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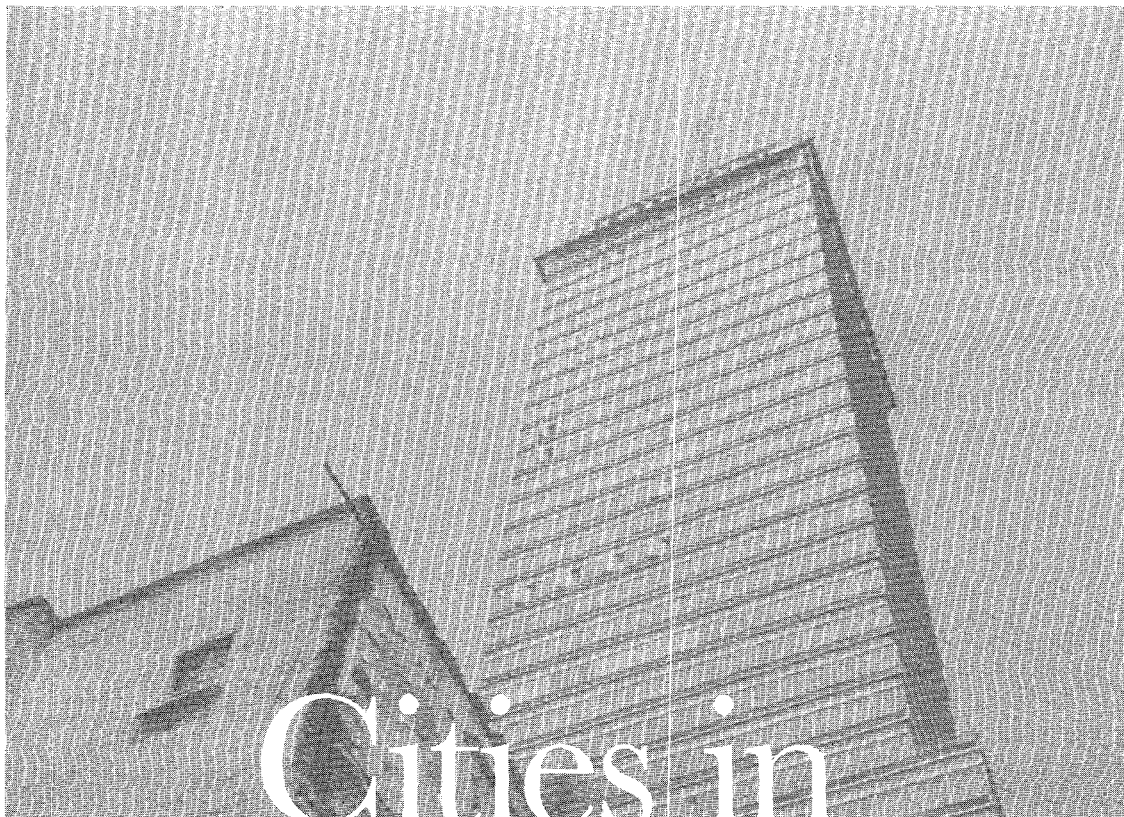
March 2000



Cities in Transition

Executive Summary
A Strategic View of Urban
and Local Government Issues

**The World Bank
Infrastructure Group
Urban Development**



Executive Summary
A Strategic View of Urban
and Local Government Issues

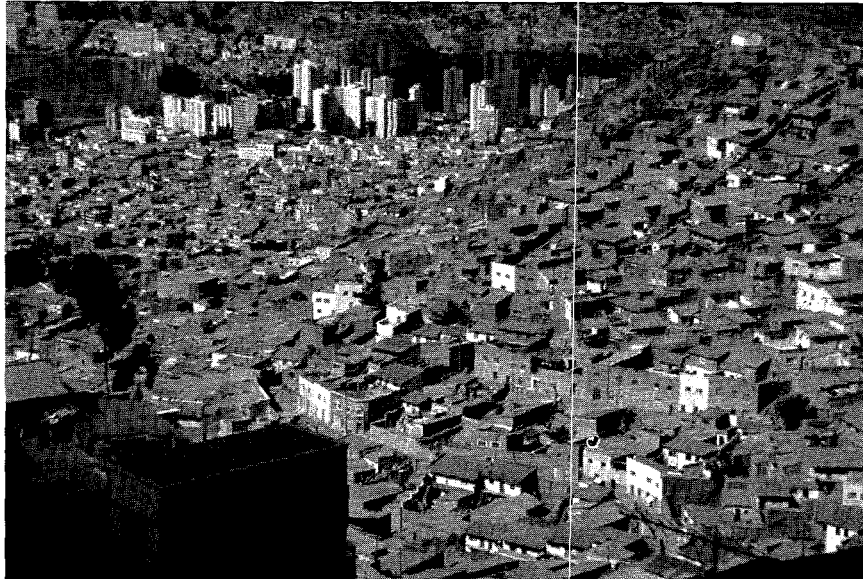
A Note to the Reader

This booklet contains the executive summary of *Cities in Transition: A Strategic View of Urban and Local Government Issues*.

The full-length study has been published by the World Bank. To order copies, please use the form provided at the back of this booklet.

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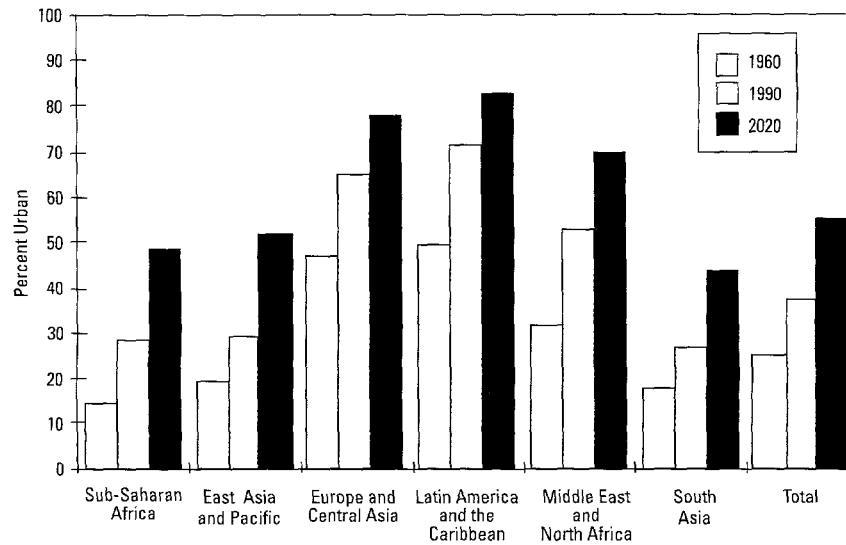
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First printing March 2000



At the threshold of the 21st century cities and towns form the front line 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

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



Source: United Nations data.

many traditional urban centers toward cities and towns that can demonstrate market 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.

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 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 intermediating savings and allowing the accumulation of real wealth in the form of 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 house-

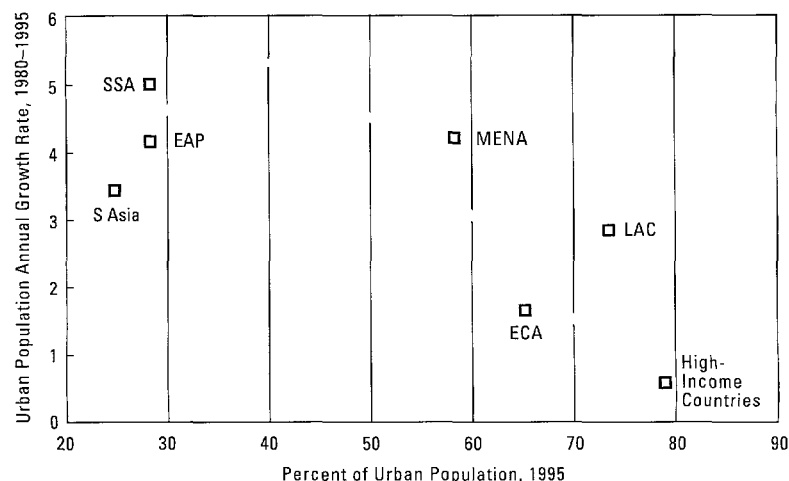


holds, businesses, and the nation, as the recent crisis in East Asia demonstrated. Although the collapse of real estate markets there was provoked by weak financial sector regulations, it was also rooted in flawed urban real estate policies that had created scarcities of developed land and encouraged 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.

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 systems 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.

The development of urban areas is closely tied to the rural economy through exchanges of goods, labor, services, capital, social transactions, information and technology, benefiting residents in both locations. A well-integrated national labor mar-

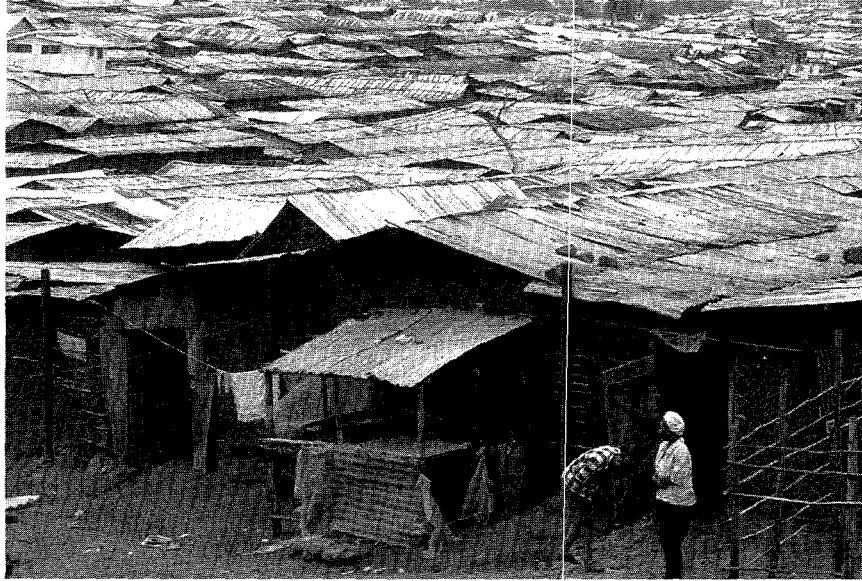
Figure 1.2 Most developing countries are in, or are entering, the high-growth phase of the urban transition



Source: WDI.

ket 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.

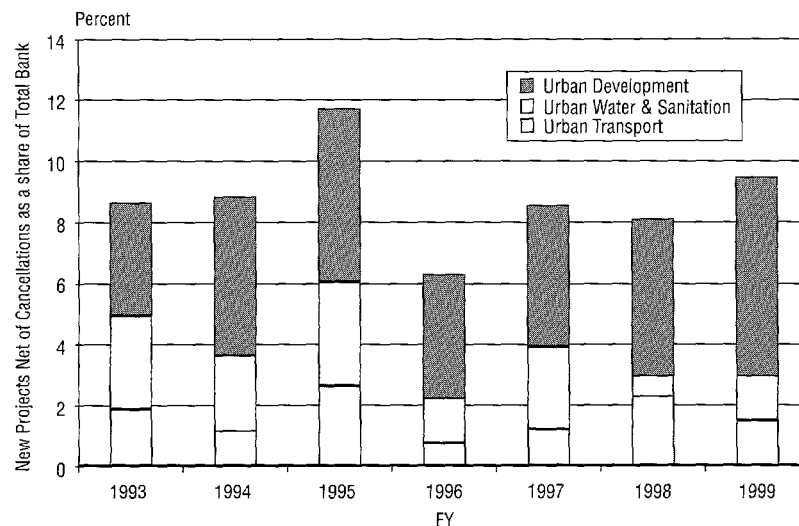
Distinctions among cities, towns, and rural areas are becoming almost obsolete as economic activity spreads outward into vast semiurbanized and rural industrialized regions, such as the Central Valley of Mexico, the Mumbha-Pune-Nasik corridor in India, and the Eastern Seaboard of Thailand. Rural industrialization, 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 workforce, by 1990 (Harris 1997). 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.



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) being 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 both individual and community vulnerability that undermine 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.

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.

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 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 requires a closer working relationship with the level of government nearest to the people. Fostering rural-urban synergies and well-integrated city strategies to help countries realize the promise of urbaniza-

tion represents a prime opportunity for the Bank to pursue a new “comprehensive 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 post-conflict reconstruction operations.

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 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

¹ Although this document takes a broad perspective on 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 (described in Attachment 1).

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 demanded and underpins the Bank's new strategy.

The Bank's pipeline of urban-related activities is growing (Attachment 2). 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 municipal government needs have become more apparent and counterpart agencies have been decentralized. The urban 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.

Viewing urbanization within a comprehensive development framework.

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 out-

comes in the extent and nature of poverty, in the patterns and growth rates of investment and employment, in the accessibility or spatial dispersion (e.g., “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 perspective 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 in terms of their impact on reducing poverty. The framework would help in monitoring 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.

Addressing sources of both market and government failure. 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 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; 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.

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* (Attachment 3). The strategy proposes an agenda for helping cities develop along these four inter-related 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. Also necessary is to address city-level factors limiting secure land tenure and access to adequate housing, credit, transport, health care, 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 addressing the sources of environmental degradation, natural disasters, crime and violence, preserving cultural heritage, and providing 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

Box 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 governments 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.

transport, water supply, 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 outlined the basic

Box 2 Increasing the efficiency and market-responsiveness of housing and real estate

In Mexico, a series of four housing operations approved between 1986 and 1992, totaling over US\$1 billion, spurred commercial banks to lend to home buyers and 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.

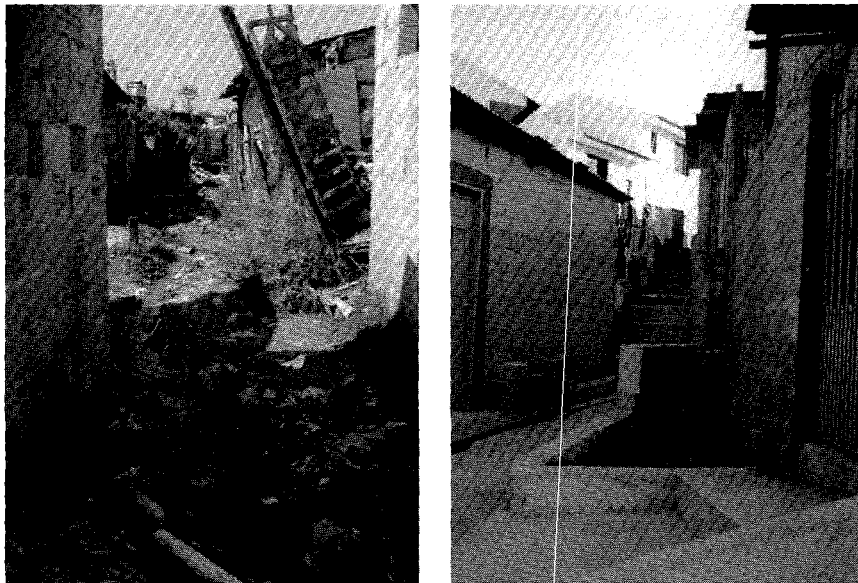
The Second Urban Project in Mali (closed in FY94) supported the creation of a privately managed agency to auction large tracts of formerly public land for sale as individual plots with secured titles. The auctioning created an efficient and transparent process which by its large scale avoided speculation, recovered full costs, and delivered profit for the city and the central government.

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. Infrastructure reform and investment projects in the infrastructure sector portfolios (water and sanitation, electricity, telecommunication, and transport), and programs that establish generally favorable trade regimes and pro-competitive environments for industry, complement this urban agenda.

Helping cities define proactive strategies to enhance their prospects for economic growth and development in the global marketplace 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 develop-

Box 3 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 subregions' strengths and bottlenecks. The approach, applied initially to areas within 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.



ment with urban clients through participatory processes involving a wide range of stakeholders. Local economic development approaches should be explored that promote diversified growth, such as 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 the emphasis on strong underlying incentives for local government accountability and performance, which are essential to combat problems of corruption. The urban assistance program has

Box 4 Understanding and addressing municipal corruption

Two factors are required for corruption to flourish in a municipal system. The first are systems of governance which are vulnerable to corruption. A second and necessary condition is a set of perverse incentives which motivate individuals or groups of individuals to take advantage of vulnerability. Successful anti-corruption 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 1980's and early 1990's during the administration of Mr. 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 is a reform of the interactions of citizens and stakeholders with municipal government. This external reform can be 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 a standardized and integrated system of administrative procedures.

also traditionally devoted attention to 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 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 markets. 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 keeping social concerns in view. A commercial approach is also a prerequisite for involvement of the private sector or eventual privatization of urban services.

Box 5 Building stronger municipal financing capacity

Recent impact evaluation by the Operations Evaluation Department has confirmed that in Brazil and the Philippines, municipal development fund projects train local governments (generally of small to medium-size cities) in responsible financial behavior while helping them build a solid credit record. The study found the municipal development funds to have had significant effects on the financial practices and institutional capacity of the recipient local governments, as 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 participating municipalities in one of the Brazilian projects also credited it with helping to improve their procurement, professionalism, information technology, and community participation practices.

For cities and countries whose municipal credit systems remain rudimentary, Bank lending will continue to support specialized financial intermediaries such as municipal development funds. 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.

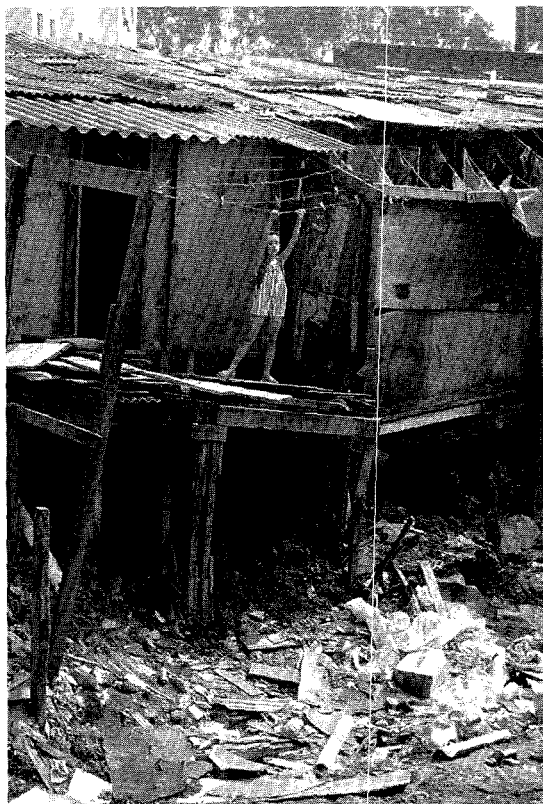
Sector work and other nonlending services are also needed to help countries devise appropriate national policy frameworks for financing local public expenditure and to help cities undertake public investment and financing plans as part of their city strategies. For potentially creditworthy cities, the Bank's urban assistance should be geared to helping them gain access to the capital market. The Bank Group (World Bank, IFC, and Multilateral Investment Guarantee Agency—MIGA) 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.

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. 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 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") 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 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 spatial, 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.

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 also 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.

A national urban strategy would aim to place the urban agenda properly within the macroeconomic dialogue and the formulation of country assistance strategy, country poverty reduction strategy, 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 address poverty reduction in its spatial dimensions. Close collaboration with staff from the 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

Box 6 Laying the financial groundwork for a national urban strategy

Important building blocks for a national urban strategy are being laid in the Philippines, which is preparing a national urban policy agenda to set out the means and conditions for implementing existing laws on fiscal decentralization. The local government units' policy 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. To support this process, the Bank is working with the national government to define and implement the financing framework.

Box 7 Bringing a city development vision into focus

The 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 initial finding of this exercise 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. 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.

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. 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 addressing issues of 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 to these sectors. A prototype city strategy exercise initiated in Haiphong with Bank involvement in 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 citywide 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. Scal-

Box 8 Community-driven upgrading in El Mezquital, Guatemala

In 1994, the Bank directed project support to a vibrant upgrading initiative in the El Mezquital area of Guatemala City that was fully designed and executed by community members with the assistance of UNICEF. This community of 20,000 people was transformed into strong, healthy neighborhoods. Total costs for water, sanitation, roads, land, etc. were kept to the equivalent of US\$1,300 per family, costs largely recovered from beneficiaries. Over the past two years since the investments were completed, infant mortality rates have dropped 90 percent, crime has decreased 40 percent, and there is an estimated ten-fold rise in property values. But 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 residents' associations that represented the community in negotiations with city officials and handled financial transactions for the project. The Bank is helping prepare a larger follow-on project and lessons from el Mezquital are being widely shared with other cities.

ing 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 assistance 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 ad-

Box 9 Providing advice on urban management and finance after apartheid

The Bank advised 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. 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. In Cape Town and Johannesburg, the Bank is providing technical advice on the policy and institutional requirements for implementing major restructuring of municipal services and metropolitan governance arrangements.

visory 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 above strategic priorities, each of which would be expected to generate additional operational demands over the medium term. 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.

The strategy will require establishing active alliances across units of the Bank Group. 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.

As a strong impetus for implementing the strategy, the Bank 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 col-

laboration 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. 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.



ATTACHMENT 1 URBAN LINES OF BUSINESS—ILLUSTRATIVE EXAMPLES

Business line	Completed or advanced projects	New projects
Urban management 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.	Benin: Urban Rehabilitation and Management Project (FY92) 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 involved 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.	Senegal: Urban Development and Decentralization Project (FY98) 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.
Municipal finance 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	Brazil: Parana Municipal Development Project (FY89) This project used Bank loan proceeds and Parana 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.	India: Tamil Nadu Urban Development Fund Project II (FY98) 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.

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.

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,

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.

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

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.

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

ATTACHMENT 1 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)^a 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 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>

Urban environment

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^b.

Urban emergency and postconflict reconstruction

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.

Indonesia: Third Jabotabek Urban Development Project (FY91)

This project was designed to help develop basic infrastructure and socioeconomic services for low-income settlements through comprehensive kampung 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.

Bosnia-Herzegovina: Emergency Housing Repair Project (FY97)

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.

Philippines: Solid Waste and Ecological Enhancement Project (proposed FY00)

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.

Turkey: Emergency Flood and Earthquake Recovery Project (FY99)

The objectives of this multisectoral loan are to reconstruct essential housing, infrastructure, and other facilities to promptly restore economic activity in Erzincan, 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.

ATTACHMENT 1 URBAN LINES OF BUSINESS—ILLUSTRATIVE EXAMPLES (continued)

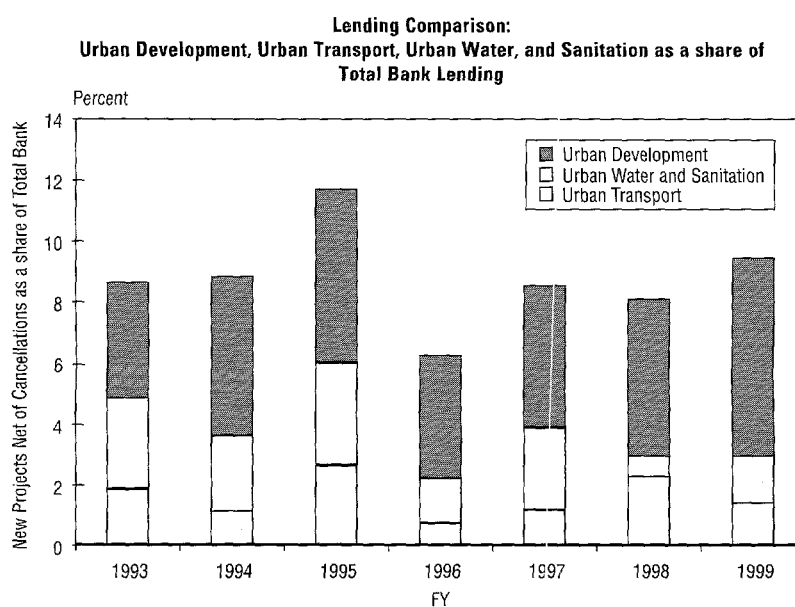
Business line	Completed or advanced projects	New projects
Cultural heritage A new line of lending and nonlending activities aimed at helping municipalities to promote the cultural identity of the country or of a particular geographical area and helping to maximize the potential of culture to generate economic and social development.	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 Quality Assurance Group as having the best quality at entry among the 110 projects presented to the Board in 1997 and evaluated by the group.	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.

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

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

ATTACHMENT 2 URBAN DEVELOPMENT LENDING AND PROJECTS

Figure 1.3 Urban developing lending as a share of total Bank lending



Source: OIS as of May 3, 1999.

Table 1.3 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.

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 3 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 	<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 	<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"> • Healthful environment (clean air and water, safe waste disposal) 	<ul style="list-style-type: none"> • 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 		
<ul style="list-style-type: none"> • Safety and security (including low levels of crime, violence, and natural disasters) 	<ul style="list-style-type: none"> • Viable communities with strong social capital 	<ul style="list-style-type: none"> • Efficient national programs for targeted subsidies (housing, food, transport), unemployment insurance, and welfare programs 	<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 	<ul style="list-style-type: none"> • Equitable political representation and opportunities for participation 	<ul style="list-style-type: none"> • Gender-sensitive employment policies (such as child care) 	<ul style="list-style-type: none"> • Urban environmental management strategies action plans (L) and management and improvement projects (L, P)
<ul style="list-style-type: none"> • 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"> • Disaster management and prevention programs and related assistance (L, P)

COMPETITIVENESS

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

ATTACHMENT 3 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 • Local government institutions sensitive to the needs of poor and disadvantaged residents and to gender differences in service requirements • Cost-effective fulfillment of local government service obligations 	<ul style="list-style-type: none"> • Broad participation of all groups in urban governance, through both formal and informal channels and institutions • Clear incentives for performance by all levels of government affecting urban development • 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 decision making and actions 	<ul style="list-style-type: none"> • Clear frameworks for intra- and intergovernmental assignment and delegation of functions, responsibilities, revenues, and expenditures • Mechanisms for objective, independent review of local government performance • Good collaboration among local government agencies and informal institutions such as community-based organizations • Development and application of management tools and best practices • Professionalization and training of local government staff 	<ul style="list-style-type: none"> • National urban strategies and action plans (L,P) • Self-standing advisory services (L, P) • City development strategies and action plan (L, P) • Urban management projects (L)

- Appropriate public-private partnership frameworks implemented
- Regular public consultation and oversight in budget and local government decision making processes
- Incentive structures for public representatives and employees that encourage integrity and minimize corruption
- **Support to associations of municipalities for sharing best practices, technical assistance, training, and city twinning** (I, 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)

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 3 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.

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The World Bank's new strategy for an urbanizing world, *Cities in Transition: A Strategic View of Urban and Local Government Issues*, recognizes that cities and towns form the front line in a global campaign to address issues of poverty and development opportunity. Guided by a vision of sustainable cities that are livable, competitive, well governed and managed, and bankable, this study argues that the World Bank needs to view the city holistically while intervening selectively; facilitate city-led development processes as well as support sound national urban policy frameworks; invest widely in urban knowledge generation, dissemination, and capacity building; and work through strengthened public and private partnerships at local, national, and international levels.

Cities in Transition proposes four strategic building blocks to supplement and enhance the Bank's continuing activities in urban development. These are 1) support to national urban strategies, 2) support to city-led development strategies, 3) scaling up programs of services for the poor, and 4) enhanced assistance for knowledge sharing and capacity building. The study is an invaluable resource that builds upon the World Bank's experience in and commitment to urban development.



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