

## **Executive Summary**

Since *Cities in Transition*(CT) was published at the turn of the century (2000) the Bank has witnessed a series of budget reviews and a major internal re-organization which affected the implementation of the new strategy. The document had made clear that the new approach to urban development would *not* be budget neutral and would require a significant re-investment in the intellectual resources of the Bank.

*Cities Alliance* was established in 1999 and has been in operation concurrently during this period. Created to “to capitalize on the experience and expertise of its implementation partners in ways that strengthen their operations, rather than build separate implementation capacity”, *Cities Alliance* provided much needed funding assistance for both city development strategies and slum upgrading programs which helped the Bank leverage its own lending agenda.

This report was commissioned to provide an independent perspective on the alignment between the Bank’s urban strategy and the scope of activities of *Cities Alliance*. It would also help explore whether the current scope of work of *Cities Alliance* still best meets the requirements of the urban agenda and whether any changes would be required to be pursued by the Bank with its *Cities Alliance* partners. In the process the report was to review the Bank strategy, the *Cities Alliance* Charter and activities over this period.

Cities of the developing world are urbanizing at an increasingly rapid rate. Latin America has witnessed this phenomenon and China is experiencing it very dramatically. The countries of North Africa, some countries in Africa, and the more populous countries of the middle east region (Iraq and Iran) and nearly all of South Asia will clearly be the new constituency of the Bank. East Asia, Central Europe, China and Latin America would face slightly different problems subsequent to initial rapid urbanization rates. It is imperative that the Bank develops a new paradigm to deal with these problems and opportunities in the decade ahead.

*Cities in Transition* had noted in an Annex that urban areas account for a disproportionate share of national economic production and was the main sources of economic growth. Metropolitan Bangkok was estimated to be 37% of Thailand’s national income but only 19% of its population; Metro Manila with 13% of the Philippine population produced 24% of national income; Mexico City’s GDP was equivalent to that of Thailand (the financial district of London – the city – has a GDP greater than Portugal) and Seoul’s GDP was equivalent to that of Argentina. The GDP of two Latin American cities – Sao Paulo and Rio de Janeiro exceeded that of all Andean countries put together. Cities and critical spaces produce an inordinate quantity of interactive energy driving economic creativity and growth – it is no surprise that the urbanized 20<sup>th</sup> century has been the most creative (and deadly) in history.

The urban sector is clearly going to be a critical component of country strategy so far as economic growth and the elimination of poverty is concerned. This report makes a plea for reinstating of the urban sector at the Bank with a strong partnership with global programs such as *Cities Alliance* and its members and PPIAF.

### *Key Results*

There has been substantial alignment between the Bank and *Cities Alliance* over this period on support for critical requirements of the urban anchor at the Bank and some of its six operating regions. Four regions have used *Cities Alliance* very effectively – Latin America, Middle East and North Africa (MENA), South Africa and Africa and East Asia. *Cities Alliance* has been enormously successful in mobilizing funds for the city agenda under its own Charter from the donor community and continues to receive substantial support and this has helped it to scale up its activities substantially from about \$5 million just over a year ago to approaching \$17 million at present.<sup>1</sup>

The success of *Cities Alliance* has been its focus of attention on the city and its limited agenda for intervention – City Development Strategies (CDSs) and support to slum upgrading - both a nudge towards prosperous cities and “cities without slums”. In the process, it has discovered the hugely important role of municipal finance and the strengthening of local urban bodies if city strategies are to be implemented realistically. Its Business Plan for 2006, therefore concentrates on extending its thematic areas to a third perspective – municipal finance.

Evaluation reviews by the Bank have all rated the work and performance of *Cities Alliance* very highly. In 2002 it was rated as amongst the best of the 26 global programs that were evaluated.

*Cities Alliance* has supported the Bank’s work where there was a common agenda and much analytical work for the Bank was funded by *Cities Alliance* and its members at both the regions and the urban anchor. The Bank has received nearly \$15 million as support from *Cities Alliance* constituting 26% of total partnership resources and has taken a lead position in 67 activities or 49% of the total.<sup>2</sup> The lack of internal resources of the Bank for knowledge based products has certainly enhanced the use of *Cities Alliance* during this period though it has by no means been the exclusive window.

The Bank has experienced severe budget constraints to drive the *Cities in Transition* agenda forward as much as it would have desired. The urban lending program has rebounded from a historical low in 1995 driven largely by housing and municipal finance. The Bank has concentrated attention on its lending operations and consequently the development agenda has received very little focus of attention nor has there been adequate funding for its knowledge products so crucial for driving the urban agenda in the regions.

Given the decentralization of the Bank, country directors determine the country lending program and many are skeptical of the importance of urban activity in driving growth and tackling poverty issues. Reinstating an extremely strong urban core intellectual base at the Bank seems to be an immediate requirement to drive the urban agenda as stated in the *Cities in Transition* strategy document. Failure to do so is likely to condemn the urban sector to the margins just at a time when its crucial role in driving country GDP growth is becoming apparent to clients and the academic community. This is perhaps the single most important issue to be addressed.

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<sup>1</sup> Annex: Diagram 4

<sup>2</sup> See Table 5

There seems to be a major demand response for more work on cities and urbanization by clients – much greater than the capacity to respond. The knowledge product in urban has to be expanded to meet some of these demands so that the supply response is adequate to address the “unblocking” of constraints within cities which now inhibit them from truly meeting their potential economic realization. While Cities are the focus of attention, to be effective, policies must be derived in the context of an overall national urban strategy. China is an example of extraordinary urban growth as a result of this twin process. This is where the Bank and *Cities Alliance* and its members can work much closer together in future and where comparative advantage and alignment can coincide.

### *Key Recommendations*

As a consequence of the key results some specific recommendations are as follows:

#### *Cities Alliance:*

1. CDS should continue to be a major focus of attention for *Cities Alliance* as it forms the heart of a process critical to city development. The quality of the CDS has varied considerably. An exercise should be undertaken, perhaps jointly with the Bank, to ensure the analytical and empirical robustness of CDS methodology so that end results are indeed *strategic*.
2. A CDS would need a contextual framework of a national urban strategy. Given the magnitudes involved for city infrastructure investments in major cities the national government would be involved. *Cities Alliance* must work closely with the Bank on the Bank’s national level work on urbanization.
3. With respect to urban poverty, it would be necessary to focus attention on the causes of urban poverty rather than ameliorate its symptoms. Matching a city’s historical specificity, its natural endowments and its comparative advantages to the economic opportunities in home and international markets may be a more useful exercise in improving the poverty outlook in a city. While slum upgrading should continue as a thematic area (the push factor), one element of a CDS would deal with the other side of the problem (the pull factor).
4. *Cities Alliance* and its members may well wish to include urban transport as a key element of CDS. The other is telecommunications and the revolution that cheap information transfer and its impact on the self employed urban poor. Beginning with the pager and now the mobile phone, affordable access to networks is a key driver of income generation of poor households.
5. Financing an urban strategy (as well as a city strategy) is a critical component of an implementation initiative post CDS. *Cities Alliance* needs to invest considerably in boosting its financing capabilities currently being developed in the municipal finance area. Urban Services provision and Urban Infrastructure Investments may need to be looked at separately and yet combined in a new delivery platform. This might require moving beyond the municipality to a new generation institution that designs the mechanics for PPP initiatives through new contractual structures linked to private investment potentials. This is a new field requiring considerable expertise including that of investment bankers and capital market specialists. A vibrant operation in this space could well be used as a stimulator of capital market development at the national level.
6. *Cities Alliance* and its members may wish to examine more deeply the financing of both land and housing specifically for the poor. This could be achieved through micro lending institutions with secondary market support from more formal

- institutions. Healthy spreads and excellent recovery experience can make this a very attractive option for formal financing institutions.
7. This might also be an opportune time to re-examine broadening *Cities Alliance's* objectives beyond Slum Upgrading and City Development Strategies though, as suggested here, both need to be strengthened. Financing City Development would be one such logical progression beyond CDS and the second could be the effective use of new technologies as applied to city issues: satellite mapping, e-governance and wireless communications at the municipal level<sup>3</sup>
  8. *Cities Alliance* and its members might well wish a closer collaboration with the World Bank in understanding the dynamics of urban development in PRSPs and to develop and disseminate tools that would facilitate a closer integration.
  9. *Cities Alliance* and the Bank need to work closely on a three year strategy that would help the Bank fund some of the gaps that have emerged in knowledge products required by the CT strategy. Funding from donors could specifically be negotiated for this exercise. This would create a synergy between the strengthening of *Cities Alliance* and the Bank and would give sufficient time for the Bank to initiate its own longer term strategy for urban programs.
  10. *Cities Alliance* could move outside Bank related activities and strengthen its links with UCLG and any other mechanism that would help empower cities to drive their own development agenda effectively. The Bank could benefit from this learning and adapt its own strategy to take its own agenda forward.

#### *The World Bank*

1. The Bank has used the emergence of *Cities Alliance* at the urban anchor as well as some of the regions (four) fairly effectively to promote the urban agenda of the Bank where it coincides with *Cities Alliance's* scope of work. This process needs to be further strengthened for a three year period during which the Bank and *Cities Alliance* would determine the funding gaps for knowledge products required over a shared agenda in a revised and expanded work program and *Cities Alliance* would include this agenda as part of a common framework for funding.
2. The Bank should use a second global program as a twin partner in promoting the new urban strategy – the Public Private Infrastructure Advisory Fund (PPIAF). PPIAF has acquired considerable skills in promoting PPP structures in the broad infrastructure sector (energy, transport, logistics, ports) and is now beginning to look at municipal development. Their experience in building tool kits and in designing concessioning frameworks would be invaluable when applied to the urban agenda. Between PPIAF and *Cities Alliance* substantial funding could be raised for bridging knowledge gap activities so crucial to drive the urban agenda at both the anchor and the regions.
3. In the meantime, the Bank needs to take the lead in the urban domain by initiating a WDR type initiative over a period of two years on urban research and development. By initiating a global rethink on these issues, the Bank would harness the best known minds (and research), both extant and current, globally as well as within the Bank and create an energy around the urban domain. This would produce both the agenda and the nature of work required in the future which would help the Bank strategize the next decade and help it to build a core

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<sup>3</sup> The impending new technologies of Wimax for example would allow wireless broadband access to a range of 30 kms without the need for expensive last mile connectivity.

- team within the Bank itself. (If an exercise of this type did not indeed convince skeptics that urban issues are emerging as the single most important element driving growth and creativity (and producing the new problems of poverty and alienation) within countries then clearly one could rest assured that whatever was necessary to be done had been done to remove the rural bias that exists today. A future decision would be based on the best informed choices available).
4. While *Cities Alliance* provides a broad programmatic context for the Bank's urban work, the Bank needs to narrow its own urban policy interventions to a few well known, generic activities. Clearly the most important of these would be for cities to revive their resource base as a dependable source of raising finance from the market and thus leverage their own capacities appropriately. The city's investment needs and its ability to meet the funds requirement that this would entail is perhaps the key problem that needs to be addressed. A good financing strategy would make good governance automatically mandatory if the program were to be sustainable and long term.

## Background and Objectives

With the publishing of "*Cities in Transition*" (the World Bank Urban and Local Government Strategy) in 2000, the Bank had ushered in a comprehensive approach to urban issues based on the philosophy of "comprehensive development strategies" being pursued elsewhere in the Bank to provide a holistic approach to which specific interventions could relate contextually. The Bank and its partners, therefore, based this new approach on engaging local and central governments, the private sector, civil society institutions, the international donors in a shared commitment to balanced, integrated development for each country. The urban review was urgently needed at the Bank as this was the first attempt at updating the 1991 urban sector strategy paper entitled "Urban Policy and Economic Development: An Agenda for the 1990's". Combined with the 1993 policy paper entitled "Housing: Enabling Markets to Work", the approaches outlined in both strategy papers, provided the intellectual basis for the Bank's lending program for housing and urban in the 1990s.

The performance of the portfolio was generally strong, beginning with the first decade of Bank lending in the urban sector (1972-82) primarily focusing attention on slum upgrading and sites and services projects for the urban poor. The second decade (1983-92) saw a rapid increase in urban lending with Latin America being the main beneficiary. During this period, the Bank extended its urban business to municipal development projects. The Bank's 1991 policy paper introduced the 3 P's: Urban **P**roductivity, **P**overty reduction and **P**ollution abatement. The urban environment had found itself well incorporated into the strategy in the context of the importance of cities to national economic development. In the third decade (1991-2000), though Latin America was still dominant, Africa hosted most projects with 1995 being the nadir of the urban lending program with a major internal restructuring of the Bank. The early 1990's saw much intellectual activity in the urban sector of the Bank - policy papers and research linking the urban sector to national economic development - there was inadequate operational follow-up and little new analytical work initiated subsequently. Since 1995, there was a strong rebound of urban lending consisting of strengthening municipal management and the housing sub-sector. With *Cities in Transition*, the new urban sector strategy, the decade beginning 2001 poses the challenge of implementing the

four pillars enshrined in this new approach - livability, competitiveness, bankability and governance for sustainable cities in the future.

Given the comprehensive development agenda and its basic foundations based on inclusiveness in the city, *Cities in Transition* had stressed the importance of partnerships to help promote the urban agenda. The new strategy envisaged renewed efforts to mobilize funding and broad external support particularly to undertake city development strategies and scale up programs for slum upgrading for the urban poor. The Bank and UNCHS partnered the creation of *Cities Alliance* as a grant making facility to promote these two activities by providing financial support and expand knowledge sharing in the field. *Cities Alliance* was formed in 1999 with strong support from the Bank which helped attract other donors as external partners. The Cities Alliance is now a global coalition of cities and their development partners with the principal objective of improving the efficiency and impact of urban development co-operation especially in slum upgrading and city development strategies.

This report is a consequence of a review initiated by the Bank to provide an independent perspective, six years on, of the alignment between the Bank's urban strategy as it has emerged since *Cities in Transition* was published and the creation of *Cities Alliance* at about the same time. It essentially seeks to enquire whether the current focus of attention of *Cities Alliance* still best meets the requirements of a rapidly changing urban environment in developing countries and if any changes should be considered and pursued by the Bank with the *City Alliance* partners.

### **Operating Review of Cities Alliance and its members**

Commencing in 1999, *Cities Alliance* within three years, had already made considerable impact. By focusing attention on poverty where it was growing fastest -in cities - *Cities Alliance* had managed to get world leaders to adopt the principle of "Cities without Slums" as a UN Millennium Development Goal. The unique feature of *Cities Alliance* was to focus attention on cities rather than sectors as a unit of analysis and consequently on local governments that had primary responsibility of managing and strategizing cities. As a policy forum, it brought together representatives of cities as equal partners in a direct dialogue with bi-lateral and multi-lateral development agencies and financial institutions.

In its initial years it, therefore, concentrated on understanding the city - through City Development Strategies (CDS) - and supporting citywide slum upgrading projects. In three years, it had covered cities in 25 developing countries with 60 cities engaged in this process. Its 2002 annual report illustrates the type of activities being undertaken from the reform of city governance structures as in Johannesburg to city regional development strategies in China. Interestingly, the China studies expanded the scope of analysis from the city to the region; examining the broader urban perspective, anchored by a major city, and also examining urban corridors between the city and smaller cities and towns.

In the 2003 report, *Cities Alliance* noted the impact of the Alliance not only to mobilise funds but scale up activities while empowering local leadership. While UN-Habitat and the World Bank remained key partners, all of *City Alliance's* development agency partners were actively engaging in preparing and implementing projects at the country

level in different regions of the world. (GTZ, USAID, SIDA, Norway, Japan, Italy, DFID, The Netherlands, AfD, CIDA and ADB). UNEP joined the alliance in 2002 thus strengthening the urban environment agenda for cities. An independent evaluation of *Cities Alliance* was undertaken in 2002 and concluded that “In sum, the comparative advantage of the *Cities Alliance* is in the process of being vindicated”. *Cities Alliance* had become fully operational, had improved urban understanding and the quality of urban lending, had permitted donors to link to sub-national governments directly, had created unorthodox methods of working with the poor by working with NGOs and had created the concept of a “learning alliance” to pool experience and to evaluate and disseminate it to all participants in urban development. The City Development Strategy (CDS) Framework was well established.

With the advent of the 2004 report, *Cities Alliance* was promoting the values of local government with two prominent mayors stating in the forward to the report: “With its forward looking approach and clear focus, the *Cities Alliance* is playing a crucial role by helping cities of all sizes obtain more coherent support from international development agencies. By focusing on the future of cities and promoting the positive impacts of urbanization, the *Cities Alliance* is helping mayors anticipate and prepare for growth, develop sustainable financing strategies and attract the long term capital investments so critical for the provision of infrastructure and other services”. This last sentence reflects the additional area of expertise that needed to be developed within *Cities Alliance*: mobilizing domestic capital and examining the financial issues facing urban local bodies.

In an excellent essay on “Unleashing the Potential of Cities” an action agenda was clearly specified. It was no longer sufficient to belabor the point of the city’s contribution to the national economy but to ascertain how the constraints to this process could be “unblocked”. How could cities be proactive in raising domestic capital more effectively? How could one measure the benefits of migration to both cities and the rural hinterland? How could we measure the informal economy’s contribution to growth? How could cities be proactive developers of infrastructure services rather than mere passive providers of urban services? (Public investment funded 70% of all infrastructure spending in developing countries in the 1990s with the private sector contributing 20-25% and official development assistance 5-10%).

The problem of municipal finance and the need for massive investments in infrastructure were clearly highlighted requiring a somewhat extended approach by *Cities Alliance*. The report also noted that despite the continued expansion of democratization and decentralization, national governments were “markedly reluctant to share their development responsibilities with local governments”. They saw the latter as administrative extensions of the centre rather than an autonomous but complimentary part of an integrated system of governance. This highlighted the role of national government and its approach to urbanization as a critical component of interventions at the city level. As the 2002 report of *Cities Alliance* had noted: “With China’s strong policy orientation to promote urbanization, both the Ministry of Finance and the State Development Commission are closely following the process (CDS)”.

With the emphasis shifting to domestic finance and municipal development it was no surprise to see the 2005 report focus attention on “Empowering Cities to Attract Finance”. In effect, this has become the third pillar of *Cities Alliance* following on from CDS and Slum Upgrading - Municipal Finance. The approach stresses the need for raising long term domestic commercial capital rather than renewed dependence on debt

relief and further grants to urban local bodies. Infrastructure investments would require both new institutional arrangements as well as the ability to strengthen the local revenue base of cities in order to support the raising of domestic capital. While decentralization was weak, many cities have begun to look at alternative options: raising bond issues for utility investments; getting debt instruments rated to improve access and pricing; pooling resources between a number of local bodies to obtain critical mass to be able to access capital markets at reasonable rates. Even here, the report notes that experience suggests that “successful domestic financing of city infrastructure depends of co-ordinated actions by cities and national governments and requires partnerships”. Both supply side (macro economic conditions) and demand side (empowerment) actions are required to enable successful financial options for sustainable finance. If demand side conditions are favorable and supply side constraints do not empower (India at present) successful outcomes are unlikely. CDS is a convenient tool, if used appropriately, as an “entry point for a city to undertake financial stock taking and identify the steps it needs to build bridges with local markets for financing its development strategy...” In order to respond to this initiative, *Cities Alliance* has established a Municipal Finance Task Force “to identify ways to increase the flow of long term private capital to developing cities in support of their slum upgrading and CDSs.”

### **Fiscal Year 2006 Business Plan of Cities Alliance**

As the program moves forward, the experiences gained are being rationalized and new approaches are being developed especially on municipal finance issues and the raising of domestic capital for utility investments. The FY06 business plan envisages consolidating and developing the CDS mechanism through an external evaluation of the CDSs conducted and their efficacy. This will be summarized into a CDS guidelines tool to help make the lessons learned from CDS experience as accessible and useful to clients as possible.

Municipal Finance has emerged as a theme supporting the two pillars of the *Cities Alliance*. The Municipal Finance Task Force will produce guidelines and tool kits to help develop the program. This, in conjunction with the Municipal Finance Commission, a collaboration with UCLG, will work to try and meet the demand for finance from local governments with suppliers of municipal finance technical support and financing institutions. *Cities Alliance* members will also now support country level municipal finance assistance which are demand led municipal finance initiatives.

*Cities Alliance* envisages a closer collaboration with the World Bank in understanding the dynamics of urban development in PRSPs and to develop and disseminate tools that would facilitate a closer integration. Inward investment into cities is proving to be a key growth driver and both the Bank and *Cities Alliance* are focusing attention on both these issues: the nature of urban poverty and its solutions and the investment climate and the nature of local economic development. *Cities Alliance* will now assist the Bank to develop an analytical basis for integrating urban development into the investment climate surveys and dialogues both at the national and local level. This is a critical element of the Bank’s own future strategy as noted in *Cities in Transition* as well as subsequent updates.

### **World Bank Evaluations of Cities Alliance**

Two reports by the OED and the QAG of the World Bank were completed in 2004. The Alliance was “rated highly by the Bank staff and other members of the partnership in terms of successfully coordinating activities by its members and improving its contribution to the Bank operations”. What seems to have been particularly appreciated was the role of CDS in opening windows at the city level and that there “appears to be a genuine partnership, not dominated by the Bank, and not used as simply a source of funding for preparation of Bank-financed projects.”

An independent OED report rated *Cities Alliance* in the context of global programs of the World Bank and rated *Cities Alliance* as amongst the best of the 26 global programs that were evaluated. “The 2002 evaluation of the *Cities Alliance* is among the best program-level evaluations to date.” It also notes, significantly for this report, that “global programs would serve the Bank and its clients better if, rather than striving for alignment with the Bank’s prevailing approach, they were more independent of the Bank, and if they mobilized global knowledge and ground level experience in developing countries in an independent way that would inform the Bank’s investments and the approaches it advocates.”

### **Review of the updated Urban Strategy at the World Bank**

*Cities in Transition* (CT) continues to be the foundation for an urban framework for Bank Lending. Its global and all-inclusive nature permits almost any urban program and hence falls short of a “strategy” though it does create specific framework conditions for activities to be formulated. The need for an urban strategy need not be enunciated here in great depth as it already has been elegantly argued in CT. Suffice it to say that by 2015 the world’s mega-cities will double with 26 or so being in developing countries. Less than half the urban growth is due to internal migration and most is explained by natural population increase in cities themselves. Governments are decentralizing at the same time as cities are globalizing and are connecting to international markets. The four global trends - urbanization, decentralization, globalization and government reform emphasize the increasing importance of cities in national economic development. The comparative advantage of nations are being largely determined by the competitive advantage of their cities. Cities, are therefore, becoming the new productive engines of growth for developing countries as well as developed ones. The latter are in a better position to harness and invest in their cities than developing countries. Hence the urban agenda of the Bank and the role of *Cities Alliance* is likely to be extremely important in the next decade. This importance cannot be under estimated.

The Bank’s urban strategy is essentially directed towards correcting for market failure in the urban economy such as information gaps that impede the efficient functioning of land and real estate markets. It is also concerned with government failure such as inappropriate and inimical regulatory frameworks and bureaucratic processes that hinder rather than empower orderly growth in urban areas thus increasing transaction costs and delaying progress. The Bank’s urban work over the 1980s has been concerned largely with policy reform and institutional change especially with regard to regulation, incentive systems and the patterns of relationships between different levels of government.

The four pillars of the CT are the livable nature of the city for which the city must be competitive, well governed and managed and financially sustainable or bankable. The new strategy, therefore helps cities develop along these four interrelated dimensions: livability, competitiveness, good governance and management and bankability within a

comprehensive development framework for the urban sector. The new urban strategy maintains that all four aspects need to be considered by a diverse group of stakeholders of the city and the Bank would ensure that the poor and disenfranchised would find their place in any new strategy in meeting their basic needs.

CT is beyond mere retooling of the urban development portfolio or extracting stronger performance from it though both are important; it is about developing an integrated view of cities and of the national and local policies affecting urban outcomes. Hence the Bank's overall philosophy is to "strategize holistically and intervene selectively". Rather than treat urban areas as a series of urban projects, the Bank would view cities as living organisms that also form part of the larger national system. To meet the requirements of the four pillars together with the comprehensive development agenda, there are four building blocks of the new strategy: formulating national urban strategies, facilitating city development strategies, scaling up programs to provide services to the poor and expanding assistance to capacity building.

The Bank would, following the four pillars and the four building blocks, improve the impact of core urban assistance. It would lengthen time horizons to both central and local government over periods of a decade or more indicating a program approach rather than a project approach; expand support to municipal intermediaries (municipal development funds) and attempt to build the demand for a commercial municipal credit market; begin to provide market based incentives so that municipal funds can be integrated into a sustainable financial system; housing reform should similarly be integrated into national mortgage markets within a national financial system which would facilitate the better operations of land and real estate markets. Most important the Bank should help governments proactively plan for urban growth, help disaster planning, help manage urban environments, enhance cultural heritage activities and reduce crime.

### **Some Prerequisites for Implementation of the new Urban Strategy**

CT notes that urban issues have traditionally taken second place to a dominant rural bias at development finance institutions. The Bank does not seem to be an exception. Urban has also been scattered amongst geographical and sector units with little co-ordination. As a result, very limited staffing and financial resources were devoted to urban work. Even at the Bank, "through most of the 1990s, the Bank has been 'drawing down its capital' of urban expertise". Many staff (over half) were over 50 years of age at the time of writing CT and were due for retirement. The urban strategy would require their replacement together with new knowledge and skills (municipal finance and management, the operation of land markets, institutional development expertise, for example). The strategy will require additional funding from both internal and external sources to implement the four pillars and building blocks of the new strategy. The strategy is not budget neutral. It will require scaling up of both resources and people.

Most important, the eating away of intellectual capital over the years has created a serious deficiency in proactive programs requiring well thought through analytical frameworks. The new strategy will require a renewed commitment to intellectual leadership and analytical work on urban issues in the context of national and regional development. (cities and their contribution to national GDP; sources of economic growth

and decline; financing land and housing for the poor; financing local governments; metropolitan management; the use of new technologies for e-governance, tax efficiency and mapping; financing and developing major city utilities; PPP in urban infrastructure).

Unfortunately since CT was released in 2000, the Urban Anchor had an across the board budget cut of 15% and since 93% of the urban budget was staff salaries and emoluments this necessitated staff cuts on an already over worked urban operational agenda . The Sector Strategy Implementation Update Report (November 2004) noted that there has been considerable staff turnover in staffing in the urban sector in part due to retirement (as predicted in CT) with a net increase in staff of 15 recorded in 04 (though down 8 over '00).<sup>4</sup>

### **Recent Developments in World Bank Urban Strategy**

In the past few years since its release, the Bank strategy has evolved in response to both internal and external developments. The basic agenda remains the same: defining the urban agenda in terms of a spatial economy (cities and towns) and in terms of a level of government (municipalities). The implementation of the program has benefited greatly from the *Cities Alliance* which was formed to support at least two pillars of the Bank's strategy (City Development Strategies and Slum Upgrading and interventions for the urban poor). The internal budget cuts of the Bank and the regionalization of operations with country directors, in effect, deciding where country funds would be deployed, meant that the Bank needed a window that would fund non-lending activities. The business model of the Bank was largely driven by wholesaling of lendable resources towards major urban programs. The lending program of the Bank continues to be (i) housing and land including slum upgrading, sites and services, housing finance and housing/land policy (ii) municipal finance, municipal governance and capacity building and (iii) basic urban services for local government execution including solid waste management.

A Portfolio review is currently being undertaken on decentralized credit finance for infrastructure in urban areas including municipal development funds. A priority for the current year is to refine the Bank's policy advice regarding a full range of low-income housing policies. The municipal finance agenda is clearly expanding to reflect growing client interest and the potential of using private sector finance and making it accessible to cities. Collaboration with IFC is also now beginning to take place especially with regard to the role of private sector finance in housing and municipal development.

The Bank operates in six regions: Sub-Saharan Africa (SSA), East Asia and the Pacific (EAP), East and Central Europe (ECE), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA) and South Asia (SA). In EAP and in SSA, urban issues are integrated into core country assistance through the demand for basic services and municipal development in the context of decentralization. Housing dominates in the MENA region and low income housing is re-emerging as a major interest in the LAC region.

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<sup>4</sup> See Table: 1,2 & 3 in the Annex for comparative figures on staffing in urban development, water & sanitation and the Transport Sector.

Interestingly the Local Economic Development (LED) process has been very active in the ECA region assisting municipalities with strategic LED planning and, in some cases, using IFC expertise. This region was also primary contributors to issues of urban poverty, housing, municipal finance, urban governance and cultural heritage. The Latin America region has completed an urban strategy in Mexico and a multi year housing program in Brazil. The *Cities Alliance* program came to scale precisely at the time when funding for non-operational work at the Bank was scaled down considerably. It has been able to contribute substantially to promote the Bank's urban sector strategy. In FY04, for example, it committed US\$3 million which included \$1.37 million for 6 CDS activities; \$1.04 million for 5 slum upgrading projects and \$350,000 for knowledge management activities.<sup>5</sup>

The Alliance is now supporting 145 cities and through these activities helping the Bank develop new strategic initiatives with cities such as Addis, Johannesburg, Lagos, Lima, Mumbai and Sao Paulo and with multiple secondary cities in China, Burkina Faso, Latvia, Niger, Indonesia, Philippines and Vietnam. The China program, as noted earlier, is on the cutting edge of work on urban-rural linkages. Finally, the Alliance has now begun to support the process of linking city financing with domestic capital mobilization which will help the Bank begin to evolve processes that leverage sub-sovereign flow of funds to cities.

### **Overview of Current Perceptions of the Alignment of the Bank's Urban Strategy and Programs with the Scope of Activities of Cities Alliance**

CT evolved from an approach the Bank was following since the 1990s. It was not a new approach but largely a redefinition, re-organization and an update of concepts and terminology that had emerged from experience and events during the 1990s. There were very few cases of good urban strategy work and expertise was in short supply on all the three anchors of the new strategy - housing, the operation of land and real estate markets and municipal finance. The pillar of 'competitiveness' had been inserted as an "infant industry" argument but was severely criticized by the OED and got very little traction in the field. (this concept, however, has received much more importance in other sectors and the perception was that it would be particularly useful in the field of municipal finance). While the lending of the Bank is picking up rather well, staffing is inadequate with existing staff considerably over stretched. Under Mike Cohen in the early 1990s, the urban anchor was three times the present size in terms of staff numbers. Even today the rural development group is three times the staff and twice the budget of urban. Urban has lost sector status and is now a "theme" within the bank just at a time when urban issues are assuming great importance amongst clients and its central role as a driver of economic growth (and producer of poverty) is gaining worldwide recognition. In this sense, the two pillars of the Bank's work program - enhancing economic growth and tackling poverty alleviation - are both urban related and

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<sup>5</sup> Table 5 indicates that the World Bank, in terms of Cities Alliance approved partnership allocations, had received 26% of the funding (\$15 million) and had partnered Cities Alliance in 49% of all activities (67 activities). Figures 1 and 2 illustrates this in graphical form)

are becoming increasingly so.

The importance of cities to economic development, though recognized, is little understood in terms of its specific drivers and much analytical work needs to be undertaken. Presently the Bank's business model is driven by its lending operations and its regional decentralization - with country directors essentially deciding the nature of the country program. Urban may or may not find itself included in this agenda. How would the urban anchor drive the agenda? The Urban Anchor is looking at two elements that would assist in the effort to place urban firmly within a comprehensive agenda for country programs:

1. Mainstreaming urban issues in poverty reduction.
2. Promoting Investment Climate Assessments.

Interestingly, both activities are being funded by *Cities Alliance* and its members.

Economists and research personnel at the Bank feel very strongly that the urban sector has suffered a lack of good quality disinterested research (as prevailed in the early 1990s which gave the Bank a leadership position in urban work as recognized in Habitat II). Since then, the intellectual drive has dissipated and is just sufficient to drive the current agenda but is not likely to push the frontiers beyond the present). *Cities Alliance* is viewed very much as a dialogue partnership model which has been successful in pushing the cities agenda and bringing people concerned with cities around a table but it has not produced a new research paradigm in urban nor has it contributed to analytical and empirical research. In this sense, *Cities Alliance* is seen as building social capital but has not yet emerged as a serious player in promoting intellectual capital. Combined, both the declining trends in the urban 'theme' in the Bank and the rise of partnerships in *Cities Alliance* has had the result of the "death of analytical work on cities and urbanization at the Bank". Others see present trends as "short-termism with a vengeance" as the Bank has "pruned away our intellectual generating machinery".

The Bank seems to have good technicians who can get projects done on the ground but its ability to deliver beyond what it is presently doing appears to be limited. In the Research department of 117 staff only two and a half people seem to be doing something on urban. Any funding for urban research has to be applied for from various trust funds and does not seem readily available. With the Bank's support for *Cities Alliance* many staff saw this as a diversion of funds from urban research within the Bank to *Cities Alliance*. Combined with the question: is *Cities Alliance* analytical enough and does *Cities Alliance* efforts lead to processes and not simply documents, this diversion is seen as inimical to substantial and significant analytical work.

In the absence of a continuing and ongoing research program and the emergence of analytical frameworks in essentially little understood areas of activity in urban, the question arises: are we giving the right advice to clients? Is our sequencing of reform appropriate? Have we understood the mechanics of public private partnerships? Do we understand the dynamics of land markets in distorted regulatory frameworks? In essence, the question becomes whether the present state of play in terms of the urban anchor at the Bank, the urban regions of the Bank and the current scope of activities of *Cities Alliance* add up to a rigorous model for the future development interventions in cities and urbanization in the developing world or is something else needed?

Regional Managers of the six regions have different perspectives given the regions that they operate in. Some see their programs as neither driven by the urban strategy or *Cities Alliance* but by the immediate problems of better urban service delivery on the ground that mayors want solved. Others see a great revival of urban since 1995 and some very good work now taking place in the regions (in contrast with the urban anchor which is budget constrained) as decentralization has empowered local decision making. As the urban core loses ground the regional core gains ground. At the regions, where urban is taken seriously, it is universally felt that *Cities Alliance* has been of great help. Cities must, however, be strongly aligned with central government strategies for urban for both to benefit. *Cities Alliance*'s CDS is seen as very useful though it needs to go beyond a "wish list" for cities into a comprehensive business model for implementation. The need for "new blood" in urban was strongly felt with regional managers as they need to convince skeptical country directors for the need for urban activity as an essential element of promoting PREM type activities. Where good analytical work was done on the economic role of cities (Africa) the country director readily accepted a strong country urban agenda. Interestingly, some CDSs through *Cities Alliance* were not found to be strategic enough and were currently being done separately from alternative funding. Economic and sector work, though seen as crucially important, was not seen as being funded adequately at the Bank. *Cities Alliance* was not seen as a sufficient alternative for this work and a strong emphasis by the Bank itself on regeneration of funding for non-operational activities was seen as long overdue.

### **Alignment of Cities Alliance with the World Bank**

There is no doubt that *Cities Alliance* has been a major success on its own terms defined by its Charter. Many evaluations have confirmed this conclusion and its growth has been impressive. Its operational program of dialogues and partnerships with local authorities, cities and their leadership has opened many windows permitting the Bank to enhance its own effectiveness with sub-national governments where traditionally its access has been limited. As Figure 3 illustrates, the Bank has traditionally moved from Central Governments down to Local Governments whereas *Cities Alliance* has concentrated its attention directly at the city and their governance machinery - local governments. In this sense, the alignment has been entirely complementary each using a different comparative advantage and developing its own windows of opportunity which, combined, completes the four pillars of the Bank's new strategy.

It could be argued that the alignment is closer with the Bank's urban strategy than the Bank's urban programs in the sense that *Cities Alliance* and its members have provided funds for many of the Bank's non-operational activities for which the Bank's own funding support has dwindled. (including the two core strategies of the urban anchor as noted above). As of June 30, 2005, the approved partnership allocations of *Cities Alliance* indicate that the World Bank was by far the largest beneficiary of funding amounting to \$15 million or 49% of total allocations. UN Habitat the second partner, receiving \$8.3 million or 23% of the total. The leverage of *Cities Alliance* funding to total World Bank lending seems exaggerated (\$60 million leading to \$6 billion in lending) though no doubt it is significant.<sup>6</sup>

While the CT had stressed the need to reinvest in the Bank's own intellectual capacity in urban this does not appear to have happened; all indications are that the process has

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<sup>6</sup> Figure 1 & 2 and Table 5 in the Annex

reversed even further since the publication of CT in 2000. *Cities Alliance* has, however, supported the Bank's analytical work in Sub-Saharan Africa, has helped the Bank's analytical work on policy advice for low income housing policies and housing subsidies and it is in the process of supporting the economic development content of CDSs. *Cities Alliance*, by appointing a senior policy advisor on municipal finance, is in the process of supporting the widening international dialogue on the municipal finance agenda specifically the role of private finance in financing cities.

Owing to the analytical work currently being funded by *Cities Alliance* (a special mention must be made of the work undertaken by the Bank in Sub-Saharan Africa which convinced the country director to include urban activities as a major element of the country program) on the urban development impact on economic growth, poverty reduction and effective decentralization, country directors would hopefully take urban issues more seriously. *Cities Alliance* was created to strengthen local governments and cities and not necessarily act as a substitute for the lack of resources within the Bank for analytical work. To the extent that *Cities Alliance* funding of Bank projects helps its own Charter there are synergies to be gained. The Bank could use *Cities Alliance* to raise further funding for shared agendas for which the Bank needs to strategize very carefully, but *Cities Alliance* cannot be seen as a substitute for lack of resources to fund the Bank's own agenda.

There are differences in operating methodologies of the Bank and *Cities Alliance* and this is at should be to drive their respective comparative advantages. *Cities Alliance* is not constrained by the Bank's own operating structure and practices. The Bank is still prone to use municipal development funds as a major institutional instrument to tackle municipal finance issues without necessarily putting the city in the drivers seat. What do cities want? How can private investment be leveraged on public? How can domestic resource mobilization be incentivised? There may be comfort in working through traditional institutional mechanisms such as para-statals to conduit funds rather than thinking out of the box for entirely new mechanisms which would bring about effective public private partnerships.

*Cities Alliance* believes that the demand response is very large indeed; much greater than the capacity to respond. The knowledge product in urban has to be enhanced before a major new paradigm on the lending and reform platform can be implemented. *Cities Alliance* strongly believes in the unblocking of constraints that cities impose on the process for their own economic future which was noted so specifically in CT and indeed lies at the heart of a possible solution. In order to do this, the city is placed at the centre piece of strategy with all actors in the city being encouraged to grapple with the city's problems and its potential future. *Cities Alliance* undertakes to help a city with a CDS only if a capital investor is identified to take investments forward once the CDS recommends a possible course of action. Alignment with the Bank is most powerful where there is alignment with the importance of the problem as well as the methodology of action once it is recognized. *Cities Alliance* is most strongly aligned where the Bank's lending program has focused its attention on the urban sector especially in LAC, EAP, MENA and SSA.

Part of the problem has been clear information dissemination of the role of *Cities Alliance* and the Bank. As the OED had emphasized the *Cities Alliance* is a distinct entity with a distinct set of donors and a distinct charter. All evaluations of *Cities Alliance* has re-affirmed its success to its own Charter which has, in turn, ensured considerable

funding of its activities. In conclusion, it would seem that *Cities Alliance* has kept the cities agenda afloat, has pushed its limited core activities to its limits, has added a new core activity - municipal finance - which is entirely consistent with the Bank's activities; has raised much awareness of the importance of cities and has highlighted the issues that cities are likely to face in the 21st century. The Bank, in turn, has moved down from urban strategies to city strategies, has focused attention on municipal finance and housing finance and has used the activities of *Cities Alliance* to enhance its knowledge base where its own non-operational funding has dried up. There has been strong alignment on a common strategic framework, and a strong and working alignment in regions where regional managers have seen the importance of the urban agenda in driving the twin pillars of the Bank's work program - PREM. The question to be asked is whether this is sufficient as we move forward and if not what needs to be done.

### **Moving Beyond Alignment: A new synergistic paradigm for urban operations**

#### *The World Bank*

Senior leadership in the urban sector have worked extremely diligently to reinstate the urban sector as an area of a major refocus of attention within the Bank as it believes that it would be a major contributor to the PREM agenda. CT was its most eloquent statement. Despite the Bank just emerging from its nadir at the time of the publication of CT, the urban sector was forced to internalize further budget cuts. This led to a drop in staffing and a severe drop in non-operational sector and analytical work funding despite a strong plea in CT for a renewal of investment in the intellectual capital of urban, replacement of retiring staff and an induction of new skills that would be required to push the new agenda forward. CT was categorical that the new exercise, to succeed, would not be budget neutral but would require enhanced commitment from the Bank. This was clearly not forthcoming in subsequent years.

The emergence of *Cities Alliance* in 2000 helped somewhat to keep one window active through which an interface between the Bank's agenda and *Cities Alliance's* scope of activities could be kept alive. At present, there is a deep seated recognition that despite these attempts, the Bank is unlikely to provide the necessary support to the urban sector which is now merely a "theme". A continuation of the present state of affairs may even witness a further exodus of talent as staff seek to make contributions in areas where the Bank sees a future. Alternatively, the Bank's Urban anchor have no alternative but to use *Cities Alliance* as a major instrument to drive its own requirements to the extent they can through those areas where *Cities Alliance's* charter permits. The Bank, in turn, would need to work through partnerships which may produce richer outcomes. (The Bank has captured much experience through the work of *Cities Alliance* for example). Being a dominant and important partner, the Bank may be able to exert some influence on the future direction of activities of *Cities Alliance* in a way which strengthens the alignment of objectives and produces outcomes which are beneficial to both.

The Bank may also choose to work with other global programs. A strong contender whose work lies at the very heart of the potential work program for urban is the PPIAF (Public-Private Infrastructure Advisory Facility). Heavily funded by the UK and Japanese governments, the PPIAF explores technical assistance for private sector participation in infrastructure projects in power, transport, telecommunications, ports and other major infrastructure sectors. The learnings over the past few years has created a wealth of knowledge in the crucial area of the mechanics of PPP and the lessons learnt from past

experience. PPIAF is now entering the urban sector and will be looking at municipal financing. PPIAF could well form an extremely important element of the urban agenda relating to utility investments in cities, the leveraging of public expenditure with private investment and structuring the concessioning and contractual frameworks for PPP in urban infrastructure development.

Global programs would be at best an important element of supplementing the Bank's own agenda as outlined in CT and subsequent refinements. There is no substitute for the Bank itself investing in its own strategy document and stimulating the intellectual conditions for operations in the next decade. Client demand is established; the supply response is awaited. In the short run, *Cities Alliance* provides an excellent vehicle through which further funds could be mobilized given the Bank's influential role in its global programs which would leverage further donor support. The Bank needs to prioritize its analytical and knowledge product agenda, identify international pools of active quality research in urban sector activities and mobilize its own research agenda. Many in the research group have outstanding research proposals which could be funded for the benefit of the future urban program. These would be the first steps.<sup>7</sup>

The importance of urban regions in driving economic growth, generating poverty and alleviating it, producing environmental externalities and dealing with them has never been greater. A major initiative is required to develop mechanisms, methodologies, regulatory frameworks, partnerships and policy approaches to deal with the issues that are arising and are likely to intensify in the decades ahead. It could be said that the 20th century was about mankind clustering into concentrated settlements and not quite knowing how to manage them; the 21st will be about making this choice livable. It is no longer sufficient to bring attention to the problem cities pose especially in the developing world - something Habitat II did in 1996 - but empirically to understand the causative factors of city growth and its impact on its regional, national and global economy. Analytical frameworks will need to be developed based on data, existing planning and management processes, which combined with intensive interaction with stakeholders of the city would lead to strategic vision. The mechanics and policy frameworks would fall out of this process. Cities in North Africa, parts of emerging Africa and South Asia are likely to be the ones needing assistance in the years ahead (Latin America has already emerged; China is racing ahead and so are cities of East Asia). The Bank needs to prepare its approach for this region.

As a major new initiative, the Bank needs to reinvest and create an intellectual resource base within the Bank which could provide the much needed background research for the operations group in urban. A WDR type initiative over two years, where the Bank takes the lead to bring together the best minds in urban internationally and harnesses the best urban research taking place at institutes, universities, multilaterals across the globe would be desirable. This initiative would concentrate energy around a vital and little understood issue and provide an opportunity to seek and combine current and extant work on urban and cities and to stimulate new work not hitherto undertaken. Given the new leadership at the Bank, this might be a good moment to initiate a major exercise on

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<sup>7</sup> The main contours of an urban assessment would be as follows:

- The economic impact of cities in the developing world( producing a set of indicators and a matrix that would help city assessments.
- The impact on cities on real production (and services) and its dependence on the efficiency of land , labour and infrastructure markets.
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understanding the economic role of cities, state of the art urban strategy documents for nations and sharpen our ability to undertake CDSs at the city level as a means of initiating very new and different PPP structures for utility investments and urban service delivery mechanisms. Both global programs, *Cities Alliance* and PPIAF, could be harnessed in this initiative and, given the width of experience at the Bank, combined with these two global initiatives, the ingredients of a truly interesting outcome is assured. The Bank could, subsequently, decide its internal structuring given the results of this exercise.

The main contours of an urban assessment might include the following:

- The economic impact of cities in the developing world.
- The impact of cities on real production (& services) and its dependence on the efficiency of land, labour and infrastructure markets.
- The implications of various types of market failure and government failure especially in key markets for city growth and diversification.
- How is it possible to promote efficient urban and housing and land markets and infrastructure through national and local policy changes?
- The city and its region and the interdependence between them. Synergies between the rural and urban economy especially the growth of secondary towns.
- Urban finance and the nature of relationships between local finances and major utility investments in cities.
- Fiscal links between the city and the national economy. Cities contribute at least as much to tax revenues as they absorb. Capital cities have often been benefited disproportionately to other major cities.
- The ‘pull’ and ‘push’ factor of alleviating urban poverty in cities as a consequence of rapid urban growth
- The environmental impacts of urban development (waste water, sewerage, solid waste disposal, hospital waste, industrial waste, noise and air pollution, traffic management). What are the links between economic development, land use and their environmental
- City Planning and Strategy – How can the CDS framework be strengthened in a more rigorous and analytical way? How can it be usefully shared between cities. What the post CDS investment possibilities and how should these be organized?
- The entire issue of urban governance needs to be examined. What are the possible structures for good governance? What is the framework of national and intergovernmental relations? What should it be?
- The role of Public Private Partnership mechanisms for leveraging public investment in urban infrastructure and service delivery with private sector participation.

### *Cities Alliance*

Figure 7 illustrates the urban triangle. City Strategies can only emerge by understanding the data base, identifying the comparative advantages of the city, evaluating its growth drivers, fine tuning its planning system to be responsive to the emerging realities of the city and, through intensive interaction with stakeholders, to arrive at a strategic vision of where the city needs to go in the decade ahead. Interventions can only be strategic thrusts pushing the system in one direction or another which cumulatively will drive the

city to its ultimate objective. As the ancient philosopher Seneca noted: “if you do not know to which port you are sailing no wind is favorable”. It is easy to put the right infrastructure in the wrong place at very considerable expense. Its happened all too often. (housing is built where government owns land and not where people need to be; infrastructure is built in areas in direct contrast to the natural growth of a city) *Cities Alliance* is about putting the right infrastructure in the right place by the most effective means possible by understanding the city, talking with the city (its leadership and its stakeholders) and sharing experiences between cities. That is why the CDS mechanism is a critical component of future work. *Cities Alliance* must ensure that this instrument is fine tuned in an analytical and empirical manner and does not simply turn out to be one more possible story of the city or a series of wish lists and projects without a coherent framework. It is the core for future action. This element deals with the “Data” segment of the urban triangle on the basis of which much planning and interaction could take place. (Simple statistics such as housing starts and completions in the city are rarely available even in major metropolitan areas).

Most cities in the developing world have extremely weak governance systems and associated with them consequentially weak planning processes. Where governance is strong major impacts can be realized with good leadership (Curtiba for example); good leadership with weak planning processes is like pushing on a string. (it can make impact such as Surat, Thane and Ahmedabad in India). Strengthening this process is universally required and clearly both the Bank and *Cities Alliance* need to create methodologies of action which go well beyond “municipal funds” to deal with this problem.

Mobilizing domestic capital by a local body that is in full control of its revenue base and has a planning process that can implement utility investments and improve urban service delivery is clearly the basis of a successful local management system. Working collaboratively with PPIAF could be a very interesting possibility in seeking out new institutional arrangements by which every dollar of public expenditure can be leveraged (both financially and managerially) with private investment for both utility investments and service delivery through output based contracts (Figure 8). Infrastructure reform is the choice between three alternatives; selling assets, sweating assets, paying for service delivery. The fourth is simply undertaking service delivery within government or its institutions. Framework conditions are necessary for all three, the latter being used only where full cost recovery of services is not possible owing to the nature of the constituency being served and consideration of equity in the consumption of basic services.

The Bank has been very successful in a number of countries in introducing housing finance institutions as a means of developing robust and vibrant mortgage markets. Most of these, however, have been squarely in the realm of middle income housing and households in the organized economy. Accessing households in the informal economy has often been beyond the capacity of these institutions. Emerging micro-finance entities have now begun to serve this constituency though many are still largely in rural areas. Financing land and housing is a crucial element of slum renewal a central pillar in *Cities Alliance*'s work program. A strong stimulus needs to be given in developing a new generation of ground level institutions that can serve this vast constituency perhaps through loan origination activities which could be pooled and sold as secondary paper to formal mortgage institutions and banks (with micro finance elements in place - high recovery records and commensurately large spreads - would make this secondary paper

particularly attractive to formal institutions). Cities Alliance needs to develop strong capabilities in this area which would supplement the agenda of the Bank which can then drive the policy framework and the lending for such initiatives.

With the focus of attention on Kyoto and Climate Change as well as the emergence of an international market for carbon credits, *Cities Alliance* could begin to focus attention on the whole area of urban environment and climate change. Solid waste disposal mechanisms could well be funded using these instruments (controlling emissions of green house gases) which could tip the balance of public private initiatives from being marginally break even to commercially positive).

The Bank's environment assistance to countries appears to have been on a project to project basis (water supply, sewerage, solid waste). The short term impact of growth on the environment broadly should clearly be a priority of the Bank with the long term impact following sequentially. Clearly the approach should be on overall outcomes and not on project by project results. Such an approach would require methodologies to improve understanding of the links between city development (in all its facets) and their environmental impacts.

The Bank could play a major role in bringing together regulators, urban managers, private investors to create a consistent and substantive set of incentives that promotes both commercial interests as well as environmental quality. The environmental consequences of unregulated and rapid urban growth has been very severe indeed on "livability" criteria. China is an outstanding example of environmental degradation with rapid urban growth.

UNEP recently<sup>8</sup> urged the Consultative Committee of *Cities Alliance* to give the urban environment much more importance in its program operations by creating a Task Force for the purpose and operationalizing the environment agenda. The environmental impact of rapid urban growth, it was felt, was not being internalized in a city agenda and hence the paper argued strongly that environmental issues play a much more significant role in CDSs and project procedures. It was also noted that there is sufficient evidence that "targeted investments in the environment will generate substantial economic returns especially among the more than one billion people who live on less than a dollar a day".

While the environment is a key component that impinges on "livability" in the city its significance for any intervention on cities is extremely important. However, it cannot be a key driver for change and reform. Sensitivity to environmental issues must find their place in all project reports but the most important driver for city reform is its capacity to raise and leverage finance.

Most important for *Cities Alliance*, as a cross cutting theme, will be the creation of an extremely strong financial expertise to concentrate on large utility investments in cities through PPP (creating the contractual and concessioning frameworks through which these can be realized); re-examining the use of private sector delivery of public services (even where user charges are ruled out) through output based contracts; strengthening the revenue base of local authorities and municipalities; promoting domestic resource mobilization through financially strengthened institutions at the local level; examining the possibility of a new generation institution for utility investments and management

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<sup>8</sup> Cities Alliance and the Environment: Proposal for a Process to Strengthen the Environment in Cities Alliance

developed as a partnership between the government and stakeholders of the city. The range of possibilities are very large indeed and all of these would require 'out of the box' thinking. Robustness of global equity and debt markets and maturing debt markets in a number of developing societies (South Africa, India, Brazil) give ample opportunity to experiment with a new generation of intervention techniques which harness changing markets across the world and creating new business opportunities for the private sector.

## Summary of Recommendations

### *Cities Alliance*

The success of *Cities Alliance* has been its focus of attention on the city and its limited agenda for intervention - CDSs and support to slum upgrading - both a nudge towards prosperous cities and "cities without slums". In the process, it has discovered the hugely important role of municipal finance and the strengthening of local urban bodies if city strategies are to be implemented realistically. A CDS has a limited role of providing a sense of direction for the city and prioritizing and sequencing interventions needed by the governance framework of the city. If the latter is weak, lacks technical and managerial skills, is severely budget constrained the task of actually implementing the strategy will prove to be extremely difficult. Some cities have actually reformed the machinery for action and, with strong leadership, have been able to achieve results (Johannesburg, Ahmedabad are examples).

The following needs to be re-examined in the light of experience, and if necessary, an evaluation of *Cities Alliance* should deal with these issues in some depth:

1. Strengthening the methodology and analytical content of CDSs. CDSs are in some sense "vision" documents which rely on data and extensive consultation with stakeholders. While this process needs considerable strengthening, translating a vision into a strategy and its implementation seems to be missing. Much effort will need to be expended in understanding and producing methodologies to address implementation. The role of PPIAF could prove very useful in taking the city agenda into an operating mode using PPP structures.
2. City strategies need to be placed in the context of national urban strategies. Given the magnitudes involved in infrastructure investments in the city, the central government is likely to be involved. As in China, with strong central government support, cities stand a better chance in reforming their potential structures linked to an investment strategy that would use local resources supplemented with Central Government support. *Cities Alliance* needs to work closely with the Bank on the latter's national level orientation and its own capacity to produce national urban visions and strategy for a country.
3. With respect to urban poverty it is necessary to address the causes of poverty and not simply its symptoms. Very often if a city identifies its new economic purpose based on its ability to match its own endowments with changing opportunities, the problem of unemployment can be rapidly addressed. It is the failure to get this right that produces the urban poor. Many cities have declined as a consequence of changing economic compulsions others have used new opportunities to drive their growth and prosperity. *Cities Alliance* may extend its slum upgrading activities to activities that help cities adapt quickly to changing economic opportunities. (Rehabilitation of project affected people is a crucial

- component of rapid implementation of projects in cities and very often stalls effective response by a city – Bombay airport for example).
4. *Cities Alliance* may wish to examine playing a leading role in tackling two aspects of urban poverty: mobility and information. Urban Transport is a good place to start for the former and mobile communication on the latter. If the poor have access to rapid and cheap transportation and cheap and timely information their economic profile can change very rapidly. Transport is a good place to start in visioning a city as it forces planners to consider where people work and live and how goods move within a city. The Bank's Urban Transport Sector is very large indeed and there could be some synergy in *Cities Alliance* using this expertise and applying its theme on city strategy. (See Table 3 where the Transport Sector is larger than the combined urban and water supply and sanitation themes).
  5. Financing urban strategy is a critical dimension of work of which *Cities Alliance* is well aware. A distinction must be made between urban service delivery (which involves one set of issues) and urban infrastructure investments (another set of issues). Where investment needs in infrastructure far exceeds the demand for services (which is the usual problem) new thinking will be required on the basis of a course of action that will define how infrastructure investments can be made. Figure 8 demonstrates how this might be tackled. PPIAF can be of considerable value on these issues.
  6. In addition to the recent emphasis on the financing of urban development, the *Cities Alliance* may wish to consider including the use of new technologies of satellite mapping, e-governance and wireless communication to address city issues.
  7. The Charter also specifically states that: "the Cities Alliance aims to capitalize on the experience and expertise of its implementation partners in ways that strengthen their operations, rather than build separate implementation capacity". As the Bank is by far the largest partner in terms of the allocation of resources to partners (Table 5 and Diagram 1 and 2), it needs to work closely with *Cities Alliance* in crafting a three year strategy that would help fund some of the gaps that have emerged in knowledge products required by the CT strategy.

### *The World Bank*

The Bank's urban strategy was born at a time of major budget cuts and staff re-organization which has impeded the implementation of the strategy owing to capacity constraints and its inability to meet two fundamental ingredients emphasized by the strategy document: that implementation of the new strategy was not budget neutral and a major investment in the renewal of intellectual capability was seen to be required if the Bank had a hope in driving the strategy to its logical conclusion. Neither has happened.

1. The Bank has used the emergence of *Cities Alliance* at a number of points - at the urban anchor and at some of the more dynamic regions - to further a common agenda of improving the understanding of local economic development and the investment climate of cities and tackling the emerging problem of urban poverty a major component of the problem of poverty in most emerging developing countries experiencing rapid urbanization.
2. Both the Bank and *Cities Alliance* have specific agendas with a clear interface (Figure 3). At the point of interface, alignment has been achieved in terms of a

common urban strategy and the filling of knowledge gaps where the Bank found it difficult to find resources not devoted to specific operations.

3. The synergy between the Bank and *Cities Alliance* can be taken much further by a re-orientation of comparative advantage and using the ability of *Cities Alliance* to raise substantial resources from the donor community on a commonly agreed agenda which all find attractive, important and necessary. The Bank needs to strategize its short term (3 year) goals in terms of taking its CT strategy forward and use the possibilities *Cities Alliance* affords to raise funding for that effort. The Bank should also now incorporate PPIAF as the second global program which it can incorporate into its own urban effort.
4. In the meantime, the Bank needs to take a lead in the urban domain by initiating a global rethink of urban issues in the light of experience accumulated at the multi-laterals, the bi-laterals, the UN and global programs to initiate a WDR type initiative over two years harnessing the best known work (and minds) on urban issues and initiating a terms of reference for future work in this area. This would give sufficient time for the Bank to develop its own strategy for enhancing the intellectual base that the Bank would require to carry forward the work enunciated in CT. Decisions could be taken subsequently whether this expertise, or some of it and if so which, would reside in the Bank or elsewhere. In the meantime, the short term three year agenda would be taken forward working closely with *Cities Alliance* and PPIAF.

## Conclusions

Both the Bank and *Cities Alliance* have a unique opportunity now to create a workable agenda on a Country Framework which defines a model of operation with agreed action and responsibilities on cities and between cities, national government and development financing institutions. This should be achieved within a partnership model to unblock constraints to city growth and prosperity.

While the Bank could focus attention on the urban finance issues and through these to governance frameworks, *Cities Alliance* would use its expertise to extend its understanding of cities through its CDS approaches revised suitably to meet more analytical and empirical standards. Two new elements that need specific attention are the framework conditions which would be used to make utility investments through PPP structures (and the institutional arrangements this would require) using PPIAF as a second major global program to assist in the process and the need to create sustainable urban service delivery standards that would require restructuring of ULBs to raise domestic (private) capital to fund improvements and expansion of existing facilities.

Both *Cities Alliance* and the Bank could strategize much more clearly, within the CT framework, to focus attention on the financing issues through which urban assets can be expanded and managed effectively thereby improving governance as an element of sustainable financial structures. The urban and sub-urban programs would be specific examples of the implementation of this overarching capability. Combined with this would be a rigorous Public Private Partnership model on concession formulation for new investments. PPIAF would be an excellent global program that could assist in this process. *Cities Alliance* through its direct access to cities and its networking capacity

using UCLG would strengthen the city in the context of the national economy and thereby attract the facilitation of much greater investment resources to drive national growth through cities.

If this approach provides an acceptable way to proceed further, both *Cities Alliance* and the Bank would work on a Country Framework Agreement for urban (the merging of the national urban strategy with city development strategy); define a stylized model of operations through which national governments, city governments, debt markets and financial institutions could operate to unblock constraints to growth over a three to five year time horizon.

## Annex: Tables and Figures

TABLE 1: Urban Development Theme, Bank Performance Indicators

	FY00	FY01	FY02	FY03	FY04
<b>Bank Output Trends</b>					
IBRD Lending (Commitments) (\$m)	792	991	949	1045	877
IDA Lending (Commitments) (\$m)	244	468	533	532	481
IBRD Lending (Disbursements) (\$m)	1178	1150	1032	892	801
IDA Lending (Disbursements) (\$m)	485	406	407	446	567
GEF, Gurantees, SF Commitments (\$m)	28	11	10	17	11
<b>Project Outputs</b>					
Urban Roads Built				2546	19237
Municipalities Strengthened			117	979	105
<b>Bank Inputs</b>					
Staffing	115	94	97	92	107

Source: Sector Strategy Implementation Update, Draft Report, November 2004.

Table 2: Water Supply & Sanitation

	FY00	FY01	FY02	FY03	FY04
<b>Bank Output Trends</b>					
IBRD Lending (Commitments) (\$m)	1017	549	176	737	596
IDA Lending (Commitments) (\$m)	252	655	317	548	859
IBRD Lending (Disbursements) (\$m)	766	785	636	488	483
IDA Lending (Disbursements) (\$m)	311	291	339	317	408
GEF, Gurantees, SF Commitments (\$m)	1	9	9	10	38
<b>Project Outputs</b>					
Hhds with water supply connections ,000			0.4	311.8	346.2
Hhds with sewerage connections ,000			0.5	155.3	6.4
Sewers built/rehabilitated (kms)			87	2,999	86
<b>Bank Inputs</b>					
Staffing	118	92	86	75	85

Source: Sector Strategy Implementation Update, Draft Report, November 2004.

Table 3: Transport Sector

	FY00	FY01	FY02	FY03	FY04
<b>Bank Output Trends</b>					
IBRD Lending (Commitments) (\$m)	1152	2367	1526	1696	2539
IDA Lending (Commitments) (\$m)	565	738	865	1031	1239
IBRD Lending (Disbursements) (\$m)	1890	1860	1738	1655	1745
IDA Lending (Disbursements) (\$m)	739	619	626	753	945
GEF, Gurantees, SF Commitments (\$m)	5	12	1	3	41
<b>Project Outputs</b>					
Roads Built/Rehabilitated (kms)			5315	55696	26691
Roads Maintained (kms)			2324	343115	48997
Railroads Built/Rehabilitated (kms)			2199	1205	905
Railroads Maintained (kms)				560	10600
Bridges Built/Rehabilitated (kms)			1169	3540	6035
<b>Bank Inputs</b>					
Staffing	131	118	122	107	116

Source: Sector Strategy Implementation Update, Draft Report, November 2004.

Table 4: Cities Alliance: Sources & Uses of Funds

Cities Alliance: Sources & Uses of Funds				
(US\$, June 30, 2005)				
Type of Funding	Pledges		Paid - In	
Core	28,725,000		22,064,809	
Non-Core	35,230,000		22,113,763	
Non-Core (SEC)	5,720,000		5,180,000	
<b>Total Funding</b>	<b>69,675,000</b>		<b>49,358,572</b>	
	FY05		Cumulative	
Funding Source	Allocations	Disbursement	Allocations	Disbursements
Core Activities	7,816,000	4,926,090	29,147,918	18,797,472
Non-core Activities	6,617,007	7,252,067	33,574,227	22,906,694
<b>Total Use of Funds</b>	<b>14,433,007</b>	<b>12,178,157</b>	<b>62,722,145</b>	<b>41,704,166</b>
Approval by Type of Activity				
Type of Activity	Core Funds	Non-Core Funds	Core Funds	Non-Core Funds
City Dev Strategy	2,045,000	0	8,315,012	2,396,620
Scaling /Upgrading	1,917,300	4,210,312	8,989,111	22,228,912
CDS/Upgrading	2,403,700	1,559,195	8,043,795	3,431,195
Secretariat	1,450,000	847,500	3,800,000	5,517,500

Table 5: Cities Alliance: Approved Partnership Allocations by Implementing Partner

## Cities Alliance: Approved Partnership Allocations by Implementing Partner

(June 30, 2005)

<b>Implementation</b>	<b>US\$</b>	<b>US\$ %</b>	<b>No. of Activities</b>	<b>Activities %</b>
World Bank	14,982,490	26.2%	67	48.9
UN-Habitat	8,351,740	14.6	31	22.6
CA Secretariat	8,615,140	15.1	23	16.8
Other Execution	25,145,775	44	32	23.4
Cancelled	957,000	1.7	4	2.9
<b>TOTAL</b>	<b>58,052,145</b>	<b>101.7</b>	<b>157</b>	<b>114.6</b>
Split Imp			-20	-14.6
Less Cancellation	-957,000			
<b>NET TOTAL</b>	<b>57,095,145</b>		<b>137</b>	<b>100.0</b>
<b>Other Execution</b>				
Countries/Govt Ag.	803,065	1.4	4	2.9
Municipalities	1,212,309	2.1	6	4.4
Civil Society/NGO	20,345,861	35.6	15	10.9
Intl/Reg Orgs	2,284,540	4	6	4.4
Private Foundations	500,000	0.9	1	0.7
<b>TOTAL</b>	<b>25,145,775</b>	<b>44</b>	<b>32</b>	<b>23.4</b>

Figure 1: Cities Alliance: Approved Partnership Allocation (By US\$ million)

Approved Partnership Allocations (By US\$ million)

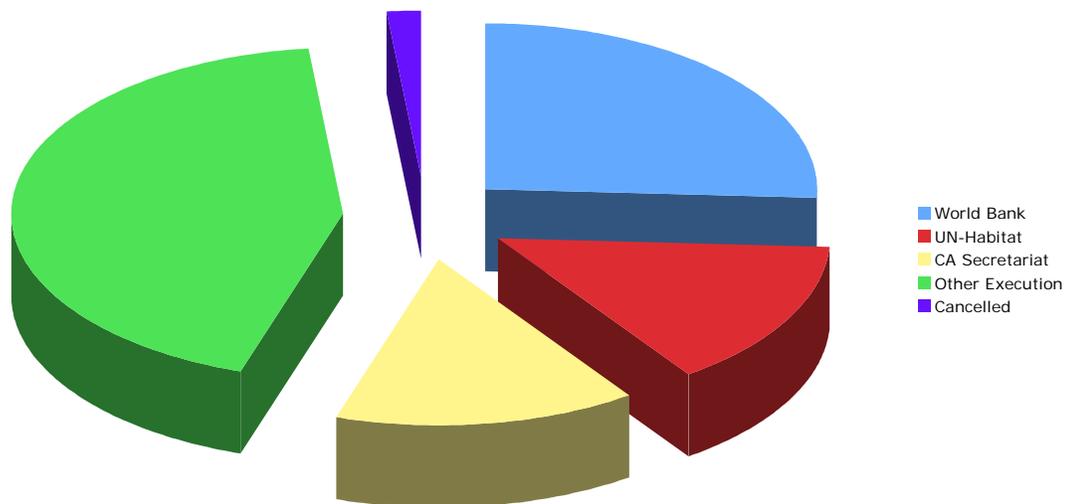


Figure 2: Cities Alliance: Approved Partnership Allocations (By Activity)

Approved Partnership Allocations (By Activity)

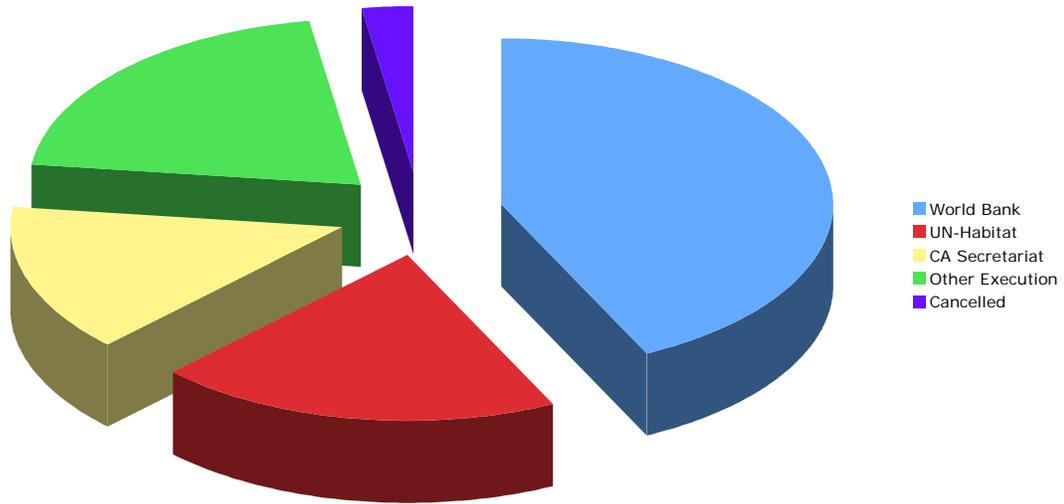


Figure 3: Alignment between Cities Alliance & World Bank

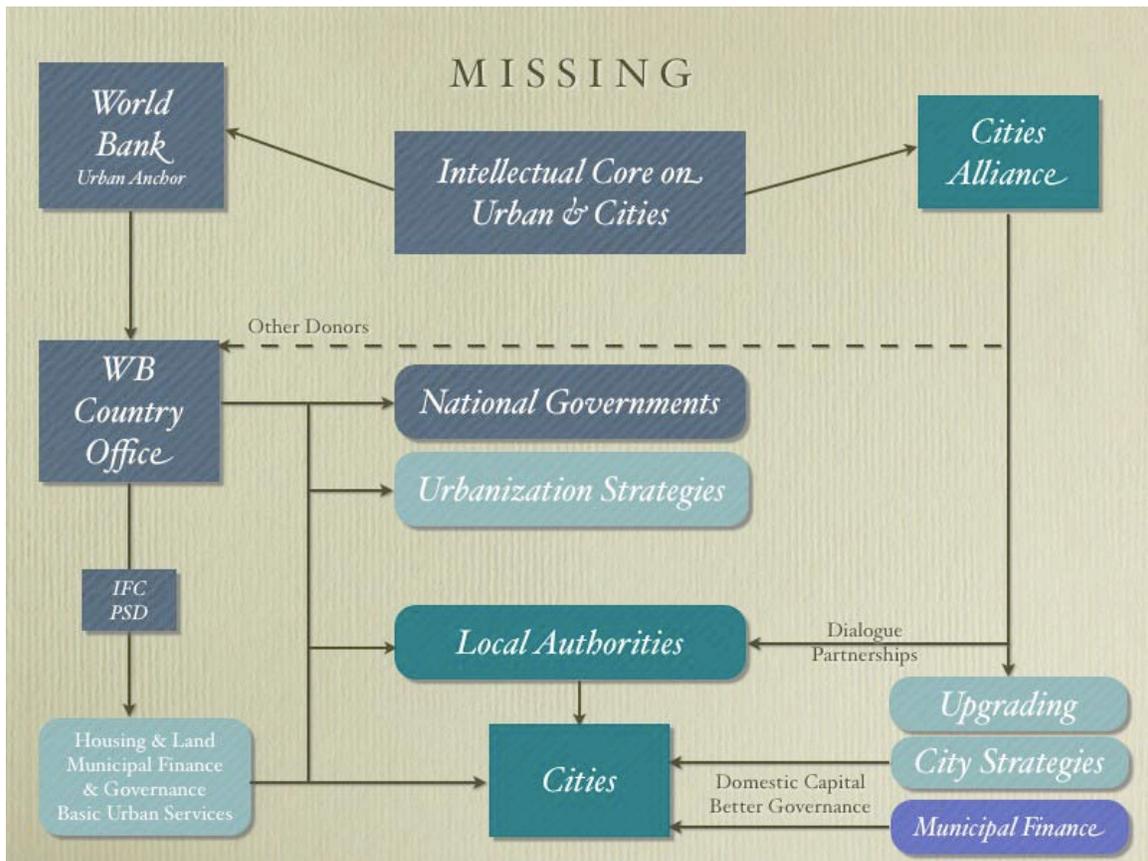


Figure 4: Cities Alliance Approved Work Program

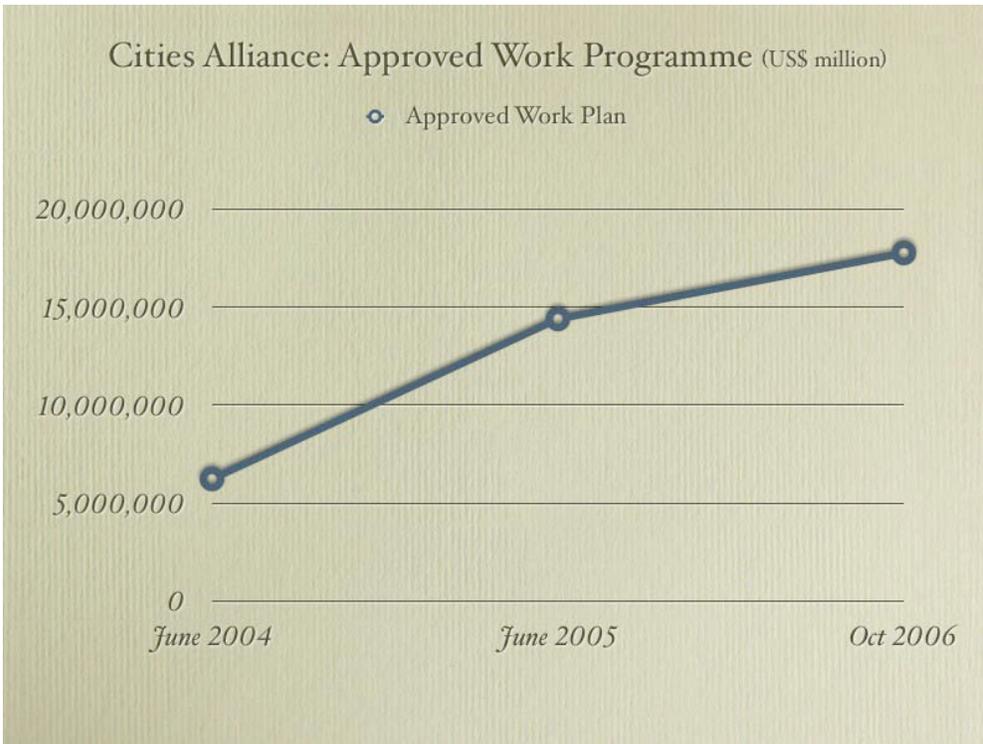


Figure 5: Cities Alliance Work Program by Region

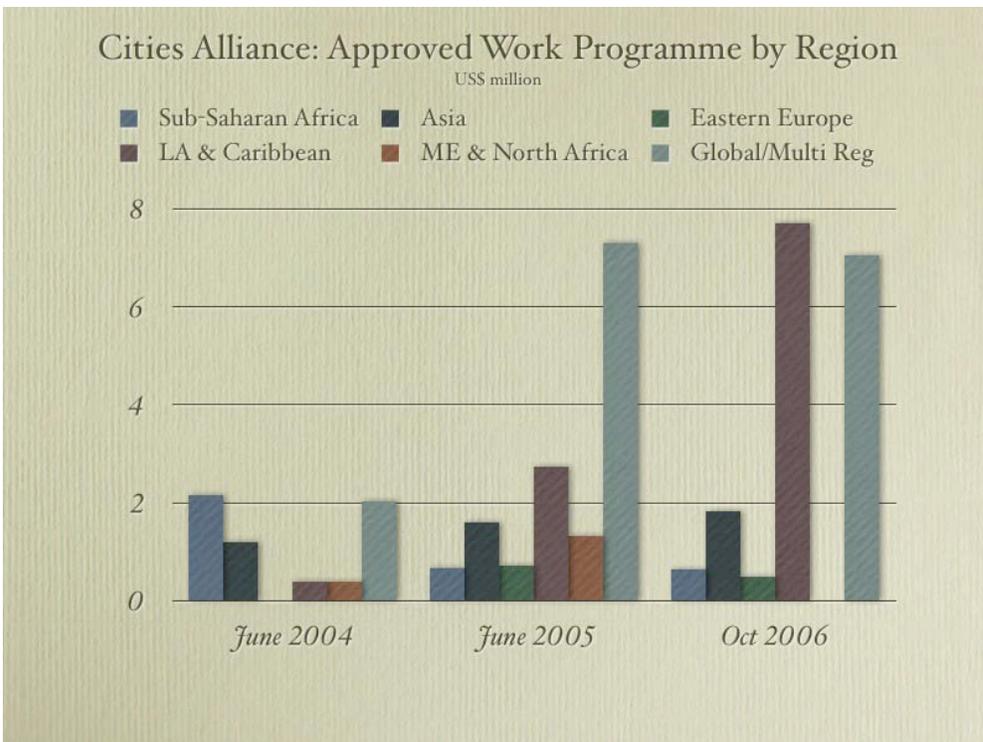


Figure 6: Cities Alliance: City Strategic Framework



Figure 7: The City Triangle

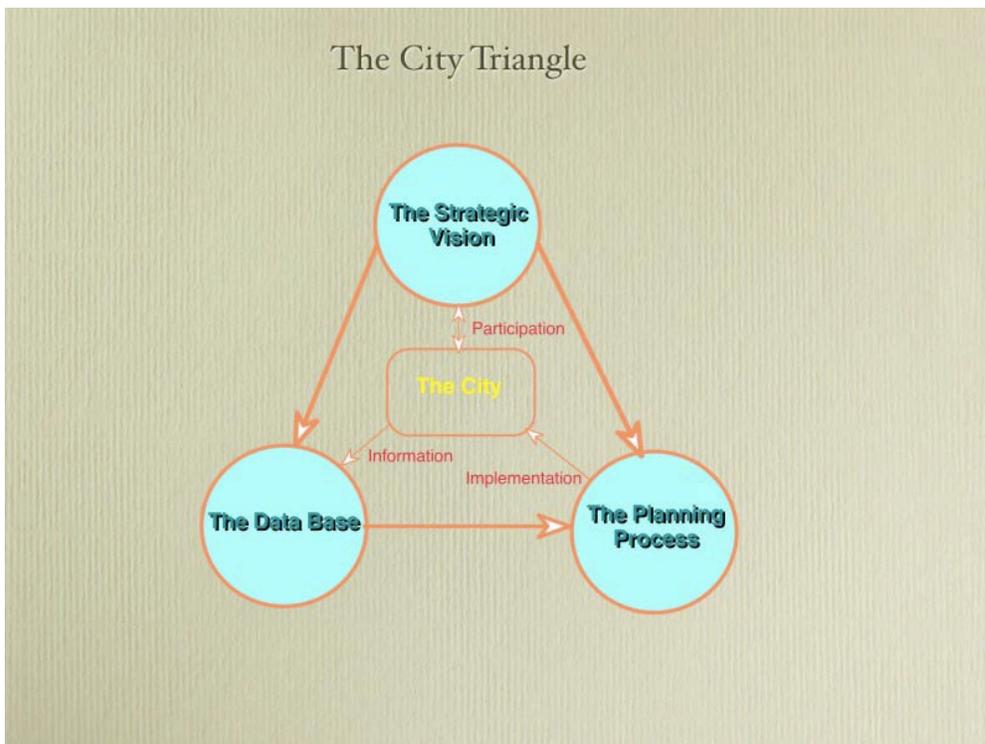


Figure 8: The Infrastructure Problem: Three ways to reform

