

Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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

The growing importance of cities and local governments calls for a renewed Bank assistance strategy...

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Livability

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

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

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

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

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

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

Competitiveness

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

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

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

Good governance and management

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

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

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

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

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

Bankability

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

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

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

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

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

Performance of the urban development portfolio has been generally strong

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

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

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

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

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

The new urban and local government strategy aims for greater impact

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

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

Principles and preconditions of the strategy

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

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

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

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

Building blocks of the strategy

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

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

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

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

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

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

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

Implementing the strategy requires Bankwide commitment and resources

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

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

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

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