

Chapter 11. URBAN GOVERNANCE

I. Dimensions of the Urban Sector

A. Urban Governance

1. Most Asian cities have grown and diversified economically well ahead of their capacity to manage development. Better governance is required if cities are to function as engines of growth, avoid further environmental deterioration, and provide residents with at least a reasonable quality of life. Because the management of cities is complex, involving many stakeholders in the public and private sector whose cooperation must be obtained, the requisite institutional structures are of necessity diverse, complicated, and imperfect.

2. Urban governance encompasses institutional strengthening and capability building, decentralization, community participation, and involvement of the private sector. Infused within these components are four principles that form the foundation of good governance as part of improved urban management: accountability of public sector staff and organizations; greater participation of community and interest groups in decision making on the delivery of services and demand management; predictability of markets, regulations, and legal frameworks; and transparency in dealings between the private sector and government.

3. Implicit within urban governance is the necessity of a holistic, comprehensive view of urban economic development and a clear understanding of its linkages to investment promotion, competitive advantage, urban management capacity, and responsiveness to the requirements of the private sector. Urban economic development is an interrelated, complex process that requires the creation of an enabling environment that supports productive firms and individuals; promotes conditions for efficient urban markets for land, labor, and credit; and capitalizes on an urban center's competitive and comparative advantages. Cities and other urban centers must be able to develop such a vision and an associated enabling environment through intensive consultation, participatory community processes, and innovative partnerships. Importantly, urban centers should articulate this vision to the world at large while strengthening urban governance through a continuing process of self-monitoring and evaluation.

1. Decentralization

4. Decentralization represents a profound shift in the manner and system of urban governance and empowerment of elected local officials. Political, fiscal, and administrative decentralization has been occurring to varying degrees in most developing member countries (DMCs) over the past decade. By decreasing the role of central government and augmenting the authority of responsive local institutions, accountability between the providers and users of local services can be greatly increased. Examples can be found in the enactment of the Local Government Code (1991) in the Philippines, where new devolution of authority, responsibilities, and resources for urban service delivery to local government units has met with some success. However, implementation has been uneven within and among DMCs and failure to build local capacities in line with devolved responsibilities has frequently resulted in insufficient local revenue generation and inadequate local management capability that have compromised the developmental benefits of decentralization.

2. Community Participation

5. Community participation has increased in urban development in many DMCs through the involvement of nongovernment organizations (NGOs), business associations, religious associations, environmental pressure groups, associations of slum dwellers, and other community-based organizations (CBOs) in many aspects of urban development. Such groups may become involved in local planning initiatives, taking responsibility for infrastructure improvement and maintenance, obtaining innovative means of credit such as the Community Mortgage Program in the Philippines, or participating in the provision of basic services, as in India and elsewhere. Clearly, the local community is a major resource that can be used in partnership with the public sector in development planning and management. Community commitment to development initiatives is vital for their success, and many local governments are moving away from a dependence culture to a demand culture, taking on greater responsibilities for promoting investment in urban development and prioritizing the provision of urban services.

3. Private Sector

6. Many local governments are increasingly adopting an indirect enabling role, i.e., focusing on policy making, planning, regulation, and protection, while private sector companies take full or part responsibility for the delivery of one or more city services. New relationships have been created, while public sector facilities and services (such as water supply and sanitation) have been corporatized (restructured as corporations) or privatized. For example, Metro Manila's water supply is now managed by two private sector concessionaires. Special purpose authorities, such as the Metropolitan Waterworks Authority in Bangkok, are learning to adapt to this new environment. Given the massive investment required in urban infrastructure, greater focus is needed on the creation of cost-effective and efficient public-private partnerships that include mechanisms for attracting private capital urban infrastructure provision. Involvement of the private sector must not be viewed solely as an activity, but rather as a process that changes mindsets and institutionalizes the enabling role of government.

B. Urban Finance

7. Asia's cities continue to impose staggering demands on fiscal resources. The Bank has estimated that annual municipal infrastructure requirements alone in DMCs will rise from about \$38 billion in 1998 to \$292 billion in 2020, to provide sufficient services to sustain urban productivity and achieve some improvement in the quality of life. (These amounts compare with a total flow of official development assistance and private resource flows to all developing countries of some \$239 billion in 1995.) The investment estimates include the cost of renewing existing infrastructure and providing new infrastructure as urban population increases. Transport and communications, energy, water supply, and sanitation will consume the largest shares. In addition, there will be corresponding costs for operation and maintenance (O&M) and for delivery of related services. Without these sustained high levels of expenditure, cities will become increasingly inefficient and unpleasant places to live and work in as pollution, overcrowding, social friction, and deteriorating environmental conditions reduce the quality of life.

8. Enhanced sources of funding for urban development are urgently required in most DMC cities as part of the need to overhaul their financial management systems. Local governments are being given greater responsibility for the provision and operation of urban services without the authority to raise extra revenues or enjoy fiscal independence. The

typical current mix of local land- and property-based and other taxes is inadequate. User charges may sustain or partly sustain the operations of city services in sectors such as water supply, sanitation, and power but other services such as roads, drainage, and health depend heavily on frequently erratic transfers from central, state, or provincial governments. Such problems have hastened various initiatives under way in the Region to attract private capital. For example, many cities have contracted out part of their solid waste management services (as in Bangkok) and privatized water supply and sewerage (as in Manila), and are in the process of deregulating transport services.

9. The potential for using municipal bonds as a cost-effective means to finance urban infrastructure is increasingly evident for DMCs, i.e., using domestic private capital rather than sovereign borrowing by national governments. In India, the Ahmedabad Municipal Corporation recently raised \$30 million to finance medium-term investment plans. In the Philippines, the Local Government Code authorizes local governments to sell bonds to finance “self-liquidating, income-producing development or livelihood projects,” while the Water Crisis Act of 1994 authorizes water districts to sell revenue bonds. However, to date, few initiatives have succeeded. The bond markets in many DMCs are largely unexplored and require significant assistance if they are to be developed. For many poorer cities, the options in the short term at least are limited to (still very worthwhile) improvements in financial management.

C. Urban Infrastructure and Services

1. Institutional Strengthening and Capability Building

10. Many local governments desperately lack the required skills to manage growth, provide urban services, and maintain infrastructure. Often training and capability building initiatives are undertaken in an uncoordinated, unfocused fashion, replicating previous programs and failing to enhance skills of urban managers and their staff. In addition, there is an urgent need to promote and strengthen existing and new institutional structures that are responsible for, or can facilitate, urban development, such as the League of City Mayors in the Philippines. Technology and automation, (e.g., computerization, geographical information systems, and other tools) can greatly enhance urban management systems if properly designed, implemented, and staffed. Local governments are also increasingly adopting tools from the private sector such as demand management in the areas of service tariff reform, improved use of limited road space, and regulation of groundwater use.

11. In addition to the urgent need for enhanced human resource skills at all levels of the urban development process, the institutional structures and the relationships between these structures need to be improved. Better horizontal coordination is critically needed in cities, particularly as urban areas spread across several local administrations. Policy dialogue with and assistance to metropolitan authorities are required to redesign institutional frameworks, revise regulations, and restructure decision-making mechanisms. Better vertical coordination between central (state and provincial) and local governments is increasingly essential as decentralization policies become more common and are progressively implemented.

2. Water Supply, Sanitation, and Solid Waste

12. In most of the poorer DMCs, the quality and quantity of water supply in urban areas fall far short of demand. Faced with an unreliable or intermittent supply and variable quality, a high proportion of residents buy potable water from vendors and/or are obliged to boil, disinfect, or filter it to protect their health. The Bank estimates that some 93 million people in DMC urban areas have no access to safe drinking water (ADB 1997d and 1998). Such

shortages contribute to high levels of water-borne disease in many cities, with particular impacts on the vulnerable under-five age group. There are many reasons for such inadequate supplies. At the water resource level, management problems are caused by overextraction of groundwater, salination, unrecorded extraction by industry using deep wells, and pollution of raw water supplies. At the water delivery level, many water utilities provide deficient service through inadequate metering, high rates of unaccounted-for water (55-60 percent in Jakarta and Manila), damage and contamination of the pipe network, arbitrary decisions on water tariffs, low collection efficiencies, and exclusion of supplies to informal settlement areas. In the last few years, one response to these failures has been experiments in contracting out or privatizing all or part of city water services, as in Malaysia, Philippines, and Thailand.

13. The five main challenges in the urban water supply subsector are meeting rapidly increasing demand for household and industrial water within agreed limits, increasing investments in new water delivery systems that will meet 24-hour demand, upgrading and managing existing systems to run more efficiently, safeguarding social equity by provision of potable water to poor households, and achieving full cost recovery.

14. While investments in water supply have enjoyed a fairly high priority in most cities, the provision of adequate sanitation is a more widespread problem, with some 300 million urban residents in DMCs estimated to be without adequate facilities. In many cities, most wastewater is discharged without treatment. Where sewerage is provided, the network frequently functions as a combined wastewater and stormwater system. While septic tanks can provide an intermediate level of treatment, the resulting discharge in built-up areas often enters the street drainage system where it poses a potential health hazard, made worse in many DMC cities that are subject to flooding. Even where substantial investments in sewerage have been made, as in South Asia, institutional weaknesses and poor cost recovery have held back further investment.

15. The Bank has financed 14 stand-alone sewage treatment projects through 1998, in the PRC; Hong Kong, China; Republic of Korea; Pakistan; and Philippines. In addition, small sewage treatment components have been included in integrated urban development projects (IUDPs) in India, Indonesia, Mongolia, Pakistan, and Sri Lanka. Until recently the emphasis of sanitation programs was on the collection, treatment, and disposal of human wastes. Now industrial wastes are also being targeted, as in the Asian Development Bank's ongoing support for industrial wastewater treatment in Karachi. Levels of dissolved solids, suspended solids, and organic loadings in wastewater discharges may increase by factors of 16-18 in high-growth areas over the 1995-2025 period (ADB 1998b). The negative impacts of untreated liquid wastes are widespread and pernicious and include risks to public health and adverse environmental impacts on surface, ground, and coastal waters. To compound the problem, the high-capital, operational, and maintenance costs of conventional sewerage and sewage treatment systems generally restricts affordability to low-income households.

16. The immediate challenge for sanitation services is how to address the perceived high need but low demand for urgent remedial actions, develop alternatives to capital-intensive systems, and overcome the low levels of willingness to pay where households have alternative means of disposal. In the longer term, the challenge will be to move beyond the provision of sanitation systems and address wider issues of development-environmental interactions at the city and regional levels.

17. The sheer volume of solid waste generated in urban areas around the Asia-Pacific Region is staggering, and poses a continuing challenge to the health and quality of life in urban areas. In India for example, 60,000 tons of municipal solid waste is generated daily and this is expected to rise to 100,000 tons by the year 2000. Shanghai's solid waste has grown in volume by 6 percent a year, reaching 7,500 tons daily in 1997. Metro Manila's solid

waste was estimated at 6,100 tons daily in 1995, and is expected to double in the next two decades. In Metro Manila and many other DMC cities, only 40 percent or less of this waste reaches a sanitary landfill, with the greater proportion dumped in open sites, or left to rot in backyards, streets, drains, and waterways. Solid waste is intrinsically linked to water quality and water pollution, as it typically ends up in water systems in one way or another. Open dumpsites encourage disease vectors, generate foul odors, contaminate groundwater supplies, and generally contribute to health risks and a decline in the quality of life in urban areas. However, few cities in the Region have the technical know-how to develop integrated solid waste management systems and sanitary landfills. Moreover, many cities are experiencing an increasing shortage of sites available and suitable for landfill development within a reasonable distance of the city. A number of efforts, however, are under way to minimize waste through refuse recovery, as in the reuse of inorganic industrial solid wastes around Beijing; community solid waste management techniques in Jakarta; and vermiculture, composting, and biogas production in Mumbai.

3. Urban Transport

18. Urban transportation is critical to sustainable development in DMCs in terms of quality of life and economic success. As traffic congestion in the larger cities of the Region becomes chronic, the urban poor suffer because of inadequate public transport, and the general quality of life decreases through long commuting times, accidents, and pollution (much of which is vehicle-generated), and the urban economy must absorb significant economic costs related to lost productivity and inefficiency. The sheer scale of megacities in the Region puts great demands on transport systems capable of moving large quantities of passengers and freight at affordable prices. While motorization levels are low in many DMCs relative to levels in developed countries, major increases are forecast and virtually all governments support the trend, implicitly or explicitly. In India, for example, car ownership is expected to grow from 14 to 27 per 1,000 population over 1994-2001 and two-wheeler use from 112 to 250 per 1,000 population over the same period (ADB 1998c).

19. Few DMC cities have well-integrated systems of primary, secondary, and tertiary roads and many lack road space in their central areas with consequent impacts on traffic management and public transport efficiency. While some larger cities have developed mass transit systems, such investments have been costly, and characterized by long time-frames for planning, design, and construction. Such schemes often highlight the lack of coordination between land use and transport planning, and the roles of the public and private sectors in urban transport strategies. The challenge is to make investments in urban transportation sustainable through coordination, both in terms of physical provision and economic and financial policies, and by comprehensively addressing related issues such as a city's balance in the locations of employment and housing. Investments should incorporate concepts of demand management, and consider appropriate roles for the public and private sectors.

4. Urban Housing

20. Access to affordable urban housing is an increasing problem in the Region as population pressure increases and land prices rise. The negative impacts are demonstrated through increased sharing of dwellings by two or more families, increased squatting on public and private land, occupation of infrastructure easements and hazardous or ecologically sensitive areas, and outright homelessness. There are about 2.17 people per room in urban Asia. This figure is 5.3 in greater Mumbai. The urban housing shortfall in India has been calculated at some 7.6 million units, of which approximately three quarters

represent replacement and upgrading needs, with sharing of a dwelling accounting for the balance. The low-income housing backlog in the Philippines is an estimated 4.2 million units.

21. The bulk of housing in DMCs has been and is being provided by individual households, CBOs, and private developers. Over the past 30 years, the Region's public sector has generally failed to provide affordable shelter for low-income households. Prime factors have included failure to meet target group affordability without significant subsidies and inadequate financial resources. Recent DMC policies based on urban upgrading have been more successful, but have often suffered from a lack of "ownership" in terms of the residents' involvement in planning and design, responsibilities for O&M, and contributions to desired services. A major challenge for DMC governments is to recognize in policy making that a greater or lesser share of housing in their urban areas is being provided by informal housing supply markets, and to develop policies that will help improve such housing markets.

22. The limited availability of formal credit is a major constraint on the supply of affordable housing in most DMCs, but there are a variety of informal or semiformal credit mechanisms. For example, some low-income families who can only afford minimum standard housing, usually in unsanitary environments and without secure tenure, will frequently fund improvements through help from family and friends in an incremental development process. Other families may join informal, community-based savings groups and obtain loans from those groups. Such self-help processes mean that over time a substandard shanty can be transformed into an adequate low-cost house. The conventional housing finance approach taken by most housing finance institutions in the Region is not usually available to such families. The challenge is to build on the experience of community-based housing finance mechanisms being used in some DMCs (such as the SEWA Bank in India, the Community Mortgage Program in the Philippines, and the Urban Community Development Office in Thailand) to create large-scale and effective provision of housing finance to low-income households. This entails, in part, strengthening links between the formal and informal finance sectors.

5. Urban Land Management

23. The critical role of land supply in supporting quality of life in urban areas demands a holistic approach. However, such an approach is far from being met in many DMCs, where large numbers of poor and now middle-class families, as well as small businesses, are prevented from gaining access to land for development. Many obtain land illegally and then face problems due to the lack of secure tenure, inability to use land as collateral, lack of services, or other setbacks. More efficiency, fairness, and transparency are needed in urban land markets.

24. Many bottlenecks in the land market slow land supply and increase prices. For example, land accounts for some 40 percent of site development costs in Metro Manila. Typical problems include inappropriate or unaffordable land use, building standards and regulations, such as unrealistic ratios of required public land to total site areas; no allowance for mixed land uses; cumbersome and expensive procedures for land transfer (including cadastral mapping, titling, and registration); land held vacant for speculative purposes; lack of information to the public on land market indicators; and failures in coordination among agencies concerned with servicing new urban land. All too often, these failures in the land market are compounded by irrelevant spatial planning processes that are unable to keep up with, let alone guide, new urban development.

Lessons Learned

25. The experience of the Bank and DMCs in the provision of Bank support to the urban sector indicates a number of lessons that need to be considered in developing strategies for the sector.

- a. **Acknowledge the complexity.** IUDPs, and the urban sector overall, involve management of resources and delivery of services across several subsectors and levels of government, as well as involvement of a variety of private sector and community stakeholders. Urban development therefore requires well thought-out policy frameworks and close linkages between many agencies, and IUDPs should be based on clear institutional roles and responsibilities. More attention is needed to improving the integration of project components, responsiveness to client needs, sustainable provisions for O&M, and the improved use of performance indicators with which to measure project impacts. IUDPs could be focused on fewer subsectors and as far as possible the number of executing agencies should be limited to simplify project implementation.
- b. **Community involvement.** Project success and sustainability depend on community ownership, which in turn depends on community involvement in project preparation. Ways must be found to strengthen community and beneficiary involvement in project selection and design. This takes time and requires in-depth understanding of community preferences and ability and willingness to pay for services. Enhanced public awareness of urban development, infrastructure, and service issues and options is a precursor of this process.
- c. **Target beneficiaries.** The selection of urban centers and sectors to be included in IUDPs should be guided by the level of commitment of candidate centers and sectors rather than by top-down planning. A specific set of criteria is needed, against which the performance of urban centers should be evaluated prior to entry into the program, and a longer term relationship with project cities and towns combined with a more flexible approach to project content.
- d. **Increase emphasis on the environment.** Emphasis on pollution control and environmental management should increase, as these subjects are given higher priority by middle-level DMCs such as the PRC, the Philippines, Sri Lanka, and Thailand. This will require institutional coordination and strengthening as improving environmental conditions almost always involves issues of cross-sectoral, and often cross-border, responsibilities.
- e. **Enhance the focus on urban transport.** The Bank has had limited involvement in the urban transport sector in DMCs, yet this sector is important for promoting urban efficiency with potential high economic rates of return. Infrastructure-led planning for urban expansion is acknowledged to be more effective than more traditional zoning and other spatial planning techniques. While the capital costs and lengthy preparation and implementation phases of major transport investments may be daunting, partnerships could be formed with private sector concerns in build-operate-transfer, build-operate-own, and other similar arrangements. In addition, other areas of urban transport are equally important, such as pricing policies and traffic management, where intervention would yield significant benefits.
- f. **Housing for the poor.** Direct housing interventions in favor of the poor have been less than successful. Indirect support such as developing affordable and

sustainable housing credit, improving land transfer mechanisms, making land use controls effective, and legalizing informal settlements are more likely to improve access to land and shelter for the poor.

- g. **Service delivery.** Cross-sectoral institutional strengthening and policy reforms are critical for delivering better urban services. Issues needing greater emphasis include the role of the private sector and market-based reforms, horizontal and vertical coordination among agencies, community involvement, cost recovery, demand management, and innovative funding mechanisms.

Greater reliance needs to be placed on market mechanisms for the delivery of infrastructure and services, particularly in large cities. Examples include pricing of road transport and water supply to regulate demand where this would protect nonrenewable resources or compensate for unquantifiable externalities. Successful private sector participation in water supply and solid waste management in some DMC cities indicates the potential for wide-scale development of public-private partnerships in these and other urban services.

- h. **Social equity.** While increasingly relying on private capital and market mechanisms for infrastructure and service provision, policy frameworks and provider agreements must ensure equitable and affordable access to basic services and infrastructure for the urban poor and vulnerable groups.
- i. **Spatial planning and effective land management.** Assistance in spatial planning and land management has been largely unsuccessful, as planning has not been proactive in helping to develop efficient land markets, but has concentrated instead on land-use regulations that are frequently unnecessary. Public-private partnerships can be an effective means of making access to land and shelter more affordable. While DMC governments have not been effective in managing land in isolation, especially when faced with rapid urban expansion, the public sector has an important but indirect enabling role in supporting the private sector's ability to supply affordable land and shelter.
- j. **Local government.** Local governments, in association with public corporations and/or the private sector, are the appropriate foci for the efficient provision of urban infrastructure and services. However, local governments are typically weak in human, financial, and technical resources, and thus capacity building at the local government level is vital if improvements are to be made sustainable.

The rapidly increasing demand for infrastructure and services requires innovative thinking about the potential sources of finance available to local governments. A joint approach by central and local levels of government to facilitate local government access to bond markets and institutional investment is needed. At the same time, local governments need to improve their financial management in terms of revenue-raising and budgeting.

II. Policies for Promoting Urban Governance

A. Principles

26. Four principles for achieving good governance underlie all policies for strengthening urban management in DMCs.

- a. **Accountability.** If city managers and staff are to be more accountable to central government policymakers and to residents, their work will need to be assessed using performance indicators and benchmark criteria. Accountability is also increasingly important in the delivery of services by the private sector.
- b. **Participation.** Greater participation is an essential prerequisite of good governance, represented by a growing web of interest groups that want more say in policy development and implementation. Participatory approaches are of particular relevance to reduce urban poverty and enhance the role of the informal sector. Community participation will also be enhanced where the principles of demand management are used to improve service delivery.
- c. **Predictability.** With many cities growing faster than the institutional capacity to manage their growth, administrative and legal procedures are often applied unevenly and to the disadvantage of the poor. An overhaul is required so that, for instance, housing and land regulations and standards are affordable to poor families. Innovative land-tenure policies could allow squatter families and informal businesses to enter the formal housing and land markets. Streamlined procedures for land registration and the validity of titles give confidence to households and businesses. In addition, potential private investors in the delivery of city services need confidence that the legal system is adequate in terms of contract law, dispute procedures, and clear allocation of responsibilities.
- d. **Transparency.** In dealings between the private sector and local governments, transparency is too often lacking. As an example, data on land markets are often not freely available, resulting in increased costs to the potential developer and often the payment of illegal demands for money. This problem should ease as, for example, computer-based land information systems facilitate the storage and dissemination of data and as the benefits of freely available data are realized. To promote transparency and accountability, specific anticorruption measures should be put in place and enforced.

B. Decentralization

27. Decentralization is a commitment to sustainable development through empowering citizens and their locally elected officials, accompanied by a reduction in the monopolization of resources and powers by central authorities. From the perspective of intervention, external resources should be used not so much to produce direct results as to strengthen local capacities to initiate and manage activities that produce benefits for the local community. This implies a demand-driven process, where communities define what they feel they need in terms of development, and where participatory processes for such input are institutionalized. Decentralization should not be viewed as a goal in itself, but as an instrument for achieving more effective service delivery systems, opening institutions to wider civic participation, and increasing public trust in government.

28. There are compelling reasons for DMCs to pursue decentralization policies, which, properly conceived, will greatly improve the management of urban areas and support the better delivery of urban services. The Local Government Code (1991) in the Philippines, the Decentralization Act (1998) in Nepal, and the 74th Constitutional Amendment in India, for example, are landmark legislation by which local governments have been given greater

authority, responsibility, and resources to implement urban development projects. A prudent decentralization program should include the following:

- a. the simultaneous decentralization of responsibilities, resources, and autonomy;
- b. strengthening of local government capabilities, powers, and responsibilities;
- c. the collection and diffusion of information on local government services;
- d. the retention by central government of certain functions for reasons of efficiency, such as income redistribution and macroeconomic policy; and
- e. a review of city government remuneration, incentives, and career structures.

29. Three critical types of coordination are needed to support the decentralization process. Policies are needed to address the following:

- a. **Vertical coordination** will remain important to urban management as central government will continue to be responsible for the legal framework of the public sector and for various critical functions. Responsibility for services should be assigned to the level of government whose boundaries best incorporate the beneficiaries of those services.
- b. **Horizontal coordination** will be needed among public sector stakeholders involved in city development as well as public-private sector coordination. Cross-border coordination will be needed where large contiguous urban areas are composed of numerous local governments (such as the Metro Manila National Capital Region, the Calcutta metropolitan area, and Indonesia's JABOTABEK, the Jakarta metropolitan area).
- c. **Internal coordination** mechanisms are critical to overcoming poor coordination of interdepartmental, sectoral, spatial, and financial planning; poor coordination of service provision; inadequate staffing; and unfamiliarity in dealing with private service delivery companies. In addition, cities face many cross-sectoral issues such as poverty reduction and environmental protection that require new arrangements for coordinated action.

C. Community Participation

30. Development programs funded through external assistance have often been criticized for having been designed in a top-down fashion, dictating the kinds of activities that should be undertaken. Such programs were typically not designed in consultation with stakeholders who would be affected by the project, or worse, by those required to implement, operate, and maintain them. The following principles support community participation:

- a. **Support and utilize participatory processes.** Learning from past experience, current development theory encourages stakeholder participation in community and urban development. For this to work, people must be aware of the issues and have the authority to make decisions, act on them, and mobilize the required resources.
- b. **Develop effective systems for communication, replication, and feedback.** Participatory decision-making processes, by design, require decentralized local governments that can be effectively responsive. Inherent within these processes are systems for communication, replication, and feedback.

D. Private Sector Involvement

31. The introduction of market-based principles and private sector expertise into the urban sector can bring a variety of benefits, particularly in larger cities.

- a. **Market-based approaches.** The adoption of market-based approaches may allow existing agencies to deliver better and self-financing services. In other cases, the private sector may bid to operate a service, either on a contractual or an ownership basis. For example, the corporatization of public sector water enterprises to allow more autonomy and better human resources than local governments can lead to improved services, increased operational efficiency, reduced tariffs, and access to private financial resources. Similar approaches can and are being applied in public transport, markets, and solid waste management in many DMC cities. However, the possible problems associated with replacing public monopolies with private monopolies in the delivery of services should be considered, especially in Pacific DMCs whose market size is extremely limited.
- b. **Training and familiarization for local officials.** Whichever form of private sector involvement in service delivery is decided upon, government officials will need to be trained in their new responsibilities as a party to the contract. The contract will bind the private operator to provide services in which payment is by results, while the government retains overall regulatory authority. A national statutory framework is needed as a starting point for contract negotiations and must cover factors such as minimum quality standards and environmental parameters.
- c. **Regulatory framework.** At the local level, regulations will need to address the quality, price, and required reliability of the service; the investment program; maintenance of assets; and rights of access in the public domain. Risk assessment is another skill where public agencies will need to gain understanding so that they can create an environment conducive to attracting the private sector. Furthermore, in forging agreements with private sector providers, the rights of the urban poor to enjoy equitable access to basic urban services must to be protected.

III. Policies for Mobilizing Financial Resources

32. A variety of policies are available to support the mobilization of financial resources, and to finance and maintain urban infrastructure and services, including the following:

- a. **Promotion of fiscal autonomy.** The catalyst for improving financial management at the city level is the drive toward financial autonomy that encourages responsibility, efficiency, and increased sustainability in funding urban services. In this connection, DMCs' central governments should allow local governments to retain locally collected revenue and to seek funding from a wide range of sources, including the private sector. Increased fiscal autonomy should be accompanied by regulatory mechanisms appropriate to protect the interests of producer and consumer.
- b. **Computerization and automation.** Increased autonomy should also encourage computer-based accounting, cost control, billing and collection procedures;

contracting out of services such as infrastructure maintenance; and development of management information systems and strategic financial planning.

- c. **Market-based and economic pricing of services.** Pricing policy will become more urgent given the pressures on government resources and the increased role of the private sector. While full cost recovery is the long-term objective, in the short term efficiency, cost reduction, and revenue collection should be improved. Action needs to center on the establishment of sound pricing policies, i.e., marginal costs must reflect the costs of additional capacity together with those of O&M and the externalities associated with environmental damage. However, despite the drawbacks, some element of cross-subsidy will frequently be justified as a last resort to maintain access to services for the urban poor. More rigorous targeting of subsidies to families rather than property will need to be encouraged.
- d. **Direct cost recovery.** At the same time, service quality will need to be kept commensurate with prices to avoid the build-up of consumer resistance. For that reason, direct cost recovery through user charges will usually be more effective than indirect cost recovery through property taxes and similar levies. However, indirect taxes will remain important elements in the local government revenue base. Property taxes in particular can be better structured to capture the economic benefits of land, as being shown by Bank-assisted projects in Dhaka.
- e. **User charges and service fees.** The adoption of market-based principles for pricing urban infrastructure and services will also help DMCs estimate the incremental demand for resources more accurately. Differential pricing of road usage, for instance, coupled with efficient public transport, as in Singapore, will help keep the demand for new road space at levels that are economically sustainable. Fees should also take account of maintenance costs; for example, by adding a surcharge to water bills to help fund the cleaning and repair of drainage systems. Such charges also act to develop pressure within user groups to compel local governments to maintain assets at high standards.
- f. **Land-related financial instruments.** DMCs also need to examine different methods of capturing some of the unearned gains in land values, which result from new or upgraded road construction and other assets built at public cost; for example, through betterment charges, land readjustment techniques, and contributions in cash or kind by developers.
- g. **New sources of funds.** New funding sources, including private capital, are needed for DMCs to meet the costs of infrastructure investments. However, many city economies will take time to expand to a level where they can afford to employ private capital. In the meantime, they will need to continue to rely on transfers from central governments to supplement locally raised revenues. In turn, decisions will be needed on which taxes and charges should be controlled by local governments. Other methods that can be used to supplement local revenues include municipal development funds and other financial intermediaries, community mortgage programs, loans for housing finance through local CBOs, and the funding of new infrastructure through associated property development, as in Hong Kong, China, and the Philippines.
- h. **Capital markets and credit finance.** Cities need assistance to achieve long-term access to capital markets and/or direct private investment in infrastructure. Issues include removing constraints such as the lack of credit ratings for local governments, addressing the lack of long-term debt instruments such as municipal bonds, and assisting central governments to cope with the required

expansion of credit and understand the lending options for urban infrastructure projects. The many examples of private concession contracts in relation to regulatory entities need to be available to people involved in city finance.

IV. Policies for Improving Urban Management

A. Institutional Strengthening and Capacity Building

33. Examples of the Bank's increasing support for capacity building are the recently approved loans for the urban sector in India, Indonesia, and Sri Lanka, and for technical assistance (TA) for governance in Dhaka and Bangalore, India. Across the Region, some of the priority areas to be addressed include training in management skills, especially in response to the increasing use of demand-led provision of services; development of expertise in performance monitoring; financing of investments; evaluation of development proposals; coordination of spatial planning and sector investments; and an increasing use of community resources. Key elements are as follows:

- a. **Define clear roles and functions.** A fundamental component of improving urban management is the appropriate institutional structure for planning, financing, and delivering services and other functions of government. Responsibilities for delivery of a service should be assigned clearly to one level of government, the corporate private sector, or the community. An underlying problem is that policies for the urban sector are formulated in many parts of governments with poor cross-sectoral coordination of policymaking. In addition, the growing importance of the private sector is placing new demands on the public sector, which is already short of skilled staff. City governments should thoroughly review responsibilities for service delivery before inviting the private sector to participate.
- b. **Promote government as an enabler, not provider.** The public sector needs to adopt an enabling role in support of the private sector. In this role, the government sets policies and makes choices in sector priorities; monitors private sector operations in service delivery; supports the economic health of the city; and protects the community against threats to urban quality of life, including pollution, congestion, overcrowding, and damage to scarce resources. An important component of the new relationship is to encourage public-private partnerships in land and property development, and service delivery. In many urban areas capacity building is crucial to enable governments to fulfill their existing mandate, let alone take on the new skills required.
- c. **Support for skills training and other capacity-building initiatives.** The lack of skilled human resources is a major constraint to developing the necessary structures for urban management, particularly at the local government level. The relatively low status and pay, as well as lack of incentives offered by most local governments, is a principal cause. In some cases, as in India and Indonesia, the status of the local civil service could be elevated to be on par with the national civil service. In addition, public and private corporations can be created that often attract better-qualified staff than government.
- d. **Promote regional cooperation.** The problems of managing urban growth and improving the competitiveness and livability of urban areas are common to many countries. Bringing DMCs together at various levels of interaction, including the local government, is a powerful way to share best practices, cross-fertilize innovation, and promote new ways of problem solving. Networking and cooperation also allows one city to learn from and prepare for problems currently

being encountered in another city, and for lessons learned to be shared and successes repeated.

34. Building appropriate institutional structures for urban management is an incremental process. It is better to have imperfect institutions that can adapt quickly to outside forces than to have rigid systems that cannot. Moreover, even in small- and medium-sized towns with few resources, a small group of well-trained multidisciplinary staff willing to think innovatively and with strong community and political backing can have a significant impact on achieving city development objectives.

B. Urban Land Management

35. Policies to achieve adequate land for residential, industrial, and other uses to improve the economic efficiency of urban areas and to improve the quality of life for residents are as follows:

- a. **Improve the efficiency and transparency of land markets.** The tools that can be used to improve the efficiency and transparency of land markets include improved mechanisms for land transfer (cadastral mapping, land titling, and registration); land information systems for the benefit of private and public interests; deregulation of unnecessary land-use controls; incremental forms of tenure designed to help residents in informal/squatter areas become part of the formal city; and institutional and legal reforms so that land can be used as collateral. Such policy and technical reforms can also contribute to improved property-based tax revenues.
- b. **Rationalize the institutional framework for land administration.** The framework for land administration needs to be rationalized in the context of decentralizing responsibilities for urban management. An example would be merging land development public corporations that operate at the national level with local governments.
- c. **Accelerate the delivery of serviced land.** The Bank will support capacity-building actions to accelerate the delivery of land serviced with adequate access to roads, water, drainage, and electricity. For example, in cities in South Asia DMCs with remaining public land, the objective may be to treat land as an asset in an investment portfolio, i.e., to secure funding and provide security for private sector partners. In DMCs where land is predominantly privately owned, land pooling mechanisms can be tested and applied as part of public-private partnerships, using techniques such as joint ventures for commercial property development, land readjustment, and guided land development.
- d. **Improve spatial planning and urban planning systems.** Improved systems for urban planning and regulation should continue to give strategic guidance on urban expansion and renewal policies, and to address the externalities arising from land development such as pollution. However, systems should consider the use of innovative approaches to planning and building standards, incremental in nature, that also increase affordability. Other approaches may include the use of flexible zoning, techniques whereby the private sector provides social/offsite infrastructure in exchange for fast-track planning/building approvals, permissive systems of development control, and innovative techniques such as land-use controls tied to environmental impact.

- e. **Establish procedures for public participation.** More effective procedures are needed for public participation in decision-making on the use of land and location of infrastructure investments. Planning processes should incorporate specific components and resources for discussions with a wide range of stakeholders, CBOs, NGOs, business groups, environmental and other pressure groups, academia, etc., as well as other public sector agencies. There should be procedures for an iterative process of plan development and project implementation, using focus groups, for example. Mechanisms should be developed and put in place to ensure public participation in the urban land management processes.

C. Urban Environmental Management

36. Policies for environmental management are designed to manage air, water, land, and soil resources to maintain their qualities and quantities at levels that are not harmful to public health, support balanced ecosystems, contribute to the visual aspects of urban development, and provide sustainable urban areas. Priority strategies include the following:

- a. **Stimulate demand for investments and policy reform.** The demand for urban environmental improvement can be pursued through (a) institutional strengthening, including the issues of low willingness to pay, weak institutional and technical capability, lack of supporting policy and legal frameworks, and the need to create a conducive setting for private sector financing; (b) pilot projects to demonstrate the benefits of urban environmental improvement; (c) strengthening of municipal financial capacity for environmental improvements; (d) increased resource utilization as a project objective; for example, the incorporation of a sewage treatment project within the overall water quality management framework; (e) campaigns to heighten public awareness of environmental issues; and (f) promotion of regional cooperation.
- b. **Address industrial waste management.** Items covered should include hazardous and toxic wastes, medical waste, and other non-domestic waste from industrial processes. Emphasis should be placed on the development of economic instruments to minimize waste creation and enforce due care by waste generators. Where treatment systems are necessary, development of centralized systems should be encouraged.
- c. **Manage domestic waste.** Particular attention should be paid to the collection, treatment, and disposal of domestic (solid and liquid) wastes in order to mitigate the health risk and environmental nuisance. Minimizing the creation of solid waste should be encouraged through a combination of economic instruments and public awareness.
- d. **Control air pollution.** Large cities should focus particularly on air quality monitoring systems; vehicle maintenance; traffic management; and the introduction of unleaded gasoline, natural gas, and other benign fuel technologies for domestic and vehicle use. In addition, TA and institutional strengthening will be required to assist in developing appropriate legal instruments and incentive frameworks, and in legal enforcement.
- e. **Strengthen urban environmental management systems.** Strengthening urban environmental management systems in DMCs will involve promoting close coordination and cooperation between national environmental management agencies and municipal governments, strengthening environmental impact

assessment of urban development projects, strengthening the process of environmental audit, and strengthening capacity for integrating environmental dimensions into spatial planning and development projects in environmentally sensitive areas.

- f. **Provide for disaster mitigation.** Government, local communities, and the private sector must take a proactive role in natural disaster mitigation, including preparedness programs to help people reduce personal and economic loss caused by earthquakes, floods, and severe weather disturbances. Reducing earthquake hazards, for instance, can include better forecasting; improved model building codes and land-use practices, development and improvement of seismic design and construction techniques, accelerated application of research results, and reduced risk through the use of post-earthquake investigations and education.

V. Policies for Reducing Urban Poverty

37. While the growth process in most DMCs may not have been as equitable as desired, it has led to significant improvements in the living conditions of the urban poor. However, the benefits of “trickle down” economic growth cannot be relied upon to eradicate severe and absolute poverty in the next several decades. Instead, explicit objectives must be identified and consciously incorporated in development strategies to reduce the level of urban poverty. The key strategies are as follows:

- a. **Implement integrated poverty reduction programs.** Physical, economic, and social components should be combined to have the greatest impact on reducing poverty, with a focus on improving quality of life. Attention should be placed on improved access to basic social services, and on related issues such as addressing the needs of vulnerable groups such as women and street children. Infrastructure and service projects and pricing mechanisms should incorporate policies to ensure equitable access to urban services at affordable prices for the urban poor.
- b. **Improve access to microcredit.** Broadening the opportunities for the urban poor to gain access to microcredit will ensure that the potential business acumen for the poor is fully realized, generating beneficial impacts in terms of economic growth and poverty alleviation.
- c. **Strengthen gender equity.** Empower women through facilitating their equal access to education, health, job opportunities, land, and credit.
- d. **Develop partnerships of local and provincial governments, central government, and communities.** The energies and commitment of the poor will be harnessed only if communities recognize a general commitment to community-based participatory programs with real resources and shared decision-making. Awareness building is needed to help engender between all parties, the strong element of trust that is necessary.
- e. **Develop a policy framework.** The direct approach uses the availability of land, employment generation, human resource development, and population growth control, and relies on programs aimed directly at increasing the incomes of targeted families. The indirect approach requires the incorporation of explicit policies into growth strategies designed to reduce poverty. The indirect approach

has an obvious appeal to many economically hard-hit DMCs at present, but will be severely constrained by budget considerations.

VI. Policies for Urban Subsectors

A. Integrated Urban Development Projects

38. Given the necessity to retain a holistic approach to addressing urban development issues, IUDPs will continue as a mainstay of the Bank's urban assistance. However, such projects should be based more firmly on institutional reform and have a clearer client focus. IUDPs will benefit from the following modifications:

- a. **Incorporate institutional strengthening and policy dialogue.** IUDPs should be developed following or in parallel with a sustained process of institutional development and policy dialogue in the participating agencies and local government units. Where commitment or capacity is weak, related physical components will be reduced in size or eliminated unless commitment and capacity is enhanced through dialogue and capacity building. Where poor capacity or inadequate awareness is preventing the expression of demand in circumstances of clearly demonstrable need, capacity should be strengthened and awareness heightened so that demand will be adequately expressed.
- b. **Select cities in response to demand.** Candidate cities and towns will be selected only if the potential beneficiary local government demonstrates commitment, and has urban management capacity. Participation criteria should include a staff structure and complement adequate to undertake current obligations and project activities; preparation of annual accounts to prescribed standards; demonstrable financial soundness (e.g., an accumulated surplus, no recent deficit, and positive net working capital); and manageable accounts receivable. Furthermore, continued improvement in management and financial performance should be a condition of remaining in the program.
- c. **Tailor the scope of projects.** The scope of projects, though not necessarily the number of components, will increase to reflect the new demands of effective urban management, including reforms to the land and housing market, capacity-building in public-private contract procedures, new roles for the public sector, the use of microcredit and skills upgrading for the poor, and the application of management information technologies. Projects will include only subsectors that will clearly benefit from synergies between components under the IUDP approach.
- d. **Develop long-term relationships.** To the extent possible, the Bank should seek to develop long-term relationships with participating agencies and local government units to achieve effective improvements in their institutional development, including management reforms.

39. In summary, the changes in the approach to IUDPs should be evolutionary rather than radical, building on the extensive experience of their use in DMCs, with the aim of generating as large a catalytic effect on the urban sector as possible. Long-term relationships with particular towns and cities also lend themselves to pilot tests of sustainable development policies, information exchange, co-financing opportunities, and demand-driven approaches to service delivery.

B. Water Supply, Sanitation, and Solid Waste Management

40. Based on the overall objective of providing equitable, cost-effective, and sustainable investments in urban water supply, sanitation, and solid waste, subsector policies should include the following:

- a. **Increase institutional autonomy.** Autonomy in water supply, sanitation, and solid waste management agencies, should be increased through decentralization, devolution, and community participation and responsibility. Public awareness of issues such as hygiene education, water conservation, and waste minimization needs to be strongly developed. Where appropriate, private sector participation under the direction of a regulatory agency should be encouraged to help support the autonomy objective through management contracts, leasing, or concession arrangements. If there are severe financial constraints on water resource development, concession contracts may be most appropriate.
- b. **Improve financial resource management.** Improved financial resource management can be achieved by (a) ensuring the utility has well qualified and trained staff appropriate to the volume of funds being handled; (b) seeking independence from government subsidies, (e.g., following Bank policy to restrict subsidies to piped metered water supplied in bulk to informal settlements, even where residents do not have official tenure to the land); (c) giving priority to a sound cash flow that allows revenues from tariffs to meet operation and maintenance (O&M) costs, debt servicing, and a contribution to capital investment; (d) reducing accounts receivable to the lowest practical amount; and (e) ensuring the utility produces an audited annual report. Ideally, the financial management of the utility will be guided by a government statement on tariffs.
- c. **Use performance indicators.** Improved management of water resources or solid waste can be achieved if the utility uses performance indicators to measure unaccounted-for water, collection efficiency, etc. This enables the utility to compare its performance over time, monitor the performance of contractors, and compare its performance with that of other utilities. For water utilities, leak repair, accurate measurement of consumption, identification of illegal connections, and up-to-date mapping all contribute to reductions in unaccounted-for water. The Bank strongly encourages water demand management through high tariffs to discourage excessive consumption and supports the development of public awareness programs to help public understanding of the need for tariff increases, water conservation, waste minimization, etc.

C. Urban Transport

41. Policies in the transport subsector should support the spatial and economic growth of urban areas, as well as contribute to urban sustainability in general. Policy priorities include the following:

- a. **Maximize the benefits of transport infrastructure.** Benefits of current infrastructure can be maximized by (a) ensuring that roads and drainage are maintained; (b) providing for pedestrian access and safety; (c) managing traffic efficiently; (d) enforcing driver training, licensing, and compliance; (e) giving priority to public transport; (f) using traffic restraint measures such as road pricing and parking controls; and (g) reducing air and noise pollution. Benefits of new

infrastructure can be maximized by (a) developing an effective road hierarchy, giving access to underused land, and creating safe environmental areas; and (b) using road investment (and in some cities using mass transit systems) as part of coordinated land-use/transport planning to guide city expansion into preferred areas, rather than relying on ineffective physical planning controls.

- b. **Establish clear roles for the public and private sectors.** The public sector should be responsible for (a) developing overall city transport goals; and (b) taking policy decisions on public funding, tariffs, and environmental acceptability, as a framework for private sector operation of transport services and the implementation of transport projects. Once such restructuring is under way, the private sector is more likely to become substantially involved.
- c. **Generate competitive markets.** Transport sustainability requires generating competitive markets, including competition between modes. Public regulation will be needed to ensure that strategic goals are met, e.g., avoiding wasteful duplication of infrastructure, maintaining safety standards, and monitoring the performance of privatized or contractual operations of public transport services. A priority is to develop market-based skills and procedures among state-owned transport enterprises, in some cases aiming for full corporatization with a mandate to set tariffs, borrow, and determine expenditures. Prices should, as far as possible, reflect the externalities of (a) the sector in the form of user charges (with social objectives provided for separately through explicit subsidies to transport operators); and (b) the impacts of traffic congestion, pollution, and road damage. In the absence of more direct charging mechanisms, fuel taxation may be used.
- d. **Develop public transport alternatives.** Measures to restrain private transport will not be effective without a high-quality public transport alternative. Mass rail transit (MRT) is a vital long-term tool in structuring cities—especially megacities in the Region. However, experience in Bangkok, Metro Manila, and elsewhere shows that MRTs will only be effective as part of an integrated transport strategy that may take many years to complete. MRTs may not be viable without associated property development, as many of the benefits accrue to people who do not use the service and thus cannot be reflected in income. As such, MRTs are very suitable for co-financing. An interim solution, where cities have not yet developed integrated transport policies and/or cannot afford the high costs of MRTs, is the use of high capacity dedicated bus lanes.

D. Urban Housing

42. Bank operations will aim to improve the efficiency of selected housing and housing finance subsectors so they can better serve the urban housing needs of the DMCs, particularly their low-income residents. Policy priorities include the following:

- a. **Implement legal and regulatory reforms.** Legal and regulatory reforms allow for better operation of housing markets, for example by introducing simplified forms of tenure, procedures for using collateral and noncollateral to access credit, more flexible regulations for mixed land uses, and use of traditional building materials.
- b. **Minimize use of subsidies.** Cost recovery should be maximized and subsidies minimized in the financing of low-income housing and slum upgrading. Where subsidies are necessary, they should be transparent, upfront capital write-downs of the shelter package.

- c. **Increase private sector participation.** As part of the transition to an enabling role for governments in DMCs, the private sector, NGOs, community groups, and low-income householders should play an increasing role in the provision and maintenance of their own housing.
- d. **Leverage financial resources.** Financial interventions can be substantially leveraged by assisting formal housing institutions to establish lending windows and programs for community-based finance institutions. However, to successfully lend to low-income markets, the Bank must be prepared to program substantial amounts of TA to build the borrowing and operational capacity of these institutions.
- e. **Restructure and refocus existing public institutions.** Public housing institutions are in great need of restructuring and refocusing and should expand their links with NGOs and CBOs active in providing low-income shelter.
- f. **Support innovative low-income housing schemes.** Innovative low-income shelter schemes could have tremendous impact. They should be offered initially through pilot projects, using combinations of community groups, municipalities, and/or the private sector. Closely associated with such schemes are programs that, in addition to lending for housing, support income generation.
- g. **Assist primary housing lenders.** Using such models as India's Housing Development Finance Corporation (private), assistance through loans and equity participation could leverage significant funds to help primary housing lenders mobilize long term-capital for mortgage lending.
- h. **Support secondary mortgage markets.** In many countries a number of primary lenders have been established and a secondary mortgage market would be helpful in recycling primary mortgage funds. Assistance could involve advice and expertise on establishing secondary mortgage markets and taking equity participation to assist the formation of such markets. The Bank is assisting India to develop such markets and insurance procedures.

II. The Economics of Urbanization

43. People move into cities primarily to find jobs. However, determining the gross domestic product (GDP) of cities is not an easy task, as it is difficult to define the borders of each city and its related labor market areas, to estimate the output of the city in local currency and to translate the output estimated in national currency into an output expressed in a common currency. The figures obtained are nevertheless quite revealing.

Fig. 11.1 Asian Cities, By GDP, 1990

Megacity	Country GDP/capita (in \$)	(City GDP/capita)/ (Country GDP/capita)	City GDP/capita (in \$)	City GDP (in \$ billions)
Tokyo	25,430	1.40	35,600	890.1
Osaka	25,430	1.27	32,300	339.1
Seoul	5,400	1.13	6,080	66.9
Hong Kong	11,490	1.00	11,490	59.1
Singapore	11,160	1.00	11,160	34.6
Bangkok	1,420	3.45	4,900	34.8
Shanghai	370	3.66	1,350	18.0
Manila	730	1.92	1,400	12.5
Jakarta	570	2.15	1,230	11.3
Calcutta	350	2.50	875	9.4

44. The ranking of cities by GDP is completely different from the ranking by population. In terms of output, the largest cities are in developed countries, and few are in Asia. Only Tokyo, Osaka, Seoul, and Nagoya appear in the list of the 20 largest world cities. The world dominance of Tokyo is even more striking in terms of output than in terms of population. Tokyo is by far the most productive, producing about twice as much as the second largest world city (New York) and about three times as much as each of the three third largest world cities (Osaka, Paris, and Los Angeles). Tokyo produces nearly as much as the entire United Kingdom, and much more than countries such as the People's Republic of China or India.

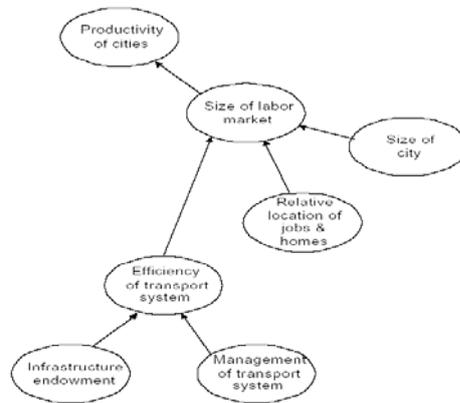
45. In all countries, cities have greater output per capita and per worker than other areas (Table 11.1, column 3). This explains why incomes are higher in urban areas, why so many people have moved from rural areas to urban areas, and why the migrations have been good for economic development. Workers moving from a low-productivity area to a higher one increase the average productivity of their country and, consequently, its wealth. More detailed studies show that labor productivity increases with city size. The larger a city, the higher its *surproductivity* (defined as the difference between the productivity and the rest of the country's productivity, divided by the rest of the country's productivity).

46. While the causes of surproductivity are not yet fully understood, it is clear that large cities are not more productive because they benefit from central governments. Rather, large cities are net losers at the budget game. They contribute more to the national budget than they get from it. They subsidize the rest of the country, they are not subsidized by it--at least not by the budget. One hypothesis presently being explored is that megacities are more productive because they have larger labor markets. The size of the labor market at, say, 60 minutes is defined as the number of workers to whom an enterprise on average can have access to in less than 60 minutes. It can also be defined as the number of jobs to which workers, on average, can have access to in less than 60 minutes. The justification for this hypothesis is twofold. First, the larger the labor market, the higher the probability that an enterprise can find the workers it wants, and the workers can find the jobs they want. A larger labor market also justifies and facilitates specialization of workers and jobs, a well-known way of increasing productivity.

47. Assuming a causal relationship between labor market size and productivity, what accounts for the size of the labor market? One is the overall population size of the

agglomeration considered. A second is the relative location of jobs and households. All other things being equal, the labor market size of a very dense city will be larger than that of a much dispersed city. The third is the efficiency of the transportation system, which is a function of the transportation infrastructure and the quality of the management of the transportation system.

Fig. 11.1 Inputs Explaining the Surproductivity of Megacities



48. Thus, three dimensions are essential to the productivity of a city: the relative location of jobs and homes, the transportation infrastructure endowment, and the management of the transport system. These dimensions are directly related to each other.

ANNEX

I. Local Government Code Provisions

Section 2. Declaration of Policy:

(a) It is hereby declared the policy of the State that the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals. Toward this end, the State shall provide for a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units shall be given more powers, authority, responsibilities and resources. The process of decentralization shall proceed from the national government to the local government units.

(b) It is also the policy of the State to ensure the accountability of local government units through the institution of effective mechanisms of recall, initiative and referendum.

(c) It is likewise the policy of the State to require all national agencies and offices to conduct periodic consultations with appropriate local government units, nongovernmental and people's organizations, and other concerned sectors of the community before any project or program is implemented in their respective jurisdictions.

Section 3. Operative Principles of Decentralization. – The formulation and implementation of policies and measures on local autonomy shall be guided by the following operative principles:

(a) There shall be an effective allocation among the different local government units of their respective powers, functions, responsibilities, and resources;

(b) There shall be established in every local government unit an accountable, efficient and dynamic organizational structure and operating mechanism that will meet the priority needs and service requirements of its communities;

(c) Subject to civil service law, rules and regulations, local officials, and employees paid wholly or mainly from local funds, shall be appointed or removed, according to merit and fitness, by the appropriate appointing authority.

(d) The vesting of duty, responsibility and accountability in local government units shall be accompanied with provision for reasonably adequate resources to discharge their powers and effectively carry out their functions; hence, they shall have the power to create their own sources of revenue and right to a just share in national taxes and an equitable share in the proceeds of the utilization and development of the national wealth within their respective areas;

(e) Provinces with respect to component cities and municipalities, and cities and municipalities with respect to component barangays, shall ensure that the acts of their component units are within the scope of their prescribed powers and functions;

(f) Local government units may group themselves, consolidate or coordinate their efforts, services and resources for purposes commonly beneficial to them;

(g) The capabilities of local government units, especially the municipalities and barangays, shall be enhanced by providing them with opportunities to participate actively in the implementation of national programs and projects;

(h) There shall be a continuing mechanism to enhance local autonomy not only by legislative enabling acts but also by administrative and organizational reforms;

(i) Local government units shall share with the national government the responsibility in the management and maintenance of ecological balance within their territorial jurisdiction, subject to the provisions of this Code and national policies;

(j) Effective mechanism for ensuring the accountability of local government units to their respective constituents shall be strengthened in order to upgrade continually the quality of local leadership;

(k) The realization of local autonomy shall be facilitated through improved coordination of national government policies and programs and extension of adequate technical and material assistance to less developed and deserving local government units;

(l) The participation of the private sector in local governance, particularly in the delivery of basic services, shall be encouraged to ensure the viability of local autonomy as an alternative strategy for sustainable development; and

(m) The national government shall ensure that decentralization contributes to the continuing improvement of the performance of local government units and the quality of community life.

II. Practical Means to Realize the Seven Norms of Good Urban Governance: Indicators and Operational Principles

Norm: Sustainability in all dimensions of urban development

Cities must balance the social, economic and environmental needs of present and future generations.¹ This should include a clear commitment to urban poverty reduction. Leaders of all sections of urban society must have a long-term, strategic vision of sustainable human development and the ability to reconcile divergent interests for the common good.

Practical means of realizing this norm include, *inter alia*,

- Undertaking consultations with stakeholders within communities to agree on a broad-based, mission-statement and long-term strategic vision for the city, using tools such as city development strategies;
- Engaging in consultative processes such as environmental planning and management (EPM) or Local Agenda 21s, that are geared to reach agreement on acceptable levels of resource use, applying the precautionary principle in situations where human activity may adversely affect the well-being of present and/or future generations;
- Integrating urban poverty reduction strategies into local development planning;
- Increase green cover and preserve historical and cultural heritage;
- Ensuring financial viability by promoting economic activity through the participation of all citizens in the economic life of the city;
- Promote the transfer of appropriate technologies.

¹ See the 27 principles elaborated in the Rio Declaration on Environment and Development, 1992.

Norm: Decentralization and Subsidiarity of authority and resources to the closest appropriate level

Responsibility for service provision should be allocated on the basis of the principle of subsidiarity, that is, at the closest appropriate level consistent with efficient and cost-effective delivery of services. This will maximize the potential for inclusion of the citizenry in the process of urban governance. Decentralization and local democracy should improve the responsiveness of policies and initiatives to the priorities and needs of citizens. Cities should be empowered with sufficient resources and autonomy to meet their responsibilities.

Practical means of realizing this norm include, *inter alia*,

- In consultation with local authorities, develop clear constitutional frameworks for assigning and delegating responsibilities and commensurate powers and resources from the national to the city level and/or from the city level to the neighborhood level;
- Adopt local legislation to translate constitutional amendments in support of subsidiarity into practical means to empower civil society to participate effectively in city affairs and which promote the responsiveness of local authorities to their communities;
- Creating transparent and predictable intergovernmental fiscal transfers and central government support for the development of administrative, technical and managerial capacities at the city level;
- Protecting financially weaker local authorities through systems of vertical and horizontal financial equalization agreed to in full consultation with local authorities and all stakeholders;
- Promoting decentralized cooperation and peer-to-peer learning.

Norm: Equity of access to decision-making processes and the basic necessities of urban life

The sharing of power leads to equity in the access to and use of resources. Women and men must participate as equals in all urban decision-making, priority-setting and resource allocation processes. Inclusive cities provide everyone—be it the poor, the young or older persons, religious or ethnic minorities or the handicapped—with equitable access to nutrition, education, employment and livelihood, health care, shelter, safe drinking water, sanitation and other basic services.

Practical means of realizing this norm include, *inter alia*,

- Ensuring that women and men have equal access to decision-making processes, resources and basic services and that this access is measured through gender disaggregated data;
- Establish quotas for women representatives in local authorities and encourage their promotion to higher management positions within municipalities;
- Ensure bye-laws and economic development policies support the informal sector;
- Promote equal inheritance rights for land and property;
- Establishing equitable principles for prioritizing infrastructure development and pricing urban services;
- Removing unnecessary barriers to secure tenure and to the supply of finance;
- Creating fair and predictable regulatory frameworks.

Norm: Efficiency in the delivery of public services and in promoting local economic development

Cities must be financially sound and cost-effective in their management of revenue sources and expenditures, the administration and delivery of services, and in the enablement, based

on comparative advantage, of government, the private sector and communities to contribute formally or informally to the urban economy. A key element in achieving efficiency is to recognize and enable the specific contribution of women to the urban economy.

Practical means of realizing this norm include, *inter alia*,

- Delivery and regulation of public services through partnerships with the private and civil society sectors;
- Promote equitable user-pay principles for municipal services and infrastructure
- Encourage municipal departments to find innovative means of delivering public goods and services through management contracts;
- Promote integrated, inter-sectoral planning and management;
- Improving the effectiveness and efficiency of local revenue collection;
- Removing unnecessary barriers to secure tenure and to the supply of finance;
- Developing and implementing fair and predictable legal and regulatory frameworks that encourage commerce and investment, minimize transaction costs, and legitimize the informal sector;
- Adopting clear objectives and targets for the provision of public services, which maximize the contributions all sectors of society can make to urban economic development; encourage volunteerism.

Norm: Transparency and Accountability of decision-makers and all stakeholders

The accountability of local authorities to their citizens is a fundamental tenet of good governance. Similarly, there should be no place for corruption in cities. Corruption can undermine local government credibility and can deepen urban poverty. Transparency and accountability are essential to stakeholder understanding of local government and to who is benefiting from decisions and actions. Access to information is fundamental to this understanding and to good governance. Laws and public policies should be applied in a transparent and predictable manner. Elected and appointed officials and other civil servant leaders need to set an example of high standards of professional and personal integrity. Citizen participation is a key element in promoting transparency and accountability.

Practical means of realizing this norm include, *inter alia*,

- Regular, organized and open consultations of citizens on city financial matters and other important issues, through such mechanisms as the participatory budget; transparent tendering and procurement procedures and the use of integrity pacts and monitoring mechanisms in the process; internal independent audit capacity and annual external audit reports that are publicly disseminated and debated;
- Regular, independently executed programs to test public officials integrity response;
- Removing administrative and procedural incentives for corruption, including simplifying local taxation systems and the reduction of administrative discretion in permit processing;
- Promoting an ethic of service to the public among officials while putting into place adequate remuneration for public servants;
- Establishing codes of conduct and provision for regular disclosure of assets of public officials and elected representatives;
- Developing practically enforceable standards of accountability and service delivery, such as ISO, that will transcend the terms of public office holders;
- Creating public feedback mechanisms such as an ombudsman, hotlines, complaint offices and procedures, citizen report cards and procedures for public petitioning and/or public interest litigation;
- Promoting the public's right of access to city information;
- Providing access to city information to create a level playing field for potential investors.

Norm: Civic Engagement and Citizenship

People are the principal wealth of cities; they are both the object and the means of sustainable human development. Civic engagement implies that living together is not a passive exercise: in cities, people must actively contribute to the common good. Citizens, especially women, must be empowered to participate effectively in decision-making processes. The civic capital of the poor must be recognized and supported.

Practical means of realizing this norm include, *inter alia*,

- Promoting strong local democracies through free and fair municipal elections and participatory decision-making processes;
- Establishing the legal authority for civil society to participate effectively through such mechanisms as development councils and neighborhood advisory committees;
- Promoting an ethic of civic responsibility among citizens through such mechanisms as “City Watch” groups;
- Making use of mechanisms such as public hearings and surveys, town hall meetings, citizen’s forums, city consultations and participatory strategy development, including issue-specific working groups;
- Undertaking city referenda concerning important urban development options.

Norm: Security of individuals and their living environment

Every individual has the inalienable right to life, liberty and the security of person. Insecurity has a disproportionate impact in further marginalizing poor communities. Cities must strive to avoid human conflicts and natural disasters by involving all stakeholders in crime and conflict prevention and disaster preparedness. Security also implies freedom from persecution, forced evictions and provides for security of tenure. Cities should also work with social mediation and conflict reduction agencies and encourage the cooperation between enforcement agencies and other social service providers (health, education and housing).

Practical means of realizing this norm include, *inter alia*,

- Creating a culture of peace and encouraging tolerance of diversity, through public awareness campaigns;
- Promoting security of tenure, recognizing a variety of forms of legal tenure and providing counseling and mediation for people at risk of forced evictions;
- Promoting security of livelihoods, particularly for the urban poor, through appropriate legislation and access to employment, credit, education and training;
- Implementing environmental planning and management methodologies based on stakeholder involvement
- Creating safety and security through consultative processes based on rule of law, solidarity and prevention, and supporting appropriate indigenous institutions that promote security;
- Address the specific needs of vulnerable groups such as women and youth through women’s safety audits and youth training programs;
- Developing metropolitan-wide systems of policing as a means of realizing more inclusive cities;
- Raising awareness about the risk of disasters and formulating local emergency management plans, based on reduction of risk, readiness, response and recovery, for natural and human-made disasters and, where necessary, relocating residents of disaster-prone areas;

- Integrating emergency management among municipal departments and with national plans;
- Formulating strategies and action plans addressing all forms of abuse against the person, especially abuse against women, children and the family.

Table 11.1 Norms, Objectives, and Operational Principles for the Inclusive City

Norms	Objectives	Indicators and Operational Principles
Sustainability	Balanced social, economic and environmental priorities	<ul style="list-style-type: none"> • Undertaking consultations with stakeholders within communities to agree on a broad-based, mission-statement and long-term strategic vision for the city, using tools such as city development strategies. • Integrating urban poverty reduction strategies into local development planning. • Increasing green cover and preserve historical and cultural heritage.
	Stakeholder Involvement	<ul style="list-style-type: none"> • Engaging in consultative processes such as environmental planning and management (EPM) or Local Agenda 21s that are geared to reach agreement on acceptable levels of resource use, applying the precautionary principle in situations where human activity may adversely affect the well-being of present and/or future generations. • Ensuring financial viability by promoting economic activity through the participation of all citizens in the economic life of the city. • Promoting the transfer of appropriate technologies.
Decentralization and Subsidiarity	Local Autonomy and accountability	<ul style="list-style-type: none"> • In consultation with local authorities, developing clear constitutional frameworks for assigning and delegating responsibilities and commensurate powers and resources from the national to the city level and/or from the city level to the neighborhood level. • Adopting local legislation to translate constitutional amendments in support of subsidiarity into practical means to empower civil society to participate effectively in city affairs and which promote responsiveness of local authorities to their communities. • Creating transparent and predictable intergovernmental fiscal transfers and central government support for the development of administrative, technical and managerial capacities at the city level. • Protecting financially weaker local authorities through systems of vertical and horizontal financial equalization agreed to in full consultation with local authorities and all stakeholders. • Promoting decentralized cooperation and peer-to-peer learning.
Equity	Resource allocation	<ul style="list-style-type: none"> • Establishing equitable principles for prioritizing infrastructure development and pricing urban services. • Establishing investment incentives for targeted sectors and geographic areas. • Removing unnecessary barriers to secure tenure and to the supply of finance. • Creating fair and predictable regulatory frameworks.
	Empowerment	<ul style="list-style-type: none"> • Ensuring that women and men have equal access to decision-making processes, resources and basic services and that this access is measured through gender disaggregated data. • Establishing quotas for women representatives in local authorities and encourage their promotion to higher management positions within municipalities. • Ensuring by-laws and economic development policies support the informal sector. • Promoting equal inheritance rights for land and property.

Norms	Objectives	Indicators and Operational Principles
Efficiency	Management and service delivery	<ul style="list-style-type: none"> • Encouraging municipal departments to find innovative means of delivering public goods and services through management contracts. • Promoting integrated, inter-sectoral planning and management. • Removing unnecessary barriers to secure tenure and to the supply of finance. • Developing and implementing fair and predictable legal and regulatory frameworks that encourage commerce and investment, minimize transaction costs and legitimize the informal sector. • Adopting clear objectives and targets for the provision of public services, which maximize the contributions all sectors of society can make to urban economic development; encourage volunteerism.
	Efficient investment in infrastructure	<ul style="list-style-type: none"> • Delivering and regulating public services through partnerships with the private and civil society sectors. • Promoting equitable user-pay principles for municipal services and infrastructure. • Promoting integrated, inter-sectoral planning and management. • Improving the effectiveness and efficiency of local revenue collection.
Transparency and Accountability	Transparent and accountable decision-making processes	<ul style="list-style-type: none"> • Conducting regular, organized and open consultations of citizens on city financial matters and other important issues, through such mechanisms as the participatory budget; using transparent tendering and procurement procedures and integrity pacts and monitoring mechanisms in the process; preparing internal independent audit capacity and annual external audit reports that are publicly disseminated and debated; • Creating public feedback mechanisms such as an ombudsman, hotlines, complaint offices and procedures, citizen report cards and procedures for public petitioning and/or public interest litigation.
	Access to information	<ul style="list-style-type: none"> • Promoting the public's right of access to city information; • Providing access to city information to create a level playing field for potential investors.
	High standards of ethics and professional conduct	<ul style="list-style-type: none"> • Adopting regular, independently executed programs to test public officials integrity response; • Removing administrative and procedural incentives for corruption, including simplifying local taxation systems and the reduction of administrative discretion in permit processing. • Promoting an ethic of service to the public among officials while putting into place adequate remuneration for public servants. • Establishing codes of conduct and provision for regular disclosure of assets of public officials and elected representatives. • Developing practically enforceable standards of accountability and service delivery, such as ISO, that will transcend the terms of public office holders.
Civic Engagement and Citizenship	Leadership for public participation and stakeholder involvement and responsibility	<ul style="list-style-type: none"> • Making use of mechanisms such as public hearings and surveys, town hall meetings, citizen's forums, city consultations and participatory strategy development, including issue-specific working groups. • Undertaking city referenda concerning important urban development options.
	Building democratic culture	<ul style="list-style-type: none"> • Promoting strong local democracies through free and fair municipal elections and participatory decision-making processes. • Promoting an ethic of civic responsibility among citizens through such mechanisms as "City Watch" groups.
	Enablement	<ul style="list-style-type: none"> • Enabling the equal contribution of men and women and the full participation of citizenry in civic life. • Establishing the legal authority for civil society to participate effectively through such mechanisms as development councils and neighborhood advisory committees.
Security	Environmental management	<ul style="list-style-type: none"> • Implementing environmental planning and management methodologies based on stakeholder involvement.
	Disaster preparedness	<ul style="list-style-type: none"> • Raising awareness about the risk of disasters and formulating local emergency management plans, based on reduction of risk, readiness, response and recovery, for natural and human-made disasters and, where necessary, relocating residents of disaster-prone areas. • Integrating emergency management among municipal departments and

Norms	Objectives	Indicators and Operational Principles
	Personal safety, crime control and prevention	<p>with national plans.</p> <ul style="list-style-type: none"> • Creating a culture of peace and encouraging tolerance of diversity, through public awareness campaigns. • Creating safety and security through consultative processes based on rule of law, solidarity and prevention, and supporting appropriate indigenous institutions that promote security. • Addressing the specific needs of vulnerable groups such as women and youth through women's safety audits and youth training programs. • Developing metropolitan-wide systems of policing as a means of realizing more inclusive cities. • Resisting all forms of abuse against the person, especially abuse against women, children and the family.
	Security of tenure and livelihoods	<ul style="list-style-type: none"> • Promoting security of tenure, recognizing a variety of forms of legal tenure and providing counseling and mediation for people at risk of forced evictions. • Promoting security of livelihoods, particularly for the urban poor, through appropriate legislation and access to employment, credit, education and training.