

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.