



Cities in Transition

World Bank Urban and Local
Government Strategy

The World Bank
Infrastructure Group
Urban Development

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Contents

Abbreviations	vi
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Foreword and Acknowledgments	vii
------------------------------	-----

Executive Summary	1
Attachment 1 Matrix of strategic vision and actions to support sustainable cities	18
Attachment 2 Illustrative indicators for monitoring urban and local government performance under the new strategy	23
Attachment 3 Timetable and indicators for monitoring implementation of the new strategy in the Bank	26

1. The Need for a New Urban Strategy for the Bank	31
The changing context of urban development	32
The implications of urban change for national development	36
The importance of urban development to the global, and to the Bank's, development agenda	40

2. Pursuing a Vision of Sustainable Cities	43
The urban transition in the national context	43
Public and private roles in urban development	44
The need for a multidimensional approach: lessons from experience	46
The four dimensions of sustainable cities	46
Good governance and management	49
Seizing the opportunity for greater impact in support of sustainable cities	52

3. A Renewed Bank Strategy for Urban and Local Government Assistance	61
Principles and preconditions of the strategy	61
The four building blocks of the new strategy	63
Adapting the existing “business lines” and products of urban assistance	67
Regional urban strategies and action plans	70

4. Requirements for Implementing the New Strategy	73
Expanding external and internal partnerships	73
Strengthening the internal organization of urban work	77
Enhancing human capital and knowledge management	78

Adapting the Bank's approaches to involuntary resettlement	79
Allocating budgetary resources for urban work	79
Implementing the new strategy	79
<hr/>	
Attachment 4 Urban lines of business—illustrative examples	80
Annex A The implications of urban change for national development	85
Annex B Operational experience in implementing the policy framework for sustainable cities	97
Annex C Evolution of past lending and performance of the urban development portfolio	121
Annex D Urban indicators	131
<hr/>	
Figures	
Figure 1.1 Within a generation the developing world will be predominantly urban	32
Figure 1.2 Most developing countries are in, or are entering, the high-growth phase of the urban transition	33
Figure 1.3 The developing world's urban population is still concentrated in small cities, but large cities' share is increasing	34
Figure A.1 The urban share of output is typically greater than the urban share of population	87
Figure A.2 As urbanization accelerates, housing becomes more important to the economy	91
Figure A.3 The urban shares of the poor population and of the total population are closely aligned	93
Figure A.4 Poverty will be increasingly urban	94
Figure A.5 Urban environmental risks change with development	96
Figure C.1 The demand for urban development projects is increasing	122
Figure C.2 Urban development lending is recovering as a share of total Bank lending	122
Figures C.3. a-e A brief slip and then steady recovery in the performance of completed urban development projects	126
Figure C.4 The performance of the active urban development portfolio based on QAG criteria compares well with the Bank average	128
<hr/>	
Tables	
Table C.1 Urban development projects by region, May 1999	123
Table D.1 Urban population data by country	132
Table D.2 Indicators related to city competitiveness	138
Table D.3 Indicators related to city livability	141
Table D.4 Indicators related to city governance and management	145

Table D.5	Indicators related to city bankability	149
Table D.6	The world's 30 largest cities: 1950, 1990, and 2015	152
<hr/>		
Boxes		
Box 1.1	Cities are particularly vulnerable in times of crisis	36
Box A1	Urbanization: A necessary—but not sufficient—condition for sustained economic growth	86
Box A.2	Rigid land use planning continues to constrain market adjustment of the urban form in Cracow	88
Box A.3	Large cities see a relative decline in social welfare	95
Box B.1	Enhancing the quality of life for the urban poor in Indonesia through the Kampung Improvement Program	99
Box B.2	Scaling up slum upgrading from a pilot to a citywide program in Guatemala City	100
Box B.3	Private enterprise helps to improve slums in India	101
Box B.4	Taking a strategic approach to the urban environment	105
Box B.5	Reforming national housing policies and institutions in Mexico	107
Box B.6	Promoting private real estate market development in Mali	108
Box B.7	Bringing a development vision into focus—city strategy formulation in Haiphong, Vietnam	110
Box B.8	Johannesburg and the World Bank: A city-level comprehensive development framework	111
Box B.9	Accounting for the local economy in West Africa	112
Box B.10	Providing timely advice on urban management and finance after apartheid in South Africa	113
Box B.11	Understanding and addressing municipal corruption	115
Box B.12	Building better municipalities through finance and technical assistance in Brazil and the Philippines	117
Box B.13	A nationwide financial framework for municipalities in the Philippines	118
Box B.14	How IFC aids the financing of private infrastructure concessions at the subsovereign level	119
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	Selected References	153

Abbreviations

ADB	Asian Development Bank
AGETIP	Agences d'Execution de Travaux d'Intérêt Public
BOT	Build-operate-transfer
CIDA	Canadian International Development Agency
DAC	Development Assistance Committee
DEC	Development Economics
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ESSD	Environmentally and Socially Sustainable Development Network
EU	European Union
FPSI	Finance, Private Sector, and Infrastructure Network
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
LARI	Land and Real Estate Initiative
LG	Local Government
MEIP	Metropolitan Environmental Improvement Program
NGO	Nongovernmental organization
OD	Operational directive
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
PREM	Poverty Reduction and Economic Management Network
QAG	Quality Assurance Group
TA	Technical assistance
TWU	Transportation, Water, and Urban Development Department
TWURD	Urban Development Division
UMP	Urban Management Program
UN	United Nations
UNCHS	United Nations Centre for Human Settlements (Habitat)
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development

Foreword and Acknowledgments

The exercise of preparing a new urban and local government strategy for the World Bank began in late 1997 as a cross-sectoral, cross-network effort coordinated by the Urban Anchor and Urban Partnership in the Transportation, Water, and Urban Development Department. With guidance from a Bankwide steering committee, the strategy activity focused initially on organizing eight workshops at the Bank, spanning all the major urban and local governance issues. These workshops brought together speakers and participants from central and local governments, academia, development assistance agencies, nongovernmental organizations, private companies, and numerous thematic groups and units of the Bank. This intensive period of debate and information gathering culminated in a three-day retreat, the Urban Forum, in May 1998, where more than a hundred urban staff and invited participants, including representatives of several donor agencies and local government officials, collectively articulated the main lines of the strategy. Each of the regional urban sector groups presented their views on strategic issues and priorities for their countries.

Based on these and other inputs, a first draft of the strategy document was prepared in July and circulated in the Bank and to external readers. The proposed strategy was also discussed at different stages with managers and staff in the Regional units and in networks and professional groups in the Bank and the International Finance Corporation, with external client focus groups in Sub-Saharan Africa and East and South Asia, and with representatives from several bilateral and multilateral aid agencies. In addition, a sample survey of urban clients was conducted to obtain their views on past and future Bank urban assistance.

The Bank's new urban strategy, *Cities in Transition: A Strategic View of Urban and Local Government Issues*, was discussed and approved by the Board of the World Bank in December 1999. Bank regional urban sector groups have continued to refine and begin implementation of region-specific urban strategies in collaboration with local and national clients and with each region's country teams in the Bank. The Bank's regional urban sector teams, thematic groups of urban experts, the Global Urban Partnership, and the new multidonor Cities Alliance are developing partnerships and defining requirements for implementing the new strategy as the Bank moves into its first fiscal year in the new century.

The strategy exercise has been managed by Christine Kessides, the main author of the draft report, under the direction of Angela Griffin, Anthony Pellegrini, and

members of the Urban and Water Sector Board (Messrs./Mmes. Bullmer, Friere, Gutman, Humplick, al-Khafaji, Khanna, Obeng, Racki, Thalwitz, and Varma). Many people within and outside the institution, too many to name here, have contributed ideas, analysis, and critiques to the production of this strategy, and as a living document it reflects continuing dialogues and debates. The guidance of John Flora, Sonia Hammam, Tim Campbell, Rene Costa, and Amy Osborn deserves special mention, and assistance from Laurent Capes, Katya Massey, Alfiya Mirzagalyamova, and Deepali Tewari is gratefully acknowledged. Tirsit Dinka and Laura Lewis assisted with document production.

Executive Summary

Winds of change affecting urban areas and local governments...

At the threshold of the 21st century cities and towns form the frontline in the development campaign. Within a generation the majority of the developing world's population will live in urban areas and the number of urban residents in developing countries will double, increasing by over 2 billion inhabitants. The scale of this urbanization is unprecedented and poses daunting requirements for countries to meet the needs of their people at relatively low levels of national income. The urban transition offers significant opportunities for countries to improve the quality of life for all their citizens, and for the Bank to realize its core mission of reducing poverty. But whether this potential is realized depends critically on the quality of urban management and on the national and local policies affecting it.

Cities and towns not only are growing in size and number, they also are gaining new influence. Political and fiscal decentralization, under way in all regions, means that municipal authorities now have greater authority—if insufficient capacity—to take charge of the local services that affect the daily lives of residents. Participatory local democracy is providing fertile ground for innovations in the ways that people's demands are articulated and satisfied. Globalization is leading to major restructuring within countries, shifting trade and production away from many traditional urban centers toward cities and towns that can demonstrate mar-

ket advantage. The role of national governments is being refocused to facilitate markets, promote economic and social stability, and ensure equity. But reforms of public sector management or private sector development will not do what is desired for national development until they are adapted and implemented appropriately at the municipal level. Local government remains the everyday face of the public sector—the level of government where essential public services are delivered to individuals and businesses, and where policy meets the people.

...underscore the importance of urban development to national goals

Urbanization, when well managed, facilitates sustained economic growth and thereby promotes broad social welfare gains. The industrial and commercial activities that are primarily located—and serviced, marketed, and financed—in urban areas account for half to four-fifths of GDP (gross domestic product) in most countries. The agglomeration of economic activities in the process of urbanization contributes to growth through the real sector (by raising the productivity of output and employment), through the financial sector (by mobilizing and channeling savings, and allowing the accumulation of real wealth in the form of urban real estate), and through fiscal flows (by cities providing the lion's share of tax revenues).

But policy weaknesses can disrupt the benefits from urbanization. Policies affecting urban land use and housing investment have major ramifications for households, businesses, and the nation, as the recent crisis in East Asia demonstrated. Although the collapse of real estate markets there was provoked by weak financial sector regulations, it was also rooted in flawed urban real estate policies that had created scarcities of developed land and encouraged speculation. In many countries distortions in domestic markets and public expenditure have accelerated urban population growth. As more governments correct such imbalances and as urban consumers pay more realistic rates for the services and resources they consume, urbanization can be harnessed to promote more equitable growth of incomes in the nation as a whole.

The development of urban areas is closely tied to the rural economy through exchanges of goods, labor, services, capital, social transactions, information, and technology that benefit residents in both locations. A well-integrated national labor market carries growth across regions and urban areas provide alternative employment for rural households even where agriculture thrives. But rural-urban migration is not the dominant source of urban growth. Increasingly, structural transformation and densification of peripheral settlements, in response to internal and external market opportunities, are bringing “urban” and “rural” closer in space as well as in economic relations. In China and Vietnam, for example, policymakers are realizing that the interdependencies between urban areas and their hinterlands provide positive synergies that can be further developed to promote national poverty reduction and growth, by making cities and towns efficient marketplaces for the country.

The growth of cities and towns expands opportunity for all citizens, and the urban built environment can enrich a nation's cultural identity. But in too many

countries poorly managed urbanization results not in widely shared gains in living standards but in significant social and environmental costs. Urban poverty is growing in scale and extent, especially at the periurban rim. In the two most urbanized regions that the Bank serves, Latin America and Europe and Central Asia, more than half the poor already live in urban areas. By 2025 two-thirds of the poor in these regions, and a third to almost half of the poor in Africa and Asia, will reside in cities or towns.

Poverty has many dimensions, with material deprivation (commonly measured in terms of income or consumption) one important element. But urban poverty often has a broader meaning of cumulative deprivation, characterized by squalid living conditions; risks to life and health from poor sanitation, air pollution, crime and violence, traffic accidents, and natural disasters; and the breakdown of traditional family and community safety nets. Moreover, income inequality is worsening in many urban areas, implying further exclusion of low-income groups from employment opportunities, basic services, political representation, legal and social protections, and amenities. Urban poverty entails a sense of powerlessness, and an individual and community vulnerability, that undermines human potential and social capital. Urban populations are also hit particularly hard by macroeconomic and financial shocks, such as the recent crises in East Asia and Russia, which have forced some households back into poverty.

In the fastest-growing cities in the developing world the health and nutritional status of residents has been improving more slowly than in small towns and rural areas; in some cities such indicators have actually worsened over the past two decades. Slums in many large cities are growing in size and in share of urban population, a testament to the policy and institutional failures of land, housing, and infrastructure systems to generate adequate supply even where people have demonstrated strong willingness to pay. The poor, especially poor children, are particularly hurt by a deteriorating urban environment. As cities modernize, environmental risks become more diverse and affect wider areas, and environmental solutions require addressing a complex urban management agenda.

[The growing importance of cities and local governments calls for a renewed Bank assistance strategy...](#)

The importance of urban issues to national and global goals for sustainable development has long been acknowledged in the international arena, most recently at the 1996 Habitat II Conference on Human Settlements, and features prominently in the Bank's World Development Report 1999/2000. Achieving progress toward the Bank's primary mission of poverty reduction and its strategic objectives of improving development effectiveness, increasing the participation of civil society, forging partnerships, and reducing corruption requires a closer working relationship with the level of government nearest to the people. Fostering rural-urban synergies and well-integrated national and city strategies to help countries realize the promise of urbanization represents a prime opportunity for the Bank to pursue a new "com-

prehensive development framework,” as expressed by President Wolfensohn at the 1998 Annual Meetings of the World Bank and the International Monetary Fund. Renewing the Bank’s commitment and capacity to assist effective urban development therefore makes sense as a corporate strategy. It is also good business for the Bank, as national and local government clients increasingly seek knowledge and financial support to improve the economic performance of cities and to translate national policy directions into daily realities on the ground.

This review of the Bank’s urban and local government strategy has been motivated by the external trends, by the growing demands for Bank assistance, and by the realization that urban development activities could and should have a greater impact in raising the living standards of the poor and promoting equity. The Bank’s large body of operational experience, accumulated over almost three decades of urban lending and sector work, provides a strong basis for response. Since 1972 the Bank has devoted 3 to 7 percent of its lending to urban development operations:¹

- Municipal finance reform and capacity building
- Lines of credit for multisectoral municipal investments
- Land and shelter operations (housing finance, land registration, sites and services, reform of property ownership)
- Basic improvements of social and economic services and tenure security in poor neighborhoods (urban upgrading)
- Development of basic sanitation and solid waste management systems
- Emergency and postconflict reconstruction operations.

Although this body of work does not represent a “sector” in the Bank’s parlance, it is unified by two characteristics. First, it concentrates on the spatial character of economic and social relations—how the combination of sectoral services and proximity of individuals and firms in the urban place yields benefits (agglomeration economies) that exceed those of their separate activities. And second, it gives attention to urban governance and management, the processes by which local governments, in partnership with other public agencies, the private sector, and the residents, ensure the delivery and financing of essential services and promote the welfare and productivity of the urban society.

...taking account of lessons of experience in urban and municipal assistance

During the 1970s and 1980s the Bank’s urban development projects showed that living conditions for urban residents, including the poor, could be improved significantly and cost-effectively. Urban work in this period tended to focus on specific

¹ Although this document takes a broad perspective of urban and local government issues to advocate a common frame of reference for the Bank in addressing them, the operational focus of the strategy is on the urban development lines of business. See attachment 4.

aspects of urban services or functioning, such as through multisectoral investments in low-income neighborhoods. While these efforts brought benefits, they failed to sufficiently recognize that sustainable urban development requires an approach that is even more integrated—across the physical environment, infrastructure, finance, institutions, and social activities.

Early urban projects pioneered some of the community participation later mainstreamed in the Bank, but the initiative and control over resources often remained with the central government or with specially created agencies. National or citywide policies were found to limit the potential returns from investments, or their scaling up to more beneficiaries—in large part because such policies often hampered the economic vitality of the city and its fiscal base. Moreover, assistance programs failed to fully capitalize on the knowledge and capacities of informal institutions, such as community organizations and small-scale service providers, and often neglected to accommodate variations in users' demands and the need for institutional learning.

There is increasing evidence that providing multiple services increases the scope of benefits, but that social or institutional failings can undercut service-oriented strategies. Urban projects since the late 1980s have therefore increasingly focused on policy reform and institutional change, extending the Bank's dialogue deeper into issues of regulation, incentive systems, and the patterns of relationships—among local government, the private sector, informal organizations, and households—that determine how cities perform. As democratization, decentralization, and public-private partnership strengthen the communication and collaboration among these stakeholders, a more holistic approach to urban development is called for and underpins the Bank's new strategy.

The Bank's pipeline of urban-related activities is growing. This increase is occurring not only in urban development operations but also in other portfolio categories—including urban water and sanitation and urban transport (which together represent another 6 percent of the Bank's total lending), environment, public sector management, and social sectors—where urban and local government issues have become more apparent and counterpart agencies have been decentralized. The agenda is also deepening to encompass further elements of sustainable urban development such as promotion of the local economy, access to private capital, reform of real estate markets, integration of cultural concerns, and disaster prevention and mitigation. All these trends call for a stronger response from the Bank, which remains the largest provider of urban development assistance with both a global and an operational perspective on urban issues.

The new urban and local government strategy does more than simply retool the urban development portfolio or seek stronger performance from it, although both are required. Rather, it argues for the Bank to recognize cities and towns as a dynamic development arena where the convergence of sectoral activities, and collaboration among communities, levels of government, and other private and public

sector institutions can create a microcosm of sustainable development for the country. The Bank would therefore apply to urban economies and local governments the same quality and rigor in analysis, advice, and strategizing that it applies to national economies and central governments. Ensuring well-functioning urban areas requires support to a spectrum of activities, both national and local, that affect urban outcomes. Skills and resources for this effort must be mobilized across sectors, thematic groups, and professional clusters in the Bank Group. The strategy therefore calls for a commitment by a wide coalition of forces within the institution and among external partners to working together in new ways on the urban frontier, with a newly empowered set of clients.

The ultimate aim of this strategy is to promote sustainable cities and towns that fulfill the promise of development for their inhabitants—in particular, by improving the lives of the poor and promoting equity—while contributing to the progress of the country as a whole. Pursuing such a strategy requires:

- A guiding vision of sustainable cities, in the context of a comprehensive framework for national development
- An understanding of how the Bank’s operations can support this vision
- A recognition of the lessons that emerge from the strengths and shortcomings in the Bank’s performance and response capability.

Building on a national view of the urban transition and its implications for public and private action...

The new strategy is concerned with ensuring that countries extract the most benefit from urbanization. The implications of urbanization are not appreciable from demographic numbers alone. The urban transformation affects the physical concentration of people, patterns of land use, social structures and interactions, and the nature and scale of economic production. Each of these dimensions of change affects the lives of individuals and the requirements for resources and governance. The urban transition also translates into diverse systems of urban settlement in different countries, and cities and towns in the same country often show very dissimilar outcomes in the extent and nature of poverty, in the patterns and growth rates of investment and employment, in the accessibility or spatial dispersion (“sprawl”) of residential and commercial areas, and in environmental quality and cultural amenities. The new strategy reflects the view that although cities and towns (like other economic entities) have different potentials and life cycles, public policies—coupled with community action, private sector commitment, accountable local government, and supportive national government—can make a large difference in the character of urban areas and in their contribution to national development.

To both increase well-being for all urban residents and direct urban economic growth for the benefit of all citizens, the urban transition needs to be viewed within

a national comprehensive development framework. The Bank and its partners are elaborating such a framework as an instrument for engaging local and central governments, the private sector, civil society institutions, and international donors in a shared commitment to balanced, integrated development for each country. Within the comprehensive development framework, the multiple dimensions of urban transformation (economic, institutional, social, spatial, environmental, cultural, technological) could be assessed, primarily from the perspective of impact on reducing poverty. The framework would help in assessing the actions of various stakeholders (firms, service providers, financiers, and government), to identify progress and constraints in making urbanization serve national goals of sustainable poverty reduction and broad-based growth. And it would allow a coherent view of the dynamic rural-urban interactions and the economic roles of settlements along a continuum of sizes in the country.

The urban and local government strategy is also grounded in sound principles about the rationales for public and private action in support of urban development. Municipalities bear the basic responsibilities of government at its lowest tier for allocating resources and promoting social equity, within constraints set by higher levels of government (which assign functions and fiscal authority), and for ensuring the provision of local public goods and services, through partnerships with the private sector and civil society.

In many rapidly growing cities in the poorest countries, weak local governments have been unable to perform even minimal functions, so that households and informal institutions have become the main providers of infrastructure, housing, and social services. While this solution meets some essential needs, it has also resulted in fragmented urban economies. In these cities the poorest often pay most dearly for low-quality services; poorly integrated land, housing, and transport markets impose high costs on firms and households; and congestion and haphazard waste disposal degrade the environment.

Local governments, or designated agencies such as public utilities, have essential roles to perform in providing urban public goods (streets and walkways, storm drainage, public green spaces), in facilitating efficient use of and equitable access to urban land, in ensuring coordination through planning and policy corrections, if needed, to account for positive and negative spillover effects of private activities (such as pollution), and in protecting public safety. These vital functions require local government to support markets and official processes of political representation where feasible, and to promote the capacity of residents to express public choice and have their demands satisfied by other, less formal arrangements where necessary.

The new urban strategy is therefore directed to correcting sources of market failure in the urban economy—such as information gaps that impede the efficient workings of land and real estate markets—as well as sources of government failure—such as inappropriate regulations or official behaviors that create excessive transaction costs and risks for local investors. The urban strategy is also geared toward helping gov-

ernment at all levels, the private sector (for profit and nonprofit), community groups, and citizens function in the urban economy in ways best suited to them. This means, for example, promoting effective competition among land developers and service providers; making local government budgets more transparent and thereby reducing the perceived risks of partnership for private financiers; increasing channels of information and collaboration among community groups, informal sector operators, and local government agencies; and refining policy tools such as targeted subsidies, basic land use planning, and urban transport management to address social and environmental externalities in the urban economy.

...the urban strategy is guided by a clear vision of sustainable cities

If cities and towns are to promote the welfare of their residents and of the nation's citizens, they must be sustainable, and functional, in four respects. First and foremost, they must be livable—ensuring a decent quality of life and equitable opportunity for all residents, including the poorest. To achieve that goal, they must also be competitive, well governed and managed, and financially sustainable, or bankable (see attachment 1). The strategy proposes an agenda for helping cities develop along these four interrelated dimensions—a comprehensive development framework for the urban arena. Each dimension implies appropriate national-level policies, including a sound macroeconomic and fiscal environment and a strong financial sector, and local policy and institutional requirements. The urban policy agenda outlines some broadly common goals for all cities and local governments. But it would be implemented very differently in different places, with the pace, priorities, and operational instruments depending on the political commitment and capacities of the local and central government and other key stakeholders.

Livability

The Bank's commitment to improving livability would be aimed at ensuring that the poor achieve a healthful and dignified living standard that permits them to share the resources of society. Providing a decent quality of life for the poor in urban areas requires much more than national policies for education, employment, and safety nets. It is also necessary to address city-level factors limiting secure land tenure and access to adequate housing, credit, transport, health care, education, and other services. These factors go beyond affordability and often include failure to take appropriate account of gender differences in planning services, and the political exclusion and physical isolation of poor communities.

Improving the living standards of the poor also requires addressing constraints to small-scale and informal sector enterprise; tackling the unresponsiveness of local officials and poor people's sense of powerlessness; and creating support systems for working mothers, the elderly, and youth. Promoting a healthy local economy that offers broad employment opportunities and permits families to invest in housing and productive assets leads to healthier urban communities and strengthens the

urban contribution to the national economy. The policy agenda for improving livability also includes measures to address sources of environmental degradation, natural disasters, crime, and violence; to preserve cultural heritage; and to provide amenities for all urban residents.

To develop the multiple dimensions of urban livability, the Bank would help clients establish appropriate policies at both the national and the local level, involving many sectors and disciplines. As an example, the Bank's urban assistance program has accumulated a strong base of experience with programs for integrated improvement in networked environmental infrastructure and services (upgrading). Numerous examples have shown that upgrading unserved neighborhoods can empower communities and raise the welfare of low-income households. National and international coalitions need to be strengthened to support the scaling up of community-based urban services, including sector-specific programs for urban transport, water, and sanitation, to meet the emerging demands of different user groups in a sustainable manner. Pursuing flexible and practical approaches to involuntary resettlement is essential to these efforts. While the greatest current demand for slum upgrading is felt in some of the largest cities that have major slum populations, the Bank's lending and nonlending assistance related to housing, land policies, and improved urban governance aims to help other, smaller cities address problems that could lead to slum proliferation as these cities grow.

The Bank would also become more involved in facilitating participatory urban environmental management and in helping cities assess and reduce their vulnerability to natural disasters. Even as the Bank helps cities cope with multiple crises and the effects of past failures to manage growth, it should encourage the adoption of participatory, market-sensitive urban planning methods. Such efforts would aim to steer future real estate and public transport investments so as to make jobs and housing more accessible for all residents in more compact, mixed-use developments friendly to both communities and the environment.

These activities related to improving urban living standards and enhancing city livability through urban development programs need to be complemented increasingly by efforts of other sectoral and thematic teams in the Bank, especially those specialized in poverty analysis, social development, environmental management, microfinance, and microenterprise development.

Competitiveness

Building livable cities requires buoyant, broad-based growth of employment, incomes, and investment. And approaches to promote urban equity and social safety nets need to be consistent with incentive systems that foster productive and competitive firms of all sizes. The Bank's 1991 urban policy paper, *Urban Policy and Economic Development: An Agenda for the 1990s*, outlined the basic conditions for urban productivity, which are also necessary to make cities competitive and entrepreneurial in the global marketplace. The urban assistance program continues to promote

these conditions by encouraging spatially integrated, efficient markets for housing, land, real estate, and public transport, since these affect workers' mobility and accessibility of urban employment. Urban operations also focus on problems of dysfunctional regulation or weak public administration. These create high transaction costs for firms, especially small and informal sector enterprises, a significant and undervalued source of dynamism and potential fiscal revenues. Reform and investment projects in the infrastructure sector portfolios, and programs that establish generally favorable trade regimes and procompetitive environments for industry, complement this urban agenda.

Helping cities define proactive strategies to enhance their prospects for economic growth and development in the global market is a relatively new challenge for the Bank, but one increasingly posed by local governments. The strategy proposes that the Bank facilitate citywide economic analysis and strategy development with urban clients through participatory processes involving a wide range of stakeholders. Local economic development approaches should be explored that promote diversified growth strategies, by serving domestic as well as international markets, and nourishing the potential of the small-scale and informal sector as well as larger employers. The Bank can help develop and disseminate analytical tools to support this process, such as urban regulatory assessments and policy-relevant urban performance indicators. A strong macroeconomic dialogue is also essential, to ensure that the basic country conditions for resilient local economies are in place.

Good governance and management

Improving the livability and competitiveness of cities places big demands on urban governance and management. Good governance implies inclusion and representation of all groups in the urban society—and accountability, integrity, and transparency of local government actions—in defining and pursuing shared goals. Capable urban management requires a capacity to fulfill public responsibilities, with knowledge, skills, resources, and procedures that draw on partnerships.

Fostering regular, formal interaction between local government and residents (including through community-based and nongovernmental organizations)—in approaches such as participatory planning and budgeting, and public oversight of expenditure and service delivery—is a major focus of the Bank's municipal development activities. An important feature of these efforts is an emphasis on underlying incentives for local government accountability and performance, which are essential to combat problems of corruption. The urban assistance program has traditionally included work on the intergovernmental assignment of functions, expenditures, and revenues that determines the system of incentives and the availability of resources for local governments. With formal fiscal decentralization in many countries, the Bank's urban staff can bring the perspective of municipalities, and an understanding of the needs and constraints facing different kinds of local governments, into the national macroeconomic and fiscal dialogue to promote more effective design and

implementation of these reforms. Urban projects also help local governments define the scope for private sector participation and facilitate public-private partnerships, with the collaborative support of the Private Sector Development Department and the infrastructure work of the International Finance Corporation (IFC). Arrangements to involve the private sector in service delivery should be designed with careful attention to ensuring that the poor do benefit—as indeed they often have not from public or private monopolies. The need for metropolitan-level management approaches remains a major issue in the dialogue with many cities, especially for transport and environmental improvements whose effects cut across jurisdictions.

The detailed capacity building and training of municipal staff in urban development projects would be supplemented by greater use of “wholesaling” or intermediary arrangements for exchanges of experience and best practice, training, and technical assistance among the local governments. These exchanges would include the municipalities’ major partners, such as utilities, community-based organizations, and informal service providers. The World Bank Institute can play an important role in implementing this approach. Urban projects, training, and research supported by the Bank would also do more toward refining and disseminating management tools for urban practitioners.

The Bank’s Poverty Reduction and Economic Management Network (PREMN) is in the process of developing a new strategy to address the challenge of reforming public institutions and strengthening governance across the public sector to improve impact on the lives of the poor. The urban strategy goals of improving the quality of city governance and urban management will provide the urban and local government interface with this renewed focus of the Bank on reforming the institutional “rules of the game.”

Bankability

Cities are very poor in many countries—if not in potential resources, at least in their ability to effectively mobilize revenues and assets when large segments of the urban society operate in a shadow economy. Integrating informal and marginal communities as full urban citizens, taxpayers, and public service customers is therefore an important goal. And an equitable and sustainable local finance system is essential to income and employment growth and sound municipal management.

Bankability here implies financial soundness in the treatment of revenue sources and expenditures—and, for some cities, a level of creditworthiness permitting access to the capital market. The Bank’s urban development operations and related policy dialogue promote the adoption of clear and internally consistent systems of local revenues and expenditures, with transparent and predictable intergovernmental transfers, prudent conditions for municipal borrowing, and generally accepted financial accounting, asset management, and procurement practices. An important part of good urban financial management involves adopting a commercial approach to many of the service and administrative functions of cities, while keep-

ing social concerns in view. A commercial approach is also a prerequisite for involvement of the private sector or eventual privatization of urban services.

For cities and countries whose municipal credit systems remain rudimentary, Bank lending will continue to support specialized financial intermediaries such as municipal development funds. Recent impact evaluation by the Bank's Operations Evaluation Department has confirmed that in Brazil and the Philippines, for example, such funds train local governments (generally of small to medium-size cities) in responsible financial behavior while helping them build a solid credit record. Lending operations should aim increasingly to encourage the transition to market-based municipal credit systems, which the Bank and IFC financial sector departments can support through work on the underlying market infrastructure.

Sector work and other nonlending services are also needed to help countries devise appropriate national policy frameworks for financing local public expenditure and to help cities undertake public investment and financing plans as part of their city strategies. For potentially creditworthy cities, the Bank's urban assistance should be geared to helping them access the capital market. The Bank Group would also explore participation in structured financing packages and support to risk-pooling arrangements to ease the transition by local governments and local public-private infrastructure partnerships to private financial markets. Creative and flexible forms of Bank Group support will be especially important where central governments, often wisely, do not wish to continue providing sovereign guarantees to subnational governments after decentralization.

Performance of the urban development portfolio has been generally strong

The urban development portfolio has always been ambitious and wide ranging in scope. Some of its objectives—including greater subnational government capacity, cost recovery, local environmental management, community participation, and reform of property rights—went beyond what was attempted in many other types of projects at the time. The Bank distinguished itself as the first international organization to support slum upgrading as a national urban policy. Its contributions as the leading urban assistance agency and its intellectual influence in many urban reforms were widely acknowledged at the 1996 Habitat II Conference. The common ground with other major multilateral and bilateral agencies in urban assistance has been strengthened in consultations on the strategy exercise, and by parallel activities under way by many of these agencies in which they reaffirm their own commitment to work on urban and local government issues.

In the first two decades of urban development lending (1972–92) the portfolio was rated among the best in the Bank. But the Bank's reorganization in 1987 dispersed the central urban projects staff and left many of their projects in the charge of managers who lacked knowledge of urban issues. The strong body of urban sector work, policy studies, and research received inadequate operational follow-up and was poorly reflected in country assistance strategies. Little new analytical work was initiated after the early 1990s. The result of all these factors was a sharp dip in

the performance ratings of completed projects around fiscal 1995, but recovery is well under way. Completed projects in fiscal 1997 and 1998 received ratings equal to or better than Bankwide averages.

The main performance issues in the Bank's current urban development portfolio relate to borrower readiness and ownership and the continuing tendency of many urban management projects (those with multiple institutional, policy, and investment objectives) to be too ambitious relative to the borrower's capacity. Nevertheless, the Quality Assurance Group (QAG) found urban development projects to be among the best surveyed in both supervision and appraisal. And an external client survey undertaken for the strategy exercise confirmed that clients have a high opinion of the Bank's analytical contributions and project assistance in urban development.

The Bank's urban development staff and managers continue to seek ways to ensure further improvement. Experienced sector leaders have been appointed in the Bank's Regions, and an Urban Partnership anchored in the Infrastructure Group was created in 1997 as a cross-network arrangement to pilot new urban activities and foster new external alliances. Proactive thematic groups ("communities of practice") of experts have been formed to share experience, sharpen products, and train staff. The strategy exercise represents a major effort to renew and reinforce the urban development program. Sustained improvement in urban assistance will require broadening institutional commitment to the urban agenda, increasing resources for training and research, providing more consistent and complete treatment of urban issues in country assistance strategies and sector work, and strengthening external and internal partnerships—all points of focus in the new strategy.

The new urban and local government strategy aims for greater impact

The enlarged political authority of local governments, the expanding urban policy agenda, and the increasing requests from cities for the Bank's advice and financial support all call for a new strategy to achieve greater impact in:

- **Replicability**—promoting lasting improvements in outcomes, particularly in raising the living standards of the urban poor on a scale commensurate with their demands
- **Relevance**—mobilizing skills and knowledge across the widening range of urban issues, and offering assistance with flexible designs, realistic time frames, and appropriate forms of financing
- **Reach**—ensuring that more local governments, of varied sizes, along with their national government counterparts, can be reached directly (or more often, indirectly) than through traditional urban development projects or other operations.

Principles and preconditions of the strategy

To achieve these strategic objectives, the Bank must first improve its ability to "strategize holistically and intervene selectively" in support of cities. This requires the Bank to develop a perspective of cities as integral units in a specific spa-

tial, social, political, environmental, financial, and economic context—much like countries. The comprehensive development framework at the national level would provide a view on the contributions of the urban system within the macroeconomy. This context, together with work on the development prospects and constraints of cities within the urban network, would provide a shared agenda linking Bank urban assistance activities with those of the clients and other donors. But a holistic vision of the city would not translate into projects that attempt to do everything at once.

In selecting cities for assistance, the Bank would make particular efforts to aid those in which multiple stakeholders demonstrate a shared commitment to addressing poverty and inequality through well-integrated programs combining direct and indirect interventions. It would also target aid to cities showing a determination to help themselves—for example, those willing to meet the competitive conditions of demand-based financing arrangements such as municipal development funds, and to undertake reforms to make themselves creditworthy.

Second, the Bank would commit to scaling up urban assistance to meet the impending urban challenges. Scaling up will require a variety of approaches and levels of activity. The Bank would need to supplement its direct assistance by working more through wholesaling or intermediary institutions and networks. Third, the new strategy would require the Bank to reinvest internally in its own urban knowledge and capacity. Finally, all these efforts will require work through strengthened partnerships, both internal and external.

Building blocks of the strategy

Four main activities are proposed for emphasis in the renewed program of Bank urban support:

1. **Formulating national urban strategies.** The Bank would work with national and local counterparts to better understand and articulate how the urban transition can contribute to national goals of broad-based growth and poverty reduction. This effort would therefore center on the rural-urban interdependencies and their implications. Work on a national urban strategy would tie in with other economic and sector work for the country, to identify appropriate national policies and institutional conditions for sustainable cities and towns. This related work might include intergovernmental fiscal relations, national policies affecting safety nets, regulations affecting urban environmental improvement, national regulatory conditions affecting the business climate and incentives for public-private collaboration in urban infrastructure, and development of the domestic financial markets as a basis for municipal credit. The national urban strategy would aim to place the urban agenda properly within the macroeconomic dialogue, the country assistance strategy process, and the comprehensive development framework. For some countries, a joint rural and urban strategy will be sought with the collaboration of rural development colleagues to elaborate the

spatial dimensions of national poverty reduction programs. Close collaboration with staff from the Bank's Poverty Reduction and Economic Management Network, the Environmentally and Socially Sustainable Development Network, and other units will be essential in these efforts.

2. **Supporting city development strategies.** The Bank would provide technical advice for, and support implementation of, city development strategies that originate with and are wholly owned by local counterparts. In this context, the "city" refers to an urban economic area that represents an integral market but typically extends beyond formal administrative boundaries to encompass closely neighboring subregions, which may include smaller cities, periurban, or even adjacent rural areas. City strategy exercises would outline the stakeholders' vision for the city, analyze the city's prospects for economic development, and identify priorities for action to implement the strategy. City strategies would focus on the issues of greatest local concern for livability, and the requirements for enhancing city productivity, management, and financing. These exercises would also be an important tool for ensuring balance and coherence between cross-sectoral assistance to cities and sector-specific operations such as in urban transport or water and sanitation; however, the city strategies would not be seen as preconditions for Bank lending. A prototype city strategy exercise initiated in Haiphong in fiscal 1998 has revealed many opportunities for linking the city's development to that of the broader subregion and its rural towns and villages.
3. **Scaling up services for the poor, including upgrading low-income urban neighborhoods.** Basic infrastructure for the poor was the first priority for future Bank assistance cited by respondents in the recent urban client survey. The Bank would make a commitment to mobilizing funds for city-wide or nationwide programs on the basis of existing initiatives with good outcomes and wide support from beneficiaries and the originating institutions (often community-based or nongovernmental organizations)—such as in Guatemala and Venezuela. Scaling up would hinge on agreement among these and other key stakeholders (local and central governments, utilities, private developers, donors) on the conditions that would ensure sustainability of the improvements. A major effort would be made to extract and disseminate lessons of experience with successful initiatives, to increase global knowledge and understanding of upgrading as one part of community building and antipoverty programs. Scaling up would also require ongoing evaluation and training, involving both informal and formal sector institutions.
4. **Expanding assistance for capacity building.** The Bank would complement its project assistance and direct training in municipal development ("retail" approaches) with a new emphasis on channeling support to intermediary networks ("wholesaling") for exchange of knowledge and expertise among municipalities and other agencies involved in urban management and service delivery. It would promote dissemination of good practices, training, and technical assis-

tance through support to national and regional associations of local governments, training institutes and research centers, and “city twinning” arrangements. The Bank would also seek sources of finance for nonlending advisory services—to permit more flexible and timely provision of technical assistance, independent of Bank lending, to local government clients on a variety of urban management issues.

The new strategy will also require reinforcing the Bank’s core urban development lines of business to respond to the growing requests for urban assistance and aid in implementing the strategic priorities, each of which would probably generate additional operational demands over the medium term (see attachment 4). The Bank’s lending and nonlending assistance is already moving in directions consistent with the new strategy. But it needs to continue to evolve:

- To recognize the need for longer-term commitments to sustain municipal policy and institutional reform (including use of the adaptable program loan) and to identify some cities as long-term strategic partners. Learning and innovation loans could be used where local ownership still needs to be piloted and tested.
- To place municipal finance, housing, and real estate development projects in the context of broader market-building objectives and identify appropriate “graduation” conditions for the Bank’s financing of municipal credit programs.
- To integrate cultural perspectives into urban assistance.
- To develop city disaster prevention and mitigation programs.

Implementing the strategy requires Bankwide commitment and resources

The strategy will require establishing active alliances across units of the Bank and the IFC. It also calls for resuming substantial programs of country urban sector work, urban research, and tool development to make up for the relatively low funding to these activities in recent years. Much of the needed research and development work should be carried out by and through the expanding partnerships with professional associations, local research institutions, and private practitioners. The strategic recommendations will require supplementing skills in areas of increased demand, correcting for the attrition of senior urban staff, and enhancing training and collaboration of staff working across networks on urban issues. Performance indicators and a timetable for implementation of the urban strategy can be found in attachments 2 and 3.

As a strong impetus for implementing the strategy, the Bank, through the Urban Partnership and in conjunction with the United Nations Center for Human Settlements (UNCHS/Habitat), formed the Cities Alliance in May 1999. This partnership umbrella for donor funding and coordination aims to mobilize \$40 million over the next three years to support two of the four areas of strategic emphasis—city development strategies and scaled-up programs of services for the poor—the

latter under a new “Cities Without Slums” action plan unveiled at the inaugural meeting of the Cities Alliance in December 1999. Cities and countries are being identified as potential candidates for work on these and other areas of proposed emphasis, based on the ongoing dialogue concerning country assistance strategies and the country’s own poverty reduction action plans. Regional urban strategy exercises are under way to foster cross-unit collaboration on urban issues in each region and to strengthen internal and external partnerships to support and participate in national urban strategies, city networks, and stand-alone advisory services.

The new urban and local government strategy calls for a recognition of urban development as a positive force for meeting national goals of improving living standards equitably and sustainably, for leadership to promote this recognition by staff and managers throughout the Bank, and for resources commensurate with the strategic importance of urban development. The strategy will not be budget-neutral; it will require a significant incremental allocation of internal funds and leveraging of external resources. Enthusiastic commitment by the entire institution to the strategy would raise the profile and effectiveness of the Bank’s support to urban development, mustering a broad internal and external coalition and catalyzing additional funding from partners. Such an effort would be a fitting demonstration of the Bank’s abiding faith in the future of a world of cities.

Urban mission and overall strategy objectives: To promote sustainable cities and towns that fulfill the promise of development for their inhabitants— in particular, by improving the lives of the poor and promoting equity— while contributing to the progress of the entire country

ATTACHMENT 1 MATRIX OF STRATEGIC VISION AND ACTIONS TO SUPPORT SUSTAINABLE CITIES

Goals and objectives for sustainable cities	Components and preconditions	Enabling policy and institutional framework	Bank instruments and supporting action ^a
LIVABILITY			
<ul style="list-style-type: none"> Decent quality of life for all, including basic living standard for the poor Low poverty and inequality Healthful environment (clean air and water, safe waste disposal) 	<ul style="list-style-type: none"> Households able to build up assets and reduce vulnerability to economic vagaries Secure tenure for all households, including those headed by women Infrastructure and social services, employment and training, and social safety nets available for all groups, designed with attention to gender-based and other differences in needs Viable communities with strong social capital 	<ul style="list-style-type: none"> Removal of barriers to access to housing, land, credit, and infrastructure Resident participation in service and program design, including through informal institutions Regulatory frameworks and service delivery systems that support informal sector employment 	<ul style="list-style-type: none"> National urban strategies and action plans (L, P) Programs to provide services to poor communities, such as slum upgrading (L) City development strategies and action plans (L, P)
<ul style="list-style-type: none"> Safety and security (including low levels of crime, violence, and natural disasters) 	<ul style="list-style-type: none"> Equitable political representation and opportunities for participation 	<ul style="list-style-type: none"> Efficient national programs for targeted subsidies (housing, food, transport), unemployment insurance, and welfare programs Gender-sensitive employment policies (such as childcare) 	<ul style="list-style-type: none"> Urban and city-specific poverty assessments (L, P)
<ul style="list-style-type: none"> Full integration of all groups in urban society, including women and minorities Preservation of cultural heritage of urban areas, for enjoyment by all residents 	<ul style="list-style-type: none"> Mitigation and prevention of accidents and disasters Urban growth patterns that minimize negative impact on environment and congestion 	<ul style="list-style-type: none"> Environmentally and socially balanced development of public transport Public justice system that is respected and applied fairly 	<ul style="list-style-type: none"> Urban environmental management strategies action plans (L) and management and improvement projects (L, P) Disaster management and prevention programs and related assistance (L, P)

- Urban form providing accessibility of jobs and housing in relatively compact, mixed-use developments that foster communities and have minimal adverse environmental impact
- Public green spaces, recreational amenities, and cultural heritage assets protected and accessible to all
- Public and private commitment to respecting and preserving public areas, rights-of-way, and cultural heritage, such as through participatory and market-friendly land use planning
- Homeless shelters and programs for street children
- Social and economic infrastructure reform and investment programs (including public transport and water and sanitation) (P)
- Microcredit to households and small firms (P)
- Policy advice on social protection policies and programs (P)

COMPETITIVENESS

- Growth and increased productivity of city output, broad-based employment, investment, and trade in response to market opportunities
- Efficient factor markets (land, labor, capital), well integrated between rural and urban economies
- Efficient and demand-responsive markets for infrastructure
- Efficient local public administration that is business-friendly
- Healthy industry structures (with fluid entry and exit for firms of all sizes) that integrate informal sector firms
- Investment and industrial development corresponding to the comparative advantage of the city economy
- Legal and regulatory frameworks that support appropriate business incentives and impose minimal transactions costs
- Public-private partnerships to identify market opportunities and remove bottlenecks in developing land, infrastructure, and cultural heritage assets
- Land, real estate, and transport planning that supports spatially efficient land use and adequate supply of developed land for business and residential uses
- Rule of law and property rights protected
- National urban strategies and action plans (L, P)
- City development strategies and action plans (L, P)
- Housing and real estate development programs and housing finance reforms (L, P)
- Urban regulatory audits (land, housing, business, labor) (L, P)
- Infrastructure subsector investment and reform programs, including public-private infrastructure framework analysis (P)

ATTACHMENT 1 MATRIX OF STRATEGIC VISION AND ACTIONS TO SUPPORT SUSTAINABLE CITIES (continued)

Goals and objectives for sustainable cities	Components and preconditions	Enabling policy and institutional framework	Bank instruments and supporting action ^a
	<ul style="list-style-type: none"> • Modern communication and technology services 		<ul style="list-style-type: none"> • Macroeconomic dialogue and Structural Adjustment Lending frameworks for stabilization and economic liberalization (P)
GOOD GOVERNANCE AND MANAGEMENT			
<ul style="list-style-type: none"> • Accountability, transparency, and integrity of local government 	<ul style="list-style-type: none"> • Broad participation of all groups in urban governance, through both formal and informal channels and institutions 	<ul style="list-style-type: none"> • Clear frameworks for intra- and intergovernmental assignment and delegation of functions, responsibilities, revenues, and expenditures 	<ul style="list-style-type: none"> • National urban strategies and action plans (L, P)
<ul style="list-style-type: none"> • Local government institutions sensitive to the needs of poor and disadvantaged residents and to gender differences in service requirements 	<ul style="list-style-type: none"> • Clear incentives for performance by all levels of government affecting urban development 	<ul style="list-style-type: none"> • Mechanisms for objective, independent review of local government performance • Good collaboration among local government agencies and informal institutions such as community-based organizations 	<ul style="list-style-type: none"> • Self-standing advisory services (L, P)
<ul style="list-style-type: none"> • Cost-effective fulfillment of local government service obligations 	<ul style="list-style-type: none"> • Strong capacity to ensure the delivery of services through a variety of mechanisms • Strong public trust and trust of high levels of government in local government • Public access to information about local government decisionmaking and actions 	<ul style="list-style-type: none"> • Development and application of management tools and best practices • Professionalization and training of local government staff 	<ul style="list-style-type: none"> • City development strategies and action plan (L, P) • Urban management projects (L)

- Support to associations of municipalities for sharing best practices, technical assistance, training, and city twinning (L, P)
- Identification and dissemination of best practices in urban management (L, P)
- City awards for managerial excellence (L, P)
- Municipal management and public integrity training (World Bank Institute) (P)
- Institutional reviews and anti-corruption surveys including local government (P)

- Appropriate public-private partnership frameworks implemented
- Regular public consultation and oversight in budget and local government decisionmaking processes
- Incentive structures for public representatives and employees that encourage integrity and minimize corruption

BANKABILITY

- Sound financial management permitting fulfillment of service obligations
- Social compact with users for fee-for-services
- Creditworthy local governments able to access market-based credit
- Intergovernmental finance system that is predictable and promotes appropriate incentives
- Sustained tax effort relative to revenue base
- Transparent and efficient management of expenditures, revenues, and municipal assets, publicly disclosed and audited
- Financial management capacity and information systems in municipal governments
- Viable financial institutions willing and able to bear municipal credit risk
- Regulatory and institutional infrastructure for developing capital market instruments for municipalities (bonds)
- Municipal development fund projects (L)
- Municipal finance (expenditure, revenue, and investment) reviews (L)
- Self-standing municipal finance advisory services (L)

ATTACHMENT 1 MATRIX OF STRATEGIC VISION AND ACTIONS TO SUPPORT SUSTAINABLE CITIES (continued)

Goals and objectives for sustainable cities	Components and preconditions	Enabling policy and institutional framework	Bank instruments and supporting action ^a
	<ul style="list-style-type: none"> • Viable domestic municipal finance market 	<ul style="list-style-type: none"> • Financial sector policies that foster development of domestic long-term savings instruments 	<ul style="list-style-type: none"> • Subnational or municipal adjustment loans (L, P) • Policy dialogue and lending to support intergovernmental fiscal reform program (P) • Technical assistance and advisory work on capital market development (P) • Financing or guarantee of municipal public-private investments for credit enhancement and risk mitigation (P)

^a The letters "L," and "P" indicate the Urban Development Unit acts as a leader or a partner in the activity. Items in bold are new emphases of the proposed strategy.

ATTACHMENT 2 ILLUSTRATIVE INDICATORS FOR MONITORING URBAN AND LOCAL GOVERNMENT PERFORMANCE UNDER THE NEW STRATEGY

Outcome indicators	Output indicators	Input indicators
LIVABILITY <ul style="list-style-type: none"> • Urban poverty rates, especially for female-headed households • Income inequality (ratio of fifth quintile to first quintile) • Public health—rates of waterborne disease • Ambient air and water quality • Infant or child mortality • Child nutritional status • Murder rate • Satisfaction with quality of life expressed by urban residents in representative surveys or social assessments 	<ul style="list-style-type: none"> • Percentage of households with access to piped water, sanitation, power, heating, and social services • Percentage of income spent by low-income households on housing, water, energy, transport, food, and social services • Percentage of households with secure tenure • Crowding (floor space per person) • Percentage of households in informal housing or slum neighborhoods • Housing affordability (ratio of housing prices to incomes) • Rental market turnover • Availability and use of public transport • Percentage of solid waste adequately disposed • Percentage of wastewater treated • School dropout rates • Response time to disasters 	<ul style="list-style-type: none"> • Investment and system efficiency improvements to expand coverage and quality of water, sanitation, power, heating, and social services • Percentage of slum neighborhoods upgraded • Reform of building codes and land development requirements to speed housing supply • Reform of land and property rights and cadastres • Availability of mortgage financing and targeted housing subsidies • Availability of microcredit for self-help and informal sector home improvement • Improved management of solid waste collection and disposal (for example, by contracting out collection) • Improved management of public transport (for example, by promoting private commercial operations) • Traffic safety improvements • Disaster mitigation planning
COMPETITIVENESS <ul style="list-style-type: none"> • Growth and diversity of urban employment • Growth of median urban incomes • Share of urban employment in informal sector • Growth and structure of investment in urban areas • Growth of foreign direct investment in urban areas • City product per person ("city GDP") 	<ul style="list-style-type: none"> • Trends in infrastructure service quality and efficiency (telephone call completion rates, power and water service interruptions) • Functioning land markets (with land use reflecting market value) • Mean travel time to work 	<ul style="list-style-type: none"> • Investment, management, and maintenance improvements in infrastructure, including through private financing and operation as appropriate • Streamlining of business and real estate regulations

ATTACHMENT 2 ILLUSTRATIVE INDICATORS FOR MONITORING URBAN AND LOCAL GOVERNMENT PERFORMANCE UNDER THE NEW STRATEGY (continued)

Outcome indicators	Output indicators	Input indicators
<ul style="list-style-type: none"> Satisfaction with business climate expressed by firms of different types and sizes (including informal sector firms) 	<ul style="list-style-type: none"> Regulatory delays for real estate transactions and for approval of business licenses Availability of microcredit Access of firms to information technology and financial services 	<ul style="list-style-type: none"> Streamlining of city information for potential investors (for example, public notice of real estate transactions) Technical assistance, and microcredit provided to small and informal sector firms Collaboration among the business sector, local government, research community, and other civil society organizations in promoting a positive business climate for broad job growth
<p>GOOD GOVERNANCE AND MANAGEMENT</p>		
<ul style="list-style-type: none"> Accountable and honest local government that is responsive to the needs of the poor Efficiency and competency of local government in fulfilling essential responsibilities Extent of trust and satisfaction with local government performance expressed by citizens and other stakeholders in representative surveys 	<ul style="list-style-type: none"> Extent of strategic intent or vision developed in partnership with stakeholders that guides local government activities Extent of regular public consultation in local government's budgeting and investment selection process Percentage of local government staff with professional qualification Percentage of local government services that are subjected to competition with the private sector to assure efficient and effective service delivery Public access to information about local government decisions (e.g., policy and regulatory, contract awards, procurement service delivery and budgetary performance, etc.) 	<ul style="list-style-type: none"> Clear frameworks for intergovernmental assignment of responsibilities Extent of devolution of functions and corresponding authority to local government Extent of citizen participation or representation in local government (direct election of mayor and council, active involvement of community organizations in planning functions) Clear institutional framework for private sector participation in local public services Training of local government staff Manuals of procedures for major administrative functions that follow good practice and are observed

- Incentive structures for employees and public representatives that facilitate a public service ethic
- Independent and objective framework for reporting on local government integrity and performance

BANKABILITY

- Balance of local government budget
- Local government capital investment as share of its budget
- Local government creditworthiness ratings (actual or proxy)
- Integration of municipal finance and mortgage finance into the country's overall financial systems
- Tax collection rates (or tax effort relative to revenue base)
- Development of municipal credit market (percentage of banking system lending to municipalities, percentage of bank assets for municipal credit, municipal bond issues)
- Repayment record of municipal credit funds
- Local government debt service ratio
- Improved cost recovery on revenue-earning services
- Government regulations providing a clear framework for municipalities' access to credit
- Percentage of local governments eligible for and with access to municipal credit (for example, in municipal development funds)
- Percentage of local governments complying with accounting and public disclosure standards
- Investment evaluation procedures used and capital budgets prepared
- Transparent and targeted subsidy policies

ATTACHMENT 3 TIMETABLE AND INDICATORS FOR MONITORING IMPLEMENTATION OF THE NEW STRATEGY IN THE BANK

Priority areas for action	Key actors	Year and Months						Milestones for assessing Bank performance
		1999		2000		2001		
		1-6	7-12	1-6	7-12	1-6	7-12	
<ul style="list-style-type: none"> Bankwide and external ownership secured for strategy 	TWURD, SB, Reg							Strategy consensus and commitment of management and staff to urban work is reflected in country assistance strategies and leads to broad buy-in by external partners, securing increased counterpart resources for urban programs.
<ul style="list-style-type: none"> Implementation of strategy building blocks: <ul style="list-style-type: none"> National urban strategies City development strategies 	Reg, TG Reg, CA, TG							Three to four national urban strategies launched in first year; 1-2 under way in each region by second year. Increased reflection of urban and local government issues in country assistance strategies. Four prototype city development strategies well advanced and experience disseminated (in addition to the 13 Asian city strategies funded by Japanese trust fund). Program expanded by 2-3 additional strategies per region by second year.
<ul style="list-style-type: none"> Scaling up of services to the poor 	Reg, CA, TG, WBI							Upgrading network launched in Latin America and Caribbean; WBI training course initiated. National or citywide upgrading programs launched in 5-7 countries.

<p>—Enhanced capacity building: + Promotion of municipal networks for technical assistance, training, knowledge management</p> <p>+ Nonlending advisory services</p>	<p>Reg, TG, WBI</p> <p>Reg, TG, UP</p>	<p>Bank and other donor support provided to networks among cities within and across countries, including formal collaborations with local government professional associations and institutions.</p> <p>Internal Bank budget and trust funds obtained for advisory work and active program of technical assistance in each region.</p>	
<ul style="list-style-type: none"> • Strengthening of urban thematic groups and internal cross-unit alliances 	<p>TG, SB, Reg</p>	<p>Active membership and work programs of urban thematic groups, and increased formal collaboration with other network thematic groups.</p>	
<ul style="list-style-type: none"> • Urban Partnership support of pilot and “frontier” activities 	<p>UP, Reg, SB</p>	<p>Continued internal and external funding obtained for new initiatives to be tested by the Urban Partnership and eventually mainstreamed as demand warrants.</p>	
<ul style="list-style-type: none"> • Launching of the Cities Alliance 	<p>CA, Reg, SB</p>	<p>Secretariat for the Cities Alliance formed and governance structure established.</p> <p>Target funding pledged (\$10 million first year, \$21 million over three years) with wide donor involvement. Full-scale implementation of the Cities Alliance begun in 2000.</p>	
<ul style="list-style-type: none"> • Enhanced knowledge management products and services 	<p>TWURD, Knowledge Management Unit, TG, Reg</p>	<p>Expanded Help Desk functions, electronic knowledge base, and urban publications launched in second year, pending budget. User satisfaction confirmed from usage and periodic surveys.</p>	
<ul style="list-style-type: none"> • Portfolio quality assurance 	<p>Reg, TWURD, TG, SB</p>	<p>Continued improvement of Quality Assurance Group and Operations Evaluation Department ratings of portfolio.</p>	

ATTACHMENT 3 TIMETABLE AND INDICATORS FOR MONITORING IMPLEMENTATION OF THE NEW STRATEGY IN THE BANK (continued)

Priority areas for action	Key actors	Year and Months						Milestones for assessing Bank performance
		1999		2000		2001		
		1-6	7-12	1-6	7-12	1-6	7-12	
<ul style="list-style-type: none"> External client survey 	TWURD, SB							Update of 1998 survey undertaken with favorable results.
<ul style="list-style-type: none"> Research and tool development:—Refinement and use of urban performance indicators in national urban strategy and city development strategy, in project design and implementation, and in comprehensive development framework for countries 	UP, TG, Reg	|-----|	|-----|	|-----|	|-----|	|-----|	|-----|	<p>Collaboration between UNCHS Urban Indicators Program and city development strategy exercises coordinated by the Urban Partnership.</p> <p>Project and sector indicators refined in proactive quality improved exercise, to be piloted in first year and then mainstreamed.</p>
—Urban research priorities initiated	SB, DEC, URDF	|-----|	|-----|	|-----|	|-----|	|-----|	|-----|	Urban research agenda agreed on and integrated into DEC work programs for Bank and other funding. Proposed Urban Research and Development Fund launched with target funding to support research activities.
• Human resources development:								
—Recruitment	SB, Reg, TWURD		|-----|	|-----|	|-----|	|-----|	|-----|	Adequate, timely recruitment to cover skill gaps and attrition.
—Training of urban and other network staff	SB, TG, WBI	|-----|	|-----|	|-----|	|-----|	|-----|	|-----|	Contingent on future funding of core curriculum and new courses; coordination of WBI courses with external training providers and with knowledge management products and services

Note: More details are available from business plans of the Urban and Water Sector Board (for anchor and thematic groups, the Urban Partnership, and the Cities Alliance).

Abbreviations: CA—Cities Alliance, DEC—Development Economics, Reg—Regions, SB—Sector Board, TG—Thematic Groups, UP—Urban Partnership,

URDF—Urban Research and Development Fund, TWURD—Urban Development Division, WBI—World Bank Institute

Chapter one

The Need for a New Urban Strategy for the Bank

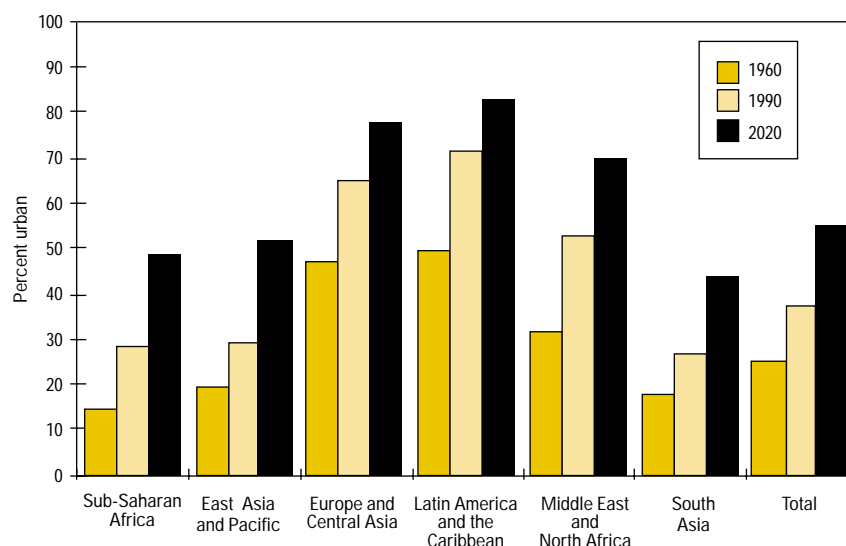
At the threshold of the 21st century, cities and towns form the frontline in the development campaign. Within a generation the majority of the developing world's population will live in urban areas and the number of urban residents in developing countries will double, increasing by over 2 billion inhabitants.² This urbanization creates significant opportunities for national development, and for reducing poverty for all citizens. But realizing the potential gains from the urban transition depends on how well cities and towns manage growth and meet the challenges of providing responsive governance and ensuring services for all firms and households.

The World Bank's extensive experience with urban assistance has given it a strong understanding of the policy agenda for sustainable urban development and of the institutional challenges facing national and local governments.³ The Bank is uniquely positioned to become an even stronger source of urban assistance to countries and to the emerging new clients among local authorities. The new urban and local government strategy calls for the Bank to rise to the challenge of achieving greater impact in its urban activities, extending its reach among local governments, and mobilizing the strengths of the Bank Group and external partners in this effort. This document thus takes a broad perspective of urban and local government issues to advocate a common frame of reference for support by the institution. Nevertheless, the detailed operational focus of the strategy is on the Bank's urban development lines of business. Although this body of work does not represent a "sector" in the Bank's parlance, it is unified by two characteristics. First, it concentrates on the spatial character of economic and social relations—how the combination of sectoral services and proximity of people and firms in the urban place yields benefits (agglomeration economies) that exceed those of their separate activities. And second, it gives atten-

² This report uses the terms urban areas and cities interchangeably. The definition of urban varies by country and over time, normally referring to settlements with a minimum population ranging from 2,500 to 25,000 people and with a certain concentration of nonagricultural employment and production. City is a legal designation associated with specific administrative or local government structures. Many large urban areas, often called metropolises, consist of multiple employment centers and span more than one city jurisdiction.

³ This report uses the terms local governments or local authorities mainly in reference to municipalities. Although their precise legal status differs among countries, municipalities are understood here as the lowest organized units within the administrative apparatus of the state.

Figure 1.1 Within a generation the developing world will be predominantly urban



Source: United Nations data.

tion to **urban governance and management**, the processes by which local governments, in partnership with other public agencies, the private sector, and the residents, ensure the delivery and financing of essential services and promote the welfare and productivity of the urban society.

The changing context of urban development

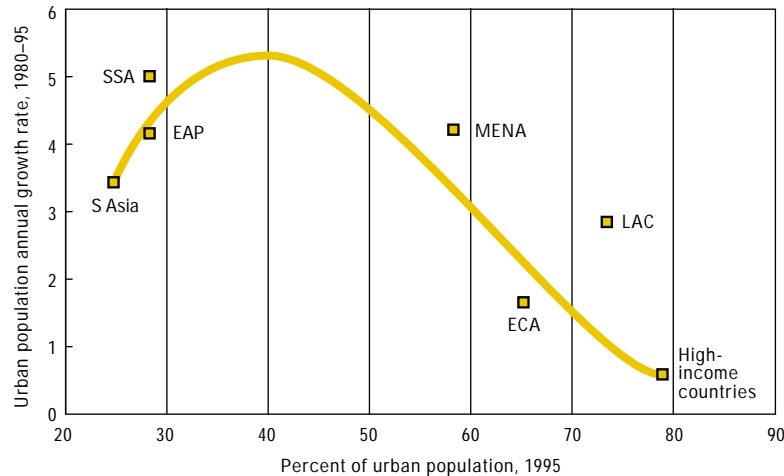
The confluence of four worldwide trends makes reconsidering the Bank's urban strategy both timely and urgent: urbanization, decentralization, globalization, and government renewal.

The world is becoming more urban

By 2020 urban residents will constitute the majority in every region except South Asia and possibly Sub-Saharan Africa (figure 1.1). The average urban shares (weighted by country population) in Latin America and the Caribbean and in Europe and Central Asia are approaching those of OECD countries, though the share varies widely within regions. In East Asia, Sub-Saharan Africa, and the Middle East and North Africa urbanization is proceeding rapidly, with urban growth exceeding 4 percent a year (figure 1.2).⁴ Over the next two decades more than 95 percent of

⁴ Urbanization is defined as the change in the proportion of the national population residing in urban areas. Urban growth indicates the change in urban population size, independent of changes in the rural population. The definition of the minimum urban settlement size varies by country.

Figure 1.2 Most developing countries are in, or are entering, the high-growth phase of the urban transition



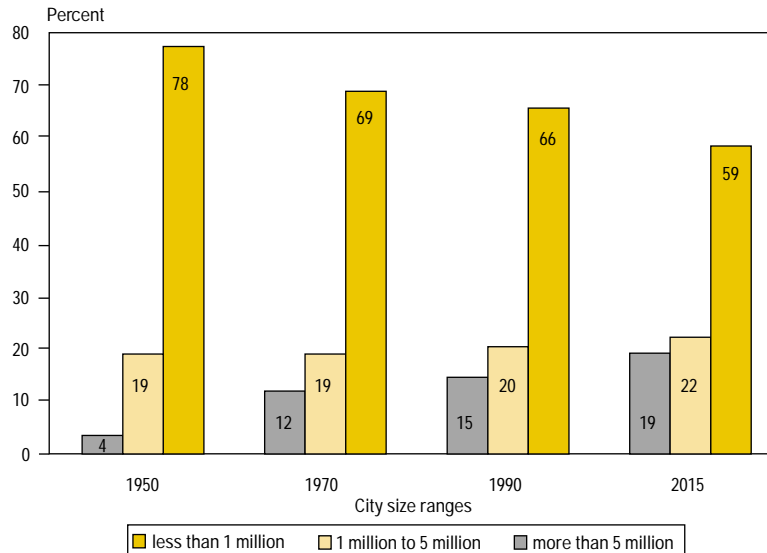
Source: World Bank 1998b.

the population growth in developing countries, even in South Asia, will occur in urban areas. The scale of this urbanization, and its implications for the ability of countries to meet the needs of their people at relatively low levels of national income, are unprecedented. Megacities such as Bangkok, Cairo, and Lima have had to absorb more than twice as many people in the past 25 years as London or New York did at the peak of their growth at the end of the last century (Brockerhoff and Brennan 1998). Developing countries are also confronting these urbanization trends at lower incomes. When urbanization in Latin America was roughly 30 years behind that in North America, its average per capita income approximated that of the United States 120 years ago (Ingram and Carroll 1981).

The most rapid growth in recent decades has occurred in large cities (1–5 million residents) and in small ones (fewer than 500,000). But the proliferation of megacities (more than 10 million) is the most dramatic trend, particularly in Asia and Latin America (figure 1.3). Between 1995 and 2015, the world's megacities will more than double in number, to 26. Of these, 22 will be in developing countries, most of them in Asia. These cities are much larger than the largest ones known in the recent past (see annex table D6), underscoring the daunting management challenge they pose to local governments.

Less than half the urban growth in any region is due to internal (rural to urban) migration. Most is explained by natural population increase within cities and by the structural transformation and incorporation of formerly rural areas at the urban periphery. In many countries the most rapid population growth is occurring outside the boundaries of existing primary or secondary cities—such as in the Eastern

Figure 1.3 The developing world's urban population is still concentrated in small cities, but large cities' share is increasing



Source: UN demographic data.

Seaboard region of Thailand, where intensive investment has fueled settlement and industrial development in advance of even basic urban services. Mushrooming peri-urban areas in Africa and Latin America are becoming massive slums, in some cases beyond the formal reach of municipal governments and utilities. The physical form of growth, with extensive areas of relatively low density development (sprawl) in many of these cities, adds to hardship for households—especially for those with low incomes that are often virtually sequestered in neighborhoods far from urban amenities and productive employment.

Governments are decentralizing

Most countries have undertaken political, fiscal, and administrative decentralization over the past decade in an effort to make government more responsive to citizens and to increase its efficiency. Decentralization has been most extensively implemented in Latin America and in the transition economies, has made legislative advances in South Asia and Sub-Saharan Africa, and is proceeding more slowly in East Asia and in the Mideast and North Africa. Implementation is inconsistent even within countries, and greater legal autonomy for local governments has not necessarily meant greater local revenue or expenditure authority. Some countries are finding themselves with a very large number of small municipalities but with no mechanisms in place to foster coordination and economies of scale in management.

Cities are becoming more global

With improvements in transport and communications, cities are now linked directly to international markets. This trend, coupled with increased intensity in the use of information, financial, and other services by all types of firms, means that cities face more exacting requirements as sites for high-quality services to producers and greater competition for foreign and domestic investment (Harris 1997a; Sassen 1998). Urban areas sharing large regional markets (border zones and port cities, such as those surrounding the South China Sea) are becoming closely networked, sometimes developing interdependencies across national boundaries that are as close as, or even closer than, those with their own hinterland.⁵ By reducing the traditional market position of some cities and fostering the growth of others with different locational and production advantages, the liberalization of trade and financial flows is contributing to large spatial shifts of population and output. These changes imply that now more than ever, cities need to provide solid public services and a business-friendly environment to retain their traditional firms or to attract new ones, domestic or foreign.

Government is being reformed

Worldwide, the role of government is being reconsidered and reconfirmed to strengthen its essential functions of facilitating markets and correcting market failures, promoting economic and social stability, and ensuring distributional equity. This process has included efforts to expand opportunities for citizen participation, to increase innovation, openness, and cost-effectiveness (“reinventing” and “right-sizing” government), and to rebalance public and private sector roles. All these efforts are especially challenging for local government, which is the level closest to the people and most immediately responsible for ensuring an environment conducive to good business and a strong civic society. Reforms of public sector management or private sector development cannot do what is desired for the national economy until they are adapted to the requirements of urban governance and management and implemented at the municipal level.

The four global trends—urbanization, decentralization, globalization, and government reform—underscore the increasing importance of cities and towns in national development. Local governments, traditionally the public sector’s weakest link in most countries, are the ground troops in responding to the imposing demands for jobs, infrastructure (both new investment and rehabilitation and upgrading of existing systems), finance, and effective governance. Managing such challenges in the face of demographic and global economic pressures has been difficult even in relatively well-run economies, as shown by the recent financial crisis in East Asia (box 1.1).

⁵ Gipouloux (1997) argues that cities’ “strategic importance now lies less in location than in capacity to master factors such as finance, production, and innovation. . . . city functions, not city size, are important to economic position in the global economy” (p. 16).

Box 1.1 Cities are particularly vulnerable in times of crisis

In a recent workshop urban managers and central government officials from China, Indonesia, the Philippines, Thailand, and Vietnam reported that the region's financial and economic crisis is having particularly strong effects on the urban economy, underscoring the vulnerability of urban populations. Job losses in the formal sector (especially in construction and finance) were an early outcome. But more pervasive and devastating have been income losses due to reduced demand for manufactures and transport and other services, the main sources of livelihood for urban residents, and price increases, especially for food, utilities, and essential imported goods (such as drugs), resulting from sharp exchange rate depreciation. Moreover, in some countries the crisis coincided with *El Niño*, whose effects on agriculture compounded the food price increases faced by urban consumers (the food price index in Indonesia jumped 50 percent in nine months).

In Indonesia, which had reduced both rural and urban poverty significantly between the 1970s and the mid-1990s, it is estimated that the urban poverty rate almost doubled between 1996 and 1999, rising from 5 percent to about 9 percent, far more than the increase in rural poverty (World Bank 1998f). In Indonesia, the Republic of Korea, and Thailand, analyses of household income and expenditure data show that urban areas have been most affected by the crisis. In Bangkok and Manila the social stresses of the crisis are manifested in increased crime, domestic violence, and child prostitution as the traditional coping mechanisms of families and communities become overstrained. Migrating back to rural areas is not an option for most long-established urban residents.

The officials noted that the economic crisis spotlights the weaknesses in the institutional and revenue capacities of local governments, which confront the daily fallout of the crisis, and is strengthening the political support for decentralization. Flaws in the financial regulation and functioning of urban housing and real estate markets have been made painfully evident by their sharp collapse, yet many firms and households remain unable to acquire developed land or vacant housing.

The implications of urban change for national development

Urbanization represents an opportunity for advancing national goals of sustainable development. Urban development can lead to macroeconomic and microeconomic benefits and improvements in social welfare and environmental protection. But realization of these gains depends on the policy framework affecting cities and the quality of urban management (see also annex A).

Macroeconomic and microeconomic impacts of urban development

Urban areas account for a disproportionately high share of national economic production and are the main sources of economic growth in most countries. National economic growth is closely correlated with urbanization (although Sub-Saharan Africa has been a notable exception to this rule since the early 1980s, in terms of measurable income growth). In many countries urban population growth has been

stimulated by policy distortions that dampen rural-urban terms of trade, artificially raise urban real wages and public employment, subsidize credit for urban investment, underprice infrastructure services, and concentrate public spending in urban centers as seats of political power. Such policies, often termed evidence of “urban bias,” are actually counterproductive in that they undermine good management of urban growth; removal of such policies should therefore be part of sound national urban policy. As more governments liberalize markets and reform the public sector to correct such imbalances and as urban consumers pay more realistic rates for the resources they consume, urbanization can be harnessed to promote more equitable growth of incomes in the nation as a whole.

Urban development contributes to national economic growth by allowing increasing returns to land, labor, and capital. Thus savings, investment, and wealth accumulation (through real estate, productive, and infrastructure assets) become concentrated in cities. Firms locate in cities to benefit from agglomeration economies and greater access to information and technology. The advantages of large urban areas over smaller cities and towns in total factor productivity have been established empirically, but the quality of urban markets and the transactions costs resulting from poor urban regulation determine how well these advantages are realized.

Urban workers are more productive in large urban areas because there are more opportunities to match skills to jobs and to use additional capital inputs—but bad urban management can impede labor mobility. Housing, urban transport, and land use policies often limit residential mobility and thus access to jobs. Large pools of workers and many employers are excluded from the benefits of urban agglomeration by their spatial segregation into vast periurban areas, while regulations can force many small firms into the informal sector. Women and youth are particularly disadvantaged by poor and unsafe transport that makes schooling and jobs difficult to reach.

Problems with urban land markets have economywide repercussions, as the recent experience in East Asian economies shows. Even in these apparently robust economies public infrastructure was underdeveloped relative to private and informal investment in property markets (leading to a scarcity of serviced urban land); regulation of urban land markets, financial discipline in underwriting real property investments, and property taxation were inadequate (encouraging speculative landholding); and accounting practices permitted the recording of real property at inflated and unrealistic values.

Synergy between the rural and urban economies is a particularly important channel through which growing urban areas contribute to national development. “Urban” and “rural” are interdependent markets linked by exchanges of people, goods, services, capital, social transactions, and information and technology that benefit residents in both locations. Ensuring the food security of urban populations may require deliberate policy attention, since urban consumers depend more heav-

ily on a marketed food surplus than do rural residents.⁶ Policy must also address competition for resources, especially land and water, between urban and rural areas. But many of the concerns of rural development intersect with the urban agenda, including the need to support agriculture with services and markets, to foster nonfarm employment, and to manage the growth of small towns, which often form part of a wider municipal governance structure covering both rural and urban settlements.

Migration between rural and urban areas is a vital source of alternative employment for the agricultural population and transfers innovation as well as remittances—in fact, migration is a carrier of growth. In many countries improved infrastructure and changes in agricultural practices are permitting more fluid labor exchange, including seasonal and even daily commuting. Distinctions between cities, towns, and rural areas are becoming almost obsolete as economic activity spreads outward into vast semiurbanized and rural industrialized regions in response to global trade opportunities and technological changes. Integrated development of intercity corridors can be a deliberate subregional policy to address rural poverty, as was recently determined in work on a city strategy for Haiphong, Vietnam. The potential interdependencies between urban areas and their hinterlands can be exploited more fully to the benefit of both regions—for example, by ensuring efficient markets for agricultural goods, labor, and transport.

Social impacts of urban development

Efficient urban development can play a major part in combating national poverty. And cities and towns have traditionally been beacons of hope to migrants and sources of opportunity for poor individuals and families to improve their welfare. But poverty is a growing problem in urban areas and is spreading from the old centers to the periphery of cities. Roughly half a billion poor people live in the towns and cities of developing countries, many in unhealthful and deteriorating conditions without basic services. Already in Latin America and in Europe and Central Asia poverty is predominantly urban and the trend is in this direction in most other regions. Even in East Asia the share of poor people who live in towns and cities is expected to rise from a fourth today to as much as half by 2025 (according to precrisis projections). The continuing growth of slums in Indian cities and of the favelas in Rio de Janeiro is visible evidence of the failure of urban policies in many places to provide routes out of poverty. One knowledgeable local observer has said of Rio de Janeiro that the city “is not importing poverty [from the countryside], it is producing it.”

The high rate of relative poverty, or inequality, in urban areas reflects the inability of some citizens to participate in society and in activities that lead to improved welfare and personal security. The urban poor are especially vulnerable to economic shocks. They lack the access to services, safety nets, civil protections, and

⁶ The required growth of marketed food supply increases considerably faster than overall population growth in the presence of urbanization, because urbanites typically buy 90 percent of their food from the market. In some developing and transition economies, urban agriculture is an important supplemental source of food for urban consumers (Brown and McCalla 1998).

political representation enjoyed by upper-income groups, and they face greater risks of bad health, crime and violence, and natural disasters—a pattern of cumulative deprivation. Children are especially susceptible to all these risks in the urban setting, where more women work outside the home and adequate child care is often lacking. Long-term urban residents typically cannot rely on village resources as a fallback, although there has been some limited return migration to rural areas in the East Asian crisis economies. Urban living conditions, especially in large and fast-growing cities, are deteriorating relative to those in smaller towns and rural areas, and the urban-rural gap in mortality, morbidity, and other health and nutritional indicators is narrowing. Some urban residents are now the worst off. These changes are overturning conventional views of urban advantage and creating a potential for increasing social problems.

Environmental impacts of urban development

Urban development can have both positive and negative implications for the environment, just as for social welfare and the economy. The balance depends on how it is managed. Cities are the main site of the built environment and embody national and local culture in buildings, in the design of public space, and in urban form. In the Mideast and North Africa alone, 70 cities have been designated of historical interest not just to their countries but to the world. So urban development can enrich the environment of human settlement—or create blight that dangerously impairs the quality of life.

The environmental problems of urban areas (the “brown” agenda)—air, soil, and water pollution, noise, and traffic congestion—have more direct and immediate implications for human health and safety, especially for the poor, and for business productivity than do “green” environmental issues. Worldwide, airborne particulates pollution has been associated with at least 500,000 premature deaths and up to 5 million new cases of chronic bronchitis each year. Lead pollution from motor vehicles leads to hundreds of premature deaths, reduced intellectual capabilities in children, and other health damage in large cities. Microbial diseases due to poor sanitation and dirty water cost billions of dollars a year in lost lives and poor health, especially in the poorest cities. Brown issues are associated with urban activity, but they affect areas outside cities by contributing to global climate change and threatening coastal zones. Another consequence of poorly managed urbanization is the settlement of unsuitable and risky locations such as floodplains and hill-sides, which adds to the worsening human toll of urban disasters.

Policies to curb future environmental deterioration resulting from motorization and urban economic activity will have limited effect if focused narrowly on sectoral issues within transport, energy, or industry. Effective solutions must address broad issues, including transport demand, land use planning, industrial development and location, and household income growth and distribution—all central to the urban development agenda.

The importance of urban development to the global, and to the Bank's, development agenda

The centrality of urban issues to national and global goals for sustainable development has long been acknowledged in the international arena, most recently at the 1996 Habitat II Conference on Human Settlements. What happens in the developing world's cities and towns likewise matters in realizing the World Bank's corporate goals of reducing poverty, promoting market-based growth, building durable institutions, and protecting the environment. Working with municipalities is key to promoting the Bank's strategic objectives of improving development effectiveness, increasing the participation of civil society, forging partnerships, and reducing corruption—all primary requirements in helping local governments deliver on their promises to the people. The opportunities for exploiting rural-urban synergies and for helping countries realize the promise of urbanization offer a prime example of the holistic, intersectoral development challenge posed by President Wolfensohn in his speech at the 1998 Annual Meetings of the World Bank and the International Monetary Fund.

Urban and local government work is also good business for the Bank. There is growing demand for Bank assistance in this area, not only from national governments but also from a newly empowered set of clients—municipalities themselves. The number of urban development projects planned for fiscal 1999–2000 reflects a 50 percent increase over the annual number approved in fiscal 1993–98. Projects in other portfolio categories (especially water and sanitation and urban transport, but also energy, environment, and public sector management) that have an explicit urban spatial or local government focus are becoming as numerous as urban development operations, and are growing just as rapidly. Demand for assistance in the traditional, core activities of the Bank's urban program—basic services for the poor and other infrastructure, housing, municipal development and finance, environmental management, and disaster mitigation—remains strong. There are also many new or changing emphases—such as local economic development, real estate market reform, capital market access, private sector participation, cultural heritage, and disaster management—that call for new responses and more concerted collaboration across sectors and disciplines in the Bank. All these factors create impetus for revisiting the Bank's urban strategy.

Chapter two

Pursuing a Vision of Sustainable Cities

Sustainable cities and towns fulfill the promises of development for their inhabitants—in particular, by facilitating upward mobility for the poor—while contributing to national progress. This next chapter outlines the vision and policy agenda for sustainable cities that the Bank is now pursuing. This agenda draws on and enhances the Bank's comparative advantage in influencing policy, mobilizing global knowledge and finance, and, especially, for engaging and assisting national and local governments in ensuring that development efforts succeed.

The urban transition in the national context

Urbanization is more than a demographic phenomenon. It is a societal transformation along a rural-urban continuum. Thus the new urban and local government strategy is not only concerned with places that are urban or countries that are urbanized. It is also concerned with ensuring that in every developing country this transformation leads to a higher quality of life for all, and to more sustainable national development.

Urbanization is characterized and—even defined—by fundamental changes in the physical concentration of population, in the nature and scale of economic production, in land use, and in social structures and patterns of interaction. Changes in all of these dimensions affect the lives of individuals and the requirements for resources and governance. As industry and services become more important in production, they demand more infrastructure, generate technology and information exchange, and provide diverse employment options. Densification of settlement directs land and wealth into housing and related infrastructure and increases the need for complex systems to provide water and energy, market food, transport goods and people, remove wastes, and protect public health and safety. Land becomes more intensively developed, and the resulting spatial layout affects accessibility, physical contacts among communities, interaction with the surrounding natural environment (encompassing agricultural land at the urban periphery), and the costs of fixed infrastructure networks. Throughout this transition, families and communities are deeply affected: more women work outside the home, children and adults confront

diverse opportunities as well as risks, cultures mingle, new ideas multiply, and disparities in wealth become more apparent.

The urban transition translates into different systems of urban settlement in different countries. Even cities and towns in the same country often show very dissimilar outcomes in the extent and nature of poverty, in the patterns and growth rates of investment and employment, in the spatial dispersion (“sprawl”) of residential and commercial areas, and in environmental quality and cultural amenities. An important role for the Bank is to help national and local clients understand trends affecting the development of their urban areas and the impact of policies, both national and local—sometimes by learning from the experiences of other cities and countries—so that appropriate responses to problems can be identified. The proposed strategy reflects the view that although cities and towns (like other economic entities) have different potentials and life cycles, public policies—coupled with community action, private sector commitment, accountable local government, and supportive national government—can make a large difference in the character of urban areas and in their contribution to national development.

To both increase well-being for all urban residents and direct urban economic growth for the benefit of all citizens, the urban transition needs to be viewed within a national comprehensive development framework. The Bank is elaborating such a framework as an instrument for engaging local and central governments, the private sector, civil society institutions, and international donors in a shared commitment to balanced, integrated development for each country (Wolfensohn 1999; Stiglitz 1998). Within the comprehensive development framework, the multiple dimensions of urban transformation (economic, social, institutional, spatial, environmental, cultural, technological) would be assessed primarily from the perspective of impact on reducing poverty. The framework would help in assessing the actions of other stakeholders (firms, service providers, financiers, and government) to identify progress and constraints in making urbanization serve national goals of sustainable poverty reduction and broad-based growth. And it would allow a coherent view of the dynamic of rural-urban interactions and the economic roles of settlements across a continuum of sizes.

Public and private roles in urban development

The urban and local government strategy is grounded in sound principles about the rationales for public and for private action in support of urban development. Municipalities bear the basic responsibilities of government at its lowest tier for allocating resources and promoting social equity, within constraints set by higher levels of government (which assign functions and fiscal authority), and for ensuring the provision of local public goods and services through partnership with the private sector and civil society.

In many rapidly growing cities in the poorest countries, weak local governments have been unable to perform even minimal functions, so that households and

informal institutions have become the main providers of infrastructure, housing, and social services. While this solution meets some essential needs, it has also resulted in fragmented urban economies. In these cities the poorest often pay most dearly for low-quality services; poorly integrated land, transport, and housing markets impose high costs on users; and congestion and haphazard waste disposal degrade the environment. Some neighborhoods enjoy services and amenities while others are vast zones of physical exclusion, deprivation, and high risk.

Local governments, or designated agencies such as public utilities, have vital roles to perform in ensuring that the poor have essential services; providing urban public goods (streets, storm drainage, public green spaces); facilitating efficient use of and equitable access to urban land; undertaking coordination, planning, and policy corrections, as needed, to account for positive and negative spillover effects of private activities (such as pollution); and protecting public safety. These vital functions require local government to support markets, and official processes of political representation where feasible, and to promote the capacity of residents to express public choice and have their demands satisfied by other, less formal arrangements where necessary.

The role that government assumes in land use, for example, is absolutely critical to the physical, social, and economic character of urban settlements. Although cities largely are built by private investment, they are shaped substantially by public action, through government (usually local) zoning regulations, building codes, taxation, and the nature and location of direct public investment such as transport networks. Local governments therefore need to define policy interventions that facilitate land markets by correcting constraints to effective demand and supply response. Based on signals of value from this market, local governments can act as agents of the urban community in using land for public purposes.

The Bank's urban strategy is directed to correcting sources of market failure in the urban economy—such as information gaps that impede the efficient workings of land and real estate markets—as well as sources of government failure—such as inappropriate regulations or official behaviors (including corruption) that create excessive transactions costs and risks for local investors. The Bank's urban strategy is also geared toward helping government at all levels, the private sector (for profit and nonprofit), community groups, and citizens function in the urban economy in ways best suited to them. This means, for example, promoting effective competition among land developers and service providers; making local government budgets more transparent, and thereby reducing the perceived risks of partnership for private financiers; increasing channels of information and collaboration among community groups, informal sector operators, and local government agencies; protecting property rights; and refining policy tools—such as targeted subsidies, land market assessments, basic land use planning, and urban transport management—to address social and environmental externalities in the urban economy.

The need for a multidimensional approach: lessons from experience

During the 1970s and 1980s the Bank's urban development projects showed that living conditions for urban residents, including the poor, could be improved significantly and cost-effectively. Urban work in this period tended to focus on specific aspects of urban services or functioning, such as through multisectoral investments in low-income neighborhoods. While these efforts brought benefits, they suffered from a failure to recognize that sustainable urban development requires an approach that is even more integrated—across the physical environment, infrastructure networks, finance, institutions, and social activities.

Early urban projects pioneered some of the community participation later mainstreamed in the Bank, but the initiative and control over resources often remained with the central government or with specially created agencies. National or citywide policies were found to limit the potential returns from investments, or their scaling up to more beneficiaries—in large part because such policies often hampered the economic vitality of the city and its fiscal base. Moreover, assistance programs failed to fully capitalize on the knowledge and capacities of informal institutions, such as community-based organizations and small-scale service providers. There was often neglect to accommodate sufficiently variations in users' demands and the need for institutional learning.

There is increasing evidence that providing multiple services increases returns to households, but that social or institutional failings can undercut service-oriented strategies. The Bank's urban work since the late 1980s has therefore focused increasingly on policy reform and institutional change, extending the Bank's dialogue deeper into issues of regulation, incentive systems, and the patterns of relationships—among local and higher levels of government, entrepreneurs, informal organizations, and households—that determine how cities perform. As democratization, decentralization, and public-private partnership strengthen communication and collaboration among these stakeholders, a more holistic approach to urban development is demanded and must underpin the Bank's new strategy (see annex C).

The four dimensions of sustainable cities

If cities and towns are to promote the welfare of their residents and of the nation's citizens, they must be sustainable, and functional, in four respects. First and foremost, they must be livable—ensuring a decent quality of life and equitable opportunity for all residents. To achieve that goal, they must also be competitive, well governed and managed, and financially sustainable, or bankable. The new strategy proposes an agenda for helping cities develop along these four interrelated dimensions—a comprehensive development framework for the urban arena (see annexes B and D).

Livability

Livability is the household's criterion for a city that works. The Bank's commitment to improving livability should be aimed at ensuring a healthful and dignified living

standard for the poor that permits them to share the resources of society—a goal that requires participatory, gender-sensitive planning for meeting priority needs. The agenda for improving livability includes reducing urban poverty and inequality, creating a healthful urban environment, enhancing personal security (minimizing the risk of crime, violence, traffic accidents, and natural disasters),⁷ establishing an inclusive system of legal protection and political representation, and making cultural and recreational amenities available to all. Satisfying this agenda for the poor would enhance the well-being of all urban residents.

To address the multiple dimensions of urban poverty, the Bank needs to help clients establish appropriate policies at both the national and the local level. National governments establish policies and programs for employment and training, social safety nets, land tenure, housing finance, primary education, and health care, but local governments often implement them. Local officials have varying degrees of responsibility—and face varying influences from higher-level government—for regulation of commerce and industry, which can have important effects on the small-scale and informal sectors providing much of the employment for low-income workers. Local governments also affect the delivery of services critical to the poor—microcredit, housing, basic infrastructure, public transport, child care, community centers, and programs for youth, street children, and the homeless—even if the services are often provided by private, nonprofit, or community organizations.

Assisting with these diverse issues demands the skills of a wide range of Bank professionals, including health, education, social development, environment, and gender specialists. Poverty assessments need to focus on the many dimensions of urban poverty—including the vulnerability of the urban poor to breakdowns of family and social supports—as well as the coping strategies that poor households and communities use. The Bank's urban staff need to disseminate experiences with neighborhood upgrading and to build national and international coalitions that can support the scaling up of such community-based activities. The Bank needs to encourage infrastructure development programs that incorporate participatory, gender-based planning and promote entry by the small-scale and informal sector, an approach that can increase employment for low-income workers as service providers while directly supporting the productivity of users. The Bank also needs to pursue flexible and practical approaches to involuntary resettlement, which can be an important issue in urban transport and disaster prevention activities.

The Bank's urban transport and urban water and sanitation work needs to address environmental issues with an immediate impact on human health (air pollution from lead and particulates, and waterborne diseases). The Bank needs to encourage policies that promote efficiency in the use of water, energy, and waste disposal—for example, by ensuring that users cover full costs (with well-targeted

⁷ A recent paper exploring the possible links between security (economic, political, social, safety-related, and psychological) and urbanization finds no clear relationship, and concludes that the broad agenda described here for reducing poverty, inequality, and social fragmentation in cities would be the best approach to ensuring security as well (Gilbert 1999).

subsidies where appropriate) and that negative externalities are internalized where possible (“polluter pays” approaches). Such policies can contribute to the livability of cities while increasing equity in the use of public funds. The Bank also needs to develop adequate instruments to help cities assess and reduce their vulnerability to natural disasters.

The Bank’s environmental work often lacks a coherent approach to urban issues, which tend to get lost in national environmental assessments. The Bank must become more involved in facilitating participatory urban environmental management, and directing capacity building and technical assistance to the most appropriate level of government (including municipal and intermunicipal bodies for local and metropolitan issues). It must also find ways to get private investors (including informal providers of housing and infrastructure), regulators, and urban managers to work together to integrate periurban communities, ensuring provision of urban services responsive to their demands. Even as the Bank helps cities cope with multiple crises and the effects of past failures to manage growth, it should encourage the adoption of participatory, market-sensitive urban planning methods. These planning methods should encourage greater physical accessibility to jobs and housing for all residents through more compact, mixed-use development patterns that are spatially efficient while friendly to both communities and the environment.

Competitiveness

Building livable cities requires buoyant, broad-based growth of employment, incomes, and investment. Approaches to promoting urban equity and social safety nets also need to be consistent with incentive systems that foster productive and competitive firms of all sizes. As the Bank’s 1991 urban policy paper emphasized, efficient urban development requires an enabling environment for and within cities that permits firms and individuals to become productive or—in a world of liberalized and integrated markets—competitive. In competitive cities output, investment, employment, and trade respond dynamically to market opportunities. The basic conditions for competitiveness of cities are efficient markets for land, labor, credit, and for inputs (particularly transport, communications, and housing), to ensure that the benefits of urban agglomeration are achieved and the diseconomies (from congestion and pollution, for example) are minimized. Dysfunctional regulations and fragmented infrastructure systems, which create high transaction costs for producers, can be especially debilitating for small firms, a significant and undervalued source of employment and entrepreneurial energy.

A highly productive urban economy can be resilient in the face of internal or external shocks because of its ability to fully exploit its sources of comparative advantage (including cultural richness) and to enhance its asset base by fostering information exchange and innovation. A traditional port city, for example, could sharpen its competitive edge by improving its transport and logistics services. An urban economy based on manufacturing assembly could expand into related tech-

nology services or research if it has high-quality labor, or redirect its productive resources toward emerging markets. Cities that can support firms in achieving their economic potential and weathering adverse developments also provide a good platform for workers—by offering flexible labor markets, efficient services, and good education and training. Through all this, they enhance the country’s competitiveness.

The Bank’s urban development program has focused on policy reforms in housing, land, and real estate markets, where weak policies raise costs for businesses and households and distort private investment, the main source of urban wealth creation. Infrastructure reform and investment projects complement this urban policy agenda, as do programs that establish generally favorable trade regimes and procompetitive environments for commerce and industry.

Helping cities define proactive strategies to exploit and strengthen their comparative advantage represents a relatively new agenda for the Bank, but one for which there is increasing demand from local government clients.⁸ Such strategies must avoid misguided efforts to simply attract investment from other locations with tax or public investment incentives (“a race to the bottom”). Local economic development is better served by mobilizing the city stakeholders to identify local strengths, bottlenecks, and market opportunities and to commit to appropriate joint actions. The Bank can facilitate citywide economic analysis and strategy development with urban clients and help ensure that the process includes the perspectives of the small-scale and informal sector, explores the potential for nontraded as well as traded production, and finds ways to share the benefits of growth with the poor and unemployed. The Bank can also help to develop and disseminate analytical instruments to support the process, such as urban regulatory assessments and policy-relevant urban indicators. And it can maintain a strong macroeconomic dialogue to ensure that the basic country conditions for local economic growth are in place.

Good governance and management

Improving the livability and competitiveness of cities places big demands on urban governance and management. Good governance implies inclusion and representation of all groups in the urban society—and accountability, integrity, and transparency of government actions—in defining and pursuing shared goals. Capable urban management means the capacity to fulfill public responsibilities, with knowledge, skills, resources, and procedures that draw appropriately on partnerships. Where local governments have been given new functions and powers—and the public has been granted opportunities for participation and oversight—many have become more professional, have tapped the skills of the private sector in new ways, and have encouraged innovative approaches to service delivery (Campbell 1997).

Fostering regular, formal interaction between local government and residents (including through community-based and nongovernmental organizations)—in ap-

⁸ Here city is used to refer to the economic unit consisting of an urban area and its surrounding subregion. In many cases such an economic unit extends beyond municipal boundaries to encompass a metropolis or even an adjacent urban area.

proaches such as participatory planning and budgeting, and public oversight of expenditure and service delivery—is a major focus of the Bank’s municipal development activities. Frameworks for intergovernmental relations and for the sharing of responsibilities between the local public and private sectors help shape the incentive structure for municipal government. The Bank’s urban development agenda includes work on the intergovernmental assignment of functions, expenditures, and revenue sources, and urban staff bring the municipal perspective to the macroeconomic and general fiscal dialogue. To improve the Bank’s ability to foster private sector participation in local infrastructure, continuing close collaboration is needed among the Bank’s urban staff, the Private Sector Development Department, the International Finance Corporation (IFC), and infrastructure sector and subsector groups. Particularly important is to encourage private investors to extend services to low-income urban settlements.

Urban projects (especially the municipal development operations) and World Bank Institute (WBI) programs provide capacity building and training for municipal staff on a “retail” basis, as illustrated in Annex B. These efforts should be seen as forming the urban and local government interface with the Bank’s forthcoming new strategy for public institutional development and governance strengthening, and as part of systematic anti-corruption action plans. The WBI is replicating a core urban management course with regional counterparts and distance learning for local governments (with nearly 2,000 paying participants per session), and has undertaken municipal integrity-building activities as a key element of municipal finance training. These retail efforts must be supplemented by greater use of “wholesaling” or intermediary arrangements for exchanges of experience and best practice, training of trainers, and technical assistance among local governments. The WBI can play an important part in such initiatives, as it has done by supporting the Municipal Development Program in Africa and networks or associations of municipalities in other regions. Bank-supported urban projects, training, and research also need to do more to encourage inclusive approaches to urban governance, such as performance scorecards and other public feedback mechanisms, municipal performance agreements, and participatory budgeting practices. And they need to refine and disseminate urban management tools, such as simple land use planning methods.

The lack of effective interjurisdictional management entities, such as metropolitan-wide authorities, complicates work with megacities and on services that cut across administrative boundaries, such as public transport and water supply. The Bank could act as a catalyst in solving this problem by encouraging city strategy exercises in metropolitan cities in which a coalition with vision and broad credibility exists, to identify shared interests and concerns of stakeholders. Such exercises could prove useful even in the absence of a formal executive agency.

Bankability

Cities are very poor in many countries—if not in potential resources, at least in their ability to effectively mobilize resources when vast segments of the urban society op-

erate in a shadow economy. So integrating informal and marginal communities as full urban citizens, taxpayers, and service customers is an important goal. Also essential is an equitable and sustainable local finance system, to support income and employment growth.

Most cities lack the economic strength and financial capacity to access capital markets. For these cities the first step toward bankability is financial soundness, as reflected in the respect for hard budgets and judicious use of even weak resource bases. For the cities that can access capital markets, bankability can be defined in terms of creditworthiness. In both cases bankability requires a clear and internally consistent system of local revenues and expenditures, balanced by transparent and predictable intergovernmental transfers, good financial management practices, and prudent conditions for municipal borrowing. To establish a long-term municipal credit system, cities also must develop strong domestic capital markets and banking sectors.

The Bank's new urban strategy implies different approaches to municipal finance development depending on the capacity of the client and the types of expenditures made. For cities and countries whose municipal credit systems remain rudimentary, the Bank will continue to support financial intermediaries (municipal development funds or existing commercial banks) while imposing conditions that encourage the transition to market terms. The Bank's experience with both successful and unsuccessful municipal development funds suggests clear guidelines for teaching municipalities how to manage their investments and use credit wisely. Recent impact evaluation by the Operations Evaluation Department (OED) confirms that municipal development funds projects in Brazil and the Philippines were highly effective in training local governments in responsible financial behavior. Cities also need suitable means of financing essential activities with nonrecoverable costs or social externalities, drawing on general tax revenue and transfers, and, in some cases, using well-structured subsidies. Bank sector work and other nonlending services should help countries devise appropriate national policy frameworks for financing local public expenditure, and help cities undertake public investment and financing strategies as part of their city strategies.

For potentially creditworthy cities, the Bank's assistance should be geared to helping them access the capital market. The Bank can provide impartial advice and technical support in these cases, although its ability to provide lending or guarantees is constrained where national governments that have granted subnational entities substantial autonomy resist providing them with sovereign backing. Nonetheless, the Bank should explore participation in structured financing packages and support to risk-pooling arrangements to ease the transition by local governments and local public-private infrastructure partnerships to private financial markets. The IFC can become similarly involved where municipal infrastructure facilities have been or are being privatized.

Assistance to municipalities could achieve greater leverage in countries where the Bank and IFC financial sector departments are engaged in strong and coordinated efforts, along with macroeconomists, to establish the underlying conditions

for long-term credit markets. Such efforts should focus on reforms of national banking and securities laws and regulations, pension systems, accounting and disclosure rules for all market players, settlement and payment systems, and other important elements of legal and financial infrastructure.

Preconditions for sustainable cities

Sustainable urban development across all four dimensions is greatly aided by a stable macroeconomy with moderate inflation, realistic exchange rates, an open trading environment, and a strong financial sector. The Bank's macroeconomic work and structural adjustment lending can promote these preconditions, but dialogue with the central government is not enough. Macroeconomic reforms must be effectively carried out at the local level, where inadequacies in institutional capacity, commitment, or policies can impede the responses of the real sector (by hampering investment and labor mobility, for example) or perpetuate poor public finance practices. Moreover, municipal-level structural adjustment is often needed to remove price distortions, deregulate markets, and reduce fiscal imbalances affecting urban economies.

The multidimensional urban policy agenda outlined above suggests some broadly common goals for all cities and local governments. But it would be implemented very differently in different places, with the pace, priorities, and operational instruments depending on the political commitment and capacities of the local and central governments and other key stakeholders. There are also potential conflicts and tradeoffs among the four objectives. Some cities might pursue financial and economic gains at the expense of equity and basic quality of life for all residents. Others might adopt policies designed to improve welfare that are financially unsustainable or that seriously impede businesses' incentives to invest. The new urban strategy argues that all four dimensions of sustainable cities need to be considered and weighed by a diverse group of well-informed stakeholders. In choosing what to support in each case, the Bank should ensure that the poor and disenfranchised are listened to and given opportunities to have their basic needs met.

Seizing the opportunity for greater impact in support of sustainable cities

Developing an adequate strategic capacity to make these choices, and gearing up to meet the varied demands of diverse local government clients, requires taking a hard look at the strengths and shortcomings in the Bank's performance and response capability in urban development.

Performance of the urban development portfolio has been generally strong

The Bank's urban development portfolio established itself early on as ambitious and wide ranging. Some of its objectives—including greater local government capacity, cost recovery, environmental management, community participation, and property rights reform—went beyond what was attempted in many other types of projects at

the time. During its first two decades (1972–92) this portfolio was rated among the best in the Bank in outcomes and institutional development pact. Sustainability was identified as an issue, however, as the expanding urban development agenda in the 1980s meant that some projects exceeded the capacities of counterparts and their ability or willingness to commit.

The record of performance through the 1970s and 1980s called for the Bank to focus attention on the identified weaknesses of urban development work and to build on the evident strengths. But the reorganization of the Bank in 1987 dispersed the central urban projects group, and few Regions acquired enough expert staff to cover all the elements of the urban program. The reorganization also meant that few regional project managers had knowledge of the urban agenda. At the same time, the Bank's emphasis on structural adjustment during the 1980s reduced support for activities that did not appear to contribute directly to traded goods production. And there was little external pressure (from NGOs, for example, most of whom have a rural orientation) to keep urban issues prominent in the Bank's country dialogue. As a result, many country programs downplayed urban development assistance in the late 1980s and mid-1990s. Although a large body of sector work, policy papers, and research was completed in this period that clearly linked urban issues to the Bank's broader development agenda, there was inadequate operational follow-up, and little new analytical work was initiated.

The legacy of this period is apparent in the deterioration of the performance ratings that the OED gave to urban development projects completed in fiscal 1992–95. Recently, however, performance has rebounded on most OED evaluation criteria (including outcome, institutional development impact, sustainability, borrower implementation, and supervision quality), and the ratings of projects completed in fiscal 1997 and 1998 equaled or exceeded Bankwide averages. This recovery attests to the more active management of the portfolio and the strengthened sector leadership in the Regions.

Based on Quality Assurance Group (QAG) criteria, the current urban portfolio has had a higher risk rating than the Bank's overall portfolio, reflecting in part its history⁹; but at the same time, urban development has a smaller share of problem projects than the Bank average. The main performance issues relate to borrower readiness and ownership, and the continuing tendency of many projects in the urban management subcategory (projects with multiple institutional, policy, and investment objectives) to be too ambitious relative to borrower capacity. Nonetheless, the quality-at-entry and rapid supervision assessments by the Quality Assurance Group have found urban development projects to be among the best surveyed during the past two years.

⁹ The "risky sector flag" in the Quality Assurance Group's ratings of ongoing projects was removed from the urban municipal subcategory early in fiscal 2000 because of improved performance.

Ensuring continued improvement of the urban development portfolio

Macroeconomic conditions in many countries have become more conducive to sustainable urban development (at least until the recent financial crises), and both central and local governments increasingly understand what is required to work as partners. To take advantage of these opportunities, the Bank must continue a concerted effort to improve its performance. Project identification and ex post evaluation need to incorporate institutional and social assessments that take careful account of the incentives and constraints faced by different stakeholders and the perspectives of beneficiaries, with particular attention to the views of women and the disadvantaged. Guidelines and firmer oversight are needed to help staff design projects realistically, with clear criteria for selecting among competing objectives and components and for assessing the readiness of clients. The design of urban projects should reflect more systematic use of the Logical Framework or similar methodology, for example. Projects that involve multiple agencies or that attempt significant reform and capacity building require adequate resources for preparation and supervision, appropriate timeframes for completion, and sustained assistance.¹⁰

The Urban and Water Sector Board and staff have taken several measures—including the strategy exercise—in the past 18 months to strengthen the urban development portfolio and raise awareness of urban issues in the Bank:

- Experienced urban sector leaders have been appointed in the Regions.
- Bankwide thematic groups have been established along product lines to share experience, provide training, and disseminate knowledge among staff and clients.¹¹
- Analyses of the portfolio performance issues have been undertaken and discussed with urban staff and managers in each Region and with the OED and the QAG.
- An Urban Help Desk has been set up to respond to the information needs of task managers.
- A core training program for urban staff has been under way since fiscal 1995, although it is unfunded for the current year.
- A survey of urban staff has been carried out to identify their views of needs and priorities, eliciting responses from almost one-third of mapped urban staff. They expressed a strong demand for more knowledge products (including good practice summaries, research results, and network information) and for better tools.

¹⁰ Analysis of urban development projects completed during fiscal 1993–97 found that those involving repeat borrowers had significantly higher ratings on outcome, institutional development impact, and sustainability than the overall urban development portfolio or the Bankwide average (Costa, 1998, pp. 11–12).

¹¹ These thematic groups are the Provision of Services to the Poor, Municipal Finance (recently expanded in scope to encompass Municipal Governance and Management), Solid Waste Management (recently expanded to link with other networks as Urban Environment), Housing and Real Estate (a component of the cross-network Land and Real Estate group), and Disaster Management (a recent addition).

In connection with these efforts, actions are also under way to form or strengthen partnerships (internal and external), address skill mix issues, resume research, and incubate new initiatives through the Urban Partnership (see chapter 4).

Listening to views from clients

To obtain an external “reality check” of the Bank’s self-evaluation and to research future market demand, the Urban Partnership commissioned a client survey by two outside consulting firms as part of the strategy exercise (Netherlands Economic Institute and Institute for Housing and Urban Studies). The confidential survey conducted structured interviews with 185 people, representing mainly central and local governments but also private partners, about some 28 urban development projects (a mix of completed and ongoing projects, and good and bad performers) in 14 countries across all regions.

The respondents placed most value on the Bank’s contribution to physical development (infrastructure and housing), where they felt the projects had been generally most successful. They gave a lower rating to projects’ success in achieving institutional development objectives. In several countries where the Bank has had long involvement in institutional reform programs (Benin, Morocco, the Philippines, Tunisia), however, respondents expressed high satisfaction with the realization of those objectives. More than half the interviewees deemed the capacity building impact of the projects to be significant. Half also found the technical and institutional sustainability of the projects to be strong, but financial sustainability was considered less certain. Stakeholders in municipal development (urban management) projects were somewhat less satisfied with outcomes and with the Bank’s performance than were clients of infrastructure-oriented projects. These findings are quite consistent with the Bank internal evaluations of urban project performance.

The survey respondents considered the Bank’s performance in analytical and sector work and in the identification and preparation of projects satisfactory to very good. They were slightly less satisfied with the implementation and supervision. The main problems they cited in working with the Bank were its bureaucratic procedures, excessive conditionalities, and insensitivity to local conditions.

The interviews revealed that the Bank has a very positive image among clients as a source of finance, as a reliable and cooperative partner, and as a good source of technical assistance, worldwide experience, and sectoral analysis. For the future, the first priority expressed was better provision of physical and social infrastructure for the poor. Institutional reforms relating to the role of national and local governments, and to involvement of the private sector, were cited as the second and third priorities, far ahead of other choices. Respondents expressed an overwhelming willingness to work with the Bank in the future regardless of their satisfaction on other issues. Most also thought that the Bank should continue to deal with a broad range of urban issues rather than becoming more narrowly focused.

The respondents rated the Bank as most competitive compared with other sources of urban development assistance in the quality of technical and institutional support, the confidence it provides to other partners, and policy advice. They rated it least competitive in strict conditionalities and working procedures.

Fulfilling the Bank's comparative advantage

Like the Bank, many of the major bilateral and multilateral development agencies are engaged in, or have recently completed, strategic reviews of their roles in urban and local government development.¹² The United Nations Centre for Human Settlements (UNCHS), U.S. Agency for International Development (USAID), Canadian International Development Agency (CIDA), Inter-American Development Bank (IDB), Asian Development Bank (ADB), United Nations Development Programme (UNDP), and the European Commission (EC) have all reviewed officially their urban strategies for development cooperation in the past one or two years.

A striking consensus is emerging among these and other aid partners, based on recent discussions of urban issues and programs with the Danish, French, German, Italian, Japanese, Netherlands, Swedish, Swiss, and U.K. development agencies, among others in the aid community, in connection with the Bank's strategy. But while the 1996 UNCHS "City Summit" gave high visibility to urban issues and attracted broad participation by the aid community, most of the agencies have not yet mobilized an internal response, for several reasons. Urban issues have traditionally taken second place to a dominant rural orientation in the organizations. And urban activities were dispersed among geographic or sectoral units, with no influential champions to provide coordination. As a consequence, very limited staffing and financial resources were devoted to urban work. The relatively low priority accorded to urban issues also meant that it was more difficult to capitalize on lessons learned from the agencies' urban activities, and a synthesized view of urban issues was slow to emerge in response to the challenges posed by the Habitat II conference.

These institutional constraints felt by aid partners in the 1990s are quite consistent with those in the Bank. Nevertheless, some partner agencies have acquired important experience. To cite only a few highlights:

- The UNCHS—through its Sustainable Cities Program, support for Local Agenda 21 action plans (with the United Nations Environment Program), Best Practices database, and Urban Indicators Program—has created valuable precedents and tools for participatory strategic planning by cities. The Urban Management Program supported by the UNCHS and UNDP has helped build regional capacity in these activities. The new strategy of the UNCHS commits

¹² This section draws on draft strategy papers of the bilateral and multilateral agencies, conversations with members of their staff and advisers, and discussions at a workshop of the European Science Foundation on "Concepts and Paradigms of Urban Management in the Context of Developing Countries," Working Group on Urban Bilateral Aid, held on March 11–12, 1999, in Venice, Italy.

it to undertake high-profile advocacy for cities and for the urban poor and proposes two global campaigns—one for secure tenure and the other for urban governance.¹³

- The ADB has concentrated its urban assistance in integrated urban development projects and water and sanitation and has done work on the problems of megacities in Asia.
- The IDB has been increasingly active in urban and related sectoral assistance to cities of Latin America and the Caribbean and is refining its strategy to increase support for building the capacity required for decentralization.
- The Swiss Agency for Development and Cooperation, which issued its urban strategy before the Habitat II conference, has focused its urban assistance on a few medium-size cities for long-term capacity building. It has also emphasized support to local autonomy plans, participatory approaches, and integration of environmental management with other sectoral activities.
- The USAID has been supporting local democratization and capacity building, environment and poverty programs, and innovations in municipal finance. It has been a particularly important partner with the Bank on housing and municipal policy reform programs. Its new urban strategy, issued in September 1998, emphasizes the need for greater agency-wide awareness and for synthesizing activities aimed at improving the functioning of cities as engines of economic development.
- The CIDA's 1998 "Statement on Sustainable Cities" seeks to develop a framework that integrates the realities of urbanization and allows programming to be adapted to urban trends and conditions in developing countries and transition economies. The strategy links urban issues with the agency's core mandates and proposes a programming approach that allows interventions to be directed to urban issues at the national, subnational, municipal, and community levels.

The evolving new strategies reflect much convergence of opinion on lessons and priorities. There is agreement, for example, that:

- Sustainable urban development requires multidisciplinary and pluralist approaches to address poverty and social equity, local economic development for employment creation, environment, urban governance and management.
- Solutions must be based on community participation and empowerment, must strengthen local government in accordance with the principle of subsidiarity, and must foster collaboration with the private sector and the use of market mechanisms.
- Sector-specific assistance is necessary but not sufficient for sustainable urban development. More integrated approaches are also needed, moving from "hard-

¹³ The UNCHS and the Bank have recently launched a new partnership, the Cities Alliance, discussed in chapter 4.

ware” (infrastructure) to “software” (capacity building). At the same time, the importance of increasing assistance to urban transport and environmental infrastructure is given strong recognition.

- Developing the institutional frameworks and capacities requires longer-term assistance—through programs, not projects—and supporting specific cities.
- Piloting and experimenting are desirable, but replicability needs to be a design objective.

Significantly, none of these urban strategies appears to propose a narrowly focused or highly selective role for the agencies (although some target a limited set of countries for assistance). All favor relatively “holistic” approaches, and the agencies seek greater partnership and knowledge sharing as ways of furthering integrated assistance programs with their limited internal resources and capacities.

The Bank’s comparative position among official financiers remains strong. No other international organization has the Bank’s global perspective or the depth and breadth of its experience in urban development work. The World Bank Group is by far the largest source of official finance for urban infrastructure investment, although some agencies provide more finance in particular regions.¹⁴ Japan has provided more funding for urban investment than the Bank in South and East Asia, and the IDB more in Latin America and the Caribbean. And bilateral urban assistance is significant relative to Bank funding in Sub-Saharan Africa, Europe and Central Asia and Mideast and North Africa. The Bank is also the largest provider of municipal development (capacity building) assistance, and has given more attention to municipal finance reform and development of municipal credit mechanisms than have most other aid organizations. However, multilateral institutions that do not always require sovereign guarantees (such as the European Bank for Reconstruction and Development and the European Union) have more flexibility in the forms of financing they can offer.

The recent renewal in the Bank has increased the potential for an improved response to urban issues by placing a premium on networking and partnerships, greater flexibility in assistance instruments, and a supportive climate for innovation and quality enhancement. The Bank’s extensive learning about urban development and its strong policy agenda, the clients’ positive perception of Bank contributions, and the growing interest of other partners challenge the institution to sharpen its comparative advantage in urban work and enhance its effectiveness. The next chapter outlines a proposed strategy to achieve these aims.

¹⁴ Based on 1990–96 commitments recorded by the Development Assistance Committee of the OECD. Urban is not a classification used by the DAC, so urban assistance is counted here as the sum of water and sanitation, waste management, and transport.

Chapter three

A Renewed Bank Strategy for Urban and Local Government Assistance

The dramatic changes in the economic position of cities and in the political authority of local governments, the expanding agenda of issues related to quality of urban life and sustainable cities, and the increasing demands for the Bank's advice and financial support in the urban arena call for a new strategic perspective to guide the Bank's response. What is needed is more than just retooling the urban development portfolio or extracting stronger performance from it—although both are required. The Bank is developing an integrated view of cities and of the national and local policies affecting urban outcomes. The strategy presented here has achieved commitment from a wide coalition within the Bank to work together in new ways in the urban arena and with newly energized local governments. This coalition needs to strengthen. The strategy also requires more effective external partnerships with the donor community, private financiers, training and research institutions, nongovernmental organizations, community groups, and governments—not only individually but as part of professional networks.

Principles and preconditions of the strategy

The new strategy aims to support the vision of sustainable cities more effectively by increasing the impact of the Bank's assistance in:

- **Replicability**—promoting lasting improvements in outcomes, particularly in raising the living standards of the urban poor, to a scale commensurate with their demands.
- **Relevance**—mobilizing skills and knowledge across the widening range of urban issues and offering assistance with flexible designs, realistic time frames, and appropriate forms of financing to meet varied client needs.
- **Reach**—ensuring that more, and more varied types of, local governments can be reached directly (or, more often, indirectly) than through traditional urban development projects or other interventions.

To achieve these strategic objectives, the Bank would “strategize holistically and intervene selectively” in support of cities and local governments. This requires the Bank to develop a perspective of urban economies as integral units in a specific spatial, social, political, environmental, financial, and economic context—much like the country economies that are its traditional focus. Rather than treat urban areas as a collection of infrastructure activities or project sites, the Bank would look at cities as “living organisms” that also form part of the larger national system. A shared understanding of the contributions of the urban system within the macroeconomy, and of the development prospects and constraints of cities within the urban network, would provide a framework and common agenda for Bank assistance activities.

It is in this strategic and analytical work that the Bank’s urban family needs to enhance its unique contribution in two ways. It can provide a knowledgeable perspective on the financial and management issues of local governments, helping to represent municipal governments’ needs and concerns in interactions with central governments and with other groups in the Bank. And the urban staff can provide analysis of the spatial impacts of urban development, particularly in terms of accessibility of housing and employment and environmental sustainability.

The strategy calls for the Bank to be selective in determining which cities to work with and which activities to support. The Bank would make particular efforts to aid cities in which multiple stakeholders demonstrate a shared commitment to addressing poverty and inequality through well-integrated programs combining direct and indirect interventions. It would also target aid to cities showing a determination to help themselves—for example, those willing to meet the competitive conditions of demand-based financing arrangements such as municipal development funds and to undertake reforms to make themselves creditworthy. Other criteria for targeting cities would be developed as part of the national strategic dialogue. However, the holistic approach to strategizing urban development should not translate into projects that try to achieve everything at once.

The strategy also calls for the Bank to commit to scaling up assistance to meet the impending urban challenges. Scaling up will require a variety of approaches and levels of activity. To complement its direct assistance, the Bank would increasingly emphasize “wholesaling” technical assistance and finance to larger numbers of cities and towns indirectly through institutional arrangements that the Bank can support through projects, grant funds, the World Bank Institute, or partnerships with other agencies. As part of scaling up assistance in some countries and regions, some megacities might be identified for particular emphasis.

The strategy will require the Bank to reinvest internally, in its own urban knowledge and capacity. Through most of the 1990s the Bank has been “drawing down its capital” of urban expertise. The Bank’s leadership in urban analysis and operations is still respected internationally, as widely acknowledged at the 1996 Habitat II Conference and as recently confirmed by the urban client sur-

vey. But the Bank would need to recommit itself to maintaining this strength. Finally, all these efforts will require work through strengthened partnerships, internal and external.

The four building blocks of the new strategy

The new strategy centers on four main activities as the focus for concerted assistance by the Bank and for mobilizing partnerships in support of sustainable urban development. The attention to each of these strategic emphases will vary by region and country, depending on needs and circumstances.

First: Formulating national urban strategies

The urban transition would be examined in the context of the national development agenda in each country. The national urban strategies coming out of this exercise would provide a basis for understanding—for the national and local government counterparts, other partners, and the Bank—the contribution that cities and towns can make to the country's goals, particularly by revealing the potential of rural-urban synergies to reduce overall poverty. The strategies would also clarify distinctions in the institutional and financial requirements of different types of cities, towns, and metropolitan areas.

The work on national urban strategies would also contribute to other economic and sector work that addresses:

- The requirements for rational intergovernmental policy frameworks, especially for the assignment of functions, taxing authority, and expenditure responsibilities across levels of government in accordance with the country's decentralization aims
- Distributional policies and safety nets and other national policies that affect the urban poor (such as those relating to employment and property rights)
- National policies affecting urban environmental improvement, such as polluter-pays regulations
- The development of domestic financial markets as a basis for municipal credit and mortgage finance
- The conditions for private participation in infrastructure and a supportive regulatory climate for business.

A government initiative such as the Philippines' National Urban Development and Housing Framework, which the Bank is supporting by aiding the development of supportive financial policies, provides a good basis for a national urban strategy (see box B.13). Country poverty reduction strategies, national environmental action programs, and comprehensive development framework exercises can also provide participatory frameworks for building a national perspective of the urban transition and its implications.

Second: Facilitating city development strategies

The Bank would work with broad coalitions of stakeholders in a city to help them develop a strategy that reflects a broadly shared understanding of the city's socio-economic structure, constraints, and prospects (the analytical assessment) and a shared vision of goals, priorities, and requirements (the strategic plan of action). This city development strategy is both a process and a product that identify ways of creating the conditions for urban sustainability along the dimensions of livability, competitiveness, good management and governance, and bankability. Assessments in each of these four areas would not necessarily be equally comprehensive for every city, because the impetus for a strategy exercise could arise from different priorities perceived by stakeholders. The most immediate concerns in a given case might be seen as unemployment, poverty, crime, environmental deterioration, or even an external crisis. The Bank's role would be facilitative and would often entail providing technical inputs. The process of developing and implementing the strategy would have to be directed and owned by the city.

These city strategies would also define development priorities for the city. In doing so, they could identify the need for Bank lending, although that would not necessarily be the aim of the exercise. The city development strategy builds on experience with participatory strategies in the context of Local Agenda 21 activities supported by the UNCHS, the United Nations Environment Program, and the Metropolitan Environment Improvement Program, and with the Sustainable Cities consultations supported by the UNCHS and UNDP through the Urban Management Program.

Each city development strategy exercise would be unique, but all would generally involve three broad phases. A first, "scoping out" phase would provide a quick assessment of the readiness of the city, the chief concerns of its officials, and the industrial, commercial, and banking interests. These findings would form the basis for a second, more in-depth analysis of the local economic structure and trends, the potential obstacles—institutional, financial, environmental, and social—and the strategic options. A third phase would focus on outside assistance, particularly on how the Bank and other agencies could help the city achieve its goals. The city strategy would be a very useful preamble to other specific lending or nonlending assistance to the city by the Bank, but would not be seen as a precondition for proceeding with Bank-financed investments that are well justified and broadly supported by the government and key stakeholders.

The most recent prototype city strategy exercise involving the Bank is that in Haiphong, which is leading to further strategy work on regional development in Vietnam (see box B.7). Many other agencies have experience with similar exercises. It is important to begin sharing examples of city or subregional strategic exercises in both industrial and developing countries to allow local counterparts to benefit from experience elsewhere.

Third: Scaling up programs to provide services to the poor

The Bank has gained much positive experience in supporting the provision of services to the urban poor, through slum upgrading and similar types of programs. Upgrading, combined with secure tenure, not only improves the basic quality of life of residents directly. It also creates conditions for raising their incomes by providing basic public goods, and stimulates private savings and investment in housing and small shops that form the core of informal employment within these communities. Upgrading thereby fosters the creation of individual and communal assets that generate wealth and facilitates rental markets that expand housing options and additional sources of private income for residents.

Growing community and government interest in upgrading activities is translating into demand for assistance, especially in Latin America and the Caribbean, Sub-Saharan Africa, and East and South Asia. Moreover, basic infrastructure for the poor was the first priority for future assistance cited by respondents to the recent urban client survey. The constraints to replicating such programs are primarily institutional and informational rather than financial, as they have proved to be affordable for both the government and the community when service levels and technologies are appropriate to the beneficiaries' effective demand. Ensuring that these programs are sustainable, however, requires mobilizing support from local and central governments, the private sector, and the communities, and educating clients and other donors about the ingredients of success. Good examples exist where private firms that are major providers of local employment and private financial institutions have joined forces with local governments and communities to devise affordable neighborhood improvement schemes.

A strategic emphasis on providing services to the urban poor would commit the Bank to direct financial resources at scaling up—to the city or national level—successful initiatives in responsive countries (see box B.2), to disseminating and replicating best practices, and to mobilizing other sources of financial support for slum upgrading.

Fourth: Expanding assistance for capacity building

The fourth strategic emphasis is on creating the management and financial capacity required for all aspects of the urban agenda. To supplement capacity building activities sponsored through lending operations and increased training of counterparts by the World Bank Institute, more support is needed in two forms:

- **Fostering intermediary channels of knowledge sharing.** Bank operations and the World Bank Institute can help create and strengthen associations and networks of local governments for training, technical assistance, and knowledge transfer. This “wholesaling” approach could be used to promote interactions between cities in industrial and developing countries—under the auspices

of such organizations as the International City Managers Association and the International Union of Local Authorities, or through twinning and “decentralized cooperation” between cities.¹⁵ It could also be used to encourage exchanges among local governments within a borrowing country or region. The Bank could mobilize grant funding for municipal networks and professional urban management associations as a complement to country lending and help such intermediaries build experience and credibility by financing their participation as consultants and providers of technical assistance to the Bank’s urban operations.

- Increasing the Bank’s capacity to provide timely, self-standing technical assistance and advisory services. Municipal finance and management reform is one of the main areas of demand for such services. In countries experiencing major urban transitions, technical assistance or advisory services to help clients set directions for investing borrowed resources can be more valuable than lending. The Bank could also use nonlending technical assistance to help clients take the steps necessary to become eligible for capital market funding. The extensive technical assistance and sector work provided by the Bank to South Africa illustrates the potential for this product (see box B.10). There are other grant sources for technical assistance, but the Bank itself needs greater access to such funding to allow timely and flexible responses to clients’ requests. In many cases financing through the sector work budget will not be sufficient, and donor grant funding—or even fee-for-service in limited cases with better-off clients—will need to be explored.

A precursor of the proposed advisory service is the Subsovereign Finance Initiative approved by the Bank Group management under the Infrastructure Action Program in fiscal 1998. This initiative provides \$0.5 million from the Policy and Human Resources Development fund (with some matching by internal Bank funds) over two years for advisory work on local government capital budgeting; on guidelines for disclosure, auditing, and credit rating; and on mobilization of private finance for local infrastructure investments where municipalities are sponsors or partners. The program has been conducted as part of Bank project preparation, initially in India, South Africa, Mexico, and the Philippines. But expanded funding is needed to provide advisory work independent of project preparation.

A potential source of such funding is the Public-Private Infrastructure Advisory Facility (PPIAF), a recent joint initiative of the U.K. and Japanese governments, also in response to the Infrastructure Action Program. Funded initially by the United Kingdom and Japan, the PPIAF is a multidonor technical assistance facility designed along the lines of the Information for Development (InfoDev) program and the Consultative Group to Assist the Poorest (CGAP). The PPIAF would provide

¹⁵ City-to-city cooperative relationships are a significant source of financial as well nonfinancial assistance from some countries to the transition and developing countries.

funding for technical assistance and advisory services requested by governments to facilitate private provision of infrastructure. It could also fund advice and technical assistance to municipal governments on matters directly relating to public-private partnerships for urban infrastructure.

Adapting the existing “business lines” and products of urban assistance

Three of the four activities emphasized in the strategy would consist initially of non-lending services, but in most cases could be expected to increase and strengthen the Bank’s lending pipeline. Most of the future demand for lending and other assistance would be expected in the core lines of urban development business—urban management, municipal finance, housing and real estate, urban environment, and urban reconstruction—and in ancillary sector investments, especially urban transport and water and sanitation. This core assistance would be increasingly directed to implementing the recommendations and action plans emanating from the new strategic activities.

Improving the impact of the core urban assistance

The strategy calls for the Bank to continue to improve the impact of its core urban assistance, in particular by:

- Lengthening time horizons. Consistent involvement with national and local counterparts over a 10- to 15-year horizon will be needed in many cases, especially to meet the institution building and sustainability objectives of urban management operations. This longer-term perspective may require shifting from a project to a program approach and identifying some cities as long-term strategic partners.
- Expanding support to municipal finance intermediaries as an explicit wholesaling arrangement. Municipal development funds have proved effective in reaching large numbers of small to medium-size municipalities with little prospect of accessing capital markets in the near term, while disseminating training in good financial practices, management techniques, and investment selection and building effective demand for a commercial municipal credit market.
- Taking explicit market development and institution building approaches. While continuing to support specialized municipal development funds, municipal finance operations should emphasize establishing market-based incentives so as to integrate the funds into a sustainable financial system. Similarly, housing reform operations should be rooted in broader financial sector development, and should expand into real estate market and land market development issues where appropriate. Such reorientations imply a need for “graduation” conditions for Bank assistance.
- Shifting from reactive to more proactive interventions. The Bank should help national and local governments plan for urban growth, so as to min-

imize or prevent many of the urgent problems facing cities. In addition to responding to urban crises, for example, the Bank needs to help cities identify disaster risk and vulnerability and to develop approaches to disaster prevention and mitigation. Issues as diverse as cultural heritage preservation, urban crime and violence, and involuntary resettlement due to land encroachment are best dealt with through urban strategies and sector work rather than through special project components or conditions.

- Seeking a good balance between cross-sectoral urban assistance and subsector-specific assistance. Operations in such subsectors as solid waste management, urban transport, water and sanitation, and urban energy are an integral part of Bank and IFC assistance to urban areas. National urban strategies and city strategies can help to ensure that the major policy and institutional issues and investment needs in these activities are being addressed, and that subsector-specific projects and the more cross-sectoral urban development work are complementary and mutually reinforcing, especially in promoting sustainability. An urban transport subsector strategy paper, focused on linking urban transport with broader urban development activities, is planned for submission to the Board early in fiscal 2001.

In support of these design principles, the Bank's new strategy calls for greater use of new or rarely used financial instruments for greater flexibility:

- Urban adaptable program loans and learning and innovation loans. Adaptable program loans can be used to sustain involvement with clients and to scale up projects that have shown good results. Learning and innovation loans may be appropriate where local ownership needs to be piloted and tested or where local counterpart capacity is particularly weak. Another project format that could be used more for urban assistance is the sector investment loan, in which the Bank funds a tranche of a multiyear investment program that has been agreed on with the counterparts and other donors.
- Financial innovations to bring cities to the capital markets. In addition to providing policy advice and technical assistance to reduce local political risk, the Bank Group would continue to explore ways of encouraging private finance for urban investment involving municipalities or municipal entities.
- For public-private partnership arrangements such as municipal service concessions, one perceived source of local political risk might be the municipality's continued role as supplier or taker, regulator, landowner, or source of subsidy. In these cases Bank guarantees or limited injections of the Bank's sovereign guaranteed lending could mitigate the municipal risk and help raise private capital. This approach is already being taken by the Bank Group for investments in water and sanitation, transport, power and district heating, and solid waste management. The Multilateral Investment Guarantee Agency (MIGA) can

also, on a case-by-case basis, facilitate private investments involving subsovereigns (including municipalities) in the context of public-private partnerships and also in the privatization of such services. The latter is true for water sanitation and/or distribution services, urban transportation (e.g., light rail, toll roads, etc.), and power.

- The Bank could participate in national or regional risk-pooling arrangements such as municipal bond insurance.
- For privatized urban infrastructure such as roads, ports, airports, and utilities, the IFC provides limited recourse financing as needed. It is working to increase the range of local currencies in which it can provide direct loans and is willing to provide lenders with full and partial risk guarantees covering municipal risk if appropriate mitigation measures are available. The IFC can also participate in capital market development, including institution building and special risk mitigation operations benefiting private investors.

Strengthening other analytical work

The new strategy also calls for resuming urban analytical work, including sector work, research, and tool development.

Urban sector work. More urban sector work, including country-specific, multicountry, and subregional analysis, is needed to expand understanding in the countries and the Bank about urban issues in the context of national and regional development. The urban client survey revealed a strong appreciation for the Bank's sector work and analytical contributions. Good analytical work is being done in project preparation (partly because that is where the budget is), but this work often is not circulated beyond the project team and thus contributes little to wider knowledge management or to the Bank's institutional memory. Some of the urban analysis that is needed (on housing market reform or practical issues of implementing decentralization) should be integrated with the country economic work agenda.

Research and tool development. A renewed program of operationally oriented research is needed to support the new directions of the strategy. Priorities for research include:

- Studying the economic welfare costs of dysfunctional regulation and design of workable regulatory frameworks, for example—for municipal credit and for land use
- Diagnosing sources of urban economic growth and decline, based on city case studies of successes and failures
- Further exploring causes and solutions of urban poverty, including links with income generation, gender equity, crime and violence, urban governance, and synergies between rural and urban activities to reduce overall poverty
- Assessing the impact of privatizing essential services on the urban poor, and policies to address market failures in housing

- Analyzing approaches to metropolitan management
- Developing analytical and management tools—in particular, refining planning methods to integrate land market and transport development
- Assessing the development impact of different types of urban assistance programs, including their impacts on different user groups and on community-government relations.

The proposed national urban strategies and city development strategies, as well as regular urban lending, would promote the collection and use of policy-relevant data. These data would include community feedback from users of municipal services; city statistical reporting, such as statistical yearbooks with data by type of service, by ward, and by municipality; and citywide indicators, such as those being developed through the UNCHS Urban Indicators Program, that are comparable across urban areas (see annex D). All data collection would be demand-driven, tailored to perceived local issues, and capable of being updated by local agencies in a cost-effective manner. To help improve city-level urban indicators, the Bank approved a grant of \$1.125 million from the Development Grant Facility in fiscal 1999 to the UNCHS Urban Indicators Program (Phase II), and a smaller follow-up grant in fiscal 2000. This program aims to build data collection capacity at the local and country levels, promote the sharing of data and analyses, and disseminate data management tools. All these efforts will feed into the strategic work by cities, the Bank's comprehensive development framework exercises in pilot countries, and work to further improve Bank operations through better-defined performance indicators.

Regional urban strategies and action plans

Each of the elements of the new Bankwide strategy has been formulated on the basis of ongoing work in the Regions to identify emerging demands, lessons of experience with urban assistance, and priorities for attention. The Regional urban staff have also been identifying priority clients and groups of clients, in conjunction with the country teams and county assistance strategy discussions, for implementing the new strategic directions. The Bank's South Asia Region, for example, is targeting assistance where countries, states, and local authorities demonstrate commitment to reforms along the four dimensions of urban sustainability. The highest priority is accorded to the urban centers that help themselves, have basically sound governance, hold objectives that the Region finds appropriate, present the biggest problems, and share a common view with the Region on how to tackle them. The other Regions are using similar criteria for selecting potential clients. Information on each Region's urban strategy and action plans for implementation can be obtained from the respective sector managers on request.

Chapter four

Requirements for Implementing the New Strategy

Expanding external and internal partnerships

The Bank has many external partnerships with bilateral, multilateral, and private organizations supporting the urban agenda. But the new strategy requires stepping up efforts to mobilize funding and broad external support, particularly to undertake city development strategies and scale up programs for providing services to the urban poor. To provide financial support and worldwide knowledge sharing in these two critical areas of action the Bank and the UNCHS have formed the Cities Alliance as a grant-making facility. A new partnership of development agencies and cities, the Cities Alliance aims to catalyze the replication and institutionalization of activities in the two priority areas to foster greater coherence of efforts. The Cities Alliance was formally launched by the heads of the Bank and the UNCHS in May 1999. Continued enthusiastic leadership by the Bank's management will be needed to attract wide participation by the donor community and other external partners.

The new strategy also calls for establishing and strengthening alliances across units of the Bank and the International Finance Corporation.

The Cities Alliance

The Cities Alliance will be administered as a multidonor partnership with a secretariat residing in the Urban Anchor and Urban Partnership of the World Bank's Transportation, Water, and Urban Development Department, with lead staff seconded by the UNCHS. A consultative group governance structure will be established with the participating agencies during 1999. The grant facility's target for the initial three-year period (1999–2001) is \$40 million, of which almost \$4 million has been pledged by the Bank and the UNCHS. The target for the first year's tranche is \$10 million. Many donor agencies have expressed interest in contributing directly to the trust fund.

Although formal preparations for the Cities Alliance began only in late 1998, lead-in activities in a first cohort of cities started in November 1998. In the first quarter of 1999 extensive discussions were conducted with donors and potential clients to assess interest and to seek funding commitments. A Development Grant

Facility grant of \$825,000 was approved in fiscal 1999 to fund preparatory activities for city development strategies in several cities under the Urban Management Program's ongoing City Consultations program, and a follow-up grant to continue the Urban Management Program's work in building regional capacity for participatory strategies has been obtained for fiscal 2000.

To help implement city development strategies, the Cities Alliance will make funding available for:

- Selected cities to formulate and apply city development strategies, by engaging local stakeholders in consensus building, diagnosis, and definition of strategy and action plans
- Selected local authorities to create investment financing strategies with interested donors, potential private investors, and financial sector partners to finance implementation of their city development strategies
- Mobilizing city-based resources, building capacity, and sharing the knowledge acquired in formulating and implementing city development strategies with the broader urban community worldwide.

To help scale up programs for improving living conditions for the urban poor, funds will be made available for:

- Identifying and preparing citywide or nationwide programs of urban upgrading
- Helping selected countries and cities strengthen their enabling policies to ensure the sustainability of these programs
- Establishing consensus with national and local stakeholders, creating productive alliances among interested donors, and supporting the mobilization of domestic resources
- Raising awareness and creating and disseminating a global base of knowledge and best practices in scaling up urban upgrading programs.

During the first three years the Cities Alliance plans to introduce city development strategies in at least 20 cities and to launch national or citywide slum upgrading programs in five to seven countries. Through the Japanese Trust Fund, the Japanese government has committed funding for 13 city development strategies in Asia (one city each in China, Indonesia, Thailand, and Vietnam, two cities in Bangladesh, and seven secondary cities in the Philippines) in 1998–99, and a regional seminar was held in Tokyo in July 1999 to share the experiences and results of these cases. In addition, several city strategies are receiving support from Bank sector work budgets (Haiphong) and from ongoing projects (e.g., numerous small municipalities under the Ceará and Bahia Urban Development Projects in Brazil).

Internal cross-unit alliances

In implementing the new strategy, urban core staff and managers seek to engage Bank and IFC staff in other sector families and professional disciplines. It is desir-

able that these nonurban staff would become involved “upstream” in the national and city strategies and in urban sector work, which would provide the analytical frameworks for follow-up collaboration and for linking urban issues to the Country Assistance Strategy. Many points of common interest in urban and local government work are being pursued with the following units and professional groups:

- International Finance Corporation. In addition to financing investment and facilitating private participation in infrastructure, housing, and other urban services, IFC staff have worked with the Bank’s Municipal Finance Thematic Group on issues of subsovereign risk mitigation and on training in this area.
- Multilateral Investment Guarantee Agency. MIGA will also work closely with the Bank’s Urban sector staff on issues of subsovereign risk mitigation.
- World Bank Institute. The World Bank Institute is developing its strategy on urban and local government issues that cut across departments. A new core urban training course, a knowledge management Web site, and distance learning activities are under development as part of this urban strategy work. The World Bank Institute’s experience working with local municipal associations, training institutes, and other networks for knowledge dissemination will be an important input for the fourth leg of the Bankwide strategy, expanding assistance for capacity building.
- Development Economics Vice President. The Urban and Water Sector Board and Development Research Group managers have been reviewing urban research priorities to rejuvenate the Bank’s urban research program, in which this department will play an important role.
- Poverty Reduction and Economic Management Network (PREM). Because national economic policies often need to be implemented locally or are affected by local policies and regulations, close interaction between urban analysts and the macroeconomists in PREM’s Economic Management Group is essential. The group is also an important ally in work on reform of national and intergovernmental policies affecting sustainable urban development. PREM’s Urban Poverty Group is undertaking urban poverty analysis in collaboration with Regional staff and the Urban Thematic Group on Service Provision to the Poor. The Decentralization Thematic Group of PREM has active participation of urban staff and is closely associated with the Municipal Finance Group. The Public Sector Management, Subnational Regional Development, and Gender groups also focus on areas that intersect extensively with the urban agenda, and staff in these groups have participated in recent seminars with urban staff on common concerns. Collaboration is being pursued to implement at the local government level the new Bank strategy for institutional development and governance and the anticorruption action plan, spearheaded by PREM.
- Environmentally and Socially Sustainable Development Network. The Environment Department’s Urban, Industry, and Energy Group works closely with the Urban Development Unit and related infrastructure units on

urban environmental issues. Specific collaboration is under way in the current preparation of the Bank's environmental strategy and in the newly expanded Urban Environment thematic group. Urban staff also work with the Social Development Department on resettlement and social assessments. The urban and rural development families are exploring joint work on poverty reduction strategies in a few countries based on rural-urban development synergies. There is also scope for further collaboration with the Rural Development Group on decentralization and municipal development issues, land and property rights reforms, and food security.

- Finance, Private Sector, and Infrastructure Network (FPSI). The Private Provision of Infrastructure Unit of the Private Sector Development Department is an important partner for urban staff on issues of public-private policy frameworks and regulation of urban infrastructure. The department also has relevant expertise in microcredit, small enterprise development, and business regulation. In addition, its Business Environment Unit is collaborating with urban staff on competitiveness studies, and staff of the two groups prepared joint proposals for the Private Sector Development Exchange and Innovation Marketplace in 1998. The Financial Sector and Capital Markets Departments complement municipal finance work by focusing on related development of the banking system and financial sector activities necessary to urban and housing investment. The Transportation, Water, and Urban Development Department and Capital Markets Development are jointly supporting a global program to foster subnational access to capital markets through case studies, workshops and training, toolkits for enhancing creditworthiness, and advisory services. An exemplary vehicle of cross-unit collaboration, involving not only several units of FPSI but also other networks, is the Land and Real Estate Initiative formed in fiscal 1998 with a grant from the Innovation Marketplace as a training and knowledge management focus for these cross-cutting issues.
- Urban Transport. Managed in most Regions of the Bank as a subsector of transport, this activity depends on close interaction with Urban Development Unit staff on issues of municipal and metropolitan management, urban environmental analysis, motorization, and land use planning. The urban transport subsector strategy will be developed in collaboration with urban staff.
- Urban Water and Sanitation. This group and the Urban Development Unit are managed by the same sector board. Particularly close collaboration between the two will be needed to implement the strategic emphasis on scaling up sustainable basic services programs.
- Human Development Network. Common interests between this network and urban staff center on the capacity of local governments to assume responsibility for decentralized health and education services and social safety nets, and to address worsening public health problems, including those stemming from

drugs, violence, environmental deterioration, urban poverty, and weakening family and social support to children.

Strengthening the internal organization of urban work

The Urban Anchor in the Transportation, Water, and Urban Development Department serves a Bankwide coordinating and advocacy role for urban activities in the institution. It is guided in this role by the Urban and Water Sector Board, whose members include the Regional urban sector leaders. Thematic groups were created in fiscal 1997 as communities of practice to join Regional and Anchor staff in pursuit of knowledge management, quality enhancement of the portfolio, training and mentoring of staff, and internal and external partnerships—all aimed at improving the provision of products and services to clients. These thematic groups (originally constituted as Municipal Finance, Service Provision for the Urban Poor, Solid Waste Management, and Housing and Land Markets) have progressively expanded their collaboration with other networks and sector units in the Bank, and the Housing and Land Markets Group has been effectively merged into the cross-network Land and Real Estate Initiative.

To implement the new strategy, more integrated alliances are forming so that the thematic groups can address the broader topics of urban environment and urban poverty through more explicit cross-network collaborations. Alternative arrangements are being explored during the business planning and budgeting discussions to ensure that cross-cutting issues of urban governance and management and urban economic development (including city competitiveness) receive consistent attention and that staff and clients have adequate support for the new strategic products.

The Urban Partnership unit, created by the ESSD and FPSI networks in fiscal 1998 and managed as a wing of the Urban Anchor, initiates high-priority, cross-cutting urban activities that need nurturing as pilot ventures. In its first 18 months the Urban Partnership sponsored the strategy exercise, managed a prototype city strategy, funded initial preparations for the Cities Alliance and the Disaster Management Facility, established collaboration with the UNCHS Urban Indicators Program on capacity building for urban indicators, obtained funding from the Innovation Marketplace and from outside foundations for a Street Children Initiative, sponsored cultural heritage advisory work and pilot activities, and launched preparations for the major Competitive Cities Conference held in May 1999. The partnership also shepherded the transformation of *The Urban Age* journal into a major publication in six languages and with a global circulation of 40,000, sponsored several small research activities, and supervised the municipal technical assistance component of the DC Outreach Program. In addition, the partnership is supporting fund-raising efforts for the proposed Urban Research and Development Fund and for the global program for subnational access to capital markets. The Cities Alliance secretariat will be housed with the Urban Partnership.

Enhancing human capital and knowledge management

The new strategy will require supplementary skills and knowledge in areas of increased demand—through staffing, training, and knowledge management.

Staffing

Citywide strategy work requires mobilizing cross-disciplinary teams of staff, many of whom will come from outside the urban group, and a sufficient number of task managers who are core (“mapped”) urban staff. Slightly more than half the Bank’s regular urban staff are over 50 years old, and many of the experienced urban planners, municipal engineers, and financial specialists will be lost to retirement over the next decade. The urban strategy will require replacing many of these staff and acquiring others with knowledge and skills in new demand—in municipal management, governance and institutional analysis, real estate and land markets, urban economics, local economic development strategies, urban poverty, urban finance, and cultural heritage. Since the Regional urban strategies indicate continued need for a wide assortment of skills and disciplines, urban staff with specialized skills will have to be flexibly deployed across the Regions.

Training

The Urban and Water Sector Board and thematic groups have been carrying out regular training and mentoring of project staff to ensure continued improvement in portfolio quality. To the extent that limited budgets allow, clinics and seminars are being organized to disseminate experiences with new products, such as city strategies, and with collaborative financing arrangements with the private sector as these evolve.

Knowledge management

Since the strategy emphasizes an integrated view of cities and of urban issues within national development, urban knowledge needs to be mobilized and shared across disciplines in the Bank and with external partners. The Urban Anchor’s knowledge management team has been established to facilitate this process and to support the knowledge management activities of the thematic groups, the Regional urban units, and the Urban Partnership. The internal and external partnerships being given new impetus under the strategy will be major contributors and beneficiaries of the urban knowledge management effort. The planned knowledge management work program includes (pending budget allocations) developing a core knowledge base for the major urban subtopics, linked through an internal Web site and to external Web sites and databases; developing a knowledge-sharing network for urban practitioners, for example, a city development strategies workspace and links to the best practices networks of the UNCHS and other agencies; reinforcing the Urban Help Desk to provide additional services for internal and external clients; aligning World Bank Institute training and urban core courses with knowledge management services; and resuming an urban publications series.

Adapting the Bank's approaches to involuntary resettlement

Involuntary resettlement has become an increasingly pressing issue in many cities as population pressure and land market rigidities induce further encroachment on environmentally vulnerable lands and rights of way. Fair and sustainable resettlement programs need to be designed with due regard to citywide land market policies and conditions, not as neighborhood enclave activities, since displaced households will often become squatters elsewhere. The costs and availability of alternative housing sites, access to employment, and security of tenure are key considerations for the welfare of resettled households and thus for workable resettlement programs. The recent efforts in the Bank to update and revise Operational Directive 4.30 have benefited from the participation of staff who are knowledgeable about the implementation issues in urban areas, and who fully accept the principles to be pursued and the need for realistic and practical guidelines for different types of urban operations.

Allocating budgetary resources for urban work

The urban strategy will require additional funding from both internal and external sources to carry out the four strategic emphases and related actions and for managing the implementation of the strategy. The strategy is not budget-neutral. Commitment to it will require significant increments to the funding allotted in recent years to urban work—for urban thematic groups, knowledge management, and staff training, for strategy coordination by the Urban Anchor, and for World Bank Institute training—and reallocation of country budgets in the Regions toward more urban work. Additional budgetary resources will also be needed to leverage the additional funding to be sought from donors for the Cities Alliance and Urban Partnership, from the research budget, and from trust funds.

Implementing the new strategy

The plan for implementing the strategy over the next three years shows that most of its components are mutually supportive and need to be undertaken in concert—indeed, most are already starting, with the enthusiastic support of staff and partners, even without budget reinforcements (see attachment 3). Continuing this momentum, however, will depend on the funding from all sources for fiscal 2000.

Over the next three years, if the Bank fails to mobilize an institutionwide effort to address urban and local government issues more coherently and to integrate urban perspectives in its dialogue on national development policies, it will become less relevant to an urbanizing world. In some regions the Bank will lose credibility relative to other sources of finance and technical advice that are more responsive to the needs of local government. More important, it will forgo an opportunity to have an impact in addressing pressing urban issues with critical bearing on countries' abilities to reduce national poverty and improve their environment. But the Bank's national and local government counterparts, external partners in the donor and private sector communities, and the people who are its ultimate clients expect more of the Bank. The future is urban, and we must be there.

ATTACHMENT 4 URBAN LINES OF BUSINESS—ILLUSTRATIVE EXAMPLES

Business line	Completed or advanced projects	New projects
<p>Urban management</p> <p>Lending and nonlending interventions designed to collectively bring stronger, more effective system of local government by providing multisectoral investment financing for essential municipal services; providing technical assistance in operations and maintenance; assisting in local government reform and institutional development initiatives; and building local government financial, managerial, and technical capacity.</p>	<p>Benin: Urban Rehabilitation and Management Project (FY92)</p> <p>This project's immediate objective was to support ongoing government programs of infrastructure rehabilitation and sanitation in the country's two largest cities, Cotonou and Porto-Novo, following approaches that optimize the effect of public works projects on employment and incomes of the urban poor, promote the development of local small and medium-size private enterprises, and involve NGOs and residents. The project's longer-term objectives were to support preparation of a public investment strategy in the urban sector and lay the groundwork for reforms to improve the management of urban development in Benin.</p>	<p>Senegal: Urban Development and Decentralization Project (FY98)</p> <p>This breakthrough project, now in execution, is shifting responsibility and accountability for urban services to municipalities. Grant and limited loan funds are provided to municipalities in exchange for their signing "municipal contracts" containing investment plans and targets for improved management performance. The project builds on two other projects that strengthened contract management and physical works execution for the municipalities by creating a delegated control management agency.</p>
<p>Municipal finance^a</p> <p>Lending and nonlending interventions aimed at strengthening subnational government finance and capacity by establishing an appropriate framework for intergovernmental fiscal relations (assignment of expenditure and revenue authority, intergovernmental transfers), strengthening revenue mobilization and administration (taxes and fees, cost recovery); improving service delivery and infrastructure (community and private sector participation, local cooperation); enhancing</p>	<p>Brazil: Paraná Municipal Development Project (FY89)</p> <p>This project used Bank loan proceeds and Paraná state counterpart funding to capitalize a specially created urban development fund, which provided a line of credit for investments in urban infrastructure and services by municipalities throughout the state. The project design required that the fund's loans be made to municipalities undertaking financial and institutional reforms.</p>	<p>India: Tamil Nadu Urban Development Fund Project II (FY98)</p> <p>This follow-on project is aimed at making the urban development fund for urban infrastructure investment in India more commercially oriented. It is helping the Tamil Nadu Urban Development Fund to mobilize resources from the capital market by issuing bonds. The project signals a shift from the government-led integrated urban development investment operation to the market-oriented financing intermediary operation.</p>

<p>financial management (budgeting and accounting practices, treasury operations, debt and asset management, capital planning, financial disclosure); establishing municipal finance intermediaries and other means of financing capital investments; developing subnational government creditworthiness and facilitating credit rating process; and strengthening subnational government management capacity.</p>	<p>Philippines: Municipal Development Projects I and II (FY84-93) These projects established a municipal development fund to provide local governments with direct access to long-term, affordable financing. They also established a technical intermediary to assist local governments in identifying, preparing, and implementing priority infrastructure projects. These projects are the first in the Philippines to use a competitive, bottom-up process of self-selection of cities and municipalities: qualified local government units had to initiate and prepare investment proposals and agree to make necessary fiscal, administrative, and managerial improvements in order to receive financing through the projects.</p>	<p>Zimbabwe: Local Government Capital Development Project (proposed FY00) This would be Zimbabwe's first Adaptable Lending Program, comprising two phases over a 12-year program period, and it will constitute the Bank's "exit strategy" for support to the government's decentralization policy. The project includes three complementary components seeking to strengthen local authorities to become increasingly efficient, autonomous, accountable, and participatory. The component providing District Development Grants should evolve to support a transparent and sustainable intergovernmental fiscal transfer system encompassing equalization, block, and matching grants. The next component provided grants that match private, capital market finance (without government guarantee) for those local governments that demonstrate creditworthiness to private investors (primarily pension funds and insurance companies). The matching grants should decline and eventually cease, but they should support the transition from the central fiscus as the primary source of local government investment finance, to the capital markets as the primary source.</p>
<p>Urban housing and real estate Lending and nonlending interventions aimed at assisting national and local governments in formulating policies and programs to provide adequate shelter for all, through measures that include adopting an enabling strategy focused on establishing stronger property rights, developing mortgage finance, rationalizing housing subsidies,</p>	<p>China: Enterprise Housing and Social Security Project (FY94-present) This project is helping four municipalities implement an experimental reform strategy aimed at freeing enterprises of direct responsibilities for housing and social security for employees and retirees; initiating development of a market-based</p>	<p>Albania: Land Development Project (FY98) This project uses a unique approach to land market development. It offers informal settlers on periurban agricultural land the opportunity to make a contribution to the plans and the costs of infrastructure installation proportionate to the</p>

ATTACHMENT 4 URBAN LINES OF BUSINESS—ILLUSTRATIVE EXAMPLES (continued)

Business line	Completed or advanced projects	New projects
<p>providing infrastructure for residential land development, reforming the regulatory regime for land and housing development, privatizing publicly owned housing stock, enhancing the efficiency of the building industry, and developing the institutional framework for managing the housing sector. A second goal is to better link real estate sector development to overall economic development and poverty reduction, by providing the infrastructure and institutions needed for the markets to work more efficiently and equitably.</p>	<p>housing system; enhancing the scope and management of the basic social security system; and facilitating reform of the enterprise system.</p> <p>Mexico: Series of four housing projects (approved in FY86-92)^b These projects, weathering a decade of economic crises, spurred commercial banks to lend to home buyers and even more to low-income home owners. The borrower actively sought the World Bank's support and advice throughout the projects, which led to the dismantling of the traditional inefficient and highly controversial state housing agencies.</p>	<p>size of the land they claim. When the infrastructure is completed, they can obtain transferable title to the land by paying the difference between the full value and what they have already invested in the infrastructure.</p>
<p>Urban Upgrading</p>	<p>Lending and nonlending interventions aimed at assisting national and local governments in improving living conditions of the most depressed communities lacking basic services by upgrading existing infrastructure and facilities and introducing secure and clear tenure of the land on which the urban poor live.</p>	<p>Guatemala: Low-Income Settlements Improvement Project (under preparation) This project aims to scale up to the citywide level a successful pilot in the El Mezquital area of Guatemala City. It would include community subprojects—improving physical infrastructure and building communities' social and technical capacity to participate in improvement of settlement living conditions; land tenure regularization—providing registered land titles to squatters on public land in project areas; and institutional strengthening.</p>
<p>Lending and nonlending interventions aimed at assisting national and local governments in improving living conditions of the most depressed communities lacking basic services by upgrading existing infrastructure and facilities and introducing secure and clear tenure of the land on which the urban poor live.</p>	<p>Indonesia: Series of four projects (FY74-80) supporting the Kampung Improvement Program These projects brought housing and infrastructure improvements in low-income areas at a low cost of investment and also served as a prototype for investments and improvements in other areas. After about four years housing, infrastructure, education, health, and other socioeconomic indicators in kampungs not targeted for improvement had caught up with those in kampungs assisted by the projects. This was a result of Indonesia's macroeconomic and policy improvements, but also of informal and formal efforts to duplicate the experience of the Kampung Improvement Program.</p>	<p>Guatemala: Low-Income Settlements Improvement Project (under preparation) This project aims to scale up to the citywide level a successful pilot in the El Mezquital area of Guatemala City. It would include community subprojects—improving physical infrastructure and building communities' social and technical capacity to participate in improvement of settlement living conditions; land tenure regularization—providing registered land titles to squatters on public land in project areas; and institutional strengthening.</p>

<p>Urban environment</p> <p>Lending and nonlending activities designed to improve urban living conditions by undertaking priority work on primary infrastructure (drainage, solid and liquid waste management, and small-scale household sanitation) and promoting the sustainability of urban environmental services.^c</p>	<p>Indonesia: Third Jabotabek Urban Development Project (FY91)</p> <p>This project was designed to help develop basic infrastructure and socioeconomic services for low-income settlements through comprehensive kam-pung improvement, extend solid waste management, and strengthen pollution control. The project had three solid waste components: construction of a transfer station, pilot programs and studies for increased waste diversion (recycling, composting), and funds for the purchase of solid waste transport vehicles, at least half of which were leased to the private sector to promote development of the private hauling business.</p>	<p>Philippines: Solid Waste and Ecological Enhancement Project (proposed FY00)</p> <p>This project aims to improve the legal and regulatory framework and cost recovery mechanisms of the solid waste management sector to safeguard the environment and encourage private sector involvement; increase technical, administrative, and regulatory capacities at the national and local levels to improve sector management and operations; improve solid waste services and extend their coverage in participating cities; and mitigate the social impact on waste-pickers and promote recycling and composting of appropriate wastes.</p>
<p>Urban emergency and postconflict reconstruction</p> <p>Lending and nonlending activities aimed at preventing, mitigating, or responding to the effects of natural disasters (earthquakes, floods, hurricanes, volcanic eruptions, forest fires, droughts) in urban areas, the effects of technological disasters (oil spills, large-scale industrial accidents), and the needs for postconflict reconstruction. These activities include rebuilding physical capital, such as urban infrastructure; restoring social and human capital; building capacity to mitigate and prevent disasters; and managing disaster risk.</p>	<p>Bosnia-Herzegovina: Emergency Housing Repair Project (FY97)</p> <p>This project surpassed its physical objectives. The pilot project successfully tested the implementation approach, damage assessment methods, procurement methods, building selection criteria, and contracting procedures for private and public repairs. Public housing repairs were carried out in the expected quantity and on schedule. Private housing repairs went beyond the scope of public repairs. The creation of habitable conditions for returning refugees and displaced persons helped ease social tensions in a postconflict environment.</p>	<p>Turkey: Emergency Flood and Earthquake Recovery Project (FY99)</p> <p>The objectives of this multisectoral loan are to reconstruct essential housing, infrastructure, and other facilities to promptly restore economic activity in Erzurum, affected by an earthquake; to reconstruct municipal infrastructure and construct flood and erosion control measures in Senirkent and Sutculer, affected by mudslide; to design seismic strengthening measures for hospitals in Istanbul and Izmir; and to upgrade the institutional and financial arrangements for dealing with disasters in Turkey.</p>

ATTACHMENT 4 URBAN LINES OF BUSINESS—ILLUSTRATIVE EXAMPLES (continued)

Business line	Completed or advanced projects	New projects
<p>Cultural heritage A new line of lending and nonlending activities aimed at helping municipalities to promote the cultural identity of the country or of a particular geographic area and helping to maximize the potential of culture to generate economic and social development.</p>	<p>Indonesia: Bali Urban Infrastructure Project (FY97) This project provided a program of investments to reverse the degradation of Bali's urban environment and provide infrastructure to advance the provincial strategic structure plan, with cultural heritage as a unifying focus. The project included a program to strengthen institutional capacity for urban and environmental management at provincial and local government levels. The project was judged by the QAG as having the best quality at entry among the 110 projects presented to the Board in 1997 and evaluated by the group.</p>	<p>Morocco: Fez Medina Rehabilitation Project (FY98) The primary objective of this project is to assist in the conservation and rehabilitation of the Fez Medina by triggering a self-rehabilitation process. The project will expand and accelerate conservation efforts, consolidate public-private partnerships (including the tourism industry), and use the rehabilitation process to alleviate poverty and mitigate environmental impacts.</p>

^a Traditionally accounted for as part of urban management assistance, in fiscal 1989 municipal finance was made a separate category in the urban development portfolio.

^b Mexico Housing Finance (fiscal 1988), Low-income Housing (fiscal 1985), Housing Market Development (fiscal 1992), and Housing Development (fiscal 1986).

^c Most of the projects under this category of the Urban Development portfolio involve solid waste management and small-scale sanitation and drainage; large-scale sanitation is funded under the Water portfolio.

ANNEX A

The Implications of Urban Change for National Development

Macroeconomic and microeconomic impacts of urban development

National per capita income is correlated with the urban share of the population, both across countries and within countries over time (box A.1). Causation works in both directions, however, and economic growth is not inevitably tied to urbanization. In Sub-Saharan Africa, for example, high urban population growth has coincided with declining per capita GNP since about 1980, even in many countries that have not suffered long periods of conflict or an influx of refugees into towns and cities. A growing economy pulls workers into cities to fuel the secondary and tertiary sectors, but stagnation, particularly in agriculture, also pushes the rural population to seek alternative livelihoods in urban areas. In addition, where rural income and consumption remain depressed, cities may continue to grow because only there is demand high enough to absorb the output of nonagricultural goods and services. Policies to strengthen the rural economy are priorities in their own right but not on the grounds that they will necessarily curb urban growth.

Urban areas account for a disproportionate share of national economic production and are the main sources of economic growth (figure A.1). According to the UNCHS Urban Indicators database, for 150 cities of all sizes the per capita output (“city product”) is more than 10 percent higher on average than their country’s per capita gross national product (Auclair 1998). The metropolitan area of Bangkok is estimated to account for 37 percent of Thailand’s national income but only 19 percent of its population, while metropolitan Manila, with 13 percent of the Philippine population, produces 24 percent total national income. The GDP of Mexico City alone equals that of Thailand, and Seoul’s GDP compares with that of Argentina (Prud’homme 1994). The combined GDP of the metropolises of São Paulo and Rio de Janeiro exceeds that of four Andean countries.

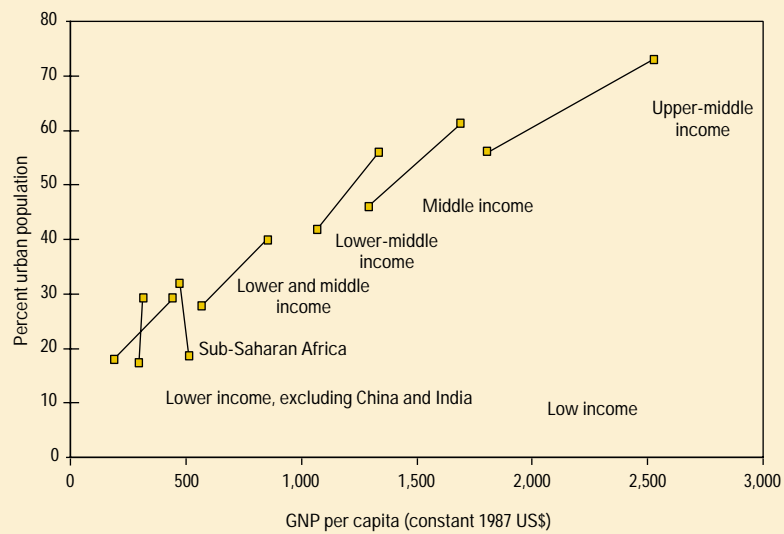
Real sector links

Urban development relates to the national economy first through the growth and structural transformation of real production, which depends especially on labor, land, and infrastructure markets.¹

¹ The arguments and evidence for these links are outlined in USAID 1991.

Box A.1 Urbanization: A necessary—but not sufficient—condition for sustained economic growth

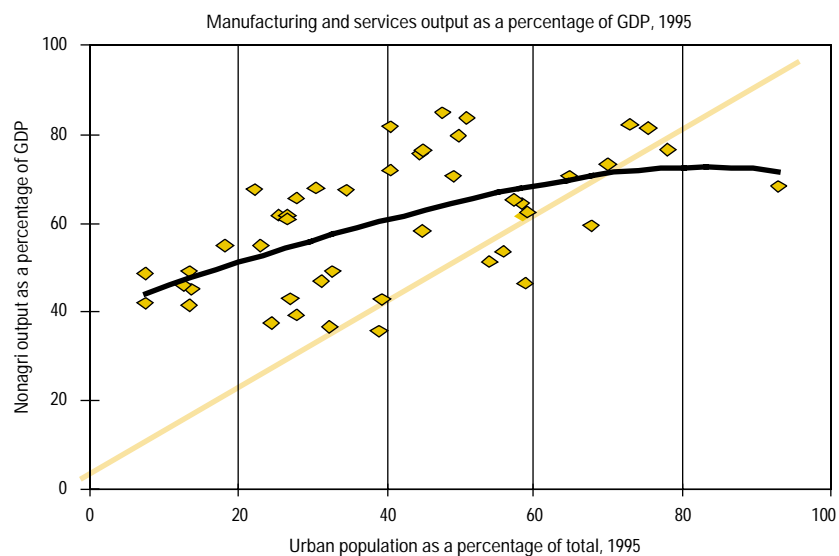
Urbanization is happening everywhere. Between 1970 and 1996 the share of the population living in urban areas increased in all developing and transition economies. This increase was accompanied by growth in per capita income in every region except Sub-Saharan Africa. The greatest sustained per capita income growth (indicated below by the flatter and wider bands) appears at higher levels of urbanization as the industrial and service sectors economy become more developed.



Note: The lower point on each line refers to 1970, and the higher point to 1996.
Source: World Bank 1998b.

The availability—or lack—of electricity, freight, public transport, water, sanitation, telecommunications, and developed urban land dramatically affects the cost of doing business. Firms locate in urban areas because of the economies of agglomeration—the benefits of sharing resources with other firms in the same or different industries and of access to input and output markets, knowledge, labor pools, and services. Robust evidence has established that larger cities have higher total factor productivity because their agglomeration economies are greater, at least until congestion and rising land and labor prices take over (Mills 1998). Traditional industries such as standardized manufacturing are very sensitive to costs of labor, land, and infrastructure, and tend to move to the outskirts of large metropolitan areas or to small to medium-size cities as urban growth proceeds. More innovative, R&D-intensive industries and services tend to continue to locate in the larger cities, where they can take advantage of better information and technology resources and more educated workers (Henderson 1999).

Figure A.1 The urban share of output is typically greater than the urban share of population



Note: Data are for 46 developing countries. Manufacturing and services output as a percentage of GDP, 1995. Source: World Bank 1998b.

Urban workers are made more productive by agglomeration economies and the additional capital investment of urban production—a major reason that the incomes of the poor improve when they migrate to cities (Mills and Becker 1986; Mazumdar 1987; Mills 1998). In Indonesia, for example, average labor productivity is about 75 percent higher in urban than in rural manufacturing (Bennathan 1998). Urban areas can also attract and retain more educated workers, and offer better matching of skills and job requirements. But the efficiency of the labor market can be greatly constrained by inefficient housing and urban transport policies, and by other factors constraining labor mobility (poor information flows, high search costs, residential segregation) (Keare 1999). The informal sector, which represents about half of all urban jobs in Africa and South Asia and a third in LAC and MNA, can be seen both as a source of vitality in the urban economy and, in some cases, as evidence of dysfunctional regulations that discourage open and maturing business activities.²

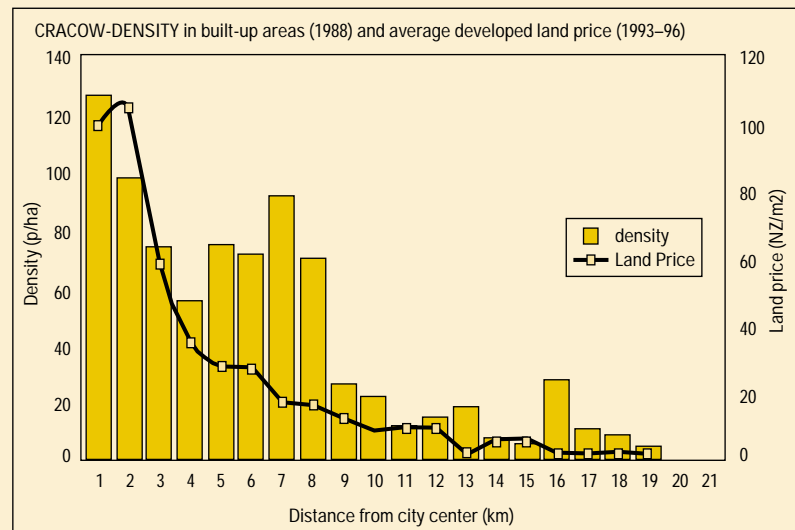
Implications of urban land market imperfections. The quality of urban management is critical to realizing the benefits of urbanization. Bad policy on land use and real estate development can hurt businesses as well as households.

² Figures are from the UNCHS Urban Indicators Database.

- Formerly socialist countries have inherited a high concentration of industry near city centers and housing settlements requiring long worker commutes. Land prices are readjusting to reflect location values more consistent with an urban market economy, but commensurate changes in land use are still constrained by current land planning and regulation. (box A.2).
- Laws restricting land redevelopment, sale, or rental lead to high costs, delays, land rationing, and rampant opportunities for corruption. An often-cited example is the Urban Land Ceiling Act in India, which, until its repeal, limited the ownership and possession of vacant land inside urban boundaries. The law contributed to urban sprawl and perpetuation of slum settlements, which have grown 9 to 10 percent a year (Asian Development Bank 1998). Other laws fur-

Box A.2 Rigid land use planning continues to constrain market adjustment of the urban form in Cracow

In Cracow, Poland, zoning continues to be highly prescriptive with no regard for actual demand. Although the city managers have espoused the aim of making the city form more compact, with density radiating from the center as is common in market-based cities, the zoning reinforces the land use patterns developed under socialism. Thus the land regulations impede efficient use of the city's most valuable resource, and add to the motorization and pollution that the city authorities want to curtail. Spatial analysis reveals that the zoning plan perpetuates an administrative distribution of land that runs counter to both market trends and the master plan's objectives.



Note: While the density profile shows the “camel back” shape typical of socialist economies, the land price gradient is consistent with the monocentric city model in a market economy.
Source: Bertaud 1997.

ther impede land acquisition, resulting in long lead times for approval of investment proposals from private or even public developers.

- Land registration delays and unclear property rights deter private investment in land and housing and prevent collateralization of mortgage finance.
- Inappropriate codes for building construction and settlement density, often borrowed from more developed countries, prohibit the kinds of housing and infrastructure that the poor could afford.
- Alongside misguided planning and regulation, governments have commonly neglected to protect minimal rights of way in the face of rapid urban growth, thus raising the later costs to install infrastructure networks and requiring more resettlement.

The recent collapse of real estate markets in East Asia, although provoked by poor financial sector regulation that encouraged lax management of credit risk, also reflects basic shortcomings in urban land and housing policy. In addition to financial reforms, creating a less volatile and more mature real estate industry will require better market information; tax and legal reforms to foster resale of properties, leasing, and condominium submarkets; and improved urban and infrastructure planning (including of public-private investment partnerships), involving an open dialogue with the general public (Renaud, Zhang, and Koeberle 1998).

Synergy between rural and urban economies. A particularly important channel through which growing urban areas contribute to national development is the synergy between rural and urban economies. “Urban” and “rural” do not signify closed economies within a country, but a seamless continuum of economic activities and settlements distinguished by degrees of density, dependence on agriculture or manufacturing, and social organization. Interdependence is particularly evident in Sub-Saharan Africa, where town and village households maintain multiple ties through seasonal migration and remittances, creating an informal safety net. Resources and income shift between rural and urban markets as the national economy grows and transforms structurally, and productivity changes unevenly across areas. Local governments often have a constituency spanning the range of rural and urban communities and are well aware of their interrelationships.

Growth of secondary and market towns, where value is added to agriculture, generates demand for agricultural goods and labor, raising rural incomes when markets are allowed to work (USAID 1991). Migration from rural to urban areas benefits residents in both locations (Tacoli 1998). As agricultural productivity increases, surplus labor needs to shift to manufacturing and services for which low-wage developing countries have a comparative advantage. Migrants send back remittances and stimulate innovation in the rural economy. Policies that ensure market-based terms of trade between urban and rural areas, and that remove artificial distortions restricting internal migration, will promote overall economic growth and help reduce rural-urban wage differentials.

Distinctions among cities, towns, and rural areas are becoming almost obsolete as economic activity spreads outward into vast semiurbanized and rural industrialized regions, such as the Central Valley of Mexico, the Mumbha-Pune-Nasik corridor in India, and the Eastern Seaboard of Thailand. Rural industrialization, sparked in some cases by external markets, can pull the rural economy along when the internal labor and land markets are sufficiently responsive. As a result of rural and small-town industrialization in the Pearl River Delta of China in the 1980s, “town and village enterprises” surpassed the state enterprise sector in output, employing more than 100 million workers, most of the industrial work force, by 1990 (Harris 1997a). With improved infrastructure, rural Chinese workers also are commuting to cities (from Guangdong Province, for example, to Hong Kong) or working part-time in both rural and urban occupations.

Similarly, in the Red River Delta of Vietnam, land reforms promise to attract private labor-intensive manufacturing to towns and villages outside Haiphong (in the past three years the periurban area has gained 20,000 jobs in light manufacturing, the fastest-growing segment of the regional economy).³ Port-related manufacturing is dispersing to the rural delta region and along highways as container terminals locate outside the main Haiphong urban area. The Haiphong-Hanoi delta and corridor are expected to benefit from this process, which could be promoted as part of a deliberate integrated development strategy for the northern region—addressing the problems of rural poverty by fostering urban growth.⁴

Financial links

Financial lines between the urban and national economies are also important. Nonagricultural activities in urban areas generate most domestic investment, with housing and urban civil works alone accounting for about a quarter of gross national investment. The highest rate of investment in housing occurs in countries in the transitory phase of urbanization (with 30–70 percent of the population living in urban areas), which account for more than 60 percent of the world’s urban population (figure A.2). Establishing conditions for efficient investment in housing and urban infrastructure is critical during this stage of development if countries are to realize the macroeconomic benefits of the urban transition.

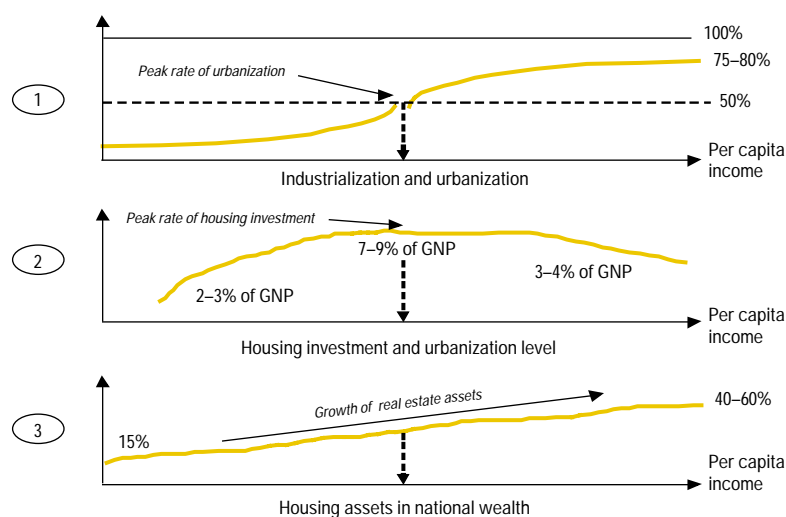
Since housing and developed land are a major stock of national wealth and generate large income flows, improving the management of this asset base can result in large dynamic benefits to the economy. Even a modest improvement in the flow of services from these assets can increase GDP by more than new annual investment.⁵ Inadequate investment in urban public infrastructure relative to private

³ Official data from the Haiphong People’s Committee annual socioeconomic survey, 1998.

⁴ Based on analysis of the ongoing Haiphong city development strategy (see also box B.7).

⁵ A 10 percent rate of return on annual investment in housing and urban civil works assets, for example, would represent roughly 0.4–0.8 percent of GDP in low- and middle-income countries. By comparison, total gross private international financial flows to infrastructure (excluding foreign direct investment) in these countries amounted to 0.5 percent of GNP in 1996 (World Bank 1998b).

Figure A.2 As urbanization accelerates, housing becomes more important to the economy



Source: Renaud 1999.

real estate development in East Asia, and failure of basic urban planning (such as street layouts and rights of way) in Sub-Saharan Africa, result in large welfare losses from forgone private investment, or reduced utility of private investment, in housing or plot improvements.

A healthy urban economy is also good for national savings rates. Most financial intermediation and financial deepening occurs in and for urban activities. Bangkok, for example, was estimated to account for 86 percent of Thai GDP in the financial sector in 1985 (USAID 1991).

Fiscal links

The urban economy also contributes to the national economy through fiscal flows. Cities generate at least as much tax revenue as they absorb. Studies of many cities—including Abidjan, Bangkok, Casablanca, and Paris—have found them to be large net revenue contributors to the rest of the country through the national budget, even under regressive tax and expenditure systems (Prud'homme 1995). Still many urban areas, particularly seats of political power, have benefited disproportionately from public employment, subsidized investment credit, and underpriced infrastructure services. In recent years, however, national adjustment programs in many countries have reduced these policy distortions reflecting urban bias.

Restoring the urban marketplace—key to developing markets

For urbanization to do all that it can for the national economy, market mechanisms need to be more fully developed—to intermediate flows of goods and labor and between rural and urban areas, to allocate land and credit efficiently for productive urban investment, and to ensure improved infrastructure services in response to effective demand of business and households. The costs to the national economy from misguided national regulations and financial policies that impede urban markets are substantial.⁶ But urban areas can realize their potential as market centers for the national economy only if local governments do their part in lowering the costs of doing business there. While structural reforms at the national level open the way for urban development to fire up the country's economy, these reforms must be extended to the municipal level by local governments.

Social impacts of urban development

Despite the contributions urbanization can make to national growth and poverty reduction, poverty is a growing problem in urban areas and is increasingly extending into the periphery of cities. Most of the half-billion poor people in the towns and cities of developing countries live in unhealthy and deteriorating conditions.

The urban share of the poor lags behind the urban share of total population in every region. But in the two most urbanized regions of the developing world—Eastern Europe and Latin America—more than half the poor live in towns and cities (figure A.3). And the projected growth in urbanization suggests that regions will likely experience increases in the share of their poor who reside in urban areas (figure A.4).

The incidence of poverty is less in the urban than the rural population in every developing region, but inequality tends to be higher in urban than in rural areas—in part simply because the rich typically live in cities.⁷ Urban income disparity is greatest in Latin America and lowest in South Asia and the transition economies.⁸ There is also anecdotal evidence, not yet well documented, that urban inequality is growing. The high relative poverty in urban areas reflects the ability of citizens to participate in society and in activities leading to improved health, educational attainment, personal security, and other benefits. Recent studies have found that, controlling for the effects of income and other variables, inequality has a strong influence on the level of violence and on health outcomes.⁹

Apart from the profile of poverty based on income and consumption, the urban poor's own perceptions of their well-being and the security of their livelihood indi-

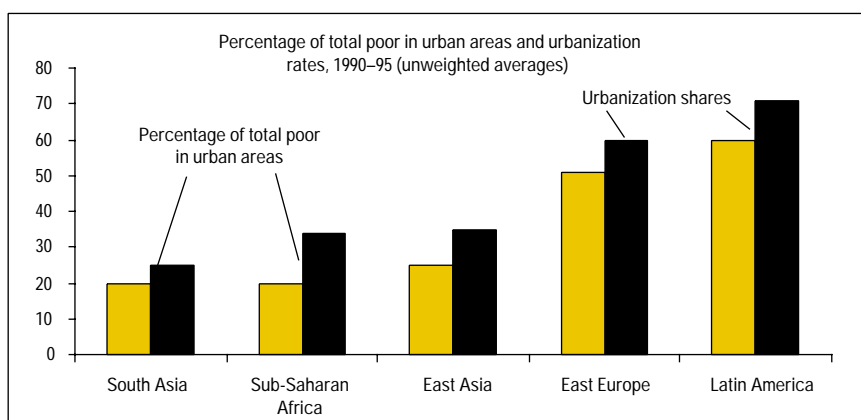
⁶ Case studies of extremely distorted national housing markets, for example, have estimated the welfare costs of these distortions at 3–6 percent of GNP. See Buckley 1988; World Bank 1993b, p. 36, on costs of Polish housing subsidies; and USAID 1991.

⁷ Limited data from the Bank's poverty assessments suggest exceptions to this pattern in Kenya, Nigeria, Romania, Senegal, and Thailand. There is also no clear relationship between the ratio of urban to rural inequality as urbanization increases.

⁸ Confirmed by both the UNCHS Urban Indicators Database and Bump and Hentschel 1998, p. 9.

⁹ Citations in Bump and Hentschel 1998.

Figure A.3 The urban shares of the poor population and of the total population are closely aligned



Source: Bump and Hentschel 1998.

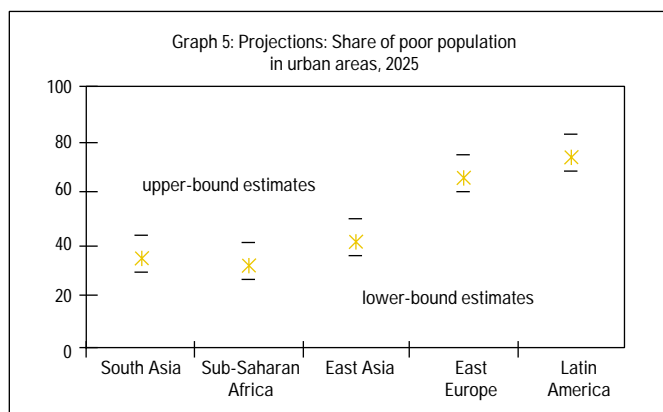
cate their vulnerability—as individuals, as households, and as communities. Vulnerability is greater the less people can rely on assets, including labor and human capital (health, skills, education), productive assets (land, housing), household relations (as mechanism for income sharing), and social capital.¹⁰ Distortions in urban transport, land, and housing markets, and inequalities in access to income and other benefits, hamper the poor’s ability to improve or hold onto their limited assets.

Cross-country data from poverty surveys confirm that the urban poor have less access to education, water, and sanitation services than the urban nonpoor. The dispersion in rates of access is wide, however, indicating that many factors other than infrastructure and social services affect poverty conditions (Bump and Hentschel 1998). The poor are subject to growing violence and increasingly alienated from the mainstream urban economy and its institutions. Established urban residents benefit less from traditional social safety nets, such as reliance on the village for supplementary food, than first-generation migrants. The high density and squalid living conditions of slums, which house 30–60 percent of the urban population in many developing countries, subject residents to more concentrated health and safety risks from air pollution, waterborne disease, and traffic accidents.

Rapid growth of towns and cities, especially those with weak economies and inadequate urban management, also strains social capital and traditional safety nets. Large urban areas tend to have one with a lower income or consumption poverty (although not always, with the Philippines being one exception) and greater avail-

¹⁰ As documented in Moser 1996 and Moser and Holland 1995.

Figure A.4 Poverty will be increasingly urban



Source: Bump and Hentschel 1998; estimates based on data from World Bank country poverty assessments. Note: The upper-bound estimates assume that the ratio of the urban to rural headcount rate increases by 30 percent between 1995 and 2025, the lower-bound estimates that it decreases by 30 percent. Data were unavailable for a sufficient number of countries in the Middle-East/North Africa Region to permit including a regional average in figures A.3–4.

ability of services. But other measures of welfare appear to be less favorable in large cities, especially those that are growing rapidly (box A.3). In the United States and Europe, health indicators in the poorest urban neighborhoods are the lowest nationally. In developing countries both absolute number and share of people suffering from malnutrition are increasing in cities, and the nutritional status of the urban and rural populations are starting to converge.¹¹

Environmental impacts of urban development

Urban development can enhance and enrich the environment of human settlements—or create blight that dangerously impairs the quality of life. The environmental problems of urban areas (the “brown” agenda) include air pollution from vehicles, household energy use, and industrial and power plants; land and water pollution from solid wastes and untreated sewage; and traffic congestion, accidents, and noise. These problems have more direct and immediate negative impacts on human health and safety, especially for the poor, and on business productivity than does the “green” environmental agenda.¹² Poverty-related environmental problems with a local impact, especially those related to water and sanitation, are paramount

¹¹ A recent study of 14 developing countries found that in the majority of cases over the past 15–20 years, both the number of poor and undernourished people and the rates of poverty and undernourishment have increased in urban areas (Haddad, Ruel, and Garrett 1999).

¹² Several studies show that urban environmental quality is more closely associated with morbidity than is income. See for example Harris 1989.

Box A.3 Large cities see a relative decline in social welfare

A recent analysis of United Nations data examined welfare indicators by settlement size and growth rate across regions from the 1970s through the 1990s. The study found that since the late 1970s aggregate infant mortality rates (a summary measure of deprivation) have barely changed in large cities (those with more than 1 million people) in Latin America and the Caribbean, while declining significantly in small cities (50,000–1 million), towns, and rural areas. In Sub-Saharan Africa infant early mortality rates have remained virtually constant in large cities while declining modestly in towns and villages and rising in small cities. In the Middle East and North Africa infant mortality has declined substantially in the largest cities, but much more slowly than in smaller urban and rural areas. These findings refute conventional claims of sharp urban-rural contrasts in living conditions and better living conditions in large urban areas.

Extending the analysis to adequacy of housing, incidence of stunted growth and of diarrhea, and access to health care and education, the study found that conditions in Latin America and the Caribbean and North Africa are improving less rapidly in large cities than in small cities or, in some cases, rural areas. In Sub-Saharan Africa conditions in large cities remain relatively better, while conditions in small cities are no better—and sometimes worse—than those in towns and villages. With 33 of 46 national capitals in Sub-Saharan Africa having fewer than 1 million residents, the inferior social indicators of these small cities relative to towns and villages suggest the absence of a general urban bias. The study describes these small cities that lack even rudimentary amenities as “megavillages.” In Asia no large city advantage is detectable.

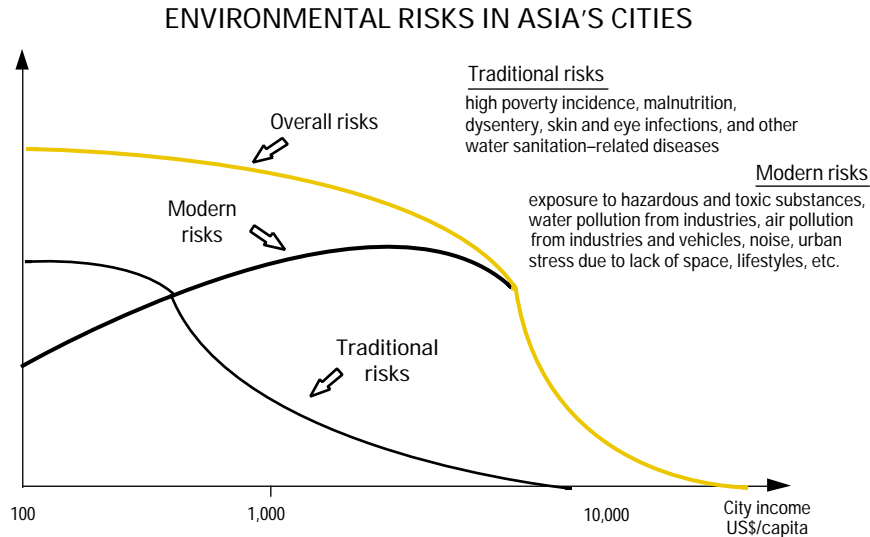
Cities' growth rate had as strong an influence on well-being as their size did. Long-term growth rates of more than 5 percent a year raised the odds of infant mortality by 24 percent in Asia and the Middle East and North Africa, and by 28 percent in Latin America and the Caribbean. Growth of more than 3 percent a year in Sub-Saharan Africa was associated with a 40 percent increase in the infant mortality odds. The relative disadvantages associated with city size thus appear to depend mainly on city growth rates. Residence in a national capital has no statistically significant effect on infant mortality independent of city size and growth rate. These results underscore the critical importance of developing urban management capacity and policies to enable cities to absorb growing populations and meet the welfare needs of residents.

Source: Brockerhoff and Brennan 1998.

in cities with very low per capita incomes. As cities modernize, environmental risks arise from a wider array of sources, complicating their assessment and management (figure A.5).

Motor vehicles, the number and use of which are growing much faster than urban population, contribute about a third of the air pollution from fossil fuel combustion; other energy use and waste incineration account for half of air pollution (Lovei 1997). Policies to curb environmental deterioration resulting from motoriza-

Figure A.5 Urban environmental risks change with development



tion and other energy consumption will have limited effect if focused only on fuel choice or internal production efficiency. Effective solutions will require addressing broader issues, including transport demand, land use planning, industrial development and location, and household income growth and distribution—all central to the urban development agenda.

“Brown” issues stem from urban activity, but they affect areas outside cities by contributing to global climate change and threatening coastal zones. The concept of the ecological footprint reflects the geographic scale of the influence of the urban area—the extent of area that is required to provide food, water, and raw materials for a city’s population and that is affected by its wastes. But there is growing concern when the footprints from urban centers start to overlap, for example, when successive cities on a river begin to merge or when more and more agricultural land is converted to urban uses.

Another consequence of poorly managed urbanization is the settlement of unsuitable and risky locations such as floodplains and hillsides. This phenomenon is partly responsible for the worsening human toll of urban disasters, most recently witnessed in such cities as Tegucigalpa, Honduras.

ANNEX B

Operational Experience in Implementing the Policy Framework for Sustainable Cities

If cities are to improve the quality of life for their residents and for the nation as a whole, they must be livable. To achieve that broadly defined goal, they must also be competitive, well governed and well managed, and bankable. The strategy proposes an agenda for creating cities that meet these four important criteria. This annex describes the policies and institutional behaviors, both national and local, required to achieve each goal, and the activities and instruments with which the Bank currently supports them. It also reviews emerging challenges and areas in which the Bank's knowledge and intervention could be improved under a new Bankwide strategy. Some proposed indicators for measuring progress on each of these criteria are provided in attachment 2, and data for a few of these indicators are portrayed in Annex D.

Making cities livable

Livability represents the valuation by households of an acceptable quality of life. The Bank's commitment to livable cities should be geared to ensuring the poor a healthful and dignified living standard that affords them the opportunity to improve their welfare through equitable access to the resources of society. Meeting this target would also go a long way toward enhancing the well-being of other groups.

For the purposes of the strategy, livability is defined as the absence of extremes of poverty or inequality; a healthful environment, with particular attention to the most dangerous urban threats to health and safety (such as air pollution from lead and particulates, waterborne diseases, traffic accidents, and disasters); a minimum degree of personal security, with low risk from crime and violence; inclusiveness of civil protections and opportunities for participation in the political process; and cultural and recreational amenities that feed the soul and inject life into the community. The livability of cities is essentially the "bottom line" for sustainable urban development.

Reducing urban poverty—how the Bank can help

Concerted and well-coordinated efforts across national and local levels and across sectors are needed to ensure that programs promoting jobs, training, childcare, credit, and income support reach the urban poor, and that barriers to their access

to housing, land, health care, education, safe transport, other infrastructure services, and cultural and recreational amenities are removed. Attention should also go to eliminating policies that penalize the informal sector—for example, by proscribing commercial and industrial activities in low-income residential areas—which have a particularly negative impact. Providing tenure security has multiple economic and social benefits for the urban poor, since it gives residents incentives to invest and gives them a stake in the formal urban society.

Multisectoral approaches to helping low-income urban populations. Apart from low-income housing projects and components for public works employment, the Bank's urban operations have traditionally taken a cross-sectoral approach to urban poverty. This approach is consistent with the comprehensive or integrated perspective that research increasingly suggests is most effective in understanding and meeting the needs of the poor.¹³

The main operational instrument has been integrated development projects for low-income neighborhoods, typically called slum upgrading, which the Bank started supporting in the mid-1970s to provide urban or periurban settlements with basic improvements in water, sanitation, transport (footpaths and access roads), lighting, drainage, solid waste collection, community social service facilities, and increased security of tenure (box B.1). Evaluation of most of these projects initiated in the 1970s and 1980s shows that they succeeded in demonstrating the effectiveness of low-cost improvements as an alternative to the slum clearance policies of governments at the time. The operations reached a large number of households (25,000 on average per project in the first decade of such lending), including the poorer segments of the population living in the settlement area. Slum upgrading generated high economic returns through increased land values and catalyzed private investment in housing that was several times greater than the public investment (Cohen 1983).¹⁴ Secure tenure has been a particularly important outcome of these programs.¹⁵ In addition to addressing sources of poverty and inequality and restoring community and personal pride, slum upgrading helps reduce environmental health risks for all city residents and is associated anecdotally with reduced violence.¹⁶

¹³ For example, a recent poverty study in Peru found that the additional positive impact on per capita income of one new infrastructure service increases with the total number of services available to households (services counted in the study included sanitation, electricity, water, and telephone). Adding a fourth service has an additional impact about seven times greater than does linking a second service to households. Other studies of projects in Peru found that electrification and sanitation services together increase the returns to education significantly in rural and urban households alike.

¹⁴ More recent evaluations of many of these projects by the Bank's Operations Evaluation Department and others are summarized in Kessides 1997.

¹⁵ For example, a recent empirical study in urban communities in Indonesia found that a change in status from squatter to moderate tenure security increased the probability of subscribing to garbage collection by 32 percent; a change in status from squatter to high security raised the probability by 44 percent (Hoy and Jimenez 1997).

¹⁶ Citation from El Mezquital community upgrading component of Guatemala Municipal Development Project. Other studies have found links between community-based neighborhood upgrading and reduced violence, in São Paulo State in Brazil and in Bangladesh. Social assessments in Jamaica found that residents of low-income neighborhoods credited public electrification with helping to reduce crime (Mosser and Holland, 1995).

Box B.1 Enhancing the quality of life for the urban poor in Indonesia through the Kampung Improvement Program

The classic example of slum upgrading remains the Kampung Improvement Program in Indonesia, a combined effort of the local and national government that extended improvements to some 50,000 hectares of unserved urban communities over 30 years and reached an estimated 15 million people. About a third of this coverage was achieved under four Bank-financed projects in 1975–88. The 1995 impact evaluation of the Bank-supported projects confirmed that they unleashed private investment in the settlements and that residents credited the program with enhancing the quality of their lives. Little evidence was found that the poorest residents were pushed out by gentrification, in part because the program was extended so widely to cover unserved parts of the cities. The evaluation estimated that the program investments yielded a minimum 12 percent rate of return even when their useful life was limited to five years because of rapid redevelopment of the areas.

Later Bank urban assistance to Indonesia has been directed to the many issues that the Kampung Improvement Program did not address, such as the need to broaden improvements to the urban environment, to reform utilities to ensure sustainable water and sanitation services, and to strengthen local government capacity and cost recovery (including through deeper community participation).

Source: World Bank 1998a.

Urban projects also include more proactive efforts to forestall the periurban sprawl that increases the costs of extending primary infrastructure networks. Rather than ineffective master planning, recent projects such as the Second Urban Development Project in Guinea have introduced simpler planning tools to help local officials monitor settlement trends and to set aside the basic rights of way needed for later development as demand warrants (Farvacque-Vitkovic and Godin 1998).

There is renewed demand for Bank assistance for slum upgrading. Lessons from the El Mezquital initiative in Guatemala City were instrumental in designing a slum upgrading project in fiscal 1999 for Caracas, Venezuela, which also builds on experience under an earlier low-income settlement project in that city. (box B.2)

What is different about the recent projects is that they tend to be community-initiated rather than government-initiated, and many involve the private for-profit sector. A good example of tripartite partnership involving private enterprises is the slum network initiative in Ahmedabad, India (box B.3). Two pilot Bank-funded projects planned for the cities of Tijuana and Ciudad Juárez in Mexico have engaged the maquila industries as partners in financing services to low-income communities.

Market-based financial institutions can also play a major role in neighborhood improvement. Caja Popular Mexicana give loans for water and roads to low-income communities; like Génesis Empresarial in Guatemala, which has worked with over 200 rural communities providing market-based loans and technical assistance

Box B.2 Scaling up slum upgrading from a pilot to a citywide program in Guatemala City

During a lull in the Guatemalan civil war in 1994 the Bank revised its moribund Municipal Development Project to direct support to a vibrant upgrading initiative in the El Mezquital area of Guatemala City that was fully designed and executed by community members. The loan built upon UNICEF technical support to lift the activities from a pilot stage to a full-scale project for El Mezquital and three other communities, benefiting almost 40,000 low-income residents through a wide range of basic services (water, sanitation, sewage treatment, drainage, electricity, street paving, public lighting, and other urban improvements). Costs were kept to only \$1,300 per family, and most are being recovered from the households.

Perhaps the most outstanding achievement of the project was to encourage participation by final beneficiaries in planning, executing, and financing—some 1,200 residents were active members of the community-based organizations that represented the community in negotiations with city officials and handled financial transactions for the project. The organizations developed under the first project are operating and maintaining the new systems, recovering investment costs, preparing and executing new operations, and even assisting other communities.

The success of the El Mezquital initiative is the driving force behind a much larger follow-up project now in advanced preparation for Bank support—a project that would extend the activities into a much larger program for Guatemala City. Lessons from El Mezquital are being widely disseminated by the Bank and other agencies to many interested governments and other observers in Latin America and elsewhere.

Source: Peter Loach, Latin American and Caribbean Region, and the World Bank 1998c.

for investments such as rural water and electrification, both institutions have a repayment rate of above 96 percent. Sewa Bank in India also provides market-based loans to help low-income households hook up with utilities. There are many more financial institutions doing home improvement loans to low-income households and operating at scale (e.g., Grameen Bank [Bangladesh], Financiera Calpia [El Salvador], BancoSol [Bolivia], to name a few).

Undertaking community-based slum upgrading, relocating shop owners and residents from rights of way to permit urban road construction or other redevelopment, and removing encroaching settlements from disaster-prone areas or railway beds require a policy on involuntary resettlement that recognizes the practical realities of urban land markets and stakeholder politics. The experience with involuntary resettlement in connection with recent urban projects shows that it is possible to fully meet the spirit of the current Operations Directive on Involuntary Resettlement (OD 4.30) without stymieing urban development efforts, but that flexibility is needed to take account of different types of resettlement issues and appropriate variations in compensation in an urban context.

Box B.3 Private enterprise helps to improve slums in India

Private enterprise has helped improve slums in Ahmedabad, India, where the Ahmedabad slum networking initiative is providing all basic physical and social infrastructure services to 200 slums of the city, reaching 40,000 low-income families over five years. The costs of upgrading are shared equally among corporate, community, and city organizations, with matching loans provided by a local bank. Residents in the area paid their one-third share before investments were made. The executing agency for the program is Arvind Mills, Ltd., a major employer in the city, which formed a trust (SHARDA—Strategic Help Alliance for Relief to Distressed Areas) to implement the project.

Source: Shri B.K. Sinha, Municipal Commissioner, Ahmedabad.

Another type of urban project uses programmatic lending arrangements (lines of credit) to enable communities and local governments to request funding from a menu of potential investments in communal public goods. The AGETIP projects in a dozen Sub-Saharan African countries are of this type; these projects are similar in many respects to rural social investment funds.¹⁷ Programmatic funding arrangements contribute most to broader urban development objectives when conceived as part of a strategy to build the institutional capacity and financial responsibility of municipalities through appropriate use of revenues and credits (see the discussion of municipal development funds below). The recently completed Urban Rehabilitation and Management Project in Benin in fiscal 1992 was unusual among the AGETIP projects in its emphasis on developing basic public works contracting as an instrument within a broader process of urban investment planning and management by municipalities.

Sector-specific approaches to serving the urban poor. While there is a strong rationale for providing a package of coordinated improvements in specific neighborhoods that are generally deprived, multisectoral urban projects often are not enough to address the deep policy and institutional problems in urban water and sanitation or urban transport. Extending services to the sprawling periurban areas and illegal settlements requires flexible and creative approaches, since conventional systems, especially for water and sanitation, can be prohibitively expensive and technically unsuited. Municipalities and utilities need to offer the communities a choice among service levels at different prices; facilitate partnerships with the communities and informal providers to devise services that meet demand and affordability criteria; and ensure that regulations or concession contracts do not dis-

¹⁷ AGETIP (Agences d'Execution de Travaux d'Intérêt Public) nonprofit agencies for delegated contract management have been created or supported by some 16 Bank-financed urban public works in more than a dozen francophone countries of Sub-Saharan Africa. The projects' main objectives are to generate employment and create public works infrastructure while introducing efficient project management practices, through delegated contracts issued and supervised by the agency on behalf of municipalities. See Frigenti and others 1998.

courage service extension by imposing inappropriate standards, monopolies, or unremunerative service obligations.

The Bank's sector-specific operations in urban water and sanitation and in urban transport have given more explicit attention to the needs of low-income users in recent years. New ways of enlisting the private sector in this effort for water and sanitation are being explored through the Business Partnership for Development Program and through collaborative efforts between the water sector and private sector development groups to examine the issues associated with designing private concession contracts, regulatory frameworks, and tariff schemes to remove obstacles to serving poor customers. Bank-supported urban transport projects are increasingly incorporating a user perspective. Women are surveyed to determine their transport needs, and recent urban projects have included nonmotorized transport and pedestrian-oriented facilities, such as sidewalks. Traffic safety issues, which affect the poor and children in particular, are also being mainstreamed in transport sector work and operations.

Strengthening the attack on urban poverty. The Bank's urban work started from a commitment to confront the physical manifestations of urban poverty, and there is ample evidence that upgrading activities, when combined with tenure security, have broader benefits in helping to build communities and integrate marginal populations into the life of the city. By providing local public goods and catalyzing private savings and investment in housing and workplaces within the community, upgrading also facilitates income generation through the locally based service, production and trading activities (including renting-out of extra rooms) that are often the main livelihoods of the urban poor.

But the scale of urban poverty requires mobilizing other forces—including by the Development Economics (DEC) vice presidency and the Poverty Reduction and Economic Management Network (PREM), poverty analysis by DEC and PREM, social analysis by the Environmentally and Socially Sustainable Development network (ESSD), and the human resources perspectives of the Human Development Network—for a more concerted Bankwide attack on urban poverty. This effort needs to address the full spectrum of national and local policies, taking account of spatial and dynamic characteristics of poverty (including rural-urban links) and both income and nonincome dimensions. For example, the combined impact of concurrent tariff reforms in several infrastructure services on urban population groups needs to be viewed comprehensively, such as in city strategies or urban poverty assessments, as this issue is not covered by work on the separate sectors. Timely research and evaluation of past operational experience is needed to understand the nature and life cycles of urban poverty and the relative impacts of different interventions under different circumstances. Proposals for new research on several of these topics are well advanced under the Bank's Urban Partnership (see chapter 4) and in collaboration with PREM.

Many thorny social problems are emerging that may not be amenable to conventional urban lending interventions, such as poverty among the educated and the

elderly, problems of youth and street children, urban pathologies such as drug use, and gangs, and domestic violence linked in part with poverty. The Bank could provide indirect support by facilitating research, knowledge exchange, and external partnerships.¹⁸ The UNCHS is proposing to take the lead in international advocacy of tenure security. International networks of practitioners and nongovernmental organizations are also a major resource in urban poverty work. To promote and facilitate the scaling up of slum improvement and sustainable delivery of basic services, the Urban Thematic Group on Service Delivery to the Poor is supporting a network on urban upgrading made up of about 100 individuals, specialists, and organizations in Latin America. The Bank is facilitating the group's transformation into a knowledge-based network that will also provide training. Similar organizations are being formed in Asia and Africa, which the LAC Network will support.

Protecting the urban environment—how the Bank can help

Besides removing public health threats in slum neighborhoods, improving livability of the broader urban area requires protecting land, air, and water across a city and across jurisdictions. Top priority should normally be given to the near-term environmental threats to human health, notably from automobile and street-level emissions of lead and fine particulates and from inadequate water supply and sanitation. Safety risks from traffic accidents and measures to prevent or mitigate losses from potential industrial or climatic disasters also require attention. And efforts must be made to protect the cultural assets of cities, such as historical neighborhoods, deteriorating as a result of pollution or population pressure, and the encroachment that is destroying parks and open spaces.

Traditional approach to the problems. In the past the Bank's response to urban environmental challenges has been largely through "stand-alone" projects in water, sanitation, urban transport, and industrial pollution control. These interventions have often focused on physical targets (volume of waste treated) or quantitative pollution reduction (reduction of pollution loads from specific sources). But they have serious limitations in addressing the most critical environmental problems and achieving measurable environmental improvements. For example, the São Paulo Industrial Pollution Control Project significantly reduced particulate emissions from industrial sources, but because the main pollution sources were beyond the scope of the project, the city's ambient dust levels did not improve. Water and sanitation projects have rarely attempted to set priorities or to base their interventions on the most cost-effective approaches. Subsidies for industrial pollution control have not been very successful in promoting cost-effective and sustainable improvements in environmental performance.

Unlike operations directed to water and air pollution, solid and hazardous waste management has generally been part of broader urban development projects. Solid waste collection can account for a large share of municipal recurrent budgets,

¹⁸ For example, the Urban Partnership received an Innovation Marketplace Grant for a Street Children Initiative involving nongovernmental organizations and private foundations involvement in fiscal 1998–99.

yet cities typically collect only about half the waste, and disposal methods are environmentally unsound. The municipal solid waste components of urban projects have sought to help local officials and stakeholder groups develop improved waste management systems, involving private contractors and communities. The Salvador Metropolitan Development Project in Brazil (closed in fiscal 1997) achieved substantial institutional development through its solid waste component, which dramatically raised rates of collection and safe disposal, introduced cost recovery, and put in place a metropolitanwide solid waste management system that garnered the project Brazil's highest environmental award (World Bank 1998d). Solid waste management has been the main activity in which private sector participation has been pursued through the urban portfolio. The Second Urban Development Project in Guinea, for example, introduced an innovative public-private partnership for collection and transfer.

Evolution of the Bank's approach to the urban environment. There is an increasing recognition that stand-alone interventions are most effective when guided by a consistent environmental policy framework that focuses on identifying the most critical environmental problems and their sources, determining cost-effective interventions based on alternatives across sectors, and introducing appropriate policy tools and mechanisms to implement the necessary measures. Such an approach requires methodologies and tools (for example, comparative risk assessment) to improve understanding of the links between economic development, land use, environmental impacts, and social implications. It also requires mechanisms for consensus building and for mainstreaming environmental priorities into policies and actions within the respective sectors or subsectors (water and sanitation, transport, industry, solid waste) and the city's political decisionmaking processes.

The Bank's main lines of environmental assistance to countries in the framework of national environmental action programs, environmental strategies, and institution building projects have rarely targeted urban environmental issues in a comprehensive way. Yet the urban environmental agenda needs to be seen as a central problem of urban management that is inherently cross-sectoral and united by a spatial perspective. For a more coherent focus on urban issues, the Bank's traditional environmental work needs to benefit from closer collaboration between environmental and urban staff and become adapted to:

- Working with the most appropriate level of government. Increasingly, capacity building and technical assistance should focus on the lower levels of government, although many environmental issues cut across jurisdictions and need to be addressed at the metropolitan, provincial, country, or even international level. The Bank is well positioned to foster dialogue and cooperation at all these levels.
- Finding mechanisms to harness private initiative and capital for lasting environmental improvements. The Bank can contribute to the dialogue among private investors, infrastructure regulators, and urban managers to create consistent and sustainable incentives that promote both good business and the public interest (box B.4).

Box B.4 Taking a strategic approach to the urban environment

The Bank has participated in such collaborative efforts as the Metropolitan Environmental Improvement Program (MEIP) and the UNCHS Sustainable Cities Program, which focus on setting environmental strategies and action plans in the urban context. Experience shows that these strategies are most effective when a local champion or an acute issue captures interest, stakeholders participate in all phases of the exercise, limited priorities are identified that can generate concrete results, and funding is available to ensure follow-up. Subsequent Bank projects have been identified from the MEIP exercises in Colombo, Sri Lanka, and Mumbai (Bombay), India.

The Bank and other donors also are supporting participatory strategic work under MELISSA (Managing the Environment Locally in Sub-Saharan Africa), which helps local governments develop local environmental action plans and share knowledge and capacity building activities.

Source: Carl Bartone, Urban Development Division; Utpal Mukhopadhyay, South Asia Environment Unit.

The Bank's emergency assistance in response to urban disasters also needs to be mainstreamed and to be made proactive through disaster mitigation and prevention. This is being done by the new Disaster Management Thematic Group in the Urban Partnership, which received a fiscal 1998 Innovation Marketplace grant to set up the Market Incentives for Mitigation Investments (MIMI) facility with IFC and private sector participation. Cultural heritage activities have long been a component of urban lending, particularly as part of housing and land redevelopment, such as in the medina restoration component of an urban project in Tunis, Tunisia. The recently approved Bali Urban Infrastructure Project fiscal 1997 illustrates how community cultural identity and conservation can become a focal point for an integrated urban development effort.

Making cities competitive

The Bank's 1991 urban policy paper emphasized the importance of cities serving as platforms for productive businesses and households, an outcome that requires creating an enabling environment for the urban economy. The relevant spatial unit for this economy is not an administrative jurisdiction such as a municipality. Instead, it is a self-defined economic area linked by a shared labor market and common infrastructure network—what might be called a “commutershed,” the unit that represents a particular local and subregional economy in the minds of its participants. Policies that permit the participants in this economy to be productive also make them competitive in a world of liberalized markets. Increasing the competitiveness of cities increases the competitiveness of the country as long as residents and firms pay the full scarcity value of the resources and services they use.

The productivity of cities derives from economies of urban scale and agglomeration as well as from natural assets, such as universities, trade corridors, and his-

torical or cultural roots, and proximity to mineral resources. Cities can enhance their productivity—or competitiveness—by developing policies and institutional frameworks that reinforce these sources of advantage and prevent diseconomies of agglomeration. Cities therefore need efficient factor markets and infrastructure as well as a supportive, predictable climate for business. Market failures or government failures affecting the local economy can be sufficient to deter investors, dampen productivity, and drive firms into the informal sector.

In today's global arena low costs of doing businesses are not sufficient to be competitive. Cities must also offer high-quality services and workers who can meet the demands of the information age. The real test of competitiveness is sustained growth over time and in the face of shifts in the internal and external environment, such as major market adjustments for certain industries. Cities able to adapt to changes in markets or in their natural asset base also provide an environment in which households can achieve their economic potential and weather shocks—by facilitating flexible labor markets, good education and training, and widely available market information.

Facing a competitive global and national economy, local governments increasingly seek to become more proactive to enhance growth. But local economic development strategies centered on luring industries with tax breaks and other incentives often weaken the city's finances without producing net private investment; at best, they prompt a transfer of firms from another region. Studies of industrial location decisions show that firms are influenced more by elements affecting major labor and transport costs and the overall tax structure than by special tax incentives (Bradbury, Kodrzycki, and Tannenwald 1997). A more effective and sustainable program for local economic development would consider the totality of a city or sub-region's assets and bottlenecks not only from the perspective of certain prospective investors but also for existing employers including the small-scale and informal sector. It would also take into account the impacts on different groups (such as the potential for sharing the benefits of growth with the poor and unemployed) and the role of nontraded as well as traded sectors in the local economy.

Local strategic planning aims to help the city identify market signals and its capacity to respond. This approach includes:

- Description and analysis of what is happening in the local economy and surrounding markets
- Participation by all the city stakeholders—private firms, workers, officials, financiers, community groups, infrastructure providers, universities, and research institutes—in defining how they want the city to evolve, what bottlenecks and requirements need to be addressed, and what they are prepared to contribute to the process
- Formation of active partnerships as commitments to implementing the strategy.

Such participatory economic development strategies have been more successful than ad hoc investment incentive schemes in building on the existing advantages of a city and its environs—for example, as a center for transport, tourism, or financial services—and in enlarging its market “niche” by creating stronger links to supportive activities. These strategies can also help a city acquire new economic roles when its traditional lead industries or markets are in decline—as they have in Glasgow, for example. Barcelona offers a prime example of strategic development planning: it used the preparation for the 1992 Olympics as an impetus for actions to strengthen its regional economic position in southern Europe. Other cities, including Fortaleza, Brazil, have studied the Barcelona experience in undertaking their own strategic exercises.

How the Bank has helped foster competitiveness

Promoting efficient development of urban housing, land markets, and infrastructure, through both national and local policy and institutional reforms, has been the central policy agenda of the Bank’s urban development assistance program. By focusing on these major sources of urban productivity, as well as on the quality of municipal taxation, regulation, and administration more generally, the program has contributed to a positive climate for urban business.

Work on housing has had macroeconomic and microeconomic benefits in many countries where the Bank has sustained an extensive dialogue (box B.5). In China, for example, policies piloted under the Enterprise Housing and Social Security Reform Project fiscal 1995 have been endorsed by the Chinese government as part of a strategy of transition from socialist welfare housing to a market-based system. The Bank’s housing program in Ghana helped avoid decapitalization of the national social security fund. Sectoral dialogue in Chile contributed to measures to

Box B.5 Reforming national housing policies and institutions in Mexico

In Mexico, a series of four housing operations approved between 1986 and 92, totaling over US\$1 billion, spurred commercial banks to lend to home buyers and, even more to low-income households. The projects brought about deregulation in the housing sector leading to savings in housing costs, dismantling of inefficient state housing agencies, and restructuring of housing subsidies. The operations introduced clients’ participation in the design and selection of home types and locations, previously unheard of in low-income housing in the country, and put commercial builders in touch with a new low-income clientele.

Source: World Bank, Operations Evaluation Department, evaluation reports pertaining to Housing Development Project (FY86), Housing Finance Project (FY88), Low-Income Housing II (FY90), relating housing components of Mexico City Earthquake Rehabilitation and Reconstruction Project (FY86), and Housing Market Development (FY92, ongoing).

Box B.6 Promoting private real estate market development in Mali

The Second Urban Project in Mali (closed in FY94) supported the creation of a privately managed agency to auction large tracts of formerly public land for sale as individual plots with secured titles. The auctioning created an efficient and transparent process, which by its large scale avoided speculation, recovered full costs, and delivered profit for the city and the central government. Under the FY97 follow-up project, the agency is being transformed into a land developer of future commercial and residential plots, also to be auctioned.

Source: Abdelghani Inal, Africa Region Transport group; implementation completion report on Mali Second Urban Project; and Farvacque-Vitkovic and Godin 1998.

separate housing subsidies from finance, which helped with concurrent financial sector and pension reforms. The Ghana Home Finance Company, one of the very few primarily private and self-sustaining housing finance institutions in Sub-Saharan Africa, and India's Housing Development Finance Corporation, which has established one of India's first private commercial banks as a subsidiary, were both supported in their early stages by Bank urban operations.

Assistance to reform in the housing sector has been evolving into a wider focus on the development of land and real estate markets, particularly in Europe and Central Asia and in some African countries (box B.6). The FY95 housing loan to Russia, based on extensive prior sector work,¹⁹ has led to economic reforms to facilitate land development, including passage of a federal law on title registration and a presidential decree on the use of auction procedures in disposal of municipally owned land. Based on the project experience, titling and registration systems are being extended to a larger number of cities than originally participated in the project, and comprehensive regulatory action plans are under preparation in some of them. More recently, projects in Moldova and Albania (FY98) are supporting reforms of property rights and land registration affecting both urban and rural beneficiaries.

Economic infrastructure financed under the Urban Development operations is normally limited to local and communal public goods (e.g., urban streets, sidewalks, drainage, public lighting) and solid waste management. The larger network-based infrastructure and major policy or institutional reforms in water and sanitation, urban transport, power, and telecommunications are covered by separate projects in those sectors, but such activities are critical to urban development as well. Work under the specific infrastructure sectors and the private sector development business of the Bank, and advice and financing by the IFC, supports infrastructure that happens to be urban. But this work does not normally deal with municipalities as regulators nor with the impacts of infrastructure activities on urban spatial development, land markets, or municipal finances.

¹⁹ Notably including the sector study of USSR Housing Reform by Bertrand Renaud and others 1993; and Bertaud and Renaud, 1997.

Emerging challenges and areas for a strengthened response

The Bank's Urban Development program supports the basic conditions for competitive cities, but these efforts could be enhanced and complemented through more collaboration with other parts of the Bank Group. Macroeconomic and country competitiveness analysis by PREM, and structural adjustment operations to implement the resulting recommendations, need to take account of the related issues at the level of local government and the urban economy. Recent work on real estate market development, for example, has benefited from the creation of a cross-network thematic group (the Land and real estate initiative, or LARI) involving staff from the Transportation, Water, and Urban Development Department's Urban Development anchor unit (TWURD), the Bank's Financial Sector Development Department (FSD), Private Sector Development Department (PSD), and Rural Development Department, which received a recent Innovation Marketplace grant in FY98. Similarly, assessments of the local business environment and of infrastructure investment or reform proposals affecting urban areas would benefit from partnering expertise in the Finance, Private Sector, and Infrastructure network (FPSI) with the urban staff's knowledge of municipal management and finance issues and land market development in cities.

The proactive approaches to city and subnational regional development are where the Bank has been relatively little engaged. With rare exceptions in recent years (although more common in the first decade of the Bank's Urban Development work), the Bank has not taken a citywide approach to urban analysis, looking at the workings of a city within its subregion as an integrated socioeconomic unit rather than as a collection of subsectors or of project areas. One factor deterring a citywide approach is the frequent absence of representative agencies that have broad jurisdictional mandates (such as an authoritative metropolitan-wide agency). Nevertheless, in the last year, Bank urban staff have worked with coalitions of local authorities and counterparts in Vietnam (box B.7), and in the West Bank-Gaza, Ukraine, Thailand, and South Africa (box B.8) to respond to interest in defining economic development strategies for cities or subregions.

The strong expressed demand by local governments shows the evident need for the Bank's urban staff to facilitate and contribute to participatory city studies and city strategies to help overcome shortcomings in city data availability, provide analytical support, and bring together public and private stakeholders. This effort should also draw in macroeconomists in PREM and DEC and the Private Sector Development's Business Environment unit (which is a partner in the West Bank-Gaza strategy work). And it requires working with external partners building analytical tools and capacities to support city studies and city development strategies, such as the Sustainable Cities Program of the UNCHS- and UNDP-supported Urban Management Program (UMP), UNCHS' Urban Indicators Program, and the OECD/Club du Sahel's ECOLOC (Local Economies) program for subnational regional economic analysis in francophone Africa (box B.9).

Box B.7 Bringing a development vision into focus—city strategy formulation in Haiphong, Vietnam

In late FY98, the Bank responded to a request from the government of Vietnam and local authorities of the city of Haiphong to provide technical inputs to, and facilitate a process of, defining an economic development strategy for the city. The work, which has extended through separate stages of discussion and analysis over several months, has helped provide an analytical basis for steering economic growth and infrastructure services for Haiphong, linking this growth to the surrounding region, and tying urban growth issues to the problem of poverty reduction in similar regions around the country. The advice provided by the Bank in the first stage identifies the most important areas of need to support a growth strategy in Haiphong, and suggests alternative options in the areas of government and management. The purpose of this work and the options presented are in keeping with *Doi Moi* reforms applied at the local level, aimed at increased efficiency in collective decisions, spending, and management.

The essential message from this activity is that the city is lagging behind a rapidly evolving economic transformation. The initial report recommends a “small bricks” strategy focused on small scale improvements in neighborhoods, by which both governance and physical improvements can be achieved. A city development strategy for Haiphong begins with an understanding of its rapidly changing productive structure—one that is moving from hard industries to labor-intensive, light manufacturing exports. The most important finding of this report is that Haiphong’s future lies as much in promoting light manufacturing exports and a stronger service base, as in promoting an export processing zone and industrial parks (the initial interest of the city authorities). Policy should therefore support the creation of jobs in labor-intensive export of shoes and garments and in the development of “softer” services to support future growth. At the same time, environment and governance are inextricably linked to successful investments, and measures need to be taken on both these fronts. A key strategy for all these objectives is for the city to become more actively involved directly at the neighborhood level, where the public infrastructure is undercapitalized and where the city has already demonstrated excellent results in service delivery (for instance, in improving water supply).

The analysis in this first stage concludes that the city has ample scope to broaden its development strategy to include components beyond, perhaps even more important than, the special economic zone. Further, the city has the financial and revenue base to greatly increase its capital investment to support new components, but it should weigh tradeoffs in spending on a few large infrastructural investments in contrast to many smaller ones, like streets, drainage, and other neighborhood improvements.

Source: Campbell, Global Urban Partnership, forthcoming.

Making cities well governed and managed

Good city governance and management is essential for competitiveness and livability, especially if the urban area is growing rapidly. This third dimension of sustainable cities is defined here in terms of accountability in the exercise of local au-

Box B.8 Johannesburg and the World Bank: A city-level comprehensive development framework

The city of Johannesburg is in the process of restructuring itself as a metropolitan government. Labeled iGoli 2002, the plan includes fundamental changes in the overall governance structure of the city and involves a radical restructuring of the fiscal, institutional, and regulatory framework for the delivery of municipal services. In addition, the city is undertaking bold reforms in the areas of local economic development and the establishment of metropolitan health and policing districts. Underpinning each of these areas is a plan to address the problem of urban poverty on a sustainable basis. The city has asked the Bank to provide a comprehensive package of technical assistance in support of iGoli 2002 and assist in donor coordination. The engagement with Johannesburg raises the possibility of implementing the approach of a comprehensive development framework at the city level—an issue that is pertinent in an era of decentralization and urbanization. Furthermore, the engagement with Johannesburg draws solely on the Bank's ability to coordinate the international experience of urban development. No lending relationship is expected. The engagement will test the limits and possibilities of a pure knowledge bank as the basis for a city-level CDF.

Source: Junaid Kamal Ahmad, Resident Mission South Africa.

thority, and integrity and transparency in the use of public funds, and the knowledge and capacity required to execute local government responsibilities in response to the demands of the constituency. The trend toward democratization is an important force in strengthening urban governance by making local offices contestable.

Requirements for good governance and management—how the Bank can help

Establishing good urban governance lays a foundation for better urban management. As a first prerequisite, the national framework of intergovernmental relations, which determines the municipality's incentives and accountability, should be clear and predictable. There is no universally accepted assignment of responsibilities for service provision, expenditure, and revenues among levels of government, however. The Bank's urban program has made intergovernmental frameworks a key part of the policy dialogue, especially in recent years as decentralization remaps relationships among cities, provinces, and the center; this work needs to be reinforced through close coordination with the macroeconomic and public finance dialogue with the country. National intergovernmental policy frameworks need to take account of the capacity and experience of local governments in different countries—in the Europe and Central Asia region, for example, local governments were effectively stripped of any significant role during the socialist era. Tenuous political relationships across levels of government can complicate efforts to formalize rational center-local sharing of powers, but also underscore the importance of doing so.

Box B.9 Accounting for the local economy in West Africa

The OECD/Club du Sahel's ECOLOC program has devised a simple economic accounting methodology for subregions in West Africa and has worked with partners in these local economies (governmental and nongovernmental) to analyze the region's strengths and bottlenecks. The approach, applied initially in Senegal, Mali, and Côte d'Ivoire using readily available local data, permits analysis of the linkages between the main economic activities of the subregions and both domestic and international markets.

Six conclusions emerged from the first three case studies:

- The modern sector firms in these subregional economies are very dependent on the broader national and international markets.
- The informal sector plays the major role in the local economy, mainly to satisfy immediate consumer needs, and is the most heavily taxed.
- The small and medium-size enterprise sector is least developed and is poorly linked to agriculture, both providing inputs and taking outputs. More generally, urban enterprises are poorly attuned to the demands of the hinterland, losing market opportunities for agriculture and agroindustry .
- The state dominates the economy in all the subregions.
- Local taxation captures at best 0.5 percent of local domestic product, indicating that the city administration does not function at the service of the local economy.
- The local domestic product would readily support a tripling of local fiscal revenues to improve public services and investments.

Source: Club du Sahel Secretariat 1997.

Recent urban development projects in Mali, Mauritania, and Senegal incorporate explicit “city contracts” between the local governments and central government to define rights and responsibilities and give practical meaning to decentralization goals. In Latvia and Georgia sector work for recent Bank municipal development projects is helping the national government specify a rational allocation of responsibilities for service provision in each sector, and the resulting revenue and expenditure assignments, for cities and administrative units across a range of sizes. Technical assistance to South Africa provided timely and pertinent advice on wide-ranging urban management and finance issues even though the client did not seek a lending operation (box B.10).

A good incentive system for municipal governance also requires a rational distribution of relative roles and responsibilities between the local government and the private sector—both nonprofit and for profit. Participation of communities and entrepreneurs also mobilizes ideas, skills, and resources for better management. The Bank's urban development work has traditionally empha-

Box B.10 Providing timely advice on urban management and finance after apartheid in South Africa

In South Africa the Bank's technical assistance played a valued role in brokering national debates on amalgamating racially separated municipalities into more unified city structures. In Cape Town, for example, this work outlined the economic, institutional, and fiscal options for creating a two-tier metropolitan government and mechanisms for delivering municipal services, contributing to an emerging consensus about the city's restructuring.

The Bank also advised the South Africans on the design and implementation of reform in the system of fiscal grants from central to local governments. The existing, ad hoc arrangements were based on racial objectives and created perverse incentives that led to subnational budget deficits. The new system is based on predictable criteria, focusing on poverty indicators and fiscal capacity measures and designed to respect macroeconomic constraints.

This advisory work in South Africa was unusual in its duration as technical assistance funded by the Bank's sector work budget without an active lending program. An independent evaluation of the advisory work found that the clients strongly appreciated its style and content, perceiving it as very timely and relevant to their needs.

Source: Junaid Kamal Ahmad, Resident Mission, South Africa, and James F. Hicks, Africa Region 1 Urban group.

sized community and NGO involvement in preparing and implementing specific projects. The Bank has promoted commercialization, competition, and private sector participation in urban services mainly in stand-alone operations—for water and sanitation (in particular, through leases and concessions), roads (toll concessions for bridges and urban motorways, and contracting out of maintenance), and urban transport (bus and rail concessions). Municipal solid waste management under urban projects has been contracted out at the collection stage and through build-operate-transfer arrangements for disposal facilities. Private sector practices of contract management for small-scale municipal works have been promulgated through AGETIP-type agencies, which are beginning to face competition for this role under more recent projects (such as in Senegal). But even where private operators or investors produce or deliver essential urban services, the local government remains responsible for provision—ensuring the overall quality and availability of the services by setting the conditions for private operation, and through involvement in planning, regulating, and financing as needed.

As another approach to improving governance and management, urban development projects have promoted and disseminated experiences with public budgeting processes and “scorecarding” the quality of public services. Urban projects also provide local governments with training, information systems, and tools for management, such as land and housing market audits, simple cadastres, rapid infrastructure

assessments, and financial planning and management methods. The World Bank Institute has been providing “integrity training” to municipalities and is preparing a core urban management course. Urban staff should explore further collaboration with the Public Sector Management Group on applying lessons from national civil service reform and anticorruption activities to the municipal context (box B.11).

Emerging challenges and areas for a strengthened response

An increasingly important issue for the Bank is how to foster good governance and management practices among a much larger number of local governments than can be reached by the Bank’s urban development or related projects. Working with municipal associations, including both the well-established international professional groups of city managers and newer national or subregional associations, is an important means of “wholesaling” training, technical assistance, and knowledge sharing in ways that are efficient and relevant to the Bank’s clients.

The World Bank Institute has been nurturing regional and subregional intermediary associations as channels for training and technical assistance activities—such as the Municipal Development Program in Sub-Saharan Africa and the Latin American Municipal Capacity Building NGO, SACDEL, which has several chapters in Latin American countries. These and similar networks have been evolving into self-supported NGOs for “South-South” sharing of skills and best practices. The Municipal Development Program, for example, though established in 1991 at the initiative of the World Bank Institute and supported by several donors, has become increasingly independent in its planning, execution, and financing. Under this program Africans provide technical assistance, consulting, training, and policy analysis to local African governments at their request. Other networks or associations of municipalities, urban research institutes, and municipal training centers exist or are emerging in other regions and should be supported by the Bank as mechanisms to deepen institutional development, making it more cost-effective and more relevant to local needs.

A second persistent issue is how the Bank can address the critical management needs of metropolitan areas, particularly of megacities, given the usual absence of a metropolitan agency that is empowered to lead the component municipalities, often a dozen or more. In past projects the Bank has been instrumental in the creation of umbrella agencies; a few, such as the metropolitan development authorities in Manila and Calcutta, have continued to play important roles in the city but without the powers required to address interjurisdictional issues effectively. The Bank has focused its efforts more recently on metropolitan-wide management of sectoral or subsectoral activities such as water, public transport, and solid waste, where the rationale for cross-border collaboration and externalities are tangible. Even in the absence of a formal executive agency, the Bank could be catalytic in encouraging city strategy exercises to identify stakeholders’ shared interests and concerns in metropolitan cities where a coalition exists with vision and broad credibility.

Box B.11 Understanding and addressing municipal corruption

Two factors are required for corruption to flourish in a municipal system. The first is systems of governance that are vulnerable to corruption. This vulnerability is created through unregulated and arbitrary discretion of officials who do not have to be openly and completely accountable to the public. This lack of accountability is related to the flow of information from the government to the public and from the public to the government. A second and necessary condition is a set of perverse incentives that motivates individuals or groups of individuals to take advantage of vulnerability. Perverse incentives can include extremely low wages, lack of monitoring systems, pressure from superiors, low risk of being captured and prosecuted, and unpredictability of administrative procedures. A strategy to reduce corruption needs to reduce both vulnerability and perverse incentives.

Specific programs that have been effective in addressing and reducing municipal corruption recognize and address the vulnerability of structures and processes and pervasiveness of incentives that lead to corruption. Successful programs have at least two dimensions: The first dimension is the internal reform of both structure and process within the municipal administration. The most outstanding case of this has been the municipality of La Paz, Bolivia, in the 1980s and early 1990s, during the administration of Ronald MacLean. A complete overhaul of the administration, including reduction in staff and redesign of processes, permitted the municipality to emerge from a catastrophic situation driven by corruption to one of stability and good management. The second dimension refers to reforming the interaction of citizens and stakeholders with municipal government. This external reform is exemplified by the Campo Elias, Venezuela, initiative of the World Bank Institute. The reform focused principally on a series of public participatory actions, including a participatory budget, practical mechanisms to assure flow of information to the public, and development of standardized and integrated system of administrative procedures. Through these measures the municipality was able to ensure open monitoring of municipal governance and uncover and remedy corruption that had been entrenched for many years.

Source: Maria Gonzalez de Asis and Victor Vergara, World Bank Institute.

Making cities bankable

For some cities, bankability represents the aim of becoming sufficiently creditworthy to access banks and capital markets. Ahmedabad, for example, turned its financial performance around in a few years to become the first city in India to be rated by a domestic agency and issued an investment bond. But for all cities, bankability can be defined simply as financial soundness, reflected in respect for hard budgets and efforts to mobilize fully and use judiciously even weak resource bases. Both sound financing and good overall city management involve establishing links between the services provided by the city and the payment for them by users and beneficiaries through tariffs or taxes. This “social compact” is weak or missing in many urban areas and is key to restoring accountability and responsibility on the part of both city officials and the citizenry.

Policy and institutional conditions for bankability—and how the Bank can help

A major focus of the Bank's urban development program is providing technical assistance and policy advice to local and national governments on the fundamentals of sound municipal finance. These fundamentals include rational intergovernmental assignment of functions as well as:

- **Expenditure management** (capital and recurrent budgeting and investment selection practices)—including decisions to transfer activities and investments from local government departments to separate corporations, such as utilities or project companies, with full or partial municipal ownership or full privatization, as appropriate; and management of assets (such as real estate holdings).
- **Revenue mobilization and cost recovery** (sound pricing for public services, use of suitable fees and charges, property and other local taxation)—also depending on decisions about what activities should be financed privately, for example, on a non-recourse basis.
- **Intergovernmental transfers** that are predictable and consistent with “hard budget” incentives.
- **Financial administration**, including generally accepted accounting, auditing, disclosure, asset and liquidity management, procurement, and payment procedures.
- **Access to credit**, based on a legal and regulatory framework that allows municipal bankruptcy, collateralization, and prudent mechanisms of credit enhancement, such as revenue escrows and intercepts of fiscal transfers. Financing strategies could include choices between bank credit and bonds (general obligation or revenue bonds) for various purposes.

A toolkit for governments covering each of these components is under preparation by the Municipal Finance Thematic group.

The main vehicle for urban policy advice and assistance to instill these practices has been operations supporting specialized municipal finance institutions—often called municipal development funds—in countries virtually lacking a municipal credit market. While some municipal development funds have had ambiguous mandates and politicized their lending, many have introduced sound municipal lending practices and helped their clients adopt the good financial management needed for creditworthiness, thereby contributing to effective demand from local governments for a formal credit market (box B.12).

In some cases commercial banks are prepared to lend to municipalities but need some help in term transformation and in assessing municipal credit risk. The Bank supported FINDETER in Colombia, a second-tier intermediary that refinances loans to municipalities by participating commercial banks and financial corporations and helps the lenders with credit analysis. In Poland World Bank loans go directly to commercial banks that meet certain performance criteria, and these banks on-lend on market terms to local governments and municipal enterprises with no intermediary

Box B.12 Building better municipalities through finance and technical assistance in Brazil and the Philippines

A recent impact evaluation of several municipal development fund projects in the Brazilian states of Paraná and Rio Grande do Sul and in the Philippines measured their effects on the financial practices and institutional capacity of the recipient local governments compared with nonrecipients. In both countries the projects required municipal governments applying for a subloan to submit a financial action plan with a comprehensive reform package. The evaluation found that participating municipalities in one of the Brazilian projects also credited it with helping to improve their procurement, professionalism, information technology, and community participation practices.

Source: World Bank 1998e.

institution. The measure of success for these schemes is the growth of market-based credit to municipalities, for longer terms, by a competitive banking system. This growth ultimately requires increased access to capital markets for long-term funds.

Emerging challenges and areas for a strengthened Bank response

Municipal finance assistance under urban projects is increasingly seen as part of a systematic and longer-term approach to developing municipal finance systems as part of national capital markets. Such an approach requires differentiating forms of assistance based on the actual and potential creditworthiness of municipalities and the requirements of different types of investments (box B.13). This implies that:

- The Bank should have the capacity to provide assistance in financial management for cities interested in its help. This requires developing the capacity to provide self-standing advisory services, as in South Africa (see box B.8), for local government clients.
- For the financially stronger municipal clients, the Bank should have high expectations, gearing any assistance to helping them become fully creditworthy as soon as feasible. The Bank should also define a clear exit strategy for its financial assistance to creditworthy municipalities.
- For cities with little prospect of market access (often in countries virtually lacking municipal credit activity), special intermediary arrangements such as municipal development funds may continue to be needed. The Bank should support municipal development funds only when they are designed explicitly as a means of transition to self-sustaining, competitive commercial lending, have appropriate incentive frameworks, and follow best practices, which are now well understood from experience. The transition may be long for many municipalities, but it should nevertheless be an agreed upon goal.

Box B.13 A nationwide financial framework for municipalities in the Philippines

The Philippines is preparing a national urban policy agenda to set out the means and conditions for implementing existing laws on fiscal decentralization. To support this process, the Bank is working with the national government to define and implement a local government units financing policy framework. The framework will set up a comprehensive system for improving local governments' access to domestic and external financing of different types and sources and for building their capacity to use finance.

The framework will outline roles of participants in the system, promote the local governments' self-reliance, and expand their access to private credit. Financial dependence on the national government will be reduced by enforcing a "graduation policy" allowing the more creditworthy local governments to access private capital through commercial bank loans, bonds, and build-operate-transfer arrangements, and by limiting national government credits and grants to the resource-poor local governments, and for social and environmental aspects of local investments. The Bank's urban lending program will provide financing and technical assistance to help carry out this financing framework.

Source: Zearley 1998.

- **The Bank's financial advice to cities should help them distinguish among suitable financing sources for different types of expenditure—for example, investments and services capable of being commercialized can be transferred to private financing (through concessions, project companies, or outright privatization); for municipal investments with nonrecoverable costs and social externalities, general revenue financing and intergovernmental transfers should be developed that can be leveraged with credit.**

Complements to the Bank's municipal finance assistance. Assistance to municipalities under the urban development program could achieve greater leverage in countries where enhanced and coordinated efforts are also under way by the Bank's Capital Markets Development Department, PREM, DEC, and Financial Sector Development Department, and by IFC's Financial Markets Advisory Department, to create the underlying conditions for long-term domestic credit markets. The basic infrastructure of the banking system and capital markets includes sound policies for long-term savings (including reform of pension plans and other institutional investors); underwriting and distribution networks for securities (municipal and other); market-making capabilities for securities in secondary markets; regulation and supervision of securities, including accounting, auditing, and disclosure standards for all financial market players; reliable settlement, custodial, and payment systems; and a ratings industry, credit enhancement, and hedging mechanisms associated with municipal debt obligations, to protect investors against municipal credit risk and allow municipal borrowers to manage their liabilities.

Box B.14 How IFC aids the financing of private infrastructure concessions at the subsovereign level

In recent years, IFC has become increasingly involved in the financing of private concessions or build-operate-transfer (BOT) projects at the subsovereign level, particularly in water and sanitation. IFC is reviewing possible investments in private water and sanitation projects at the municipal level in Bolivia, Brazil, Indonesia, Mexico, and Vietnam, and in private toll road concessions at the provincial or state level in Argentina, Brazil, and Colombia. More provincial concessions are expected to seek financing in the future, driven by the decentralization and privatization of public services and by the increasing demand for transport, water, and sanitation infrastructure in developing countries.

The challenges in developing bankable private infrastructure projects are compounded at the subsovereign level by the difficulty of evaluating and pricing subsovereign performance risk and by the fact that the contingent liabilities of subsovereign government agencies (as in the case of termination compensation provisions of a concession, or commitments by a municipal utility under a take-or-pay agreement in a BOT project) can be significant relative to their financial resources. Thus the viability of financing a private infrastructure project at the subsovereign level often depends on the ability of financing institutions to mitigate the associated subsovereign performance risks.

IFC has explored different approaches to mitigating subsovereign performance risk for specific infrastructure projects, including backup liquidity facilities involving national development banks able to intercept revenue transfers from the national government, partial risk guarantees, and the diversification of subsovereign performance risk through pooled investment vehicles.

Source: Francisco Tourreilles, IFC.

Further actions to enhance municipalities' access to private finance. National reforms aimed at making municipalities and other subsovereign governments more financially autonomous pose a dilemma for the Bank and other international official finance institutions. The Bank's loans or guarantees require sovereign backing, yet national governments are increasingly reluctant to issue guarantees or counter guarantees of borrowing by subnational entities, both in order to limit their own contingent liabilities and to avoid moral hazard. And IFC cannot transact with a subnational entity or municipal company unless the company has majority private ownership or is on its way to privatization. But the Bank can help credit-worthy municipalities access capital markets by providing advice and technical assistance, which also comforts potential private partners, and IFC can assist private project companies or utilities that have minority subnational ownership or where there is some perceived subsovereign risk (for example, of termination of a concession by a local government). IFC is looking at ways to mitigate subsovereign risk on a case-by-case basis (box B.14).

Innovative approaches to engaging private finance for urban investment should be further explored. For example, the Bank could provide a slice of sovereign-guaranteed lending or guarantee in structured financing packages to mitigate the perceived riskiness of newly or marginally creditworthy local governments as partners to the private sector. The Bank (or IFC, if utilities are privatized) could also play a catalytic role through financial participation in a national or regional risk-pooling institution, such as a bond insurance agency or bond bank.²⁰

²⁰ For example, in June 1998 the Innovation Marketplace approved a pilot proposal to explore setting up a subsovereign finance and guarantee corporation in Europe and Central Asia that would raise resources on the market and carry out transactions without sovereign guarantee with subnational entities in the form of loans, bond underwritings, subsovereign partial risk or partial credit guarantees, and hedging instruments.

ANNEX C

Evolution of Past Lending and Performance of the Urban Development Portfolio

The Bank's portfolio of urban development projects is characterized by its focus on urban affairs as a development arena whose key dimensions are urban place—a spatial location where economic and social relations occur—and urban governance and the management and financing of urban public services, which are the primary responsibility of municipalities in partnership with central government, private enterprises, and community organizations.

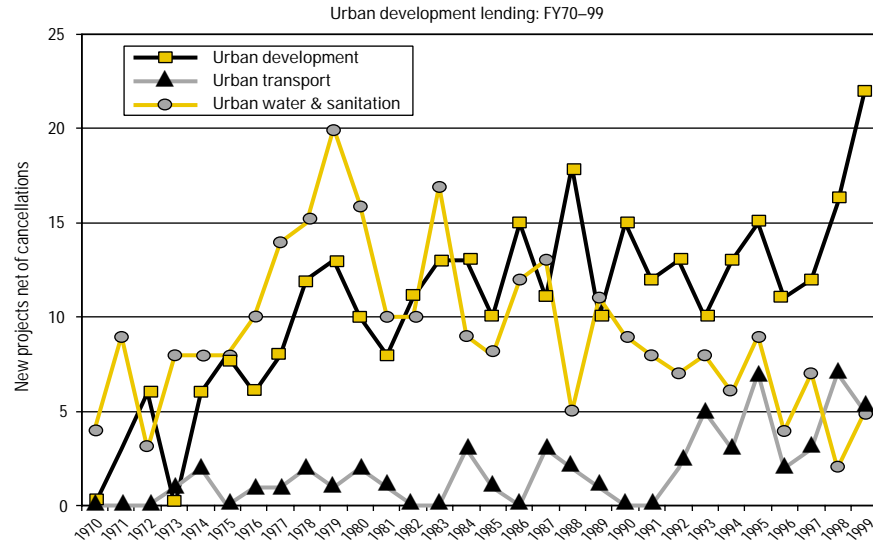
The Bank's urban assistance has evolved since the 1970s

Urban development projects accounted for about 3 percent of World Bank and International Development Association (IDA) lending throughout the 1970s and 1980s, rising to 5–6 percent in the early 1990s. The 10–15 urban development projects a year at present average about \$1 billion in annual commitments. In parallel with urban transport and urban water and sanitation (which together account for another 5–6 percent of Bank lending), urban development lending dipped around fiscal 1996, in absolute amounts and a share of total Bank commitments. But the pipeline indicates a resurgence of demand, especially for urban development assistance (figures C.1 and C.2). For a description of the breakdown of the current urban development portfolio by lines of business and examples of completed and new projects by subcategory, see attachment 4.

The Bank's approach to urban development has changed in response to experience. Urban assistance in the first decade focused on poverty alleviation through investment in basic infrastructure and housing for low-income residents. The aim was to test the feasibility of providing low-cost improvements that could be replicated to reach large numbers of unserved residents.

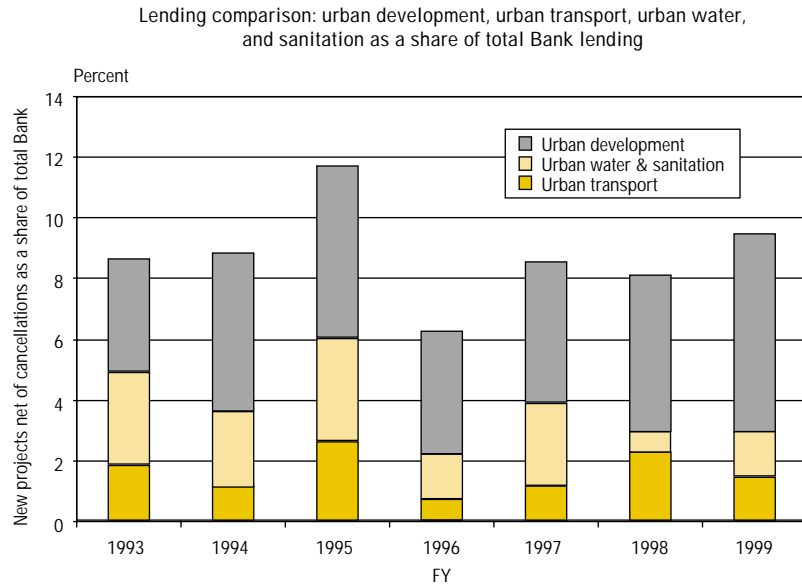
The slum upgrading projects or project components generally met this objective, sometimes with dramatic results, as in the Kampung Improvement Program in Indonesia (see box B.1). But the first generation of slum upgrading projects was less successful in bringing about even indirect cost recovery through property taxation. Although the projects incorporated extensive community participation before it became the norm in other sectors, local counterpart institutions (both municipal and

Figure C.1 The demand for urban development projects is increasing



Source: OIS as of May 3, 1999.

Figure C.2 Urban development lending is recovering as a share of total Bank lending



Source: OIS as of May 3, 1999.

Table C.1 Urban development projects by region, May 1999

Regions	Number of active projects	Share of active projects (percent)	Commitments outstanding (US\$ millions)	Share of commitments (percent)
East Asia and Pacific	19	21	2,191	32
Europe and Central Asia	18	20	1,464	21
Latin America and the Caribbean	13	14	1,214	17
Middle East and North Africa	13	14	996	14
South Asia	2	2	61	1
Sub-Saharan Africa	27	29	1,078	15
Total	92	100	7,004	100

Note: Outstanding portfolio as of May 3, 1999.
Source: OIS.

nongovernmental) were insufficiently developed to sustain and expand the projects. Consequently, the efforts were rarely replicated to broader service areas except in a few countries (Indonesia, Jordan, and Tunisia) where there was significant central government leadership and financial support.

Many of the multisectoral urban projects that had a less clear focus than urban upgrading acquired poorly integrated and ill-prepared components that suffered from weak borrower ownership and implementation capacity. The need for a better enabling policy environment for all urban activities, based on supportive inter-governmental relations, became very clear.

During the 1980s urban development projects were therefore reoriented toward strengthening the policy, financial, and institutional frameworks. Housing assistance, for example, shifted from shelter investment to the reform of housing finance policies and restructuring or dismantling of housing banks and public housing agencies. The Bank began devoting a much larger share of lending to municipal development projects that aimed to effect broad capacity building and financial reforms within municipal government, coupled with credit lines to support investments and help municipalities establish credit records. Single-sector projects in urban areas, notably urban transport, water, and sanitation, also became popular in some country programs.

The solid base of urban policy analysis that was developed during the late 1980s and early 1990s—building in part on Bank-supported research—remains a sound guide for the Bank's assistance activities.²¹ This policy work substantiated, for example, the effects of the regulatory regime for land and housing on the costs and demand-responsiveness of these markets, particularly for the poor; the necessary

²¹ Bank policy papers issued in this period include *Urban Policy and Economic Development: An Agenda for the 1990s* (1991); *Housing: Enabling Markets to Work* (1993a); and *Better Urban Services: Finding the Right Incentives* (1995). And an unpublished sector review, "An Agenda for Infrastructure Reform and Development," (1993b) served as an input to the Bank's *World Development Report 1994: Infrastructure for Development*.

conditions for sustainable municipal credit and housing finance markets; the critical role of intergovernmental frameworks in defining incentives for effective municipalities; and the growing importance of urban environmental and poverty issues in sustainable urban development. These findings were increasingly reflected in the projects funded in the mid-1990s, which have taken on an ambitious agenda of municipal policy, institutional change, and market reform.

The performance of the urban development portfolio

The performance of the urban development portfolio has been strong in most respects over the years and has shown further improvement recently in response to increased attention by sector managers and staff. On the whole, urban development assistance has a solid record that is valued by clients and serves as a good launching point for the renewed strategy.

The first two decades—a strong record despite tough challenges

Urban development projects received relatively high performance ratings from the Operations Evaluation Department (OED) in the first 20-year retrospective (World Bank 1994). Of those completed between 1972 and 1992, 80 percent were judged to have a satisfactory outcome, compared with 74 percent Bankwide. The institutional development impact was rated substantial for 32 percent of urban development projects, compared with 28 percent Bankwide. Urban development projects fell below the Bankwide average only in likelihood of sustainability, with less than half—47 percent—deemed likely to be sustained, compared with 55 percent for the total Bank portfolio.

This first generation of urban development projects demonstrated that the Bank had sound ideas (demonstrating low-cost investments, introducing channels for municipal credit, reducing regulatory constraints) that were well executed in individual projects. But the innovations and reforms were too seldom replicated within a country or sustained after the project period. One of the reasons for this was that the larger political and economic context was often not conducive to such outcomes. Local governments had little say in many of the early urban projects, which were designed and implemented by special agencies answering mainly to the central government. The municipalities' lack of autonomy reduced their commitment and ability to maintain or extend the project activities. Decentralization and rationalization of intergovernmental fiscal relations can create a more positive environment for sustainability, although political conflicts between central and local governments remain a potential complicating factor in any urban work.

As urban development projects became more focused on policy and institutional reform, they needed a firm grounding in country sector work and macroeconomic dialogue to ensure understanding and commitment among the national and local counterpart agencies and among the Bank staff and managers. The financial conditionalities of urban projects needed to be consistent with the macroeconomic realities and other incentives facing clients. Bank assistance in related areas (such as

investments in rural communities or in social sectors) has not always had consistent financing conditions, which has sometimes reduced demand for disbursement under the urban projects. Where the Bank has sustained a strong national urban dialogue, integrated it with the country strategy, and maintained support to responsive clients, urban development assistance has led to significant policy and institutional reforms even under difficult macroeconomic conditions—as in Brazil, Ghana, Mexico, and the Philippines.

The early lending experience also taught that the intersectoral nature of urban issues and the multiplicity of stakeholders can lead to a temptation to make urban development projects overly expansive in design. Complexity in terms of the number of components or implementing agencies is not necessarily associated with poor performance; however, urban projects in many countries have worked well with fairly complex structures—as long as the counterparts fully accept the objectives, are committed to working together, and have the means to do so. Where these conditions do not exist, experience suggests that it is better to work with simpler designs.

While not entirely unique to urban work, these issues create challenging standards for performance in institutional development and sustainability. The first generation of urban projects met these standards better than, or almost as well as, other types of Bank projects. It was clear from the OED's review of the first 20 years, and from the body of sector work and research preceding that review, that the Bank had acquired the knowledge and experience to reach a consistently higher level of performance—but that this would require even closer coordination of urban analysis with the macroeconomic dialogue, more careful preparation and supervision of projects, and tighter management of the portfolio.

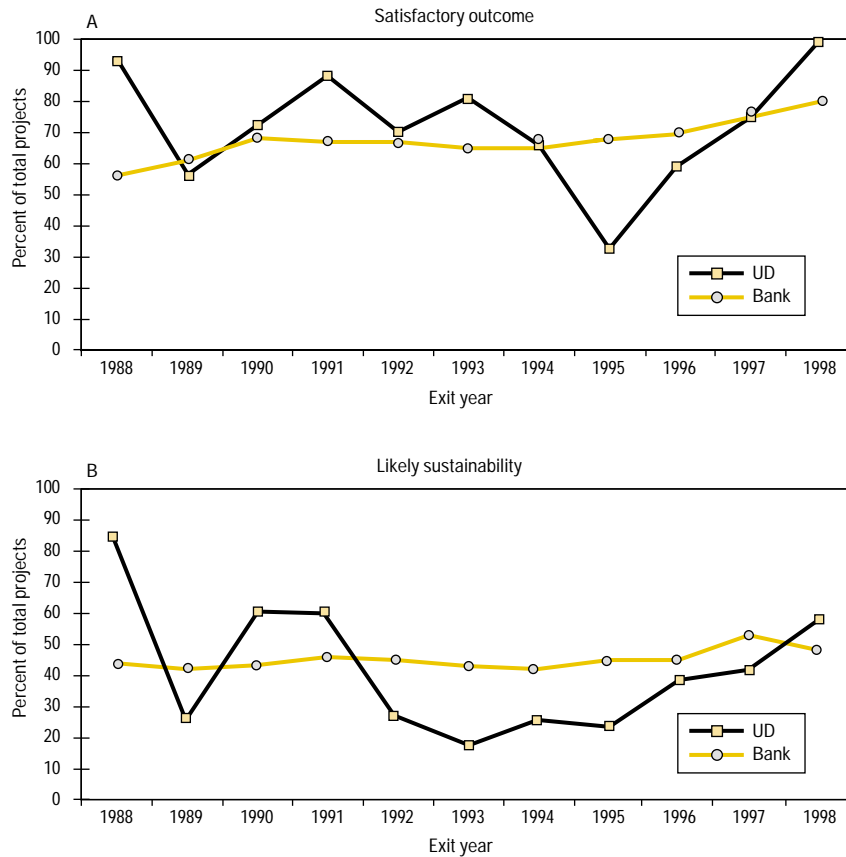
Lending in the 1990s—a brief slip and then steady recovery

Rather than advancing from a position of strength, the Bank's urban work retrenched in the early 1990s for a number of reasons. With the 1987 reorganization, the central cadre of experienced urban project staff dispersed and many left the field. Urban assistance requires a wide range of disciplines and subsectoral knowledge, but many Regional sector units had difficulty building a critical mass of such expertise. More seriously, relatively few Regional project managers after that time had experience with or understanding of the urban agenda. In addition, the Bank's emphasis on structural adjustment in the 1980s meant that activities seen as not directly contributing to the external sector were downplayed, and so urban issues, which suffered mistakenly from this connotation, tended to fall aside in macroeconomic dialogue and country strategy work. At the same time, there were few organized external pressures (such as from international NGOs, which have a predominantly rural base) to keep urban issues prominent in the Bank's country assistance. Urban development lending, sector work, and new research have therefore been relatively neglected since the early 1990s. The policy papers issued in this period summarized past work clearly linking urban issues to the Bank's broader development agenda, but these paths were not actively pursued by the Bank in most countries.

Completed projects. The legacy of this period is apparent in the deterioration of the performance ratings of urban projects that exited the portfolio from about fiscal 1992 to 1995. The evaluations by project staff of institutional development impact and likely sustainability worsened in that period, while outcome took a dip only in fiscal 1995 (Figure C.3.a–e).²² The pattern occurred to some extent in all regions and all project subcategories. The preparation and implementation of exiting projects in this period suffered from the loss of experienced project leaders

Figure C.3.a–e A brief slip and then steady recovery in the performance of completed urban development projects

Performance by exit year according to Operations Evaluation Department evaluation criteria, fiscal 1988–98



²² As a result of this pattern in the data, the fiscal 1993–97 ratings fell far below those for the fiscal 1988–92 cohort in OED's reporting of period averages.

Figure C.3 A brief slip and then steady recovery in the performance of completed urban development projects (*continued*)

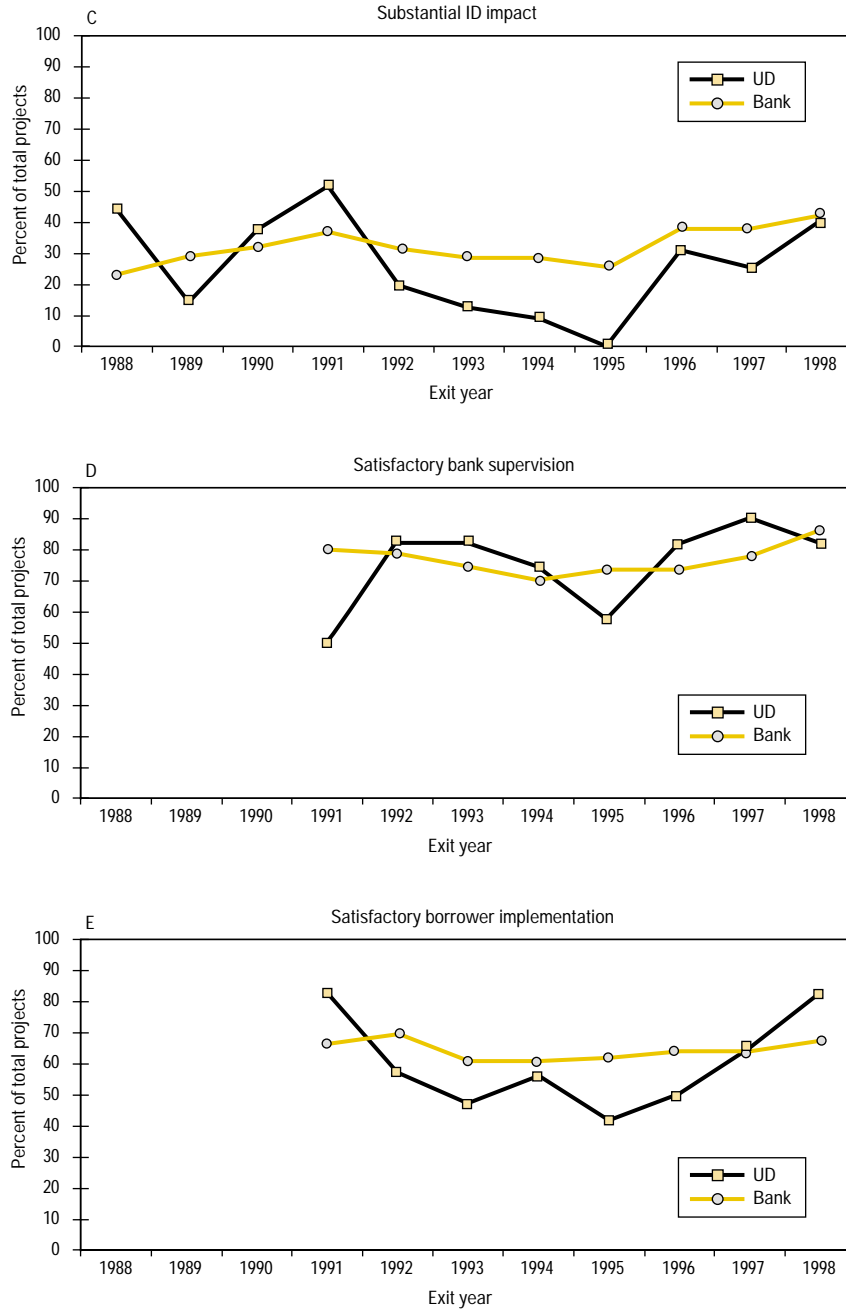
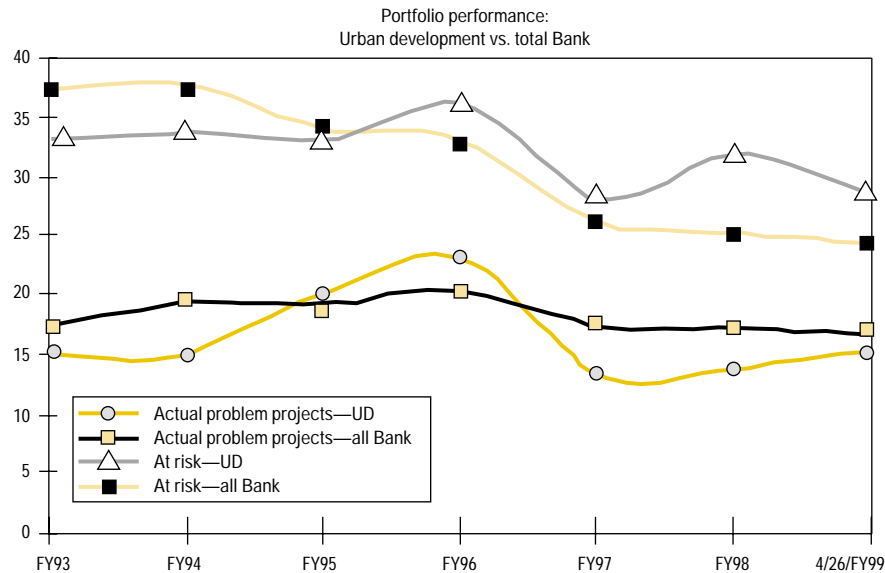


Figure C.4 The performance of the active urban development portfolio based on QAG criteria compares well with the Bank average



Source: OPR ratings as of April 26, 1999.

and weak management attention after 1987; the fiscal 1995 low also reflected a cleaning out of particularly problematic projects. The share of new Bank commitments to urban development also fell off sharply after fiscal 1995, reflecting discouragement and the low priority of urban lending in the view of many managers.

The most recent performance ratings show a much different and more positive trend, however. By all OED evaluation criteria—outcome, institutional development impact, sustainability, borrower implementation, and supervision quality—the performance of exiting urban projects rebounded from the mid-decade lows to a level around or above the Bankwide averages in the fiscal 1997–98, to points above the fiscal 1972–92 averages. This recovery attests to the more active management of the portfolio under the strengthened sector leadership in the Regions.

Ongoing projects. The performance of the active urban development portfolio as monitored by the Quality Assurance Group (QAG) compares favorably with the Bankwide average in share of problem projects (figure C.4).²³ Urban de-

²³ QAG defines “problem” projects as those having unsatisfactory supervision ratings for fulfillment of development objectives or implementation progress. Potential problem projects are those having three or more risk factors from a list of 12, even if ratings on development objectives and implementation progress are satisfactory. The 12 risk factors are long effectiveness delays, poor compliance with legal covenants, project management problems, shortage of counterpart funds, procurement problems, poor financial performance, environmental or resettlement problems, significant disbursement delays, long history of past problems, project in risky country, project in risky subsector, and poor macroeconomic setting. The sum of actual and potential problem projects is the total of “at risk” projects.

velopment projects continue to be rated as higher risk than the Bank average, due in part to the above recent history. The main performance issues of the present urban development portfolio according to QAG are problems with counterpart funding, financial performance, disbursement delays, and macroeconomic context. These problems indicate underlying weaknesses in borrower readiness, ownership, and the financial frameworks of municipalities. The problems are most frequent in the urban management subcategory (projects with multiple institutional, policy, and investment objectives), which has grown as a share of the urban portfolio in the 1990s and has been tagged a “risky subsector” by QAG.²⁴

Some of the urban management and other operations have been found to have ill-defined or excessive objectives relative to components and to borrower capacity.²⁵ But the strengths in the urban development program have also been identified. The 1997 and 1998 quality at entry and rapid supervision assessments by QAG have found urban development projects to be among the very best surveyed.

²⁴ The “risky subsector” flag is expected to be removed by QAG in early fiscal 2000 because of performance improvement.

²⁵ This issue has been noted in OED and QAG reviews and illustrated in depth for a sample of recent projects by Boyer 1998. See also Costa 1998. The urban management subcategory also includes the municipal development fund projects, some of which have been given very high marks by OED.

ANNEX D

Urban Indicators

Table D.1 Urban population data by country

	1996	1990-96	1996	1980	1996	1990-96	1996	1996	1995
	GNP per capita (current US\$)	GNP per capita annual growth (percent)	Total population (millions)	Urban population (millions)	Urban population (percentage of total)	Urban population annual growth (percent)	Population in urban agglomerations (>1 million) as percentage of total population	Population in largest city as percentage of total urban population	
East Asia and Pacific									
Upper-middle income									
Korea, Rep. of	10,610	6.4	46	37.5	57	2.9	82	52	17
Malaysia	4,370	6.3	21	11.2	42	4.0	54	6	11
Lower-middle income									
Philippines	1,160	1.1	72	39.5	38	4.1	55	15	24
Thailand	2,960	6.8	60	12.2	17	2.6	20	11	55
Papua New Guinea	1,150	2.7	4	0.7	13	4.0	16	..	..
Indonesia	1,080	6.1	197	71.6	22	4.5	36	9	13
Low-income									
China	750	9.2	1,215	377.0	20	2.6	31	11	4
Lao PDR	400	3.6	5	1.0	13	5.0	21	..	..
Mongolia	360	-2.9	3	1.5	52	3.1	61	..	..
Cambodia	300	..	10	2.2	12	5.8	21	..	..
Vietnam	290	..	75	14.7	19	2.0	19	6	25
Europe and Central Asia									
Upper-middle income									
Slovenia	9,240	..	2	1.0	48	0.1	52	..	..
Czech Republic	4,740	-0.7	10	6.7	64	0.0	66	12	18
Hungary	4,340	-0.8	10	6.6	57	0.4	65	20	31
Croatia	3,800	..	5	2.7	50	1.0	56	..	37

Slovak Republic	3,410	-2.2	5	3.2	52	59	0.9	..	..
Poland	3,230	0.6	39	24.7	58	64	1.0	18	14
Lower-middle income									
Estonia	3,080	-5.6	1	1.1	70	73	-0.7	..	..
Russian Federation	2,410	-7.9	148	112.7	70	76	0.4	19	8
Latvia	2,300	-9.4	2	1.8	68	73	-0.7	..	50
Lithuania	2,280	-6.1	4	2.7	61	73	1.1	..	..
Belarus	2,070	-6.8	10	7.4	57	72	1.4	17	24
Romania	1,600	-1.2	23	12.7	49	56	0.6	9	17
Kazakhstan	1,350	-8.9	16	9.9	54	60	0.6	8	13
Ukraine	1,200	-11.8	51	35.8	62	71	0.4	16	8
Bulgaria	1,190	-4.8	8	5.7	61	69	-0.3	14	21
Uzbekistan	1,010	-4.7	23	9.6	41	41	2.6	10	24
Macedonia, FYR	990	..	2	1.2	54	60	0.4	..	..
Turkmenistan	940	-10.9	5	2.1	47	45	3.6	..	..
Georgia	850	-19.3	5	3.2	52	59	0.9	25	43
Albania	820	..	3	1.2	34	38	2.0	..	..
Yugoslavia, Fed. Rep. (Serbia/Montenegro)	..	..	11	6.1	46	57	1.4	11	20
Low-income									
Bosnia	..	..	..	..	36	42	0.7	..	..
Armenia	630	-20.3	4	2.6	66	69	1.6	34	50
Moldova	590	..	4	2.3	40	52	1.3	..	..
Kyrgyz Republic	550	-9.3	5	1.8	38	39	1.1	..	..
Azerbaijan	480	-16.8	8	4.2	53	56	1.4	25	44
Tajikistan	340	-16.1	6	1.9	34	32	1.9	..	..
Latin America and the Caribbean									
Upper-middle income									
Argentina	8,380	3.8	35	31.1	83	88	2.0	41	39
Uruguay	5,760	3.1	3	2.9	85	91	1.0	42	46
Chile	4,860	5.9	14	12.1	81	84	2.0	34	41

(continued)

Table D.1 Urban population data by country (continued)

	1996	1990-96	1996	1996	1996	1990-96	1996	1996	1995
	GNP per capita (current US\$)	GNP per capita annual growth (percent)	Total population (millions)	Urban population (millions)	Urban population (percentage of total)	Urban population annual growth (percent)	Population in urban agglomerations (>1 million) as percentage of total population	Population in largest city as percentage of total urban population	1995
Brazil	4,400	0.1	161	127.3	79	2.2	33	13	
Mexico	3,670	-1.2	93	68.6	74	2.1	27	25	
Lower-middle income									
Panama	3,080	3.8	3	1.5	56	2.5	..	66	
Venezuela	3,020	0.7	22	19.2	86	2.8	28	16	
Costa Rica	2,640	2.1	3	1.7	43	3.1	..	55	
Peru	2,420	2.7	24	17.3	71	2.8	28	39	
Colombia	2,140	2.3	37	27.4	73	2.8	34	23	
Paraguay	1,850	-1.9	5	2.6	42	4.0	23	43	
Jamaica	1,600	0.2	3	1.4	47	2.0	..	..
Dominican Republic	1,600	1.5	8	5.0	63	3.0	58	65	
Guatemala	1,570	1.0	11	4.3	39	3.1	21	53	
Ecuador	1,500	1.0	12	7.0	60	3.5	28	27	
Bolivia	830	2.1	8	4.7	61	4.0	17	28	
Low-income									
Honduras	660	0.0	6	2.7	44	4.0	..	38	
Nicaragua	380	-0.7	5	2.8	63	4.0	26	41	
Haiti	310	-6.0	7	2.4	32	4.0	21	64	
Cuba	..	..	11	8.4	76	1.2	20	27	

Middle East and North Africa										
High-income										
Israel	15,870	..	6	5.2	89	91	3.4	35	39	39
Upper-middle income										
Libya	..	..	5	4.4	69	86	3.2	34	39	39
Lower-middle income										
Lebanon	2,970	..	4	3.6	74	88	2.8	46	52	52
Tunisia	1,930	2.2	9	5.7	52	63	3.2	19	31	31
Jordan	1,650	1.8	4	3.1	60	72	5.3	29	39	39
Algeria	1,520	-2.1	29	16.2	43	56	3.8	13	24	24
Morocco	1,290	0.8	27	14.2	41	53	3.1	17	23	23
Syria	1,160	4.6	15	7.6	47	53	4.0	28	28	28
Egypt, Arab Rep.	1,080	1.9	59	26.6	44	45	2.1	25	37	37
Iran, Islamic Rep. of	..	2.4	63	37.2	50	60	3.5	22	19	19
Iraq	..	..	21	16.0	66	75	3.5	29	28	28
Low-income										
Yemen	380	..	16	5.4	20	34	6.7	..	..	..
South Asia										
Low-income										
Sri Lanka	740	3.3	18	4.1	22	22	1.8	..	..	..
Pakistan	480	1.3	134	46.5	28	35	4.1	18	22	22
India	380	3.2	945	256.3	23	27	3.0	10	6	6
Bangladesh	260	3.1	122	23.0	11	19	4.7	10	39	39
Nepal	210	2.1	22	2.3	7	11	5.8	..	..	..
Sub-Saharan Africa										
Upper-middle income										
Gabon	3,950	-1.7	1.1	0.6	34	51.1	5.0	..	..	..
Mauritius	3,710	4.1	1.1	0.5	42.4	40.7	0.9	..	..	..
South Africa	3,520	-0.8	37.6	18.6	48.1	49.5	1.9	34	12	12

(continued)

Table D.1 Urban population data by country (continued)

	1996	1990-96	1996	1996	1996	1980	1996	1990-96	1996	1996	1995
	GNP per capita (current US\$)	GNP per capita annual growth (percent)	Total population (millions)	Urban population (millions)	Urban population (percentage of total)	Urban population (percentage of total)	Urban population (percentage of total)	Urban population annual growth (percent)	Population in urban agglomerations (>1 million) as percentage of total population	Population in largest city as percentage of total urban population	1995
Lower-middle income											
Namibia	2,250	1.9	1.6	0.6	37	22.8	62.7	5.6	..	..	..
Botswana	..	..	1.5	0.9	62.7	15.1	..	9.3	..	..	..
Low-income											
Congo, Rep. of	670	-2.7	2.7	1.6	59.2	41	..	4.7	39	65	65
Côte d'Ivoire	660	-0.3	14.3	6.3	44	34.8	..	4.5	20	46	46
Lesotho	660	0.7	2	0.5	24.8	13.4	..	5.7	..	..	..
Cameroon	610	-4.8	13.7	6.2	45.5	31.4	..	5.0	19	22	22
Zimbabwe	610	-1.5	11.2	3.7	32.5	22.3	..	4.7	13	40	40
Senegal	570	0.1	8.5	3.8	44.4	35.9	..	4.1	21	47	47
Guinea	560	1.7	6.8	2	29.9	19.1	..	5.3	24	81	81
Mauritania	470	0.6	2.3	1.2	52.5	27.4	..	5.8	..	..	..
Ghana	360	1.4	17.5	6.4	36.4	31.2	..	3.9	10	27	27
Zambia	360	-3.0	9.2	4	43.3	39.8	..	3.4	15	34	34
Benin	350	0.7	5.6	2.2	39.2	27.3	..	5.0	..	..	..
Kenya	320	-0.4	27.4	8.1	29.5	16.1	..	6.1	7	24	24
Central African Republic	310	-2.1	3.3	1.3	39.5	35.1	..	3.1	..	..	..
Uganda	300	3.6	19.7	2.5	12.8	8.8	..	5.5	..	40	40
Togo	300	-3.5	4.2	1.3	31.2	22.9	..	4.5	..	..	..
Angola	270	-6.4	11.1	4	31.6	20.9	..	5.4	20	62	62
Guinea-Bissau	250	2.1	1.1	0.2	22.1	16.9	..	3.7	..	..	..
Madagascar	250	-1.8	13.7	3.7	27	18.3	..	5.1	..	25	25

Nigeria	240	1.4	114.6	46.3	26.9	40.4	5.3	11	23
Mali	240	-0.4	10	2.7	18.5	27.4	5.1	..	35
Burkina Faso	230	-0.1	10.7	1.8	8.5	16.4	6.0	..	50
Niger	200	-1.9	9.3	1.7	12.6	18.7	5.7	..	..
Rwanda	190	-7.5	6.7	0.4	4.7	5.8	1.3	..	..
Malawi	180	1.1	10	1.4	9.1	13.9	5.5	..	..
Burundi	170	-5.3	6.4	0.5	4.3	7.8	6.2	..	..
Tanzania	170	..	30.5	7.6	14.8	24.9	6.0	6	24
Chad	160	-1.8	6.6	1.5	18.8	22.5	3.6	..	58
Congo, Dem. Rep. of	130	-9.7	45.2	13.1	28.7	29	3.7	10	34
Ethiopia	100	0.8	58.2	9.2	10.5	15.8	5.9	4	28
Mozambique	80	2.8	18	6.3	13.1	35.1	8.1	13	38
Eritrea	..	..	3.7	0.6	13.5	17.4	4.3	..	..
Sudan	..	..	27.3	8.8	20	32.3	5.3	..	..

.. Not available.

Source: World Bank 1998b.

Table D.2 Indicators related to city competitiveness

City	Country	Population urban area (thousands)	Population metro area (thousands)	Informal employment (percent)	Electricity (percent)	Household connection level			
						Telephone (percent)	Mean travel time to work (minutes)	House price to income ratio	
OECD high-income									
Population more than 1 million									
Paris	France	9,319	10,663	..	100	94	35	4.3	..
Cologne	Germany	1,006	..	..	100	97	..	..	..
Population 300,000–1 million									
Amsterdam	Netherlands	724	1,367	2	100	90	22	3.5	..
Dubai	United Arab Emirates	594	611	..	100	83	18	..	..
Cardiff	United Kingdom	306	1,329	..	100	90	..	2.9	..
East Asia and Pacific									
Population more than 1 million									
Jakarta	Indonesia	13,048	..	33	99	14	82	9.9	..
Hefei	China	3,809	..	2	100	39	..	..	..
Semarang	Indonesia	1,076	..	35	95	19	25	5.4	..
Population less than 300,000									
Cebu	Philippines	2,840	2,840	4	79	4	..	..	..
Hanoi	Vietnam	2,327	2,327	..	100	0	..	10.4	..
Chengdu	China	9,473	9,473	..	100	0	..	..	..
Europe and Central Asia									
Population more than 1 million									
Bucharest	Romania	2,350	4,436	6	99	79	78	6.8	..
Athens	Greece	1,464	3,054	..	100	86	53	3.1	..
Belgrade	Yugoslavia (Serbia)	1,318	..	..	97	32	35	16.0	..

Tbilisi	Georgia	1,295		5	100	80	70	
Prague	Czech Republic	1,214	1,651		100	72	57	11.9
Population 300,000–1 million								
Bishkek	Kyrgyz Republic	703	631	32	100	70	35	..
Bratislava	Slovak Republic	651	449	..	100	81	34	5.6
Budapest	Hungary	320	1,936	..	100	47	40	7.7
Latin America and the Caribbean								
Population more than 1 million								
Lima	Peru	6,232	6,346	49	76	19	35	9.2
Rio de Janeiro	Brazil	5,554	9,947	34	100	53	51	2.5
Bogotá	Colombia	5,314		54	99	84	39	3.1
Santiago	Chile	4,820	5,166	23	94	54	36	2.4
Quito	Ecuador	1,615		34	100	42		2.4
Recife	Brazil	1,503	2,682	41	99	37	40	2.2
San Salvador	El Salvador	1,343	1,549	38	98	31		2.7
Guatemala City	Guatemala	1,327	1,774	5	..	..	40	9.0
Population 300,000–1 million								
La Paz	Bolivia	726	1,139	17	94	..	35	1.2
Middle East and North Africa								
Population more than 1 million								
Cairo	Egypt, Arab Rep.	14,524	..	..	99	28	60	4.9
Tunis	Tunisia	1,684	1,780	28	94	23	45	5.2
Rabat	Morocco	1,345	1,549	..	93	15	..	6.8
Population 300,000–1 million								
Gharbeya	Egypt, Arab Rep.	383	3,437	..	99	22	30	3.9
Assiout	Egypt, Arab Rep.	322	2,843	..	97	22	25	3.1
Population less than 300,000								
Tenth of Ramadan	Egypt, Arab Rep.	50	50	..	100	..	..	7.6

(continued)

Table D.2 Indicators related to city competitiveness (continued)

City	Country	Population urban area (thousands)	Population metro area (thousands)	Informal employment (percent)	Electricity (percent)	Household connection level		
						Telephone (percent)	Mean travel time to work (minutes)	House price to income ratio
South Asia								
Population more than 1 million								
Mumbai (Bombay)	India	12,810	10,265	68	90	18	33	3.5
Dhaka	Bangladesh	7,500	6,610	..	74	23	..	5.0
Chennai (Madras)	India	5,651	..	61	82	18	22	7.0
Lahore	Pakistan	5,150	4,509	60	97	..	25	16.0
Bangalore	India	4,472	2,697	32	82	16	18	10.8
Colombo	Sri Lanka	2,190	4,390	19	61	64	35	..
Varanasi	India	1,078	..	49	86	22	22	5.1
Population less than 300,000								
Tangail	Bangladesh	155	..	..	67	2	15	8.0
Sub-Saharan Africa								
Population more than 1 million								
Lagos	Nigeria	5,968	366	69	100	2	85	10.0
Abidjan	Côte d'Ivoire	2,462	..	65	64	3	90	7.2
Population 300,000–1 million								
Khartoum	Sudan	827	1,564	15	45	2	42	..
Ouagadougou	Burkina Faso	716	736	60	35	13	22	8.5
Niamey	Niger	506	42	51	42	10	27	7.3
N'Djamena	Chad	333	532	38	9	3	64	1.8

.. Not available.

Note: Within regions cities are ordered by size of population in the urban area.

Source: Extracted from the UNCHS Urban Indicators Program prototype database, which is being updated and refined. Cities shown are a subset of cities in the database.

Table D.3 Indicators related to city livability

City	Country	Population of urban area (thousands)	Child mortality rate (percent)	Households below poverty line		Households with connection			Children per classroom		Housing				
				All (percent)	Female-headed (percent)	Income disparity ^a (percent)	Water (percent)	Sewerage (percent)	Regular waste collection (percent)	Primary school	Secondary school	Murders per 1,000 people	Permanent structures (percent)	In compliance (percent)	
OECD high-income															
Population more than 1 million															
Paris	France	9,319	0.91	..	..	14.71	100.00	98.00	100.00	100.00	24	25	0.06	99	99
Cologne	Germany	1,006	0.20	..	..	..	100.00	99.00	100.00	100.00	23	18	0.06	100	99
Population 300,000–1 million															
Amsterdam	Netherlands	724	0.52	20.50	29.20	5.25	100.00	100.00	100.00	100.00	25	30	0.07	98	100
Cardiff	United Kingdom	306	0.10	..	..	..	99.90	99.80	100.00	100.00	28	24	0.01	100	85
Atlanta	United States	..	1.20	24.60	45.00	22.42	100.00	97.70	..	..	17	17	0.12	100	99
East Asia and Pacific															
Population more than 1 million															
Hefei	China	3,809	1.40	0.30	..	13.77	100.00	56.60	..	..	50	43	..	90	95
Samarang	Indonesia	1,076	5.30	6.80	5.39	5.98	43.00	0.00	69.00	69.00	34	45	0.01	57	65
Europe and Central Asia															
Population more than 1 million															
Bucharest	Romania	2,350	2.54	6.00	..	..	96.00	90.00	86.00	86.00	78	48	0.04	..	..
Athens	Greece	1,464	1.10	..	..	..	100.00	94.50	90.00	90.00	24	28	0.03	..	..
Belgrade	Yugoslavia (Serbia)	1,318	1.83	2.10	..	..	99.00	71.00	86.00	86.00	27	32	..	100	92

(continued)

Table D.3 Indicators related to city livability (continued)

City	Country	Population of urban area (thousands)	Child mortality rate (percent)	Households below poverty line		Households with connection			Children per classroom			Housing		
				All (percent)	Female-headed (percent)	Income disparity ^a (percent)	Water (percent)	Sewerage (percent)	Regular waste collection (percent)	Primary school	Secondary school	Murders per 1,000 people	Permanent structures (percent)	In compliance (percent)
Tbilisi	Georgia	1,295	0.37	80.00	88.00	..	100.00	100.00	52.00	..	26	0.07	..	79
Riga	Latvia	1,026	0.30	15.00	..	..	99.00	97.00	85.00	25	23	0.33	95	90
Population 300,000–1 million														
Bishkek	Kyrgyz Republic	703	4.41	..	..	..	92.00	65.00	89.00	..	..	0.17	..	..
Bratislava	Slovak Republic	651	0.20	2.20	..	5.13	99.00	96.00	100.00	26	30	0.03	100	100
Budapest	Hungary	320	2.40	36.60	50.60	9.19	98.00	90.00	100.00	23	30	0.05	99	98
Population less than 300,000														
Baku	Azerbaijan	..	1.95	87.10	58.30	8.69	94.90	79.30	..	..	23	0.10	99	85
Latin America and the Caribbean														
Population more than 1 million														
Lima	Peru	6,232	2.40	29.40	6.90	..	69.90	68.80	57.00	47	51	2.30	89	40
Rio de Janeiro	Brazil	5,554	3.18	18.50	21.80	20.35	95.30	87.10	88.00	32	38	0.75	99	75
Bogotá	Colombia	5,314	6.50	22.91	23.18	14.65	98.87	98.82	93.51	..	..	0.82	96	96
Santiago	Chile	4,820	1.70	21.60	19.90	16.59	98.40	91.70	95.00	35	34	0.03	91	73
Havana	Cuba	2,176	2.10	..	..	..	85.00	85.00	100.00	28	31	..	75	97
Quito	Ecuador	1,615	2.40	25.00	..	..	94.10	92.80	88.90	..	..	0.04	71	50
Recife	Brazil	1,503	3.85	34.80	42.50	28.75	79.10	37.50	95.00	34	47	0.34	93	30
San Salvador	El Salvador	1,343	4.50	40.10	13.90	12.74	85.70	80.10	45.89	35	43	0.12	94	85
Guatemala City	Guatemala	1,327	12.20	79.90	72.90	76.75	52.42	..	53.00	34	25	0.33	61	36

Population 300,000–1 million													
Chennai (Madras)	5,651	2.23	18.50	..	8.03	33.90	37.20	90.00	30	61	0.02	75	63
La Paz	726	6.20	62.23	61.13	11.66	54.71	58.18	92.00	36	37	0.06	70	99
Middle East and North Africa													
Population more than 1 million													
Tunis	1,684	4.30	6.30	11.70	6.00	92.10	72.70	61.00	31	36	..	70	75
Rabat	1,345	6.00	7.00	..	8.07	87.00	95.00	90.00	33	33	..	86	80
Population 300,000–1 million													
Gharbeya	383	5.70	45.00	12.20	6.05	95.60	90.50	45.00	44	40	0.01	86	62
Assiout	322	9.40	53.00	13.30	6.74	72.30	30.00	25.00	42	39	0.01	86	50
Population less than 300,000													
Amman	..	3.90	16.20	7.30	13.88	96.30	79.00	100.00	30	27	0.06	99	84
South Asia													
Population more than 1 million													
Mumbai (Bombay)	12,810	1.75	17.00	6.62	6.68	54.70	51.40	90.00	48	31	0.14	92	52
Lahore	5,150	9.19	30.00	1.61	7.72	84.00	74.00	50.00	49	64	0.06	67	15
Bangalore	4,472	0.90	12.00	..	6.45	47.30	35.30	96.00	32	36	0.04	88	66
Colombo	2,190	2.91	13.91	40.00	3.39	63.50	60.00	94.00	41	48	0.08	70	87
Population less than 300,000													
Tangail	155	10.60	37.00	56.00	6.88	21.08	..	..	31	38	20.00	18	54
Sub-Saharan Africa													
Population more than 1 million													
Abidjan	2,462	3.70	36.50	..	7.86	61.70	45.00	70.00	31	48	0.10	79	50

(continued)

Table D.3 Indicators related to city livability (continued)

City	Country	Population of urban area (thousands)	Households below poverty line			Households with connection			Children per classroom			Housing	
			All (percent)	Female-headed (percent)	Income disparity ^a (percent)	Water (percent)	Sewerage (percent)	Regular waste collection (percent)	Primary school	Secondary school	Murders per 1,000 people	Permanent structures (percent)	In compliance (percent)
Population 300,000–1 million													
Khartoum	Sudan	827	69.88	24.47	..	52.10	2.77	12.00	59	57	0.06	95	79
Lomé	Togo	802	12.10	..	..	42.65	0.00	37.00	52	50	0.13	90	..
Ouagadougou	Burkina Faso	716	11.40	..	3.34	32.37	0.00	40.00	77	62	..	18	..
Niamey	Niger	506	42.00	60.00	13.16	30.00	0.00	25.00	49	44	0.07	53	23
Bangui	Central African Republic	471	40.00	26.60	..	12.50	0.50	25.00	58	92	0.07	26	13
N'Djamena	Chad	333	12.40	..	..	17.00	0.00	63.00	71	81	1.00	13	2
Population less than 300,000													
Dar es Salaam	Tanzania	..	23.00	..	4.06	22.00	6.00	25.00	85	30	0.10	66	40
Bandar Seri Begawan	Brunei Darussalam	8.30	..	..	98.00	32.00	100.00	22	28	1.00	..	..	..

..Not available.

Note: Within regions cities are ordered by size of population in the urban area.

a. Ratio of average income in top quintile to bottom quintile.

Source: Extracted from UNCHS Urban Indicators Program prototype database, which is being updated and refined. Cities shown are a subset of cities in the database.

Table D.4 Indicators related to city governance and management

City	Country	Population urban area (thousands)	Population metro area (thousands)	Population growth rate 1993 (percent)	Local government employees per 1,000 people	Wages as percentage of local government budget	Can higher levels of government	
							Close the local government?	Remove councillors?
OECD high-income countries								
Population more than 1 million								
Paris	France	9,319	10,663	0.6	2.3	47.0	..	..
Melbourne	Australia	3,023	..	1.1	..	..	yes	all
Cologne	Germany	1,006	..	0.2	23.1	27.2	..	none
Population 300,000–1 million								
Amsterdam	Netherlands	724	1,367	0.6	33.9	2.6	yes	some
Dubai	United Arab Emirates	594	611	6.4	60.0	..	..	..
Cardiff	United Kingdom	306	1,329	1.0	10.0	27.1	yes	all
East Asia and Pacific								
Population more than 1 million								
Jakarta	Indonesia	13,048	..	2.1	8.4	28.0	yes	some
Hefei	China	3,809	..	0.7	..	0.0	..	..
Semarang	Indonesia	1,076	..	1.5	5.0	25.0	..	some
Population less than 300,000								
Chengdu	China	..	9,473	0.6	..	..	..	..
Ulaanbaatar	Mongolia	..	599	1.7	1.2	0.0	yes	all

(continued)

Table D.4 Indicators related to city governance and management (continued)

City	Country	Population urban area (thousands)	Population metro area (thousands)	Population growth rate 1993 (percent)	Local government employees per 1,000 people	Wages as percentage of local government budget	Can higher levels of government	
							Close the local government?	Remove councillors?
Europe and Central Asia								
Population more than 1 million								
Bucharest	Romania	2,350	4,436	1.5	8.8	15.0	..	..
Athens	Greece	1,464	3,054	0.2	5.4	46.5	..	..
Belgrade	Yugoslavia (Serbia)	1,318	..	..	3.7	1.7	..	..
Tbilisi	Georgia	1,295	..	0.8	1.0	8.0	yes	some
Prague	Czech Republic	1,214	1,651	-0.2	3.7	2.2	..	..
Riga	Latvia	1,026	1,168	-2.1	1.5	2.2	..	..
Population 300,000–1 million								
Bishkek	Kyrgyz Republic	703	631	-4.3	0.6	3.7	..	..
Bratislava	Slovak Republic	651	449	0.5	2.5	..	..	..
Budapest	Hungary	320	1,936	-1.7	..	21.0	..	all
Latin America and the Caribbean								
Population more than 1 million								
Lima	Peru	6,232	6,346	2.7	2.8	47.0	..	none
Rio de Janeiro	Brazil	5,554	9,947	0.7	13.8	38.8	..	all
Bogotá	Colombia	5,314	..	2.1	9.1	42.4	..	..
Santiago	Chile	4,820	5,166	1.8	2.0	16.5	..	none
Havana	Cuba	2,176	..	1.1	32.4	10.1	..	..
Quito	Ecuador	1,615	..	..	3.0	27.5	..	some
Recife	Brazil	1,503	2,682	0.7	20.0	45.0	..	..

San Salvador	El Salvador	1,343	1,549	3.9	3.3	52.4	..	..
Guatemala City	Guatemala	1,327	1,774	3.2	3.4	22.4	..	none	
Valencia	Venezuela	1,084	..	2.5	..	..	..	..
Population 300,000–1 million									
La Paz	Bolivia	726	1,139	1.8	4.0	31.6	..	..
Middle East and North Africa									
Population more than 1 million									
Cairo	Egypt, Arab Rep.	14,524	..	1.6	80.0	72.3	yes	some	
Tunis	Tunisia	1,684	1,780	2.7	26.0	45.6	yes	some	
Rabat	Morocco	1,345	1,549	3.7	11.0	..	..	..
Population 300,000–1 million									
Gharbeya	Egypt, Arab Rep.	383	3,437	1.9	59.5	85.9	yes	some	
Assiout	Egypt, Arab Rep.	322	2,843	2.6	45.1	82.1	yes	some	
Population less than 300,000									
Tenth of Ramadan	Egypt, Arab Rep.	50	50	3.8	..	..	yes	some
South Asia									
Population more than 1 million									
Mumbai (Bombay)	India	12,810	10,265	2.0	14.0	42.9	yes	all	
Dhaka	Bangladesh	7,500	6,610	5.5	6.2	15.7	..	..
Chennai (Madras)	India	5,651	..	2.1	7.5	51.5	yes	all	
Lahore	Pakistan	5,150	4,508	3.6	4.1	63.6	..	..
Bangalore	India	4,472	2,697	4.1	6.3	45.1	yes	all	
Colombo	Sri Lanka	2,190	4,390	0.5	14.8	57.0	yes	all	
Population less than 300,000									
Tangail	Bangladesh	155	..	3.4	0.7	39.5	yes	none	

(continued)

Table D.4 Indicators related to city governance and management (continued)

City	Country	Population urban area (thousands)	Population metro area (thousands)	Population growth rate 1993 (percent)	Local government employees per 1,000 people	Wages as percentage of local government budget	Can higher levels of government		
							Close the local government?	Remove councillors?	Remove councillors?
Sub-Saharan Africa									
Population more than 1 million									
Addis Ababa	Ethiopia	8,044	2,532	4.4	..	50.3	yes	yes	some
Lagos	Nigeria	5,968	366	4.5	2.7	60.0	yes	yes	all
Kinshasa	Congo, Dem. Rep. of	4,566	..	6.2	4.4	3.8	..	..	some
Abidjan	Côte d'Ivoire	2,462	..	5.0	2.4	22.9	yes	yes	all
Population 300,000–1 million									
Khartoum	Sudan	826	1,563	6.6	30.0	20.3	yes	yes	all
Lomé	Togo	802	..	6.4	1.2	..	..	..	..
Ouagadougou	Burkina Faso	716	736	9.4	0.8	44.6	..	..	all
Niamey	Niger	505	..	4.8	0.8	23.6	yes	yes	some
Bangui	Central African Republic	471	..	3.1	1.1	98.2	..	..	..
N'Djamena	Chad	333	532	5.7	1.3	49.0	yes	yes	all

..Not available.

Note: Within Regions cities are sorted by "population urban area."

Source: Extracted from UNCHS Urban Indicators Program's prototype database, which is being updated and refined. Cities shown are a subset of cities in the database.

Table D.5 Indicators related to city bankability

City	Country	Population urban area (thousands)	Major sources of local government income (as percentage of total)							Debt service charge	Mortgage to credit ratio (percent)
			Taxes	User charges	Other revenues	Transfers	Borrowings	Other			
OECD high-income											
Population more than 1 million											
Paris	France	9,319.0	41.0	5.0	0.0	15.0	7.0	32.0	9.2	19.7	..
Cologne	Germany	1,006.0	37.5	17.9	20.0	16.0	6.0	2.6	2.0	..	..
Population 300,000–1 million											
Amsterdam	Netherlands	724.1	5.0	0.0	0.0	95.0	0.0	0.0	..	2.5	..
Cardiff	United Kingdom	306.0	3.9	15.8	12.2	59.9	8.2	0.0	11.7	79.0	..
East Asia and Pacific											
Population more than 1 million											
Jakarta	Indonesia	13,047.7	43.6	8.3	0.8	30.0	12.4	5.2	16.7	4.4	..
Hefei	China	3,808.8	..	..	..	..	..	..	..	..	..
Semarang	Indonesia	1,076.2	14.4	11.3	18.4	32.8	3.4	19.8	6.7	4.4	..
Europe and Central Asia											
Population more than 1 million											
Bucharest	Romania	2,349.5	17.5	0.0	0.0	63.6	0.0	18.9	0.0	3.0	..
Athens	Greece	1,463.7	4.8	26.9	4.6	47.9	5.3	10.4	6.2	..	..
Belgrade	Yugoslavia (Serbia)	1,318.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	25.0	..
Prague	Czech Republic	1,214.0	56.4	15.4	7.0	10.2	9.5	1.5	33.0	3.0	..
Population 300,000–1 million											
Bishkek	Kyrgyz Republic	703.1	97.6	0.0	0.0	0.0	0.0	2.4	..	..	..
Budapest	Hungary	319.7	20.6	13.2	14.1	43.5	3.0	5.6	2.6	8.4	..

(continued)

Table D.5 Indicators related to city bankability (continued)

City	Country	Population urban area (thousands)	Major sources of local government income (as percentage of total)							Debt service charge	Mortgage to credit ratio (percent)
			Taxes	User charges	Other revenues	Transfers	Borrowings	Other			
Latin America and the Caribbean											
Population more than 1 million											
Lima	Peru	6,232.0	64.4	13.6	7.7	11.0	3.0	0.3	3.3	3.6	..
Rio de Janeiro	Brazil	5,554.5	26.8	6.1	39.0	20.2	5.0	3.0	7.0	36.0	..
Bogotá	Colombia	5,314.4	58.8	6.7	2.2	11.5	2.6	0.2	26.2	29.6	..
Quito	Ecuador	1,615.1	14.5	10.6	16.6	41.1	10.8	6.4	7.6	22.3	..
Recife	Brazil	1,503.2	21.1	2.6	21.2	42.0	0.5	12.6	3.4	36.0	..
San Salvador	El Salvador	1,342.6	41.0	36.0	5.0	8.0	4.0	6.0	6.6	..	..
Guatemala City	Guatemala	1,327.0	26.0	38.0	9.0	20.0	5.0	2.0	5.1	3.5	..
Population 300,000–1 million											
La Paz	Bolivia	726.8	21.9	3.4	5.8	35.8	9.7	23.3	13.8	10.7	..
Middle East and North Africa											
Population more than 1 million											
Cairo	Egypt, Arab Rep.	14,524.0	18.8	20.8	1.6	46.3	5.1	7.4	3.5	7.4	..
Tunis	Tunisia	1,683.9	35.0	7.0	4.0	39.0	15.0	0.0	2.7	8.4	..
Rabat	Morocco	1,345.3	35.6	0.0	15.8	0.0	20.1	28.5	13.6	..	..
Population 300,000–1 million											
Gharbeya	Egypt, Arab Rep.	383.0	8.6	6.9	0.3	78.0	2.2	4.0	0.4	7.4	..
Assiout	Egypt, Arab Rep.	322.0	8.7	4.6	0.4	77.4	6.4	2.5	0.5	7.4	..

South Asia											
Population more than 1 million											
Mumbai (Bombay)	India	12,809.9	42.7	37.2	1.9	0.9	9.6	7.8	1.1	2.7	..
Chennai (Madras)	India	5,650.8	75.2	4.8	0.1	5.9	7.3	6.7	2.6	2.6	..
Lahore	Pakistan	5,149.8	40.2	32.5	3.4	12.2	12.2	0.3	1.2	..	..
Bangalore	India	4,472.2	67.3	1.1	4.8	9.5	3.8	13.7	0.1	2.8	..
Colombo	Sri Lanka	2,190.0	68.0	6.0	4.0	18.0	0.0	4.0	1.6	24.8	..
Population 300,000–1 million											
Bhiwandi	India	571.7	75.7	2.1	2.5	7.2	0.7	11.7	1.2	5.2	..
Population less than 300,000											
Tangail	Bangladesh	154.7	42.9	22.5	2.3	10.4	10.6	0.0	5.3	0.6	..
Sub-Saharan Africa											
Population more than 1 million											
Lagos	Nigeria	5,968.4	2.3	..	27.7	69.9	..	..	..	..	..
Population 300,000–1 million											
Khartoum	Sudan	826.5	60.0	20.0	10.0	0.0	0.0	1.0	0.0	..	..
Ouagadougou	Burkina Faso	716.5	63.5	6.5	30.0	0.0	0.0	0.0	..	..	..
Niamey	Niger	505.5	40.2	0.3	44.4	3.7	0.0	11.5	0.0	..	..
N'Djamena	Chad	333.4	14.2	21.4	8.1	46.0	0.0	10.3	..	0.8	..

..Not available.

Note: Within regions cities are ordered by size of population in the urban area.

Source: Extracted from UNCHS Urban Indicators Program's prototype database, which is being updated and refined. Cities shown are a subset of cities in the database.

Table D.6 The world's 30 largest cities: 1950, 1990, and 2015

City	1950			1990			2015		
	Country income group	Population (millions)	City	Country income group	Population (millions)	City	Country income group	Population (millions)	City
New York	High	12.3	Tokyo	High	25.0	Tokyo	High	28.7	Tokyo
London	High	8.7	New York	High	16.1	New York	High	17.6	New York
Tokyo	High	6.9	Los Angeles	High	11.5	Los Angeles	High	14.3	Los Angeles
Paris	High	5.4	Osaka	High	10.5	Osaka	High	10.6	Osaka
Essen	High	5.3	Paris	High	9.3	Paris	High	9.6	Paris
Chicago	High	4.9	London	High	7.3	São Paulo	Upper-middle	20.8	São Paulo
Osaka	High	4.1	Chicago	High	6.8	Mexico City	Upper-middle	18.8	Mexico City
Los Angeles	High	4.0	Essen	High	6.4	Buenos Aires	Upper-middle	12.4	Buenos Aires
Milan	High	3.6	Mexico City	Upper-middle	15.1	Rio de Janeiro	Upper-middle	11.6	Rio de Janeiro
Berlin	High	3.3	São Paulo	Upper-middle	14.8	Jakarta	Lower-middle	21.2	Jakarta
Philadelphia	High	2.9	Buenos Aires	Upper-middle	10.6	Metro Manila	Lower-middle	14.7	Metro Manila
Detroit	High	2.8	Rio de Janeiro	Upper-middle	9.5	Cairo	Lower-middle	14.5	Cairo
Naples	High	2.8	Seoul	Lower-middle	10.6	Seoul	Lower-middle	13.1	Seoul
Manchester	High	2.5	Jakarta	Lower-middle	9.3	Istanbul	Lower-middle	12.3	Istanbul
Birmingham	High	2.3	Moscow	Lower-middle	9.0	Bangkok	Lower-middle	10.6	Bangkok
Frankfurt	High	2.3	Cairo	Lower-middle	8.6	Lima	Lower-middle	10.5	Lima
Boston	High	2.2	Metro Manila	Lower-middle	8.0	Teheran	Lower-middle	10.2	Teheran
Hamburg	High	2.2	Istanbul	Lower-middle	6.5	Mumbai	Low	27.4	Mumbai
Buenos Aires	Upper-middle	5.0	Lima	Lower-middle	6.5	Lagos	Low	24.4	Lagos
Mexico City	Upper-middle	3.1	Teheran	Lower-middle	6.4	Shanghai	Low	23.4	Shanghai
Rio de Janeiro	Upper-middle	2.9	Bangkok	Lower-middle	5.9	Karachi	Low	20.6	Karachi
São Paulo	Upper-middle	2.4	Shanghai	Low	13.5	Beijing	Low	19.4	Beijing
Moscow	Lower-middle	5.4	Mumbai	Low	12.2	Dhaka	Low	19.0	Dhaka
St. Petersburg	Lower-middle	2.9	Beijing	Low	10.9	Delhi	Low	17.6	Delhi
Cairo	Lower-middle	2.4	Calcutta	Low	10.7	Calcutta	Low	17.6	Calcutta
Shanghai	Low	5.3	Tianjin	Low	9.3	Tianjin	Low	17.0	Tianjin
Calcutta	Low	4.4	Delhi	Low	8.2	Lahore	Low	10.8	Lahore
Beijing	Low	3.9	Karachi	Low	8.0	Hyderabad	Low	10.7	Hyderabad
Mumbai	Low	2.9	Lagos	Low	7.7	Kinshasa	Low	9.9	Kinshasa
Tianjin	Low	2.4	Dhaka	Low	5.9	Madras	Low	9.5	Madras

Source: United Nations 1995.

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