demonstration of efficiency in procurement enhances community acceptance of pricing and, hence, credit quality.

Recognizing this linkage, the Cities Alliance, as a learning alliance, has attempted to deepen its understanding of the cross-cutting nature of a developing city's challenges and opportunities at both the macrolevel and the microlevel. First, through the Municipal Finance Task Force (MFTF), a space has been made available for cities, national governments, and their development partners to process information from field experiences. Second, the Cities Alliance gives grants based on partnerships between cities and national governments that improve the cities' prospects of linking up with domestic capital.

The MFTF Web Site

The MFTF Web site was launched in September 2005. It has positioned itself as a considerable reference and archival tool and has a variety of users, including practitioners from the commercial sector. However, the weakness of the site is the lack of its interactivity with city-level practitioners. This problem is perhaps partially attributable to the difficulties the MFTF encountered in organizing and energizing discussion on key challenges in different regions: fiscal space in Latin America and the Caribbean, messy decentralization processes in South Asia, and supply-side reform in the transitional economies. Getting the MFTF to organize action-oriented research on these issues might result in greater connectivity with city financing challenges, especially if led by Cities Alliance members such as United Cities and Local Governments (UCLG)—a natural grounding place for the MFTF itself, in the medium to longer term.

Sustainable Financing Activities

The Cities Alliance has supported initiatives on sustainable financing by way of partnerships between cities, national governments, and their development partners. Described below are some of the initiatives that members have undertaken on both the demand side and the supply side.

Demand-side interventions

From the perspective of sustainable finance, demand-side interventions aim at empowering cities to design, finance, and create infrastructure and pay for its use over time by blending market finance and grants. Operationally, where grants are involved, this would imply the design of incentive-compatible grant systems with strong collection performance at the local level. The following case study from Pakistan provides a good example.

The Cities Alliance has made available a CDS grant to the Government of Punjab, one of the most active provincial governments in implementing decentralization. The province is using the grant to develop a performance-based system that will require local governments to link performance with grants for identified prioritized investments. Consequently, local governments will be required to produce CDS plans that take citizen demands and needs into account, identify priority investments, and lay out the improvements in administrative, financial, and services delivery performance needed for implementing such plans. The provincial government must also develop guidelines for the planning process, indicators to measure the performance of local governments, and a monitoring system to ensure that the objectives of the grant programme are met.

Alongside designing incentive-compatible grant mechanisms, a key variable that supports market financing is rational and stable transfers. Indeed, financial markets and rating agencies tend to place an emphasis on the institutional framework of the transfers and their legal underpinning. The recent Cities Alliance grant to Zambia is an example of an ongoing effort to move from *ad hoc* decision making towards a more predictable system.


Edwin Huffman / World Bank

Lusaka cityscape.

Since the 1980s the Zambian government has taken away many revenue sources from the local governments and failed to meet its obligations to pay the local government various rates and grants. As a result, local governments have accrued unsustainable debt (currently about Kw 65 billion [Zambian kwacha] collectively). The government has financed the settlement of debts with Kw 2.6 billion in fiscal 2003, Kw 25 billion in fiscal 2005, and Kw 25 billion projected for fiscal 2006.[9] A Decentralization Secretariat has been finalizing a medium-term decentralization implementation plan. A Cities Alliance grant supports the government's efforts to improve the rationality of the transfer system.

Sustainable financing also requires that the functional and geographical fragmentation of key services at the city level be addressed. In far too many cities, responsibilities for key services, such as water, are fragmented, with overlapping or competing functions or geographical areas. These confused institutional arrangements often have a negative impact on service delivery and accountability and mitigate against sustainable financing. To some extent, the global trend of asymmetrical decentralization has exacerbated this fragmentation, with significant mismatches between the devolution of responsibilities and the devolution of powers, particularly the power to raise resources.

Stavropol and Chuvashia, two regions in Russia, are still navigating an incomplete decentralization process, and the devolution of powers between the regions and the cities is not yet fully defined. The decentralization process requires clearer articulation of duties and responsibilities, especially for infrastructure service provision, which affects the urban poor. In the case of Stavropol, the issue of who should provide service for central heating is ambiguous: half of the heating plants are owned by the region; the other half, by the municipalities. This separation of ownership has led to overcapacity and the consequent inefficient use of scarce resources. The region thus needs an integrated regional development strategy that aligns infrastructure needs within a streamlined ownership structure, identifies the need for investment in infrastructure, and empowers the region and its cities to raise financing against funding requirements.

Supply-side interventions

On the supply side, a typical constraint—which was particularly acute in Latin America in the 1990s—is the short maturities for borrowed funds. The cramping of fiscal space has hurt infrastructure and growth in a most debilitating way and has been compounded by the tendency for international institutions to be fair-weather friends during times of austerity. Clearly, useful tools that lengthen maturities, such as take-out financing (ensuring credit availability after the expiry of, say, five years), could improve the capacity of local municipal financial institutions to act as genuine intermediaries in the domestic capital market. The Cities Alliance grant for the Financiera de Desarrollo Territorial (FINDETER) in Colombia is an example of such an initiative.

FINDETER, a second-tier municipal finance institution, helps first-tier lenders finance subsovereign infrastructure projects in Colombia. FINDETER rediscounts 85 percent of bank loans to local governments, thus enabling commercial banks to have renewed access to funds tied up in long-term loans to municipalities. FINDETER's main capitalization sources have been central budget allocations, donor loans, loan repayments, and bond issues sold to commercial banks.

To strengthen its domestic market orientation, FINDETER is using a Cities Alliance grant, cofinanced with the Public-Private Infrastructure Advisory Facility (PPIAF), to develop a business plan and obtain credit ratings.

Apart from demand- and supply-side interventions, comprehensive reform of the municipal financing framework helps cities and national governments identify critical gaps in the enabling environment. An outstanding example of partnerships between national and city governments and the private sector has been the Cities Alliance support for Ghana to develop a municipal finance framework. This ongoing work involves the specification of actions at the national and city levels in the regulatory framework and financial operating systems, to put financing on a more sustainable basis. The follow-up grant leading to a comprehensive review could be the basis of a World Bank investment blend with domestic resources.

Challenges and Opportunities

The main lessons from development experience are the need for national governments and their cities to design frameworks to leverage scarce budgetary resources with market finance. The frameworks would, of course, vary across countries, but an essential ingredient would be clearly articulated authority and responsibilities for basic civic services. These frameworks enable cities to raise resources, create and maintain infrastructure, and pay for their costs over time. Furthermore, serious decentralization of centralized finance obviously facilitates local initiative with an incentive system that rewards performance and punishes mismanagement through local democratic processes.

International experience indicates that this process of city empowerment—involving, as it does the sharing of powers and responsibility—requires actions at the national and city levels, where international institutions can be of great help. Global experience also indicates that uncoordinated actions can result in suboptimal outcomes. For example, financial intermediation that is dependent on external lines of credit and unconnected with domestic markets has proven unsustainable in the past. Similarly, without significant actions to provide a rational and predictable sharing of revenues, the capacity of cities to inspire confidence in local markets is likely to be limited.

A major threat to modern financing is the continuing use of scattered grants and traditional loans—however well intentioned—through national governments and, sometimes, international and bilateral development institutions. These interventions risk distorting local incentives to tap domestic markets and weaken the emerging opportunities for raising domestic resources for city infrastructure. The scale and pace of urban demands are driving the movement towards modern financing. This change will not be painless, as it requires sharing of power. The challenge for cities, national governments, and their development partners will be to find an organized way of imparting momentum to this process.