

Chapter three

A Renewed Bank Strategy for Urban and Local Government Assistance

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

Principles and preconditions of the strategy

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

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

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

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

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

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

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

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

The four building blocks of the new strategy

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

First: Formulating national urban strategies

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

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

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

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

Second: Facilitating city development strategies

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

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

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

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

Third: Scaling up programs to provide services to the poor

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

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

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

Fourth: Expanding assistance for capacity building

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

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

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

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

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

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

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

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

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

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

Improving the impact of the core urban assistance

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

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

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

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

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

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

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

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

Strengthening other analytical work

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

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

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

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

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

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

Regional urban strategies and action plans

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