



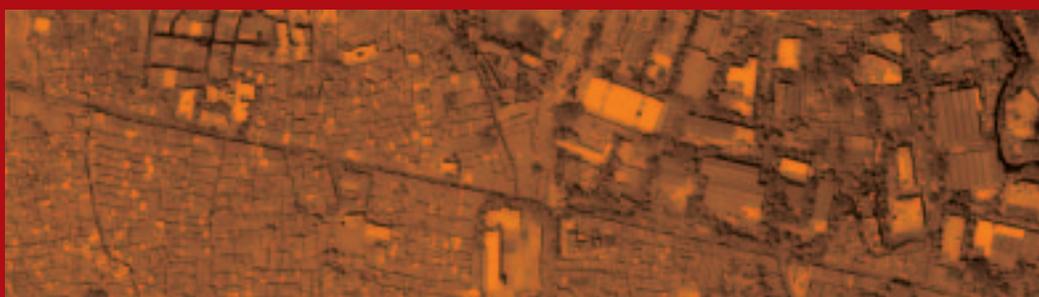
Cities Alliance
Cities Without Slums

2005 Annual Report

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Cover photo: Competing for Space: Mumbai International Airport and Surrounding Slums,
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CITIES AND THE MILLENNIUM DEVELOPMENT GOALS



Cities will play a pivotal role in meeting the Millennium Development Goals (MDGs), the world's shared targets for fighting poverty, hunger, and disease. Cities are not only home to half of humanity, and much of the world's poverty, but are also engines of global trade, innovation, and economic growth. Successful urban development is also critically important for rural development, as cities provide both vital inputs and output markets for rural producers.

Yet too many cities in the developing world are failing to thrive. They are experiencing massive population growth, sprawl, environmental stress, and low economic productivity. Too many African cities, even coastal cities with high potential for sea-based trade, are poorly integrated into the world economy. Slum areas are expanding, formal jobs are scarce, and informal employment is the norm rather than the exception. Moreover, urban political authorities are often too disempowered and lacking in the financial and political resources needed to work effectively with civil society to manage urbanisation.

To meet the MDGs, cities in low-income and middle-income countries need to draw up bold, long-term strategies for investments in health, education, infrastructure, and environmental management sufficient to achieve the MDGs in the urban setting. These strategies must build on slum upgrading; security of tenure for poor urban residents; community participation; and enhanced international competitiveness through upgraded urban infrastructure, including industrial zones, telecommunications, power and port facilities.

The city development strategy concept pioneered by the Cities Alliance provides an innovative and operational framework for mapping out these critical investments. I very much hope that

in the near future a large number of local governments will be receiving support from the Cities Alliance to help them prepare and begin implementing MDG-based city development strategies. These strategies would be carried out not only by the local governments themselves, but by governments in collaboration with local community organisations.

Another area where the Cities Alliance has been playing a leading global role is in identifying practical ways to finance urban development. I, therefore, welcome the *2005 Annual Report* of the Cities Alliance as both important and timely. It shows practical ways in which cities can increase domestic resource mobilisation and also tap into international capital markets to finance urban development. In addition to market financing, of course, many cities in low-income countries will require significantly increased official development assistance to meet the MDGs.

With this year's report, the Cities Alliance underscores once again that it is an innovative and highly effective partner for local governments in their quest for sustainable development. This year's report provides a vital pathway for cities that aspire to achieve the MDGs. If the ideas in this year's report are put into action, the world will take an important step closer to ending poverty, reversing the spread of slums, and creating conditions for prosperous and healthy urban environments.

A handwritten signature in black ink, appearing to read "Jeffrey D. Sachs". The signature is fluid and cursive.

JEFFREY D. SACHS

SPECIAL ADVISOR TO UN SECRETARY GENERAL,
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EMPOWERING CITIES TO ATTRACT FINANCE

The Challenge

The Millennium Development Goals have brought into sharp focus the scale and nature of the challenges that need to be overcome in order to achieve basic levels of human dignity for all. Currently, close to 900 million people live in urban slums, an estimated 1 billion lack access to adequate water supply, 2 billion do not have access to adequate sanitation, and 4 billion live without adequate wastewater disposal. The scale of the problem is such that the imprecision of the figures is largely irrelevant.

The financing required by cities to address this challenge is daunting. For example, the UN Millennium Project's Task Force on Improving the Lives of Slum Dwellers has estimated that the investment required to upgrade slums and provide alternatives to new slum formation between 2005 and 2020 will be of the order of US\$20 billion per annum.

While most of the international debate has focused on the role of increased development assistance and debt relief, insufficient attention has been paid to the much larger and growing need for local sources of investment for infrastructure in the cities where the urban poor live. These cities are in the midst of coping with the impact of three major historical trends: globalisation, requiring the creation of competitive infrastructure to attract investments; decentralisation of responsibilities, often not matched by the delegation of authority or resources; and rapid population growth, mostly poor people whose contribution to the economy is rarely matched by their access to basic infrastructure and services.

It is a paradox that the lowest level of government increasingly has to provide the most comprehensive response to the most complex developmental challenges. Yet the policy making process and institutional arrangements are often deeply flawed. Just as local governments are often ignored in the process of designing the very policy frameworks they are often required to implement, so too are slum dwellers and even the private sector often excluded in the design of vital local policies, notwithstanding their respective contributions to economic growth and tax revenues.

To meet these challenges, cities need to be transformed from passive service providers to more proactive facilitators of infrastructure and services. But this transformation cannot occur without imparting real authority, responsibility and resources to local government through a process of empowerment. A vital component of this is strengthening the city's ability to raise resources, create and maintain infrastructure and pay for these costs over time.



Most cities in the developing world have been pursuing traditional methods of financing, usually based on *ad hoc* grants and government guarantees. However, since the 1990s the widespread need for far-reaching urban reform has led some countries to provide an enabling framework for their cities to mobilise domestic capital, create infrastructure and take responsibility for repayments. Experience worldwide is now clearly demonstrating that urban infrastructure can be financed by cities accessing private capital markets, as long as supportive policy, legal and regulatory frameworks are in place. Moreover, this experience is also demonstrating that appropriate decentralisation can facilitate local initiatives by rewarding performance and punishing mismanagement through local democratic processes. Indeed, financing infrastructure in this manner provides significant incentives for improved urban governance, since enhancing accountability for service provision encourages the consent of the governed for sound pricing policies, and creates stable revenue streams directly impacting on a city's creditworthiness and providing confidence to financial markets.

Cities Alliance members are sharpening their focus on the challenge of sustainable financing strategies for cities, in particular, on how long-term domestic private financing can be mobilised for urban infrastructure and services. This strategic focus is predicated on two fundamental points of departure: i) only private capital can satisfy the sheer size of the financing requirements for urban infrastructure; and, ii) since external finance generates additional exchange risks, a long-term strategy for cities in the developing world requires linking city financing needs with domestic sources.

In summary, the prospects of sustainable financing are enhanced when domestic finance perceives cities as empowered entities rather than as feeble and pliant administrative arms of central government.

Empowering Cities to Take the Lead

The following review of experience across continents reflects not only the diverse historical contexts of urbanisation but also the common challenges cities and countries face in accessing domestic capital:

- Larger cities with medium-term investment plans have been able to repeatedly access local capital markets and establish a credit relationship with the private sector. Examples include Johannesburg, Shanghai, Ahmedabad, and Ho Chi Minh City.
- Smaller and medium cities have found ways to access the capital market through intermediaries. Examples include Financiera de Desarrollo Territorial (FINDER) in Colombia, Infrastructure Finance Corporation Limited (INCA) in South Africa, Michoacan in Mexico, and Tamil Nadu Urban Development Fund (TNUDF) in India.
- There are a number of other serious efforts to develop local capital markets via the use of specialised financial intermediaries. Examples include CAIXA Econômica Federal in Brazil, Municipal Development Fund Office (MDFO) in the Philippines, and Fonds d'Équipement Communal (FEC) in Morocco.

While most of the international debate has focused on the role of increased development assistance and debt relief, insufficient attention has been paid to the much larger and growing needs for local sources of investment for infrastructure in the cities where the urban poor live.

- Partnerships between national and city governments in which duties and responsibilities are specified through legislation or contracts energise the prospects for mobilising domestic capital. Examples include Douala, Cameroon, and Cheboksary, the Russian Federation.
- Macro adjustments which cramp fiscal space for infrastructure have hurt cities, especially in the late 1990s. Examples include Brazil, India, and the Russian Federation.

South Asia

Trends toward political decentralisation in South Asia are leading to a change from *ad hoc* grants to more rational devolution, and to debt financing of city infrastructure.

In Bangladesh, the Bangladesh Municipal Fund has established a debt culture, with cities now financing at least 15 per cent of their infrastructure needs. These loans are also tied to improved financial management, including enhanced tax collection and modern accounting systems.

In Pakistan, the Decentralisation Law of 2003 has encouraged provincial governments such as Punjab to devise a performance-based grant system for financing urban infrastructure.



Women construction workers in Pune, India

In India, despite constitutional changes that provide for significant city empowerment, core issues pertaining to both the demand and supply sides remain unresolved. There is also a great variety in implementation across states. The functional and geographical fragmentation of key infrastructure sectors such as water and sanitation continues, requiring state-level actions to demarcate boundaries between state level parastatals and cities. Yet, despite this weak decentralisation framework, some cities and states have managed to innovate. For example, in the 1990s, several large cities began mobilising local market finance through bond issues for water and sanitation investments. Ahmedabad, as a pioneer, established strong links with local markets and has now accessed the capital markets on a number of occasions—improving its terms on each occasion. In the south Indian states of Tamil Nadu and Karnataka, small and medium-sized cities have accessed local capital markets on favourable terms through pooled financing mechanisms. A devolution framework based on rational formulae has greatly facilitated their access to capital markets.

East Asia

East Asia has made good progress, although some countries need to work more closely with supply-side institutions.

In the Philippines, the Local Government Code of 1991 assigned increased responsibilities and resources to municipalities with about 40 per cent of national government revenues being distributed on a formula basis. Enhanced powers to set tax rates were also granted to municipalities, although there has been very little subsequent leveraging of these resources for infrastructure financing. Since the mid-1990s only four municipal bonds have been issued—in small amounts, usually less than US\$1.25 million, for short terms of two to three years, and mostly for housing. Other institutions in the Philippines such as the Local Government Unit Guarantee Corporation provide guarantees on a limited basis.

It seems clear that if private capital could be provided with the same security mechanism as those enjoyed by state institutions, the financing options for cities would increase. Although multilaterals have been lending to different state-level financial intermediaries, there has been little breakthrough in market orientation.

Institutional change is also evident in Vietnam. Despite the near absence of conventional domestic debt markets, both cities and the national government have focused on establishing a new municipal market. For example, the city of Ho Chi Minh has a five year development strategy in place with a strong local economic development component. Given its investment needs of D12,000 billion (US\$750 million) and annual budget of around D5,000 (US\$315 million), the city has put in place an annual borrowing programme. The city issued its first bond issue of D2,000 billion (US\$125 million) in 2003; with a second bond of D1,400 billion (US\$89 million) in 2004, with the term increasing from two to five years. The issuance of bonds in Ho Chi Minh is clearly linked to a city development strategy (CDS) and is based on a blend of budget and market sources. Encouraged

by this success and with a strong devolution framework in place, Vietnam plans to launch a market-oriented infrastructure fund to target small and medium cities.

In China, the pace of income and urban growth has encouraged private financing, even though government legislation currently prohibits the issuance of municipal debt. With a strong fiscal decentralisation framework and a focused city-region strategy in place, the city of Shanghai plans to establish a district financing vehicle with the assistance of the World Bank, to raise debt for its neighbouring municipalities. In the long run, China's policy challenges will be more institutional in nature, pertaining to the integration of municipal debt with the rest of the financial system, and the specification of accounting standards and provisioning norms.

Latin America

Colombia provides an outstanding example of decentralising both responsibilities and resources. Since the 1991 constitution, transfers of central govern-

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Community construction in Yogyakarta, Indonesia

ment revenues to municipalities and urban regions increased from an already substantial 36.5 per cent of current revenues to 46.5 per cent in 2003. FINDETER, a second-level financial intermediary, helped commercial banks take part in municipal lending and now accounts for some 15 per cent of municipal lending. Prudent legal requirements set out in 1997 legislation—known as the ‘traffic light’ system (Table 1), have managed to keep defaults low.

as 20 per cent in the late 1990s. As a result, cities have not been able to meet their demands for urban infrastructure financing, constraining their prospects for economic growth. Ceilings on borrowings have meant that even multilateral investments, which normally should be anti-cyclical, have also become fair-weather friends for infrastructure investments. Currently, the International Finance Corporation’s (IFC) Municipal Fund is working with major financial institutions to improve the supply of domestic capital. However, these efforts will need to be complemented by the creation of fiscal space for infrastructure which to date has been limited by national law.

In Mexico, major reforms on both the demand and supply sides have provided the framework for states and municipalities to access domestic capital markets on a sustainable basis. On the demand side, these reforms have included the decentralisation laws of the 1990s, the elimination of automatic bailouts using federal intercepts to repay debt, and the widespread use of ratings to better establish commercial credit for cities. On the supply side, legislation has opened the door for the issuing of sub-national bonds, coupled with pension reforms and a period of relative macro stability, making long-term finance for cities more readily available.

Africa

In the continent where the developmental challenges are perceived as the most intractable, significant innovations and national and city partnerships are nonetheless underway. On the demand side, efforts are being made to design rule-based decentralisation systems and improve revenue collection; while on the supply side, ongoing reforms in a number of countries are helping domestic financial institutions become more market-oriented.¹

The contract-based links created between the state and municipalities in Cameroon are an ongoing example of these efforts. The municipal financ-

TABLE 1
Colombia: Traffic Light System for Regulating Sub-national Borrowing

Rating	Indicator	Borrowing Restrictions
Green	Interest as % of operational savings less than 40% & debt stock as % of current revenues less than 80%	No Restrictions
Yellow	Interest as % of operational savings 40–60% & debt stock as % of current revenues less than 80%	Loans with Ministry of Finance approval
Red	Interest as % of operational expenses greater than 60% or debt stock as % of current revenues greater than 80%	No lending without adjustment plan

Source: Chew, Matsukawa and Peterson, Local Financing for Sub-Sovereign Infrastructure in Developing Countries. World Bank Discussion Paper, No. 1, IEF Department.

Despite this strong financial performance, FINDETER’s domestic sources are short-term while it lends long term, reflecting a lack of long-term capital in the domestic market. Since the 1990s, the World Bank has helped address this constraint by extending maturities up to 12 years for municipal loans compared to the average loan maturities of three to five years. Currently, there is a World Bank initiative supported by the Public-Private Infrastructure Advisory Facility (PPIAF) and the Cities Alliance to better integrate the sources of FINDETER funds with domestic capital market options.

In Brazil, macro instability has been the major factor inhibiting the flow of long-term domestic capital for urban infrastructure.

Brazil has a history of municipal borrowing but its domestic institutions lack long-term finance. National deficits and borrowings have led to high short-term interest rates, reaching as high

¹ Some of the materials in this section have been reproduced from the six case studies in AFD’s, “Etudes sur le Marche du financement des Municipalités Africaines,” Paris, February 2004.

ing system is characterised by uncertain resource transfers, inflexible business tax legislation and limited local taxes. In response to these challenges, the national and city governments have entered into contracts aimed at sharing responsibilities and planning city investments. The city contracts signed in 2003-2004 should provide a systemic basis for urban investment. This process has the backing of: (i) the Agence Française de Développement (AfD) and, more recently, the World Bank, for Douala and Yaoundé, (ii) the European Union (EU) for the five urban communities in the western inland and

northern parts of the country; and (iii) Fonds Français d'Aide et de Coopération (FAC) for Limbé. These contracts have facilitated the provision of credits to Douala and Yaoundé and should eventually flow to other smaller cities through intermediaries, including Fonds Spécial d'Équipement et d'Intervention Intercommunale (FEICOM).

City-national government partnerships are also underway in Uganda and Tanzania through the use of performance grants, improving financial performance of cities and, to some extent, infrastructure and service delivery as well.

GOOD FINANCIAL MANAGEMENT IN LOCAL GOVERNMENT: The Examples of Tanzania and Uganda

The Local Government Development Programme in Uganda and the Local Government Capital Development Grant system in Tanzania are both designed to reward good management at the local level. Both countries have intergovernmental transfers enabling local government to build capital infrastructure, based on needs determined through a participatory planning process. These programmes have been designed based on the premise that setting capital investment priorities at the local level will prove more efficient and responsive than nationally-driven sectoral investment strategies.

Each year, local authorities in both countries are assessed to determine whether they meet certain minimum conditions and are evaluated against specific criteria known as performance measures.

For a local authority to access a non-sectoral capital development grant, it must meet the minimum conditions. Eventually, these conditions will apply to all transfers to local governments, regardless of sector. These minimum conditions are derived from laws, regulations and government guidelines. They are objective, capable of rapid assessment and include the following:

- Timely annual accounts submitted
- Timely quarterly financial management reports
- Duly adopted development plans and budgets
- Absence of adverse audit reports and mismanagement of funds

The performance measures are somewhat more qualitative, and can increase the capital grant by 20

per cent in the case of very good performance, or reduce it by 20 per cent in the case of poor performance. Compared to the pass/fail minimum conditions, these measures seek to evaluate performance in key functional areas such as financial management, development planning, procurement, project implementation, and human resource development. Additionally, these measures evaluate performance against broad policy guidelines on governance issues such as transparency and accountability, participatory planning, and pro-poor budgeting.

To help local authorities build the capacity to access capital development grants, and to earn bonuses for good management, capacity building grants are part of the intergovernmental fiscal system. Capacity building grants can be used to address weaknesses identified in the annual assessment.

The results to date have been impressive. In the three years since the programme has been in effect in Uganda, 42 local governments now qualify, compared with 19 initially, and 16 have received performance bonuses in the most recent fiscal year. Of the participating local governments, 89 per cent now have functional planning committees and long-term development plans, compared with 30 per cent initially. Compliance with the Local Government Act and with accounting regulations has improved dramatically, and residents report improvements in both services and transparency.

The Tanzania programme is just beginning (FY05), and time will be required to judge its success.

Source: Matthew Glasser, World Bank, 2005

Coordinated actions by cities and national governments clearly facilitate greater flow of private financing. In Burkina Faso, the 1992-93 decentralisation law has facilitated collaboration between cities and chambers of commerce, with investments structured through a public-private partnership format. Burkina Faso also enjoys support from a number of bilateral lenders via a 'lending cooperative' that encourages decentralisation. Several investment funds have been set up and credits extended, such as: Fonds de Démarrage des Communes (FODECOM), Service d'Appui à la Gestion et au Développement des Communes (SAGEDECOM), and Fonds d'Investissement des Communes (FICOM).

In Senegal, the Municipal Aid Programme started in 1997-98, and recognition of the need for self-financing and prompt repayment has contributed to an initial restructuring of financial transfers from the state. The increase in loan collection rates and local resources, especially since 2001, indicates the beginnings of a sustainable financing structure.

In other countries, high urban growth rates have necessitated improved regulatory frameworks. In Ghana, for example, since 1992, the district assemblies have enjoyed extremely stable transfers from the state through the District Assembly Common Fund of around US\$100 million each year. Furthermore, in 2003 the government formalised a political movement to promote the decentralisation of powers to the district level via the National Decentralisation Action Plan (NDAP). The short-term goal of the NDAP is to loosen the financial authority of the state and make transfers to the District Assemblies more secure. These actions have facilitated a greater access to financing.

Financial databases specifically designed for the Africa region are also being developed. These databases seek to provide private domestic capital sources with the credit history of various cities in order to make prudent investment decisions. For example, during the past several years, the Municipal Development Partnership (PDM) in Cotonou has been working on a financial database for municipalities in the West African Economic and Monetary Union.

South Africa's transition to democracy and constitution-making process included an extensive examination of policy frameworks and intergovernmental fiscal relationships. During this period, the government introduced comprehensive reforms of the fragmented local government system involving regulatory and financial changes in the framework governing relationships between the central government and cities. These initiatives have contributed to the ongoing urban transformation by providing a basis for cities to actively engage in sustainable infrastructure development.

Sustainable Urban Financing: Lessons from Successful Cities

The experiences described in the previous section allow us to derive some essential lessons from those cities and countries that have demonstrated viable financing models. These highlight the importance of:

- Rational, predictable revenue transfers that are usually formula based, such those found in South Africa, India and Mexico;
- Legal frameworks for borrowing such as the Municipal Finance Management Act in South Africa, the Common Urban Local Bodies bill in Tamil Nadu, and the Master Trust Structure in Mexico;
- Macro stability with affordable long-term interest rates, conducive for financing infrastructure;
- Financial intermediaries working with cities, such as the Development Bank of Southern Africa in South Africa, TNUDF in India, and Dexia and the World Bank/IFC Municipal Fund in Mexico.

These experiences suggest that successful domestic financing of city infrastructure depends on coordinated actions by cities and national governments and requires partnerships. Uncoordinated actions are at best futile and at worst harmful. For example, if national governments pre-empt the pool of domestic savings, as had happened in Brazil, the chances of cities finding long-term finance are weakened. This is despite a relatively

A SOUTH AFRICAN SUCCESS STORY

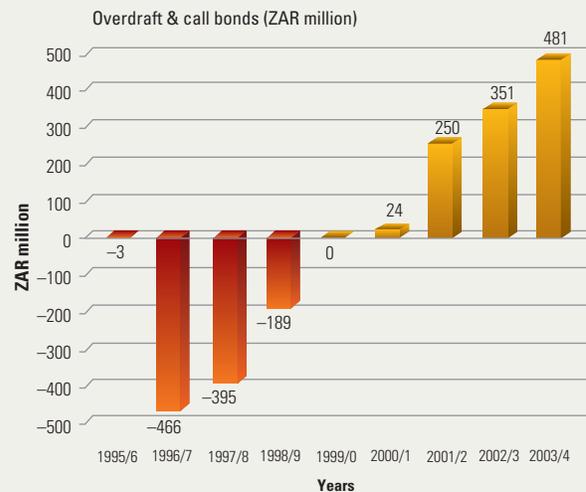
South Africa's efforts at strengthening relationships between national and city governments deserve special mention, as they offer a good example of a national government working in tandem with city governments and the financial market on municipal finance.

Enabling policies and actions by the national government:

- Legal framework for local government reform through the Municipal Structures Act, 1998, Municipal Systems Act, 2000;
- Financial framework for municipal budgeting, accounting and borrowing provided by the Municipal Finance Management Act, 2003, National Treasury Rules, 1998;
- Definitive intergovernmental finance framework ensuring the stable flow of financial resources to city governments from higher tiers as well as a three-year indicative allocation of such transfers.

As a consequence, cities have responded with internal actions to improve their financial management. For example, the city of Johannesburg:

- Developed and implemented a three year Strategic Plan, called *Igoli 2002*; improved its liquidity by



Source: Roland Hunter, Presentation at the Second IADF Conference, Washington DC, October, 2004

enhancing billing and revenue collection procedures (see the figure);

- Changed the orientation of municipal service delivery by corporatising and converting service entities into autonomous utilities under city ownership;
- Successfully issued municipal bonds in 2004 and 2005 to finance its capital investment requirements.

well developed borrowing tradition and strong financial intermediaries. Similarly, the use of supply-side interventions without an adequate devolution framework, as in Bangladesh, can hamper the prospects of sustainable financing.

For policy purposes, it is useful to categorise the urban financing situation so that policies and interventions promote better coordination between demand and supply. This typology is based on two basic propositions:

First, on the demand side, the ability of cities to attract private domestic debt on a sustained basis is dependent on the stability of revenue streams over the life of the loan. This, in turn, crucially depends on the predictability of internal and external sources of revenue, requiring actions both by the city and by higher levels of government. In situations where cities are reasonably efficient in

assessing and collecting their own revenues, and where the devolution framework is rational and predictable, debt financing is easier.

Second, on the supply side, the key determinant is a framework which makes available domestic savings (often generated by growth in cities) as long-term debt for urban infrastructure development. Factors that constrain supply include excessive borrowings by national government, especially for consumption which has the effect of reducing the fiscal space for cities to borrow locally and invest in infrastructure. This pre-emption of available savings would also increase the borrowing costs for cities and, in extreme cases, stimulates capital flight, thus making long term money scarce.

The urban finance situation in any given country is therefore an outcome of demand and supply factors, referred to in Table 2 as city empower-



Burst water main in Mathare, Nairobi, Kenya

ment and macro environment. City empowerment—the demand side—can be broken down into technical and managerial capacity, investment autonomy and financial capacity to borrow. Rating agencies routinely use indicators to assess the extent of empowerment. These indicators typically include city-level indicators of collection and coverage, efficiencies of own resources and the grant framework in place. The level of empowerment at any given point of time is an outcome of partnerships between cities and national governments.

The macro environment is a composite index of supply-side factors. These include the fiscal space which is available for cities after the borrowing needs of national governments from domestic markets have been met. Clearly, prudent fiscal policies would ensure the availability of finance for cities at reasonable costs. Little work has been

done on methods for quantifying the fiscal space available for debt, although some recent work through the International Monetary Fund and World Bank has begun to define the factors involved.

The key message from this table is the need for partnerships. A good macro environment (as in cell C) with low interest rates would not help financing infrastructure, if cities are not empowered. In India, for example, despite the availability of finance, a weak decentralisation framework hampers the ability of cities to mobilise the finance for infrastructure.

The conclusion is that in those situations where demand-side actions (empowerment) are not coordinated with supply-side actions (macro environment), sub-optimal outcomes emerge, as in cells A, B and C of Table 2. Therefore, policies which attempt to reduce risks on the supply side, such as using credit guarantees, would provide little long-term credibility for private debt if the empowerment index is poor. The same holds true for lines of credit to domestic private and public entities such as municipal development funds. Similarly, in situations of fiscal stress, city-level actions alone would be of little use without complementary actions by the national government to free up the fiscal space for infrastructure—a situation which affected much of Latin America in the 1990s and some parts of East Asia.

This crude categorisation enables us to distinguish at least three cases that are of interest from a policy perspective. The first case (the situation in cell A) is where the devolution framework continues to be *ad hoc* and the supply of savings remains weak, as in Bangladesh, the Kyrgyz Republic, Namibia and Uganda. In such a situation policy emphasis is required to strengthen cities along with supply-side interventions. The second case (the situation in cell B) is where the demand-side factors

TABLE 2

Finance outcomes		Macro environment	
		Poor	Good
City empowerment	Poor	A	C
	Good	B	D

(devolution and city actions) are relatively developed, but supply-side factors limit debt, especially longer-term debt, for example, as in Brazil, Colombia and the Philippines. The third case (the situation moving towards cell D) is where linkages between markets and cities are emerging, for example, India, Mexico and South Africa, but are not yet systemic, and the possibility of higher levels of government pre-empting the supply of debt for cities, or reversals of decentralisation cannot be ruled out.

Obvious exceptions to this typology are the transition economies, including the Russian Federation, China, Vietnam and Eastern Europe, where the macro situation and city devolution are relatively strong, but institutional frameworks for financing and intermediation are still developing.

These arguments are subject to an important caveat. Debt financing is not possible in cases where cities are unviable because of structural factors that could persist over the medium term. These cities or regions, are typically those where growth has faltered for a long time, and a sensible policy framework for this category of cities would favour grants rather than impose a financial burden that the city cannot afford. Obviously, private or public debt cannot solve a basic insolvency problem; and *ad hoc* financial structures, unconnected to domestic capital, more often than not, stifle local initiative and eventually become unsustainable. It would be sensible to consider differentiated policies and to look at urban finance from the city point of view, hence the emphasis on empowerment and coordinated policy through partnerships.

Partnerships and Collective Action

The foregoing brief survey of international experience underscores the need for collective action by cities, national governments and their development partners to address demand- and supply-side imbalances. Recent initiatives towards partnerships include actions at the global, country and city levels.

The Cities Alliance has recently launched a

major new municipal finance partnership to help cities become proactive developers of urban infrastructure by mobilising domestic long-term capital. The Municipal Finance Task Force (MFTF), includes experts and practitioners from rating agencies, private sector financial institutions, and bilateral and multilateral banks and development agencies. The MFTF will help to analyse and share the knowledge and experience of cities which have successfully mobilised long-term private capital and the frameworks which need to be in place at all levels of government to facilitate this process. In parallel, the Alliance is also supporting an initiative of United Cities and Local Governments (UCLG) to establish both a global and regional commissions of mayors on municipal finance that will both interact with the MFTF and help broaden and deepen the engagement of cities in improving these instruments and their application.

Private finance is comfortable with public entities which have an inclusive and broadly based investment strategy, as both characteristics substantially reduce cyclical political risks. Therefore, using the CDS framework as an entry point for a city to undertake a financial stocktaking, and identify the steps it needs to take to build bridges with local markets for financing its development strategy, would be a logical policy step. Cities Alliance members, national governments and cities are developing CDS frameworks in countries as diverse



Aerial view of Mathare slum, Nairobi, Kenya



THE MUNICIPAL FUND

The Municipal Fund, an initiative of the World Bank Group, provides financing and credit enhancement to local governments and other sub-national public sector entities for development projects, without requiring central government guarantees.

Scope

The Municipal Fund is building an investment portfolio in all emerging regions, with projects already approved in Mexico and South Africa, and a dozen more under preparation. It will consider projects in a wide range of sectors, including water, wastewater, transport, electricity, solid waste, district heating, and other essential public services, and with a wide range of sub-national entities, including municipal, provincial or state governments, public enterprises, special purpose vehicles, and financial intermediaries. Local governments can manage the investments directly, or in the context of public-private partnerships. The Municipal Fund will typically look at investments in the range of US\$5 million to US\$50 million. Larger or smaller investments may be considered for select projects with a significant development impact.

Skills and Products

The Municipal Fund draws upon the combined sectoral, credit, and loan structuring expertise of the World Bank and the IFC. Its appraisal processes are modelled on private equity funds, thereby permitting a flexible and rapid response to clients' requests. The fund invests from the IFC's AAA-rated balance sheet and has access to the IFC's full line of financial products. Loans are issued at fixed or variable rates, in major currencies as well as in local currency in several countries. The Municipal Fund also offers loan or bond guarantees to help its clients attract new sources of financing in their currency of choice, reduce their borrowing costs, and extend maturities beyond what lenders would otherwise provide. Where appropriate, the Municipal Fund can make equity investments in project companies, financial institutions, or other entities. Quasi-equity products include convertible debentures, subordinated loans, income warrants, and other hybrid instruments. The Municipal Fund can also help its clients access technical assistance grants to build capacity and improve their creditworthiness, and works in close partnership with key development partners in the municipal sectors, such as the Cities Alliance.

To find out more, or to suggest a project idea, contact the Municipal Fund at municipalfund@ifc.org. Information is also available on the IFC's website at <http://www.ifc.org/municipalfund>.

as the Russian Federation, Peru and India.

These partnerships with cities should also facilitate greater use of newer market making instruments including those developed by Alliance members, including the World Bank/IFC Municipal Fund, the GuarantCo initiative, and USAID's Development Credit Authority (DCA).

A major threat to evolving sustainable financing mechanisms is the continuing use of scattered grants and traditional loans by national governments, and sometimes by multilateral and bilateral development institutions. Such interventions,

while usually well intentioned, tend to distort local incentives and weaken the emerging opportunities for raising domestic resources for city infrastructure. The scale and pace of urban demands are now driving the movement towards modern financing models, and as this change involves a sharing of power, it is unlikely to be painless. The challenge for cities, national governments and their development partners is to impart momentum to this process in an organised fashion.

THE GUARANTCO INITIATIVE

In 2004, a group of bilateral donors within the Private Infrastructure Development Group (PIDG) established GuarantCo, as a local currency finance company which specialises in credit enhancement. The purpose of GuarantCo is to promote economic and social development by facilitating access to domestic financial markets for infrastructure companies that seek to borrow local currency funds for their investments.

GuarantCo provides partial credit guarantees for the benefit of local institutional investors to enable them to invest in debt (bonds, notes) issued by infrastructure companies. Local bank loans are also eligible. GuarantCo may also support refinancing in cases when foreign currency is being replaced by local currency debt. GuarantCo charges a market-based guarantee fee and customary up-front fees. In addition to risk capacity, GuarantCo also provides technical assistance

grants to help prepare projects and structure local currency transactions by drawing on PIDG's Technical Assistance Facility.

Clients include private firms, municipal utilities or municipalities engaged in infrastructure projects in lower income countries. Eligible sectors are telecoms, power, water/wastewater services; transportation; and infrastructure components of industrial or agro-industrial projects. GuarantCo has targeted up to 20 per cent of its portfolio, subject to the availability of suitable opportunities, to urban regeneration projects, such as economic and social infrastructure in cities, including housing.

GuarantCo initially envisages that the average size of its risk participation in a single project will be in the range of US\$5 million to US\$12 million. GuarantCo's interim management has already developed an initial pipeline of transactions, and the first guarantees are under preparation.

For more information, contact Stefan Jansson, acting Managing Director, at sjansson@guarantco.com.

USAID'S DEVELOPMENT CREDIT AUTHORITY

USAID uses its Development Credit Authority (DCA) to provide guarantees for private local currency lending directed at a wide array of development activities. USAID has found the DCA to be particularly effective in encouraging private debt financing for infrastructure and has achieved significant results in the water, wastewater, and sanitation sectors. Notable successes include pooled financing facilities in India, where financing facilities in Tamil Nadu, and more recently in Karnataka, are now serving as models for creative infrastructure finance.

In South Africa, USAID is using DCA guarantees in conjunction with grant-funded technical assistance and training for infrastructure project formation through the Municipal Infrastructure Investment Unit, which was recently absorbed by the South African Ministry of Finance. Currently, USAID is focusing efforts on broadening its involvement with small- and medium-scale infrastructure projects in Africa.

To learn more about USAID's DCA, contact John Wasielewski, Director of the Office of Development Credit, at jwasielewski@usaid.gov, or visit their website at www.usaid.gov/our_work/economic_growth_and_trade/development_credit/overview.html.

CITIES ALLIANCE IN ACTION

In the five years since the Heads of State adopted the Millennium Declaration in September 2000, the Millennium Development Goals have become the central frame of reference for most bilateral and multilateral development agencies. More importantly, responsibility for the implementation of the MDGs is gradually being mainstreamed into the core business of national governments worldwide.

As issues of policy, institutional arrangements, budgeting, monitoring and ownership are being addressed at the national level, the challenge of meeting the MDG targets is also beginning to be shared between different spheres of government. As goals shared by all, the MDGs are increasingly galvanising local governments, and in turn, the private sector and organisations of civil society.

Meeting the MDG targets on extreme poverty will largely depend on the creation of productive urban environments, capable of sustaining economic growth. However, in the areas of greatest need, in Asia and, more particularly, in Sub-Saharan Africa, cities have been falling behind, and are increasingly home to extreme poverty.

The world's slums, arguably, constitute the greatest concentration of development deficits that cut across the Millennium Development Goals: poverty, education, gender inequality, child mortality, disease, degraded environments and so on. In its report presented to the Secretary General, the UN Millennium Project made a number of specific recommendations regarding urban development, which entirely accord with the experience and approach of the Cities Alliance and its members.² Given the pressures that urbanisation imposes on cities, finding alternatives to new slum formation and improving the lives of slum dwellers, as called for in the Millennium Development Goals, are essential goods in themselves and necessary for raising urban productivity.³ This is only possible when local governments are empowered with the necessary policy responsibility, authority and resources within a clear and supportive national framework.

The Millennium Project identified a clear set of objectives to make cities more productive, and create the environment in which all stakeholders, particularly the slum dwellers, can contribute to the creation of economic growth. These are:

- Improving security of tenure for slum dwellers;
- Upgrading slums and improving housing;
- Expanding citywide infrastructure and effective service delivery;
- Creating urban jobs through economic empowerment; and
- Providing alternatives to slum formation.

In the Declaration adopted at its Founding Congress, United Cities and Local Governments (UCLG) articulated the vital role of local governments in achieving the Millennium Development Goals, "...which are part of our daily duties in serving our cities and communities".⁴ The Cities Alliance is supporting and working with UCLG to strengthen the role of local governments in responding to the challenges of

² *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*, Report to the Secretary General by the Millennium Project. UNDP, Earthscan, 2005. See, in particular, Chapter Five.

³ *A Home in the City*; Report of the Millennium Project Task Force on Improving the Lives of Slum Dwellers, Earthscan, 2005.

⁴ UCLG, Founding Congress Final Declaration, 'Cities, Local Governments: The Future for Development,' Paris, 5 May 2004.

the MDGs, through two important new initiatives:

- The first is to work with UCLG and its members to develop city development strategies that incorporate the MDG targets as part of their policy, planning and investment prioritisation process;
- The second initiative is the creation of a Municipal Finance Commission, which will act as an advisory body to UCLG members, the Cities Alliance and the Municipal Finance Task Force on matters relating to municipal finance, and assist UCLG members to access current thinking and innovations in mobilising long-term finance for infrastructure investments.

These initiatives will augment and build upon the leadership that has already been demonstrated by cities around the world—cities like Ahmedabad and Bangalore in India, Bogota in Colombia, Curitiba in Brazil and Muñoz in the Philippines that have taken the lead by adopting MDG targets to motivate and measure progress in improving service delivery to all citizens.

CURITIBA

With the assistance of the Federation of Industries of the State of Parana and UN-Habitat, Curitiba has applied the MDG indicators to the entire metropolitan area of Curitiba, setting their baseline and targets for the MDGs, which they call *8 Jeitos de Mudar o Mundo*—8 ways to change the world. In order to monitor progress, 48 indicators have been adopted, under the slogan:

Nos Podemos! —We Can!

MUÑOZ

The Science City of Muñoz has adopted the 8 MDGs through a localisation process, through which it has:

- Held city consultations to set MDG targets;
- Passed a Council resolution adopting the targets;
- Aligned MDG targets with city plans and the budget; and
- Updated the city poverty monitoring system.

The Alliance has also expanded its partnerships focusing on financing for cities and the urban poor through four major initiatives:

Municipal Finance Task Force

In keeping with its commitment to helping cities become proactive developers of urban infrastructure by mobilising domestic long-term capital, the Alliance's recently established Municipal Finance Task Force has set out to identify ways to increase the flow of long-term private capital to developing cities in support of their slum upgrading and CDSs. To this end, the task force will serve as a forum for collecting the experiences and views of international experts on municipal finance and private capital mobilisation for use in formulating practical interventions.

The MFTF's web site and discussion group are expected to be operational by the end of 2005, at which time the case studies, several draft discussion papers and a tool kit for cities on financial stocktaking and on prioritising investments will be available.

The Community-Led Infrastructure Finance Facility

The Community-Led Infrastructure Finance Facility (CLIFF) is a mechanism that facilitates access to capital by organisations of the urban poor. Now in its third year of operation in India, CLIFF capital funds, as of December 2004, had supported 10 community-led development projects: eight housing developments providing safe, secure and affordable shelter with secure tenure for 2,816 households, and two sanitation projects designed to benefit more than 200,000 slum families in Mumbai and Pune.

A main aim of CLIFF is to leverage slum dwellers' financial and nonfinancial assets so as to access resources from both the public and private sectors. CLIFF has allocated capital funds of some

£4.2 million, which are projected to produce revenues of about £12.0 million, including £4.5 million in government contracts and subsidy payments and £7.2 million from the sale of residential units. As of December 2004, CLIFF had leveraged a total of £1.7 million from private sector banks.

Central to the CLIFF approach is its response to local demand and local capacity. It does not seek to plan, manage and implement slum development projects conceived by professionals, but rather to catalyse support for large-scale solutions developed by poor communities and the organisations with which they work. CLIFF works with poor communities and their networks that have the capacity to manage money, usually built up through experience with community-based savings and credit schemes. CLIFF helps such communities manage and mitigate the risks of their development projects, including political and financial risks, thereby helping them achieve greater scale. CLIFF-financed projects have, for example, faced shorter delays in obtaining permissions from city and state authorities, which in turn reduces delays in receiving subsidies, contract payments and other revenues.

During the year, CLIFF took first steps to initiate a second pilot scheme, this time in Nairobi. The pilot will be undertaken in the huge Kibera slum by Kenyan partners Pamoja Trust and Muungano wa Wanavajiji.

The Slum Upgrading Facility

At its 2004 Annual Meeting in Durban, the Cities Alliance Consultative Group approved the first phase of the work programme for the Slum Upgrading Facility (SUF), a new global facility located within UN-HABITAT. SUF is designed to provide technical assistance to help cities and countries develop bankable housing projects for low-income households, for upgrading slums and for providing urban infrastructure.

Jointly funded by DFID and the SIDA through the Cities Alliance, the Facility's central approach is to help developing countries mobilise domestic capital by facilitating links among local actors and

by packaging attractive investments for urban infrastructure and housing. Following completion of the design phase in 2005, the pilot project implementation phase will run for an initial three-year period. During this phase, a number of countries will be identified to pilot the SUF approach.

The African Union for Housing Finance

The African Union for Housing Finance (AUHF), an association of 37 mortgage banks, building societies and housing corporations operating in 14 African countries, was established in 1984. AUHF's main objectives are:

- To promote greater understanding of savings and homeownership, including the rights and responsibilities of both lenders and borrowers;
- To assist in the application of appropriate technology and to improve housing; and,
- To encourage union members to conduct business in an ethical manner and to raise their technical and financial standards.

Recognising that formal mortgage banking sector services only reach a small part of Africa's population, namely, those who can afford a conventional mortgage, AUHF is actively seeking alternative ways to assist informal sector borrowers, as well as lenders, such as community banks, people's banks, savings associations and credit unions. The Union is an important regional alliance in terms of knowledge networking and advocacy for change and as a finance partner to provide support to broader programmes for scaling up upgrading activities.

AUHF is working with a number of Cities Alliance members to facilitate the development of appropriate housing finance products to support upgrading activities in institutions in four African countries: the Ghana Home Finance Company, Limited; the Tanzania National Housing Finance Corporation; the Swaziland Building Society and the South African Banking Council. It will work with these partners to support the scaling up of slum upgrading activities through the development of viable financing schemes in project cities.

Since its launch in 1999, the Cities Alliance has worked with over 160 cities worldwide, committing US\$60 million in grants which are in turn linked to over US\$6 billion in investments. The following sections illustrate Alliance activities in each region from the perspective of the cities themselves.

AFRICA

This year has witnessed a significant increase in international attention paid to Africa, as a result of which some countries' debt burden has been reduced, and the continent as a whole has been promised increased aid. Nevertheless, when looked at as a whole, many of Africa's key development indicators underscore the size and extent of the continent's developmental deficits: the world's lowest life expectancy, lowest gross national income per capita, highest mortality rate among children under five, highest prevalence of HIV/AIDS and the lowest access to improved water sources.⁵

However, the tendency to treat Africa as a homogenous entity obscures at least two key points: first, the increasing call within Africa for countries to "...commit themselves to create conducive conditions for economic growth and sustainable development and to mobilise the African people to become the main agents of development,"⁶ and second, the genuine progress made by a number of African countries. For example, the gross domestic products (GDP) of 15 African countries, including Burkina Faso, Ethiopia and

... the informal sector creates an estimated 93 percent of all new jobs in Sub-Saharan Africa and accounts for 61 percent of all urban employment.⁶



Aerial view of Maputo, Mozambique

⁵ World Bank, *World Development Indicators Database*, Washington DC, 2005.

⁶ Speech by Wiseman L. Nkuhlu, Chair of the New Partnership for Africa's Development's Steering Committee, delivered at the Doing Business in Africa Conference, Cape Town, 25 September, 2004.

Uganda, have been growing, on average by more than five per cent per year over the past decade.

The main drivers of this economic growth have tended to be urban, including construction services and mining. Reflecting the gradual shift from agriculture to industry, exports of manufactured goods rose 8.7 per cent in 2003. In terms of job creation, however, the informal sector creates an estimated 93 per cent of all new jobs in Sub-Saharan Africa and accounts for 61 per cent of all urban employment.⁷

Nevertheless, the outlook for sustainable growth is questionable as long as a number of structural obstacles remain unresolved. Contrary to popular belief, 52 per cent of urban dwellers live in cities of less than 200,000 people in which the biggest infrastructure deficits coexist alongside weak local government capacity. Although only 15 per cent of urban Africans currently live in cities of more than a million, many of these cities also face significant deficits in their financial and local government capacity.

Throughout Africa, the weak tax and borrowing authority of most local governments hinders sustainable development but, as noted earlier, there is welcome evidence of real progress in a number of Sub-Saharan African countries. The May 2005 launch of United Cities and Local Governments of Africa (UCLGA) should facilitate the emergence of more empowered local governments in Africa, and UCLGA should also become a strategic interlocutor for the Cities Alliance and its members. The decision of Africa's biggest democracy, Nigeria, to lead the way in Africa and join the Cities Alliance also underscores Africa's commitment to the Alliance's goals. The Cities Alliance has made some progress in developing its portfolio in Africa, but is looking to a new group of potential partners, including Benin, Ghana, Mozambique and Senegal, to provide new initiatives in the coming year.

⁷ Christine Kessides, "The Urban Transition in Sub-Saharan Africa: Implications for Economic Growth and Poverty Reduction" Washington DC, World Bank Transport and Urban Development Department, 2005.



THE JOHANNESBURG—ADDIS ABABA PARTNERSHIP PROGRAMME

On 9 October 2003, the mayors of Addis Ababa and Johannesburg signed a memorandum of understanding, to form a "mutually beneficial Sister City Partnership aimed at fostering global understanding, solidarity, the New Partnership for Africa's Development good governance, economic, social and cultural linkages". Within the framework of this agreement, and with Cities Alliance support being provided through the World Bank and GTZ, the two mayors agreed specifically to "proactively engage, promote and support each other under a programme-driven partnership undertaking various forms of exchange and co-operation." The Johannesburg – Addis Ababa Partnership Programme (JAAPP) included promoting CDSs, enhancing performance management, developing executive management training, ensuring financial management, developing land and housing, preventing and treating HIV/AIDS and improving service delivery approaches.

A new city charter recently conferred the status of a federal city on Addis Ababa, along with many new competencies and tasks. The mayor and the new city government undertook a comprehensive reform programme over two years, decentralising both decision-making authority and public service delivery. The structure of the administration was reformed, and improved service delivery and good governance are now priorities.

For its part, Johannesburg has had to deal with the consequences of a history based on racial separation, of development constrained by ideology, and of the post-1994 process of restructuring of local government throughout South Africa. By the end of the 1990s, Johannesburg faced the challenges of dealing with a divided city, inefficient service delivery, poor staff morale, and a deep financial crisis.

Johannesburg's subsequent and dramatic transformation, during which the city was institutionally redesigned, new policies were implemented, new



West of Addis Ababa's Ketema market—Africa's largest open air market

entities were created to dramatically improve service delivery, and the financial crisis was averted, set a new standard for local government restructuring in South Africa. As such, Johannesburg was well placed to provide technical support and strategic guidance to other cities, especially ones facing similar challenges such as Addis Ababa.

Johannesburg's international relations policy gives priority to engaging with cities in Africa with which Johannesburg can share its social and economic development experiences. Following a visit by a delegation from the Addis Ababa city government to Johannesburg, the partnership agreement between the two cities was signed.

The partnership's work plan comprises eight programmes, implemented by various departments, utilities, agencies and corporative entities. The private sector is not currently involved, but as the partnership progresses, a range of players is likely to be invited to contribute to the programmes.



JAAPP Mayors' handshake

JAAPP WORK PLAN

- City Development Planning and Strategies
 - Strategic Planning and Management
 - Geographical Information System (GIS)
- Performance Management
 - Implement a Performance Management System (PMS)
- Service Delivery
 - City Service Monitor
 - Decentralisation of Service Delivery—Outsourcing
- Land and Housing
 - Land and Property Valuation and Billing
 - Land and Property Management
 - Urban Development Boundary
 - Private Sector Land Development
 - Settlement Upgrading
 - Transfer of City-owned Houses
 - Registration of Beneficiaries of Public Land and Housing
- Finance and Economic Development
 - Finance IT System
 - Public-Private Partnerships
- HIV/AIDS
 - HIV/AIDS in the Workplace Programmes
 - City-wide Community AIDS Programmes
 - AIDS-related Databases and Information
- Knowledge and Information Sharing
 - Information Recording and Dissemination
 - Knowledge Audit
 - Video Documentation
- Further Initiatives and Programme/Direction Management
- Exploration and Development of Further Initiatives

Communications present a significant challenge, and the results of recent elections in Ethiopia and forthcoming local government elections in South Africa risk slowing down implementation.

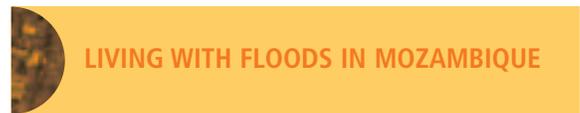
As resource limitations (time, funding, and skills) are a major constraint to development in Africa, embarking on projects that are practical and implementable in the short term may be a prudent approach.

City to city co-operation, especially in Africa, is an exciting and challenging endeavour. The partnership has to take into account cultural differences, resource limitations, and the continent's history of underdevelopment. This means that city residents might not discern any benefits from the partnership for quite some time.

While participation by councillors and officials in both cities has been good, how wider community participation can be planned and implemented has yet to be clarified.

The programmes' financial sustainability hinges on a number of variables, some of which the two cities can resolve, while others may require the intervention by and assistance from the federal government. In addition, the programmes' sustainability is contingent upon building up sound institutions in Ethiopia and Addis Ababa, and making citizens an integral part of the programme. A skills audit and gap analysis will be indispensable in providing indications about the likely sustainability of the programme.

Kubeshni Govender Jones, Johannesburg Innovation and Knowledge Exchange, and Gerhard Mai, GTZ, Addis Ababa.



Mozambique is one of the poorest countries in the world, ranked 171 out of 177 countries in the human development index in UNDP's 2004 *Human Development Report*. Seventy-eight per cent of the population fall below the poverty line, and life expectancy decreased from 41.1 years in 1970–75 to 38.1 years in 2000–05.

Following the end of a bitter post-independence civil war, by the end of the 1990s Mozambique had become one of the more notable economic performers in Africa, albeit starting from a low base. However, because of its geographical location, Mozambique has remained vulnerable to cyclical flooding. In 2000, the country suffered the worst floods in 50 years, with 300 deaths, 50,000 families displaced and widespread damage to property, as well as the destruction of roads, power supply and irrigation networks. Widespread and highly destructive floods occurred again the following year, with a concomitant toll on human lives, infrastructure, the environment and the economy.

To deal with the recurrent problem of flooding in slum areas on a more sustainable basis, the Ministry for the Coordination of Environmental Affairs (MICOA), supported by UN-HABITAT, obtained Cities Alliance funding for a “Slum upgrading and vulnerability reduction in flood-prone areas in Mozambique” project. Four towns and cities were involved in the application: Maputo, Chókwe, Quelimane and Tete.

Adopting a highly innovative approach, partly inspired by the experience of the Netherlands, but also constrained by the paucity of resources in Mozambique, the resultant strategy proposed:

- The adoption of a “living with floods” approach;
- The use of simple and appropriate technologies such as refuge points, and water and sanitation solutions;
- The use of the school system to educate people on environmental issues and flood prevention and mitigation.

Significantly, the strategy put the concept of “living with floods” in the context of a larger

national urban upgrading strategy, and underscored that:

- The implementation of flood mitigation measures within the framework of settlement upgrading enhances its chances of being effective and successful;
- An important two-way cause and effect relationship exists between the building of social capital and the initiation of improvements in a community;
- The participation of local government is crucial for the success of flood mitigation and urban upgrading;
- The backbone of community urban upgrading efforts is appropriate planning.

Notwithstanding its clear emphasis on local preparedness and actions, the strategy also addressed the national framework for disaster management and the recent creation of the inter-ministerial National Disaster Management Council, chaired by the Prime Minister.

As part of the strategy, two educational instruments were produced: a manual, “Learning to



Coping with floods in Maputo

Live with Floods”, and a card game. The training manual was designed like a comic book to make it attractive to youngsters, and accessible to less literate adults. It explains the nature of floods, describes their impact on the economy and the poor and recommends creative and palatable ways that communities and individuals can cope with their aftermath. The methodology and approach used owes much to the pioneering work with rural development, HIV/AIDS and early childhood development which several Mozambican organisations have engaged. Both the manual and the card game are to be promoted through the school system, which is widely seen as the most effective channel for communication and mobilisation.

Community participation during the planning stage allowed each of the four communities to select a set of priority civil works for immediate implementation, still within the scope of the activities financed by the Cities Alliance.

At the national level, the project co-financed together with the FAO the preparation of a new piece of national legislation, the draft Law for Territorial Planning under the supervision of MICOA. The draft law covers four topics:

- The basic legal definitions and fundamental principles;
- The system of territorial management, defining levels of territory, the nature of the tools used, and the definition of responsibilities;
- The definition of citizens’ rights and duties;
- The practices to be adopted for evaluation, monitoring and enforcement.

Finally, the project supported the preparation of a strategy to improve legal property rights, defining and classifying different types of markets and their respective demand characteristics,

describing market dynamics, discussing efficiency and equity in relation to market type, and defining land market values and their spatial and time variations. The strategy also attempts to define a model for sustainable urban growth.

Evaluation of the project proved to be instrumental in convincing both national and local authorities of the feasibility of adopting new thinking in response to the threat of floods and, most critically, in moving away from previous policies which were based on resettlement as the first response. Addressing urban upgrading in flood-prone areas was particularly important at this relatively early stage of Mozambique’s urbanisation, when the negative impacts of this inevitable and generally desirable process can be avoided.

Through this project, Mozambique’s municipal and national authorities have developed an initial set of operational principles on urban upgrading, adapted to flood-prone areas. Together, cities and communities have developed a set of instruments, land use and natural resource management plans, disaster and contingency plans, and a training manual that help raise awareness of the impact of floods, define communities’ infrastructure needs and work out ways of dealing with both. In the process, a number of communities have experimented with the notion of building social capital in urban areas, while city councils have raised their awareness of social issues. With the help of the strategy, the Law for Territorial Planning and the study of land markets, Mozambican national authorities have obtained new tools to help them plan their urban future.

Antonio Yachan, UN-HABITAT, Nairobi and Mathias Spaliviero, UN-HABITAT, Maputo.

BOBO-DIOULASSO: STRENGTHENING THE CITY AND ITS REGION

With a population of approximately 400,000, Bobo-Dioulasso is the second largest city in Burkina Faso. The city served as a magnet for the entire southwest of the country because of its location, economic dynamism and service delivery capacity. Bobo-Dioulasso's regional position has weakened over the last 40 years, however, with the loss of a number of political and administrative functions to the capital, Ouagadougou. Today, only 20 per cent of enterprises in the formal sector are located in Bobo-Dioulasso and its contribution to GDP declined from 27 per cent to 15 per cent, while Ouagadougou's increased from 37 to 57 per cent during the same period.

Governments at both the national and local levels have undertaken initiatives in an attempt to reverse this trend and rebuild capacity in Bobo-Dioulasso. In 1997, they launched a local economic recovery effort, supported by the Partenariat Pour le Développement Municipal (PDM) based in Cotonou, Benin, in the context of the ECOLOC. This programme was launched by the Organisation for Economic Co-operation and Development, the secretariat of the Club du Sahel and the PDM to provide local elected officials and other actors with information that would help them enhance their cities' competitiveness and quality of life.

The Bobo-Dioulasso CDS

The next step in 2003 was the launching of the CDS for Bobo-Dioulasso, with funding provided by the Cities Alliance. In an effort to derive maximum benefit from international partners, Bobo-Dioulasso sought the assistance of several agencies: AfD, the EU, the Swiss Development Co-operation, CIDA, KfW and GTZ. In addition, an exchange was organised with UNEP and the United Nations Capital Development Fund (UNCDF).

This activity faced significant challenges, especially from a financial standpoint because of scant resources and difficulty in mobilising local

resources. Throughout the activity, trade-offs had to be made, particularly with respect to the Priority Investment Programme.

Main Lessons Learned

During the first phase of CDS preparation, the coupling of the ECOLOC process and the CDS activity facilitated the preparation of a precise and reliable assessment of the city and its hinterland. The identification of existing potential, constraints and economic and social actors led to the establishment of a database for making accurate planning projections. The salient points gleaned from the information gathered are as follows:

- The economic base of the city is almost evenly divided between formal activities and informal activities;
- The formal sector of the local economy benefits greatly from the rest of the world;
- The city's tax potential is underutilised, as taxes and fees account for a mere 0.6 per cent of local GDP;
- The development of the city and the hinterland are inextricably linked, as the revenues generated by farmers in the hinterland from the sale of food products in the city is almost equal to the revenue derived from cotton.



Mayor Celestin B. Koussoube, seated left with local officials and visiting Cities Alliance team members



Main market in Bobo-Dioulasso

During the dialogue and consultation phase, in which all stakeholders in Bobo-Dioulasso and its hinterland were urged to participate, and with the assistance of government agencies, the initiative succeeded in encouraging a process of active and collective brainstorming by different groups in society. The brainstorming sessions provided an opportunity for all residents to present their vision of the city in the next 20 to 25 years, and the collective vision was incorporated into the framework for the economic development of the city and the surrounding region. In the process, the awareness of the municipal council was enhanced, as was its role as a dynamic leader in local development. The commitment of the various partners—namely the commune, economic actors, state and development partners—was through the adoption of a charter, and a local economic development plan was prepared.

Outlook

The main challenge lies in the practical application of the results of the initiative. This entails taking the necessary steps to ensure that the momentum associated with the initiative is maintained and that follow-up action is taken with respect to the commitments made. To that end, an entity was established to oversee and monitor the implementation of the results. This involves lobbying the national authorities to obtain the necessary infrastructure and guarantees of a favourable institutional and legal environment. The entity will also support economic activity by liaising between economic actors, and financing entities, support entities and government authorities.

Celestin B. Koussoube, Mayor of Bobo-Dioulasso, representing the Municipal Council, and the President of the ECOLOC Committee, representing city and regional stakeholders.



MBABANE'S UPGRADING AND FINANCING PLAN

Some 64 per cent of the residents of the Swazi capital, Mbabane, live in unplanned, informal settlements within the city's boundary, typically in makeshift structures made predominantly from sticks and mud. These areas are characterised by high population densities, averaging between 40 and 50 people per hectare, compared with the low average population density of slightly more than seven people per hectare across the city proper.

Mbabane's official population of some 67,000 is growing at the rapid rate of about five per cent per year, fuelled largely by migration from rural areas. However, because of the city's hilly topography, as well as the location's impermeable hard rock and shallow soils, some 40 per cent of the city's land is not developable. Informal settlements are therefore found on the urban fringes, nestled in hilly and mountainous areas where development is both difficult and expensive.

In the early 1990s, the government of Swaziland worked with the World Bank on the Swaziland Urban Development Project to install infrastructure in the two main urban areas of Mbabane and Manzini. An integral part of the project was the upgrading of selected informal settlements, which involved improving environmental health standards and providing housing and infrastructure solutions to low-income urban households. In Mbabane, two of the largest settlements were upgraded with 2,600 plots that were serviced on a full cost recovery basis as a precursor to scaling up the upgrading to other informal settlements in the city on a revolving fund basis. However, slow payments by the project's beneficiaries rendered this approach unsustainable and, as a result, 10 informal settlements remained in need of upgrading.

The Municipal Council approached both the World Bank and the government of Swaziland for support to upgrade the remaining settlements to alleviate the serious social and environmental problems these areas were facing. Since the start of the Swaziland Urban Development Project, the

council had put a building ban in effect in an attempt to curb the spread of informal structures in the city, meaning that people in informal settlements could not legally extend their structures or build new ones. The council sought financial assistance to develop layout designs that would allow it to selectively lift the building ban for people wanting to build houses approved by the council. After familiarising itself with the operations of the Cities Alliance, the council was convinced that the Cities Alliance's vision of cities without slums coincided with the council's goal of upgrading all its slums. Indeed, Mbabane has now committed itself to becoming a city without slums by 2015 to achieve MDG Target 11.

This translates into a vision whereby the city will work towards having all its citizens living in a healthy environment with access to safe drinking water, sanitary facilities, roads and acceptable housing. The city is developing the Mbabane Upgrading and Financing Plan (MUFPP) as a central step in this challenging endeavour to both quantify the physical and financial magnitude of the task, and offer a realistic set of implementable options to ensure that the objectives are met.

In preparing the Cities Alliance proposal, the council undertook intensive work to assess the infrastructure needs, the socioeconomic situation and the issues pertaining to HIV/AIDS in the informal settlements. This was then coupled with an institutional assessment of the experience and capability of the municipality and other institutions to manage upgrading projects. This preliminary assessment strengthened the council's resolve to proceed with the project, and provided the impetus for producing a high-quality proposal with a clear plan of action designed to achieve the stated objectives.

The Mbabane Strategic Plan

The Mbabane Upgrading and Financing Plan fits in perfectly with the council's strategic plan, whose priorities include upgrading informal settlements within the boundaries of Mbabane while simultaneously improving the city's revenue base and addressing the HIV/AIDS problem. As a result,

work on the MUFP has been mainstreamed into the city's core business, thereby benefitting from an existing and proven coordinating structure.

The MUFP prioritises the upgrading of all the remaining informal settlements within the city's boundaries, namely: Malagwane, Fonteyn, Mangwaneni, Nkwadini Zone 3, Manzana Zone 1, Mahwalal Zone 6c, Makhokholo, Mvakwelitje and Sidwashini.

Following the September 2004 approval of a US\$500,000 grant by the Cities Alliance, work began with the procurement of expertise to complement the city's project team. During the project launch, Mayor Zebon Bhembé urged all stakeholders to participate in the plan's activities, as the project's success hinges on a highly participatory approach.

The council will use the MUFP to work with communities to find lasting solutions to key poverty issues. Because unemployment is a serious problem in Swaziland in general, and in Mbabane in particular, the proposed project will support the

development of entrepreneurial skills, provide employment in conjunction with both project implementation and management and facilitate the provision of support for small and medium enterprises.

The plan will also play a pivotal role in attaining Cities Alliance objectives and the MDGs, including ensuring environmental sustainability; eradicating extreme poverty and hunger; reducing childhood mortality; and combatting HIV/AIDS, malaria and other diseases, by:

- Increasing access by the urban poor to services, including water and sanitation services, to improve their quality of life and reduce the time spent collecting water;
- Mainstreaming HIV/AIDS programmes, including voluntary counselling and testing, awareness and education, into the integrated development plan;
- Ensuring environmental sustainability by complying with legislation relating to land, water, human settlements and urbanisation;
- Scaling up urban upgrading in Mbabane from pilot projects to city level;
- Stabilising communities and encouraging the development of an urban land market by improving security of tenure;
- Strengthening participatory government through the involvement of citizens and civil society organisations in planning and delivery activities;
- Providing opportunities for local economic development through housing production, public works and environmental improvements.

With this project, the council's goal of making Mbabane the first city in southern Africa without slums by 2015 could become a reality.

Benedict Gamedze, Professional Assistant to the Chief Executive Officer, Mbabane City Council, Mbabane.



Mbabane hillside slum settlements

MARADI'S CDS: CREATING A VISION FOR ECONOMIC GROWTH, URBAN MANAGEMENT, AND POVERTY REDUCTION

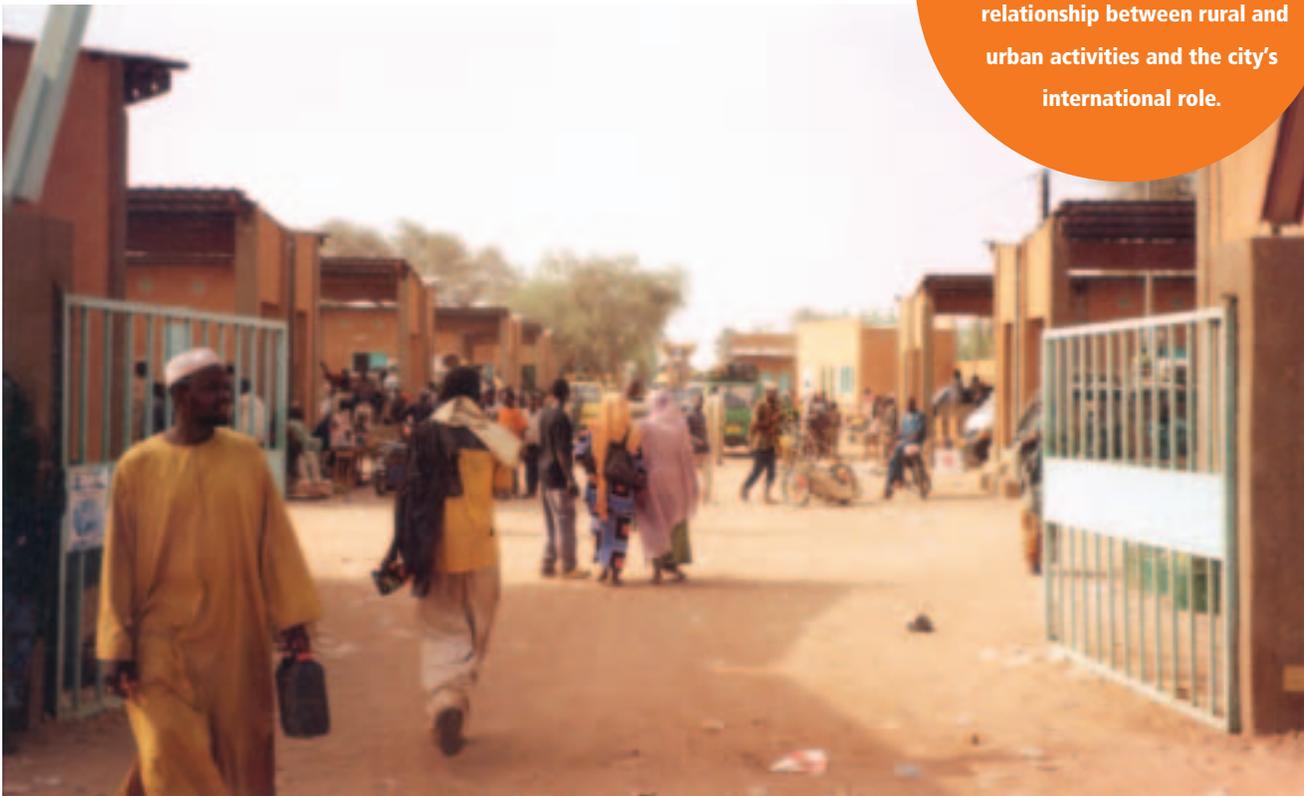
A warlord, Dan Kassaoua, founded the city of Maradi, Niger, in the early 19th century. Its strategic location created tensions between the French colonial powers in Niger and the British in Nigeria. Following World War II, economic development based on peanuts, trade in imported goods and related activities transformed Maradi into a regional and international economic hub.

Maradi's relative prosperity between 1974 and 1980 attracted new urban migrants, although the process was poorly managed. During the 1980s and 1990s, there was a confluence of adverse domestic and international events, including prolonged droughts with disastrous economic and social consequences and international economic crises. These events had a severe impact in this

landlocked Saharan country and tested the very survival of Maradi. At the same time, the rural exodus intensified and accelerated the city's anarchistic expansion. As a result, the problems facing the city increased rapidly and became more complex. These problems were exacerbated by the limited resources of the urban community, which could not support the efficient functioning of essential services and the maintenance of infrastructure, especially that affecting trade, roads and sanitation, and services and infrastructure became obsolete and inadequate because of a lack of regular maintenance and of the resources needed for repairs.

As a result of the slowdown in economic activity, two-thirds of the population became impoverished, slipping below the poverty threshold. Maradi's population is currently estimated at 300,000, with 62 per cent of households falling under the poverty line.

The analysis of the urban economy helped identify Maradi's role in local and regional development and explored the relationship between rural and urban activities and the city's international role.



New market stalls, Maradi



Community Council President, Idi Male, Maradi

To address the various issues, the city embarked on a CDS process in 2004 with the assistance of the World Bank and AfD. The first phase focused on urban poverty and local economic trends and the ongoing second phase has led to the design of a CDS, with the participation of the first-ever elected mayor after February 2005.

The CDS activity collected scarce local data on urban poverty; provided information at the neighbourhood level; and allowed the identification of pockets of poverty within the city, detailing residents' limited access to services and their housing problems and lack of income. Thus the first phase of the CDS provides a city poverty profile detailing who the poor are and identifying where they live.

The analysis of the urban economy helped identify Maradi's role in local and regional development and explored the relationship between rural and urban activities and the city's international role. Maradi has extended its regional and interna-

tional areas of influence from nearby rural areas and the cities of Tibiri and Aguié to the more distant cities of Agadez, Diffa and Niamey, and is also exporting to Libya and Nigeria. The analysis also documented the predominant role of the informal sector, estimating that it accounts for about 80 per cent of the local economy and contributes the equivalent of about 25 per cent of the municipal budget in local taxes.

The first phase of the CDS process helped the city identify bottlenecks that need to be addressed to support economic growth and local development. The second phase led to the design of a 15-year CDS based on lessons learned from previous urban projects in Niger and the results of the first phase of the CDS. Through workshops with local stakeholders and partners, and with the strong involvement of the new mayor, the city established urban development priorities, prepared documents for dissemination of the strategy and engaged in discussions with local and international partners.

The implementation of this strategy, based on a participatory approach that is supported by the beneficiaries, will accentuate the effects of poverty besetting the majority of the city's population and will place the city on a growth-oriented path through the many development activities that will be undertaken.

His Excellency, Idi Malé, President of the Urban Community Council of Maradi, and Hanmidou Aboubacar, National Co-ordinator of the Urban Infrastructure Rehabilitation Project, Niger.

ASIA

As the percentage of urban dwellers increases throughout Asia, cities are increasingly driving the region's dramatic economic growth. In East Asia, cities already account for up to 70 per cent of GDP growth, while Ho Chi Minh City's per capita GDP is more than triple Vietnam's national average. Mumbai alone generates one-sixth of India's GDP. Densely-populated urban areas provide markets for outputs, inputs and labour and other services and enable firms to profit from economies of scale and scope, specialisation and rapid diffusion of knowledge and innovation.⁸

As in other regions, Asia's urban growth brings with it a host of challenges for cities and local authorities, particularly in terms of service delivery, infrastructure financing and land use. In many cities, infrastructure provision is failing to keep up with rapid urbanisation and the demand for services, and the brunt of these gaps generally falls on

the poor, frequently in peri-urban, informal settlements.

Many Asian countries have responded to the challenges of urbanisation by decentralising substantial government responsibility to the local level. However, decentralisation has also raised issues of coordination across different jurisdictions and agencies, of accountability and intergovernmental fiscal arrangements, of municipal financing options and of greater participation by civil society and the private sector.

These issues are the focus of an increasing number of Alliance activities in the region. CDSs continue to be in great demand in Asian cities as a tool for rethinking the city and planning for its future, including political and economic relationships with the city-region. Cities are using CDSs to develop institutional,

Asia's urban growth brings with it a host of challenges for cities and local authorities, particularly in terms of service delivery, infrastructure financing and land use.



View of settlement near Mumbai Airport, India

⁸ This section draws heavily on East Asia Infrastructure Department's Working Papers Nos. 5, "East Asia and Pacific Urban Business Directions", and 8, "Urbanization Dynamics and Policy Frameworks in Developing East Asia," Washington, DC: World Bank, 2004; South Asia Urban Department's presentation to the regional management team, April 2005; World Bank, *Connecting East Asia: A New Framework for Infrastructure* (Washington, DC: World Bank, 2005).

policy and financing frameworks for efficient and responsive service delivery, improved city management and governance and to promote accountability and environmental sustainability.

Local and national authorities continue to seek Alliance support to develop concrete, implementable action plans for citywide slum upgrading. This year, Alliance members extended support to Hyderabad, Mumbai and Visakhapatnam, the Philippines' Housing and Urban Development Coordinating Council, and Bhutan's Ministry of Works and Human Settlement in their quest to achieve cities without slums and improve living conditions for the urban poor.



CDS IN LANZHOU, CHINA

In 2001, a new CDS concept was launched in city-regions in four of China's poorest provinces. China's experience with urban development had underlined the importance of broadening the perspective from a single city to city-regions. These regions are anchored by one large city that has linkages to a number of smaller cities, towns and villages. China's peri-urban areas have been the most vibrant segment of its economy. While their success is largely attributed to local entrepreneurship, economic growth cannot be realised without strong linkages between peri-urban areas and the central city.

The CDS programme was supported by the World Bank, DFID, UN-HABITAT, central government bodies and the China Association of Mayors. The aim was to upgrade the effectiveness and equity of development strategies in the city-regions, particularly by incorporating poverty concerns, regional developmental and management linkages and stakeholder consultations.

One of the city-regions was the Lanzhou region, with a population in 2001 of almost three

million, 55 per cent of them urban residents, and covering an area of more than 13,000 square kilometres, almost half the size of Belgium or Lesotho. Almost 80 per cent of the population and most economic activities are concentrated in the city of Lanzhou, located in a narrow valley along the Yellow River. The city-region faces considerable economic disparities and demographic differences between its five urban districts and three rural counties. The economy of Lanzhou is based on heavy manufacturing industries established more than two decades ago. Even though the economy has been growing during the last decade, its development is constrained by heavy pollution and productivity inefficiencies. The environmental problems are reinforced by Lanzhou's location in a narrow river valley, which concentrates air and water pollution in the most densely settled areas.

The CDS for Lanzhou was developed in coordination with various commissions and bureaux and with the participation of stakeholders. Lanzhou's vision was to become a transport hub and the economic, scientific, commercial and financial centre for the western region. The principal output markets for Lanzhou are the eastern coastal cities and export markets. One of the priorities for the CDS was to assess the competitiveness of Lanzhou's main industries and to identify the potential for strengthening related industries supported by institutions of higher education.

Stakeholder workshops were carried out to increase community participation. Planning in China is evolving from earlier centralised, technocratic methodologies towards a more participatory approach with greater community involvement. Workshop participants included officials from different levels of local government; managers from state-owned and private enterprises; academics; and representatives from NGOs, community organisations and the media.



Aerial view of Lanzhou along the Yellow River

The stakeholder workshops defined the following challenges for Lanzhou:

- The weaknesses in economic planning and the need for a fresh look at its economic advantages;
- The dependence on large, traditional industries, which has led to an economy that is vulnerable to changes in demand and prices;
- The lack of integration of the main industries with the local economy along with low value added and high environmental externalities;
- The city's negative image nationally, which has discouraged investment;
- The issues raised in connection with developing a new suburban area by relocating non-ferrous industries there, which would provide only limited employment opportunities and may have a negative impact on the area's agricultural potential;
- The need to improve Lanzhou's logistics capacity and links with the rest of the world.

The critical issue is defining and strengthening Lanzhou's competitive advantage in attracting foreign and domestic direct investment. Measures also need to be undertaken to integrate vulnerable populations into the economic and urban development process. Another major issue is identifying the spatial direction of the Lanzhou's future development.

Focusing on these key themes, the CDS presented strategic options and policy recommendations, along with suggested implementation responsibilities that included the following:

- Strengthening the economic linkages between the Lanzhou metropolitan region and other regional urban systems based on comparative functional advantages;

- Maximising agglomeration benefits and access to markets across the Lanzhou metropolitan region;
- Improving production and innovation capacities across the Lanzhou metropolitan region;
- Improving living conditions and social safety nets for migrants and landless farmers, improving living conditions for the urban and suburban poor and preparing for the demands of an aging population;
- Enhancing land development controls in suburban areas;
- Conducting development planning that includes the transportation system and environmental management;
- Promoting economies of scale in regional delivery of social and infrastructure services, attaining full cost recovery for infrastructure services and promoting public-private partnerships for infrastructure service delivery;
- Rationalising jurisdiction boundaries and functional responsibilities;
- Exploring an expansion of the revenue base for the municipal government and improving the management of municipal debt.

CDS preparation reports have been widely distributed among the various agencies, in particular, those agencies that are responsible for drafting municipal development plans. Some of the key findings and recommendations from the CDS have been integrated into the city's and province's 11 Five-Year Plans (2006–10), which will be finalised by the end of 2005.

Zhang Rufei, Deputy Team Leader of the China CDS 2 Team and Managing Director, Chreod Ltd., China.



MONGOLIA: CDSs AND THE GER UPGRADING PROGRAMME

Urbanisation in Mongolia has been rapid and concentrated. Already 57 per cent urbanised, urban population growth exceeds that of employment. About one-third of the population lives in Ulaanbaatar, the capital. The country's modern cities were designed after World War II based largely on the Soviet model. The first waves of urban migration took place in the late 1980s. The process intensified in the 1990s and continues at a rapid pace. In-migration to Ulaanbaatar and secondary cities such as Erdenet and Darkhan has been occurring in the peri-urban *ger* (traditional tent) areas, with little or no planning by local governments, as such settlements were always considered to be temporary. National and local authorities now recognise the permanence of these settlements, which constitute a unique feature of Mongolia's urban landscape. However, the uncontrolled growth in the *ger* areas has impeded the efficient delivery of public services.

Mongolia's secondary cities are relatively small compared with Ulaanbaatar, and have sought to develop a new vision focused on their competitive advantages so as to enhance their competitiveness and liveability, especially for vulnerable groups. With the assistance of the Cities Alliance, the cities of Erdenet, Darkhan, Tsetserleg, Khovd and Choibalsan have undertaken CDSs with the objective of creating a favourable environment for narrowing the disparities between themselves and Ulaanbaatar by accelerating economic growth in the regions and supporting social progress through the efficient utilisation of natural resources.

CDS workshops conducted by the Mongolian Association of Urban Centres with the assistance of Planning and Development Collaborative International have demonstrated a strong sense of ownership, not only by local governments, but also by local chambers of commerce.

The CDSs have now become a key tool in the government's proposed reforms pertaining to regional development restructuring, whereby the

country would be divided into four *aimags* (provinces) and two cities in each province would be the focal points for local economic development and service provision, especially for utilities and social infrastructure such as health and education.

The municipality of Ulaanbaatar has also requested the assistance of the Cities Alliance to develop a strategy for *ger* area upgrading, with an emphasis on land management and planning issues in these informal settlements. The initiative would complement the second World Bank US\$23 million Ulaanbaatar Services Improvement Project, and several grants from the governments of France, Japan and the Netherlands for community-led infrastructure, water and sanitation and environmental management.

The challenge of infrastructure delivery is compounded by the extent of poverty in the *ger* areas: 78 per cent of residents in the *ger* areas of Ulaanbaatar live on less than US\$30 per month, with the poorest eight per cent living on less than US\$12 per month.

The *ger* areas can be divided into three zones: (i) the inner area close to the city centre, where residents have successfully transformed the traditional *gers* into timber or brick houses, but still only have access to very basic services, and this area could be progressively integrated into the city's infrastructure network; (ii) the intermediate area without proper subdivision and with little in the way of infrastructure except electricity and access to water through water kiosks; and (iii) the peri-urban area, which is host to the most recent migrants, where water is provided by truck services but no other basic services are offered.

Both the CDSs and the proposed *ger* upgrading programme are key initiatives designed to fundamentally redevelop Mongolia's towns and cities and to assist the urban poor.

Hubert Jenny, World Bank, Beijing.



Views of *ger* areas in Ulaanbaatar



INDONESIA'S CDS EXPERIENCE

In 2000, the population of Indonesia reached 210 million, with 40 per cent living in urban areas. Unplanned and uncontrolled urban sprawl has resulted in slums and has led to the conversion of fertile land in peri-urban zones. The prolonged economic crisis has caused rising unemployment and widespread poverty in both urban areas and rural hinterlands. To reverse the downward spiral, municipalities believe that they need to stimulate private investment, optimise public infrastructure and streamline their bureaucracies.

The recent drive towards decentralisation has shifted responsibilities for local development from the national to the municipal level. The need for reform of the national government and of provincial and local governments and the consequent reformulation of relationships among development stakeholders have become top priorities. The decentralisation agenda, the increasing urban population and the pressures on the urban environment have highlighted the urgent need for new political institutions and a new management culture, as well as increased dialogue with civil society and the business community.

The Cities Alliance, through the World Bank, UN-HABITAT and the Swiss Development Corporation, has been supporting a number of initiatives in Indonesia. The first one started in 2001 and focused on nine cities. In 2003, a CDS process was initiated in the province of Yogyakarta in central Java.

During a conference in Hanoi, late 2004, where experiences from CDS processes were discussed, the Directorate General for Urban and Rural Development within the Ministry of Public Works of Indonesia provided an interesting overview of Indonesia's experiences from CDS activities:

Political reform and people's participation in decision making are no longer an option but a necessity. A key feature of CDSs is to promote people's participation in decision-making at the local level, particularly at the urban community level. Local democracy cannot emerge in a non-democratic national environment, and national democracy can never be created in a non-democratic global environment.

Democracy should spring from people's awareness, aspiration and demand for participation in public decision-making. Although local democracy needs a national democratic environment, urban governance and people's participation in urban communities should be a result of creative local political processes. Indonesia is in a transition period of a big decentralisation agenda.

One experience is that participatory processes take a long time. Almost two years were spent on elaborating the CDSs, to define the local urban development vision, mission and strategy, and priority programmes. Most of the CDSs focused on poverty alleviation through local economic development, good governance, improved public service, and environment, the expansion of infrastructure services, and also health and education.

The CDSs performed well in activities such as the formation of an urban stakeholders forum, the establishment of a system for urban information management, and the process of involving the communities in formulating the 'urban development strategies' for the cities. The CDSs have enriched the process of local participation in preparing local programmes.

The governance agenda includes developing democratic life, developing political institutions and culture, and promoting the role of the civil society. Five major success factors for improving governance have been identified:

- Appropriate vision-mission statement;
- Effective leadership;
- Good management performance;
- Good governance; and
- Co-operation with the people.

People's participation process should be built in with the local political decision-making processes.

The integration of CDSs with national planning tools should be seen in the context of

the dynamics of social and political changes. The government giving more responsibility to the people means that national processes are going to be filtered down to local level. The direct election of the President will soon be followed by direct election of local mayors.

Local democracy and people's participation will require the active role and leadership by the local government, and should not be seen as a negotiation between stakeholders and the government. We also need a clear division between what the government and the people should and can do; it is wrong to assume that people can substitute or can do better than the government.

Participatory approaches are often seen as threats to ongoing and prevailing political decision-making processes, and a better way has to be found to improve the current political process rather than creating conflicts with it. There is no simple way of defining a stakeholder group as the peoples' representatives; any definition of groups of stakeholders has the risk of bringing in interest groups. We should not deny the fact that people can also be bribed.

Participatory approaches in urban management also require good information systems that enable the sharing of the information by all urban stakeholders. One major objective of our decentralisation law is to provide better public service by giving authorities to local government that is closer to the people. However, the role of the national government is not ended with the move towards decentralisation.

In addition to specific CDSs for our cities, we need a national policy and strategy for our urban development. The national government should take the responsibility for formulating this strategy and to assist local governments in managing their local functions. In the past, the national government had a strong influence on local development by its power of authority and financial subsidy; it is now time for government at the national level to function as 'a knowledge centre' in guiding urban development and management.

The government of Indonesia recently approved a new Law on the 'National Development Planning System', which establishes an integrated framework of long, medium and annual planning for each of the central ministries and local governments. The Law provides for the creation of a Consultative Development Planning Forum at

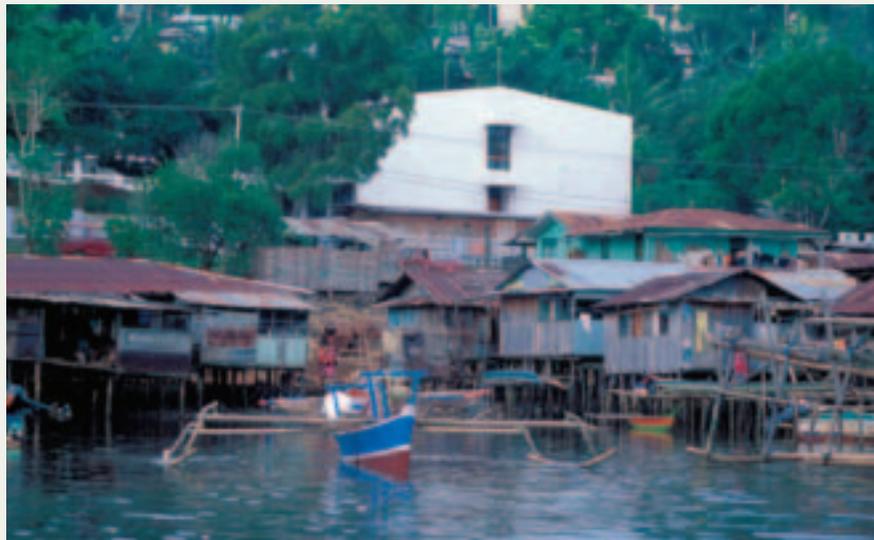
both the national and local levels, involving all development stakeholders.

The World Bank-sponsored Urban Sector Development Reform Project (USDRP) has a broader spectrum than the traditional urban public works infrastructure projects. It includes elements such as promotion of local economic development, and requires participating local governments to develop an 'urban development strategy' that will guide their priority urban programmes and projects through a participatory mechanism.

Participating local governments are required to commit themselves to urban reforms to promote and improve local transparency, financial management and procurement practices consistent with standard practices of good urban governance. All projects proposed will be evaluated based on financial eligibility criteria such as cost recovery, financial capacity and borrowing capacity of local governments. The Directorate General for Urban and Rural Development (DGURD), Ministry of Public Works serves as the executing agency on behalf of the National Government.

Finally, Indonesia has welcomed the CDS concept and is pleased to see how CDS contributes to the dynamics of our national and local democratic movement.

Andreas Suhono, Directorate General for Urban and Rural Development, Ministry of Public Works, Indonesia.



River settlements in Palenbang

HARD CHOICES AHEAD: REINVENTING MUMBAI AS A WORLD-CLASS CITY

Many Mumbai residents have resigned themselves to the impression that their city, which generates about six per cent of India's GDP and a third of the national tax revenue is dying a slow death. Home to upwards of 12 million people, more than 17 million in the metropolitan area, Mumbai has become Asia's dysfunctional urban giant, famous for its vibrancy, chaotic traffic, evident wealth and, far more visibly, its poverty.

In September 2003, a local civic organisation, Bombay First, and McKinsey consultants produced Vision Mumbai, a ten-year agenda to revitalise the city. The report set the goal of transforming Mumbai into a world-class city by 2013.

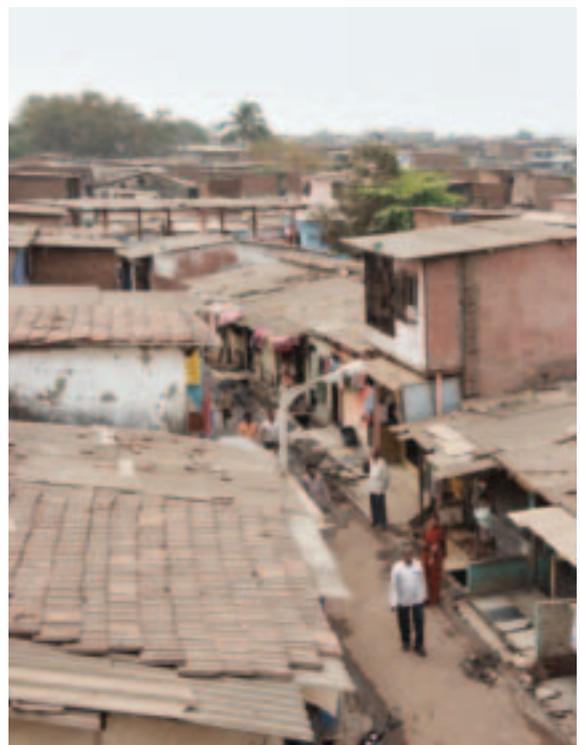
To debate the recommendations of this report, Bombay First convened a series of workshops with concerned authorities and stakeholders. Showing its commitment to the Vision, the Government of Maharashtra established a Task Force to co-ordinate the 'Mumbai Transformation', and created the post of Secretary (Special Projects) to oversee implementation. In July 2004 a Citizen's Action Group was formed under the chairmanship of the Chief Minister, comprising eminent citizens from the private sector, academia, as well as slum dwellers.

The Government also began discussions with a number of international agencies including USAID, UNEP and the World Bank for support and technical assistance for the Mumbai renewal agenda. They approached the Cities Alliance to facilitate some of this support, and to directly assist the Government of Maharashtra's Mumbai Transformation Support Unit.

This assistance is to provide support to the various working groups, implementing agencies and the Task Force, as well as providing critical logistical and administrative support channelled through the All India Institute of Local Self Government.

Cities Alliance assistance to the Government of Maharashtra became operational in the middle of 2005. However, the support was seriously jeopardised by the decision of the Government of Maharashtra to undertake a programme of slum demolition in early 2005, targeting those slums which had emerged after 1 January, 1995. A local survey showed that more than 30,000 homes were destroyed before political pressure led to the evictions ending, almost as abruptly as they had begun.

Slums in Mumbai



The evictions have done much damage to Mumbai's international reputation. The city had been hailed for its flexible, pro-poor approach. Since 1999, major projects to renew the city's infrastructure—the Mumbai Urban Transport Project with World Bank support and the Mumbai Urban Infrastructure Project with state and central government finance—have included resettlement without coercion of many thousands of slum households.

Up to 80,000 people were relocated in partnership with the National Slum Dwellers Federation. In October 2000, such was Mumbai's pro-poor reputation, the city was chosen by the United Nations as the venue to launch the Global Campaign for Secure Tenure. Resumption of evictions, such as those seen in 2005, would only further undermine international goodwill and would certainly oblige Cities Alliance to cease its support to Mumbai's transformation.

The State Government and the city now seem to be pursuing a more developmental approach to achieving the very ambitious plans for Mumbai's transformation. Most significant of all, perhaps, is the plan to boost the economic growth of Mumbai from its current base of around two to four per cent per annum, to some eight to 10 per cent by developing manufacturing activities in the hinterland, improving the city's physical and social infrastructure, radically improving Mumbai's transportation systems, and also facilitating slum rehabilitation, provision of affordable housing and urban renewal within the framework of a comprehensive housing policy.

In the words of Jockin Arputham, President of the National Slum Dwellers Federation (NSDF), “We levelled the land first. We have contributed to the city. We carry your shit out of the city. This city is not for the rich only. How can it be a world-class city without a place for its poor?”

IMPROVING LAND TENURE FOR THE URBAN POOR IN PHNOM PENH, CAMBODIA

The aim of this Cities Alliance activity was to introduce new options for and methods of providing secure tenure to the urban poor in Phnom Penh. Building upon work previously supported by DFID, the project explored a number of possible options that were then presented to the municipality of Phnom Penh for consideration.

The first task was to draft criteria for those settlements suitable for upgrading, as well as those suitable for resettlement, based on relevant laws and regulations contained in a variety of documents, including the Cambodian constitution, the Land Law and a subdecree on building regulation. Thereafter, settlement surveys were undertaken according to the criteria that focused on areas identified either for resettlement or for *in situ* upgrading. However, because of time and financial constraints, the survey team focused on the more vulnerable settlements earmarked for relocation. Detailed consultations were then held with all relevant stakeholders, including national and local governments, NGOs, the formal and informal private sectors and squatter communities, which resulted in the formulation of a number of recommendations.

During the course of these consultations, the scope of discussions was broadened to include the draft housing policy, as a result of which the national government accepted proposals for specific approaches to land provision for the urban poor. This was an important outcome for the Cities Alliance-supported activity, in that it contributed to the promotion of secure tenure within the national policy. The consultative activities included representatives from Siem Riep, Battambang, Kandal and Banteay Meanchey provinces, all of which face the challenge of managing informal settlements and the increased pressures of urbanisation.

The municipality of Phnom Penh, in co-operation with UN-HABITAT and other partners, is currently implementing the national Campaign for Secure Tenure. The campaign's components are based largely on the outcomes of the Cities Alliance-sponsored activity, including a proposed nine-month moratorium on resettlement and evictions, as well as of communal land rights and communal land titles.

Beng Khemro, Ministry of Land Management, Lands and Construction, Phnom Penh, Cambodia.

EASTERN EUROPE AND CENTRAL ASIA

From rebuilding societies shattered by war, natural disasters and decades of underinvestment to meeting EU accession requirements, this region's countries face diverse challenges. For local authorities, the process of adjusting from the administrative arms of central government to increasing autonomy within more open markets has presented its own set of challenges.

While conditions vary widely across the region, chronic undermaintenance and lack of cost recovery plague key urban services such as housing, electricity, heating, water and transportation.

In many instances, the local tax bases, legal frameworks and financial management systems necessary for economic growth, market creditworthiness and access to finance simply do not exist.

Almost two-thirds of the population in Eastern Europe and Central Asia live in cities and towns that produce an even greater share of GDP. At the same time, these cities are home to half the region's poor. One in 10 urban dwellers in the region's transition countries lives in slum conditions, and in Central Asia the figure is one in two. The incidence and degree of poverty are generally significantly worse in secondary cities, where 85 percent of the region's urban population resides, reflecting the relatively weak conditions of employment, limited economic diversification and limited economic opportunities in these urban settlements.

Accession to the EU will undoubtedly help the eight of the region's countries that joined in September 2004, as the kind of EU assistance that revitalised the economies of Ireland and Spain turns eastward. However, this will increase the division between the expanded EU and Russia and Ukraine, both of which have declining populations and both of which are poorer than the EU average:

Almost two-thirds of the population in Eastern Europe and Central Asia live in cities and towns At the same time, these cities are home to half the region's poor. One in 10 urban dwellers in the region's transition countries lives in slum conditions, and in Central Asia the figure is one in two.



Aerial view of Vologda, Russia

in 2003, their respective per capita real GDP stood at 32 per cent and 20 per cent of the average of the then 15-member EU.⁹

The Alliance's portfolio in the region is growing as members join forces to support municipalities in their efforts to facilitate local economic development, increase the productivity of secondary cities, improve infrastructure and urban service provision and strengthen municipal management and planning and financing capacities. With new activities under way in Azerbaijan and Russia, and partnership initiatives developing elsewhere in the region, including in Georgia, Hungary, the Kyrgyz Republic and Moldova, the Alliance anticipates a vibrant portfolio in this region in the coming years.



LATVIAN CITIES' CDSs

Latvia, a country of 2.4 million inhabitants, is still suffering from the recession that began with the transition of the early and mid-1990s, and poverty, uneven development and economic and social inequalities persist. GDP per capita remains at less than one-third the EU average and disparities in regional income levels are significant. The employment rate is falling and dipped to less than 60 per cent in 2000.

The incidence of poverty is approaching 20 per cent nationwide, but is particularly marked outside Riga, where almost 75 per cent of the poor live. Inequalities appear to be increasing as a minority benefits from the ongoing economic restructuring process. Thus, overall, there is an urgent need to promote more equitable growth and to expand local governments' capacities to fulfil the many social functions that have been decentralised to them.

Against this background, in 2002 the Association of Latvian Cities approached the Cities Alliance to access international assistance to help

address these difficult developmental challenges. The Association's proposal, which covered eight of Latvia's main cities that account for about half the country's population, was supported by the World Bank and UN-HABITAT. The programme has been designed to help the cities develop CDSs to support local economic development and to promote an entrepreneurial, vibrant and competitive economy.

Each city's CDS generally focuses on devising a local economic development framework capable of facilitating the establishment of new businesses and the generation of employment, improving governance structures and practices, enhancing stakeholder participation and establishing partnerships between local government and civil society, including the private sector, and increasing investments and building capacity to ensure the scaling up and replication of the CDS processes.

Riga

Riga, the capital, with a population of 1.1 million people, is located on the Baltic Sea and has historically served as a centre for trade and commerce in the region. Riga is not only the backbone of Latvia's economy, accounting for 53 per cent of the country's industrial output, 39 per cent of employment and 60 per cent of total foreign investment, but is also the largest centre of culture, education and science in the country.

Despite the rapidly growing local economy, which has seen GDP increases of some seven per cent per year in recent years, the quality of life has changed little for most residents. Indeed, the disparities between rich and poor have increased. In addition to social segregation, many other problems are hampering Riga's development, including a housing shortage, the transport network's inability to cope with increased vehicular traffic and an inefficient public transport system.

Riga did prepare a development plan for 1995–2005; however, that plan has not been implemented because it is excessively theoretical, was drafted without public participation and did not deal with the city's difficult structural prob-

⁹ Vasily Astroy and Peter Havlik, 'The Enlarged EU and Its Eastern Neighbourhood', paper presented at the Eastern Europe and Central Asia Seminar, World Bank, Washington, DC, 13 July 2005.



Riga Council business breakfast with ministers of the national government



Aerial view of medieval old Riga

lems. Many of the city's problems are due to the municipality's lack of financial resources and administrative capacity. The city decided to approach the Cities Alliance for assistance to develop a strategy capable of guiding Riga's long-term development. The new Riga City Development Plan (2006–18) being developed will consist of the following four basic components:

- A long-term development strategy until 2025 that incorporates a framework for elaborating the city's vision and mission;

- A development programme that includes a mid-term (seven years) strategy for regional planning that clearly defines objectives, tasks, activities, responsible institutions and financial resources;
- A comprehensive spatial development plan that defines zoning regulations, construction density and environmental protection requirements;
- A document that will list and update projects on an annual basis.

The grant from the Cities Alliance has been instrumental in helping Riga to move forward with its city development strategy. Through the CDS process, Riga has emphasised the involvement of stakeholders and the general public. The largest activity undertaken to date was a public involvement campaign that included several activities: questionnaires were delivered to households, advertisements were posted on the streets, school championships were organised, meetings were held with representatives of the business community and discussion forums with different experts were organised. Initial assessments of the status of the economy, housing and transportation, and the city's demography have been completed.

In December 2004, the City Development Plan was presented in all of its detail for public consultation, allowing citizens to examine all the working documents and maps, and to consult with the responsible civic officers.

In Riga's long-term development strategy, the vision is clear and bold: Riga is the city of opportunities. Citizens' needs and wishes lie at the centre of the strategy. Riga aims to be not only an important cultural centre, but also a logistics centre between the Russian and the EU markets. To this end, the plan has set three development goals as priorities, namely:

- To create an educated, skilled society, respectful of its culture;
- To promote economic development based on Latvia's strategic location between East and West;
- To create attractive and liveable neighbourhoods.

The CDS methodology represents a new concept in development planning in Riga, and the involvement of all stakeholders in the city's development planning process, while time-consuming, has been crucial. The combination of international and local experience and opinions is expected to produce a long-term development strategy capable of improving the quality of life for all of Riga's residents.

Andis Kublakovs, Deputy, City Planning Division, Riga City Council.

Liepaja

Liepaja, Latvia's third largest city with a population of 100,000, has an ice-free port on the Baltic, an international airport, and a diversified economy that includes metal processing, textiles, food processing, paper production and ship building. The city has a rich architectural heritage and cultural life, both of which are important for promoting tourism.

The most important result of the CDS in Liepaja pertains to human resource development, particularly training in local economic development planning and project cycle management. Support from the Cities Alliance allowed the city to imple-



Port of Liepaja

ment a number of investment projects, increase the involvement of stakeholders in development processes and help the local government improve its dialogue with the community.

Within the framework of the Cities Alliance programme, Liepaja has introduced new development and financial planning instruments to balance competing demands on the municipal budget from different development projects, to develop strategies for attracting investment from the EU and from other donors and to attract long-term loans to improve the city's infrastructure.

The city has also developed an employment programme to generate a new business infrastructure and increase the city's competitiveness, which involves the long-term unemployed in employment activities, and integrates young people and those with special requirements into the labour market.

The city has prepared a Strategic Development Plan through 2010 that is to be implemented by the Liepaja Development Department. Liepaja is undergoing rapid development and should be in a position to capitalise on the opportunities for development presented by Latvia's recent membership in the EU.

Vilnis Vitkovskis, Head, Project Management and Coordination Division, Liepaja City Council.

Valmiera

Valmiera, with only 28,000 inhabitants, has to contend with negative population growth. The city, an administrative, cultural and educational centre, has an economy based on large industrial enterprises, construction firms and food production.

The overall objective of the CDS in Valmiera was to strengthen the municipality's capacity to conduct strategic planning and to identify ways to strengthen local economic development. The municipality, together with the Valmiera Local Economic Development stakeholders group and the Valmiera Forum, held a number of seminars and workshops on strategic planning and vision and mission definition, and on the elaboration of a strategy.

The outputs from the process include local economic assessments, a vision and mission statement and a definition of strategic objectives and key activity areas. The City Development Plan has been updated and indicators for measuring the plan's performance have been defined. Important process goals have included active involvement by City Council members in the development of the strategy and vision; improved public involvement through surveys, focus group discussions and public events; and increased awareness among all stakeholders of the main strategic issues.

This process has reinforced the importance of participation by different players notwithstanding the different needs, aspirations and priorities of

the state, of citizens and of private businesses. The CDS provides a strong tool for communication between all these key stakeholders. The city strategy is understood as being less about what the municipality wants to do and more about how the local authority will work with key stakeholders to achieve common objectives.

Excerpted from "State of the City of Valmiera", Report submitted to the Cities Alliance by Zenta Ilkena, Head, Development Department, Valmiera City Council.

Jelgava

Jelgava, a centre of education, culture and the metal industry, is Latvia's fourth largest city. Once a heavily industrialised city and a significant part of the Soviet Union's command economy, the city was severely affected at the beginning of the 1990s by industry closures and the resultant large losses in employment. As a result, Jelgava has endured hard times and severe social problems.

The city has tried to revitalise its industrial base. Since 2001, a municipal investment bureau has been attracting new investments to the city and has succeeded in increasing the number of job opportunities. The machinery and metal processing industries are once again playing an important role in the local economy, which is showing signs of recovery. The city has managed to attract foreign investors, education programmes are focusing on the needs of the local economy and resources from the EU are assisting the transition.

In 2004, with assistance from the Cities Alliance, the Jelgava City Council and local stakeholders embarked on a CDS to consolidate the transition and local development processes. The outcome was the elaboration of a development strategy for 2004–10 that focuses on local economic development. The process started with an assessment of the current situation, which revealed a number of problems impeding the local economy, such as competition from Riga for qualified and skilled labour. Thus, retention of the local labour force has become a major issue. Municipal representatives and local stakeholders, assisted by experts, analysed, discussed and developed various development scenarios.



Participants at the 6th Valmiera Forum: Planning specialists, politicians, consultants, entrepreneurs

Efforts to reduce unemployment include activities to increase entrepreneurship and to involve groups at risk in economic activities, for example, by creating job opportunities for the disabled. Co-operation with the University of Agriculture of Latvia located in the city has also proved to be important.

The development strategy contains a set of quantifiable objectives to facilitate monitoring and assessment of the strategy's impact during and after its implementation. The City Council believes that the ambitious goals for Jelgava will spur its members to develop and implement an appropriate action plan.

Ilga Muizniece, Project Manager, Investment Department, Jelgava City Council.



THE VOLOGDA OBLAST DEVELOPMENT STRATEGY

The city of Vologda, with a population of 300,000, is an administrative and cultural centre in northwestern Russia famous for its cultural traditions. The oblast (region) of Vologda is much bigger, with a population of almost 1.3 million, two-thirds of whom live in urban areas. The average monthly per capita income is US\$165. Even though the oblast's poverty level is relatively high, it appears to be diminishing.

The region and the city face many challenges, most notably poverty and significant inequality between income groups. The municipal infrastructure is worn out, resulting in poor quality services, such as irregular water supply and inferior water quality. Other developmental and managerial challenges include the deterioration of the land use planning system, the weak legislative regulation of residential and commercial areas, the inadequacy of mortgage lending systems, the barriers facing small and medium businesses and the decline of basic and secondary vocational education systems, despite an increase in the demand for vocational training. Low morale and low wages in



Vologda

the public sector have resulted in the migration of labour to the private sector.

The regional government is actively seeking ways to change the situation and to enhance socioeconomic development, improve the quality of life and alleviate poverty. To that end, the city of Vologda, the Vologda oblast and the business community recently signed a memorandum of understanding to implement a CDS for the city of Vologda. As a first step, a working group was set up, comprising administrators and representatives of local business and research communities. A series of sociological and analytical investigations and a public awareness campaign were carried out. These activities resulted in a draft CDS. However, during the course of developing the CDS, it became apparent that the city's administration would need further assistance to implement the strategy and design specific action programmes to implement the identified priorities. Moreover, the regional government was also interested in disseminating its experience with strategic planning to other municipalities in the form of training materials and the provision of guidelines.

In the absence of both resources and specific skills, the parties decided to approach the Cities Alliance for a grant to undertake a CDS for 13 other municipalities in the Vologda oblast. The intent is to undertake a range of activities designed to improve income levels and reduce poverty, lead to the creation of a better investment climate, and facilitate the creation of new jobs through, among other things, improved and transparent mechanisms for urban management.

The CDS has the active support of the Vologda oblast government, the city of Vologda's adminis-

tration and the business community, and has attracted the support of USAID, the World Bank and the European Bank for Reconstruction and Development.

A comprehensive socioeconomic development programme is to be developed, based on a set of targeted sector programmes and projects funded from the city's budget and by private investors. A monitoring and evaluation system will follow up on implementation. An overarching strategy, possibly consisting of a master plan, will guide and govern the city's spatial development. A new master plan is considered to be vital, as the current plan was developed according to old Soviet standards and is viewed as more of an impediment than an asset.

To reform the city's development institutions and administrative management structures, an urban development agency will be responsible for implementing the CDS. Both domestic and international municipal management best practices will be introduced to the staff of local administrations. The hope is that a set of carefully targeted investment projects will succeed in fostering regional economic growth. A series of public awareness campaigns will be conducted to strengthen consensus for the comprehensive programme of socioeconomic development.

USAID/Russia, Office of Regional Development.

CITY AND REGIONAL DEVELOPMENT STRATEGIES IN AZERBAIJAN

Following the disintegration of the Soviet Union and Azerbaijan's subsequent independence in 1991, the country has undergone a tumultuous transition to an independent, market-based economy. Of the country's estimated 8.3 million people, more than half live in urban areas. While the capital, Baku, which has a population of some 1.8 million, is by far the largest city, 57 per cent of the total urban population resides in secondary cities. Despite significant investments in the oil sector, poverty has persisted, with more than 44 per cent of the population living below the poverty line and 10 per cent living in extreme poverty. The government has committed itself to an ambitious poverty reduction programme.

Local governments are increasingly emerging as crucial institutions for Azerbaijan's economic and social development, and the country's secondary cities have undertaken a number of programmes aimed at urban poverty reduction and regional development. The Cities Alliance has approved a request from the Ministry of Economic Development, supported by the Asian Development Bank, to finance CDSs in three economic regions, aimed at expanding the level of donor co-operation and coordination in these pro-

grammes. The objectives of the CDSs are to establish city wide strategies in three cities in each of the three economic regions. City- and regional-level data will be collected and analysed, followed by a participatory planning process. The goal is to strengthen strategic planning capacity at the municipal level, and to build new partnerships between business communities and civil society. The CDSs will be closely linked to planned lending and technical assistance investment of up to US\$96 million by the Asian Development Bank.

The expected impacts of the CDSs are:

- Increased awareness of the potential of region-based urbanisation and related development processes, plus an understanding of the issues involved;
- Strengthened rural-urban linkages and improved regional coordination and collaboration;
- Enhanced awareness of poverty issues and clear poverty reduction strategies;
- Focused economic development strategies based on local resources and comparative advantages;
- Improved infrastructure and urban service provision.

LATIN AMERICA AND THE CARIBBEAN

A few years ago, Latin America and the Caribbean was in economic crisis; however, since 2002 a noticeable recovery has taken place, with the region emerging from negative economic growth in 2002 to a modest 1.9 per cent in 2003 and exceeding five per cent in 2004. Nevertheless, many significant concerns persist: an unfavourable investment climate has led to low levels of new investment, unemployment rates have declined slightly despite the growth, huge inequalities remain and widespread disaffection with many social policies continues.

There is also a mixed message in relation to the region's progress towards achieving the MDGs. A number of countries, including Brazil, Mexico, Panama and Uruguay, made progress in reducing extreme poverty in 2004, whereas Argentina and

Venezuela both posted levels higher than in 1990.⁹ It is worrying that the countries in the region with the most extreme poverty are those making the least progress.

In addition, most indicators show considerable environmental degradation in the region, particularly through the loss of forests and biodiversity, an increase in air pollution and the growth of slums in urban areas. The total urban population living in slums fell from 35.4 per cent in 1990 to 31.9 per cent in 2001, but the same period saw a significant increase in the number of people living in cities, thereby driving the number of slum dwellers up from 111 million to 127 million.¹⁰

The total urban population living in slums fell from 35.4 per cent in 1990 to 31.9 per cent in 2001, but the same period saw a significant increase in the number of people living in cities, thereby driving the number of slum dwellers up from 111 million to 127 million.



Aerial view of São Paulo, Brazil

¹⁰ Economic Commission for Latin America and the Caribbean, *The Millennium Development Goals: A Latin American and Caribbean Perspective*, Fact Sheet, Santiago: Economic Commission for Latin America and the Caribbean, 2004.

¹¹ Ibid.

Latin America and the Caribbean continues to be a strong region for the Cities Alliance, primarily because of the large number of activities members are supporting in Brazil. As illustrated in the box below, the outcomes have also been impressive.

The Cities Alliance will continue to develop its portfolio in Brazil at the local, state and federal levels while also strengthening its relationship with existing partners like Chile, Colombia, Peru and Jamaica and exploring new possibilities with countries such as Argentina, Guatemala and Panama.

MAJOR WORLD BANK SUPPORT FOR BRAZIL'S HOUSING SECTOR REFORM

The Brazil Programmatic Loan for Sustainable and Equitable Growth: Housing Sector Reform was approved by the World Bank's Board of Executive Directors on June 14, 2005. The US\$502.5 million loan supports a major reform agenda in the housing sector in four major components: (i) institutional strengthening; (ii) subsidy policy; (iii) housing finance markets; and (iv) land markets and land policy. The overall impact of the programme will be felt in increased access to housing finance, release of private savings which have been tied up in excessive down payments, high housing costs, and improved competitiveness among financial agents. It will also impact fiscal sustainability by improving the targeting and transparency of housing subsidies, and by increasing coordination with local governments and private agents.

The loan, the first of a package of four loans over four years, represents a major step in the commitment of the Brazilian government to improve the policy framework for the sector. Cities Alliance has been a key partner in the dialogue the Bank has entertained with the Brazilian officials, in terms of funding important pieces of analytical work, and constant assistance through the office in São Paulo.

Mila Freire, World Bank.



With approximately 8 million inhabitants, Metropolitan Lima, the capital of Peru, is home to one-third of Peru's population and 42 per cent of the country's poor. Lima is the country's economic, political and administrative centre, and accounts for 43 per cent of GDP and 75 per cent of industrial production. Nevertheless, in 2000, half the population of Lima lived in poverty and two-thirds were either underemployed or unemployed. Adding to the problem, population growth in Lima has been significant in recent decades, initially because of migration from rural areas, but more recently because of internal economic growth.

The 3,000-square kilometre metropolitan area is governed by a complex institutional framework. It is divided into 43 district municipalities, each with its own elected municipal authorities, mayor and municipal council. The metropolitan mayor is elected by a citywide election and has jurisdiction over the entire metropolitan region.

In recent years, in line with the return of democracy, the government has embarked on a programme of political and fiscal decentralisation. The decentralisation process aims to improve service delivery, enhance accountability and improve transparency in public institutions. The decentralisation efforts have been linked to participatory democracy-building processes, particularly the *mesas de concertación*, roundtables for participatory governance, where local stakeholders come together to discuss, debate and agree on proposals for the development of their own community, district or city. The impact of the *mesas* on policy and governance has been ambiguous, although a number of examples of good practice are available.

To bring more technical rigour to the participatory approaches of the *mesas* and to link democracy-building to actionable policy measures and investment, the Metropolitan Municipality of Lima, with the support of the World Bank and GTZ, in 2003 initiated a process to develop a City

Poverty Reduction Strategy, generally known as “*Construyamos el Futuro*,” based on a Future Vision through 2021. The strategy relies on technical sector analysis, primary data collection and analysis and participation by public, private and community stakeholders to crystallize a long-term and sustainable vision for improving the living standards of Lima’s poor. The strategy comprises the following five steps:

- Preparation of a poverty diagnosis based on technical studies and indicators for poverty reduction;
- Development of a shared vision on desired poverty reduction goals reached by means of a participatory process that includes making use of existing roundtables at the metropolitan and cone levels;
- Agreement on priorities for public-private actions focused on poverty reduction;
- Identification of resources needed, including those available within the metropolitan region, and those that have to be mobilised from external sources;
- Identification of changes in the institutional framework needed for more effective policies and programmes.

The objectives are to define approaches for Lima to successfully reposition, reorganise and democratise itself, to comprehensively address its lack of competitiveness, high unemployment, poor provision of basic services (health, education, housing, transport, water and sanitation and solid waste), inadequate security for its citizens and environmental degradation.

The process began by identifying the challenges, which were summarised as:

- The excessive centralisation of political and economic power in the capital;
- The ethnic segregation and racial discrimination between those from the mountainous regions and those from the coastal areas along social and residential lines;
- The crisis in the city’s ecological system (rural, marine and urban), degradation of natural



Digital Satellite view of North of Lima Metropolitan

resources, soil contamination, air and water pollution, and of the beaches.

- The urban sprawl that makes water provision, sewage systems, transport and solid waste services either impossible or too expensive;
- Poor security situation resulting from the city’s high rates of urban and domestic violence;
- Political crisis in the national government which directly affects the metropolitan area’s municipal management;
- The presence of two regional governments in the Lima-Callao metropolitan area, which constitutes a single economic and ecological system.

The process to shape the vision and the strategy started with a consultation process between the municipalities, civil society organisations (mainly grassroots social organisations, committees for coordinated poverty reduction and NGOs) and the business sector, as well as higher education institutions. A number of analytical studies on priority issues were produced and used as inputs for articulating the vision and the preliminary strategy. They also defined indicators for monitoring and evaluating the strategy.

Workshops with business people, civil society and the mayors were held in 2003–2004. The results of the workshops were used to articulate the preliminary version of the vision for future Lima. Some NGOs and Committees for Coordi-

nated Poverty Reduction in Metropolitan Lima, such as soup kitchens, “glass of milk” programme committees, neighbourhood organisations, micro- and small-enterprise organisations have tested various proposals.

The final step will be to draft a proposal containing the institutional strategies and conditions that will ensure the sustainability of the strategy to fulfill the vision. The draft will also identify the public, private, and community institutions that will be responsible for monitoring and evaluating the strategy. The vision and the strategy will be disseminated to civil society and institutions to create public awareness and build their legitimacy.

Lessons learned from the process so far include:

- The poor and the owners of micro and small enterprises have a strong desire to be involved;
- The large number and diversity of municipal authorities have resulted in coordination and governance problems;
- The largest problem facing the country as a whole is the lack of governance and this overshadows problems relating to the poor quality of public services;
- The city lacks institutions to train leaders and more emphasis must be placed on training different actors in governance issues;
- The academic community has yet to participate in the process, foregoing the benefits of the intellectual and scientific rigour they could have brought to it.

Manuel Castro Boca, Executive Director, Lima City Strategy Project.



HOUSING POLICY OF THE MUNICIPALITY OF SÃO PAULO

In São Paulo, a significant part of the population of 10.4 million people lives in precarious housing conditions—tenements, slums and irregular settlements. The Housing Policy of the Municipality of São Paulo is focused on four key action areas:

- Urban slum upgrading and land/property tenure regularisation for both slums (*favelas*) and irregular settlements (*loteamentos*);
- Inner-city regeneration to provide more suitable space for housing;
- Rehabilitation of environmental protection areas; and
- Upscaling of the relevant official administrative, technical and supervisory procedures in order to ensure improved services for the population of São Paulo.

The policy developed by the Municipal Housing Department of São Paulo (SEHAB), seeks to reduce the housing deficit by facilitating the delivery of new housing units and restoring existing social housing, thereby generating local employment and sustainable local development. SEHAB’s other major aim is to incorporate into the city the thousands of people living in precarious circumstances.

In order to execute such policies, the city of São Paulo currently possesses a range of juridical and legal instruments used to implement the city’s Strategic Housing Plan. Approval of the Strategic Master Plan (in 2002), together with the Strategic Regional Plans (in 2004), and the range of new tools now available to municipal managers, herald a completely new phase in the conduct of Municipal policy.

Among the prime objectives and guidelines of the Strategic Master Plan is the need to secure maximum economic, urban and land-use benefits from existing infrastructure and assets, thereby also ensuring the best possible use of Municipal funds. This involves improving the housing of low-income families in coordination with other

social policies. Thus, physical and security-of-tenure regularisation of ‘consolidated settlements’ will be prioritised, together with interventions in degraded areas where human life is at risk, while working with the local populations and their organisations.

São Paulo’s housing problems are all too well-known: the major issues to be confronted are slum upgrading, eradicating areas at risk, regularising the urban and land/property title situations of irregular settlements, improving living conditions in the tenements and making new accommodation available, above all for those families earning only between one to three minimum salaries.

SEHAB has developed programmes of slum upgrading and regularisation of clandestine and irregular settlements. These aim at improving the living conditions of families living in makeshift accommodations. Such infrastructural programmes consist, for example, of laying and paving roads, installing water and sewage networks, building public squares and basic sports facilities and ensuring access to public services and public community facilities such as schools, health posts and public transport. All programmes are undertaken within the context of land and home ownership regularisation, an initiative that will give the occupants of these areas the opportunity to obtain proper title.

At the same time, the Municipality of São Paulo owns a huge property-based asset in need of restoration and repair. An urgent programme is needed to stem the deterioration of the respective

buildings as well as to ensure that debts are collected—currently, some 80 per cent of families are seriously behind on their payments to the Municipality.

A campaign of debt recovery, restoration and recuperation of public housing assets was recently initiated, based on a range of integrated activities, and helping families living in publicly-owned buildings to organise themselves in groups to secure ownership of their own homes and preserve them. These activities are being implemented jointly with other sectors and government entities, principally those concerned with sanitation, education and law and order. Debt recovery and rescuing public properties amalgamates two key principles of an over-arching housing policy: the improvement of actual dwelling spaces, together with the creation of a revolving fund to invest in further activities.

The main target of the new administration is to introduce management, monitoring and evaluation mechanisms to oversee the policies implemented and to make it possible to adapt these whenever particular policies fail to produce the required results.

São Paulo’s partnership with the Cities Alliance

The city of São Paulo is totally committed to meeting the “Cities without Slums” UN Millennium Development Goal and, between 2001 and 2004, developed its first project with the Cities Alliance,

Indicators	Favela (1)	Irregular settlement(2)	Tenement (3)	Street dweller (4)
Population	1,160,597	1,597,986	117,167	8,706
Dwellings	291,983	439,412	44,550	3,212
Habitant/Dwelling	3.97	3.67	2.63	2.71
Average income (Minimum Salary)	1.80 ⁵	3.48 ⁶	n/a	n/a
Average Density (inhabitants/hectare)	380	132	n/a	n/a

(1) Centro de Estudos Metropolitanos (CEM) / SEHAB/HABI—Calculated on basis of 2000 IBGE Census and PMSP digitalised cartographic base.

(2) Refers to total universe of irregular settlements, according to calculations by the Centro de Estudos Metropolitanos (CEM)/ Centro Brasileiro de Análise e Planejamento (CEBRAP) based on data supplied by the IBGE 2000 Census and the PMSP digitalised cartographic base.

(3) IBGE 2000 Census.

(4) 2000 Census of Street Dwellers drawn up by the Fundação Instituto de Pesquisas Econômicas (FIPE)- Institute of Economic Research Foundation.

Source: PMSP 2003.

⁵ US\$ equivalent = US\$207

⁶ US\$ equivalent = US\$401



Residents displaying their property titles

under the aegis of the Municipal Housing Department. The basic aim of this project was to intervene in degraded areas within the Land Tenure Regularisation Programme. The results of this work are detailed in the publication, *Integrating the Poor: Urban Upgrading and Land Tenure Regularisation in the City of São Paulo*.

São Paulo has now approached the Cities Alliance to support three basic interventions to sustain these efforts:

- Financing strategies for public authority initiatives in the sector;
- Giving appropriate support to families in already urbanized/upgraded areas to enable them to make improvements to their housing units through access to micro-credit facilities, and to ameliorate environmental conditions within the urban space by transforming and mainstreaming hitherto segregated and isolated degraded settlements; and,
- Strengthening the Municipal Housing Department institutionally and financially while pur-

suings the Strategic Housing Plan, enabling the Department to create and maintain citywide information systems for monitoring, evaluation and follow-up of public housing policies so that good practices can be shared and replicated at a national and global level, reflecting the endeavour to achieve the millennium goal of ‘cities without slums’.

This will also provide an opportunity to add value to and to disseminate the socially-oriented follow-up work that has been carried out among residents living in degraded urban areas. Over the past decades, SEHAB’s highly dedicated technical team has been a valuable part of this endeavour, fostering and nurturing the organisation of local people—rightly seen as an indispensable element for achieving the success of the activities designed to rehabilitate areas occupied in an irregular and precarious fashion.

Orlando de Almeida Filho, Municipal Housing Secretary, City of São Paulo, Brazil.

INTERVIEW WITH ROBERTO MOUSSALLEM DE ANDRADE, SECRETARY OF URBAN DEVELOPMENT OF THE STATE OF BAHIA, BRAZIL

Roberto Moussallem de Andrade, Secretary of Urban Development for the state of Bahia, Brazil, has been Bahia's top infrastructure official for the past decade. He began his career in the mid-1970s with the state's power company. He was responsible for implementing the Ribeira Azul Programme, which increased the coverage of wastewater collection and treatment in the state capital, Salvador, from less than 20 per cent to more than 80 per cent with US\$600 million in investments. He was also responsible for putting slum upgrading squarely on the state government's agenda through the Viver Melhor Programme, which has benefitted more than 100,000 households since 1995.

The government of Bahia is now getting ready to roll out the ambitious new phase of the Viver Melhor Programme through a US\$50 million loan from the World Bank that will leverage an equal sum in state counterpart funding and complementary investments by municipalities. The government's intent is to scale up slum upgrading in Salvador and in the most important cities of the state's interior, emphasising the comprehensive approach demonstrated in Ribeira Azul, which combined social programmes undertaken in conjunction with infrastructure and housing improvements. Organising and managing such a broad array of interventions has been made possible by a US\$5 million grant from the Italian government channelled through the Cities Alliance, and executed by the Italian NGO, Associazione Volontari per il Servizio Internazionale (AVSI). Also expected is a new Euro 5 million Italian grant to support the scaling up through the Viver Melhor Programme.

Roberto Moussallem spoke to Ivo Imparato in Salvador on 8 July 2005.

Imparato: *With your engineering background and impressive record of achievements in the field of infrastructure, it is interesting to see that you are now one of Brazil's leading proponents of a poverty reduction strategy that focuses on families and their needs, not just on hard investments, on brick and mortar.*

Moussallem: I graduated as an engineer in 1975, a time of strong economic growth with many well-

paying jobs in industry. However, I was also interested in public administration, and this was the time when many towns in the interior of Bahia were being connected to the power grid for the first time, and when a young engineer could feel he was making a difference. My work in the interior also exposed me to widespread poverty I had not been aware of before, and it was then that I began developing a strong sense of social consciousness. Also, early in my career I began to interact with international financing organisations such as the World Bank and the IDB, and I was influenced by their commitment to poverty reduction.

When the Viver Melhor Programme began 10 years ago, it emphasised housing and infrastructure only, but we quickly realised that despite the significant quality of life improvements, the programme's impact on poverty reduction was limited. A striking feature of life in Bahia's slums is that families are often dysfunctional, and always vulnerable. If we can strengthen our families, we will have a fighting chance against poverty. Ribeira Azul taught us that social investments can be successfully combined with slum upgrading, and that slum upgrading is an ideal entry point for social development and for focusing social spending on the neediest. Don't get me wrong, Bahia needs all the investment in infrastructure and housing it can get, but what we are saying is that if we want a poverty reduction impact, a significant part of the investment needs to be in social programmes. And that's not just my view; it's the view of the governor and the cornerstone of this administration's policy.

Imparato: *This is an interesting time for Bahia, with the government taking stock of its slum upgrading programmes over the last 10 years and preparing to scale up. What are your thoughts on this?*

Moussallem: When we began the Viver Melhor Programme in 1995, Bahia's housing policy was not really succeeding at reaching the poor; we felt an alternative was needed so we could do something about the appalling conditions in the slums. We initially focused on risk areas, because every year during the rainy season landslides led to loss of several lives, especially in Salvador. Our focus yielded strong results, as people are no longer exposed to





Secretary
Moussallem on
a field visit to
Salvador

the risk of landslides. Gradually, as the Viver Melhor Programme developed, our approach became more effective and interventions became less

infrequent. The turning point was Novos Alagados, and our partnership with the Italian government and AVSI, which attracted the attention of the World Bank and funding by the Bank's Programa de Desenvolvimento Urbano do Estado da Bahia. The government then went after financing to scale up the Novos Alagados approach to the settlements around it, and our success at mobilising the resources allowed us to put together Ribeira Azul, which is financed by the World Bank, by the IDB and by the federal government through Caixa Econômica Federal. The most important thing to me is that our programme grew continuously, and that we were improving our approach all along. Nobody develops such a programme in two or three years, so the continuity over the last 10 years was critical.

Imparato: *What was the role of the Cities Alliance in this process and how do you see its role going forward?*

Moussallem: We would not have been able to do all this without our partners. From the start, our partnership with the Italian government and AVSI was not just based on financial resources. Integrated slum upgrading is a complex process and requires a great deal of specialised knowledge and highly trained people. When the Cities Alliance came into the picture around five years ago, the partnership entered a new phase. Having the Alliance on board convinced the Italian government to increase its involvement, which allowed us to do much more. The involvement of the World Bank in helping us manage Ribeira Azul was important. We were able to establish an even stronger dialogue with the Bank and we had many informal discussions about how to scale up upgrading in the state. Before we knew it, we were already preparing the new phase of Viver Melhor, and because we had all our partners involved throughout, we benefitted from their technical input. Now we are working to get the new phase approved and to begin implementation soon, relying on the new Italian grant through the Cities Alliance to help us deal with the new challenges that scaling up will bring, and to consolidate the approach and methodology we are using. Continuity here also will be key.



LEARNING FROM EVALUATIONS IN BAHIA

Evaluation has played an important role in the design of the World Bank's Bahia Integrated Urban Development Project. This project was designed after the Ribeira Azul Project in Salvador, Bahia, which combined slum upgrading and social interventions with substantial community participation. In considering how best to scale up these interventions, the World Bank carried out a poverty and social impact analysis to assess the potential impacts of the policy reforms and investments under the new project. This drew upon the lessons learned from the Ribeira Azul Project using bene-

ficiary, institutional, cost-effectiveness and sustainability analyses.¹²

The field study, carried out in early 2005, found that the overall experience of integrated urban development in Ribeira Azul has been considered highly successful in terms of its implementation and positive impact on living conditions. Feedback from beneficiaries highlights general improvements in the quality of life, reductions in urban violence, improvements in health and nutrition from the social programmes, expanded educational and training opportunities for children and youth, positive impacts from having educators in the community and increased opportunities in the labour market through cooperatives. Challenges include unmet demand for

¹² Judy Baker, 'Integrated Urban Development: The Experience of Ribeira Azul, Salvador, Brazil, Poverty and Social Impact Analysis', draft, Washington, DC, World Bank, 2005.

Imparato: *Now that the new phase of the Viver Melhor Programme has been prepared, what are the main challenges that lie ahead?*

Moussallem: I think this partnership we have is also important for our international partners. We are all learning from the activity and creating capacity. We are acquiring capacity to scale up slum upgrading with this integrated approach, but the World Bank, the Cities Alliance and the Italian aid programme are also learning through this experience, and we hope that they will be able to replicate it later on in other parts of Brazil, and in other countries. That is why we all need to do a better job of recording and disseminating our experiences, for use both in Brazil and abroad. We need to get Brazilian federal entities, such as the Ministry of Cities and Caixa Econômica Federal, more involved in this dialogue and in the whole process, since they are key sources of financing for upgrading; we would like them to also begin to include the social dimension in their programmes.

We are also refining our approach, which can be considered even more ambitious than what we've been doing so far. For example, in the next phase of the Viver Melhor Programme we will introduce some innovations, such as the “Casa do

Viver Melhor”, a local facility that will serve as a field office, a base for service delivery and a reference point for the local residents in each area where we will work.

We are also moving towards an entirely new model in terms of partnering with local governments. In Bahia, we have a strong tradition of state investment in municipal infrastructure and in housing, but all local services, including most social services, are in the municipal sphere of competence according to Brazil's 1988 constitution. In the new phase of the Viver Melhor Programme, each local upgrading project will be based on a participation agreement with the local municipality, in which the roles, rights and responsibilities of each partner will be clearly stated. My secretariat will have to set up and manage all these complex relationships, and this raises the bar for us in terms of forcing us to acquire the capacity that we will need. We also need to remind ourselves that even this much bigger programme we are about to launch is small in comparison with the extent of urban poverty in the state. This is a humbling and sobering realisation, but is also an incentive for us to keep pressing ahead, and to undertake more interventions of this kind.

the opportunities through the project, to education, health and job training and issues related to housing, such as complaints about designs and building materials.

Several key lessons for scaling up emerged from the poverty and social impact analysis, including the critical role of participation, and the need for an increased role by municipalities, recommended reforms in the system of land regularisation, effective models for community agents to promote enhanced cost recovery, the need for clear roles and responsibilities in relation to institutional arrangements, and for policy options to meet unmet demands for shelter (for instance, by providing inexpensive, serviced land and access to credit rather than housing).

The evaluation's findings will feed directly into the new project. Bahia officials recognise the value of such an evaluation and will include an extensive and innovative monitoring and evaluation scheme in the new project. This will include the regular monitoring of core indicators, a participatory monitoring scheme to allow for feedback from beneficiaries during project implementation, and a rigorous impact evaluation to capture the project's impacts over time.

This goes well beyond the monitoring and evaluation design of most projects, and through its adoption of such a scheme, Bahia has indicated a strong commitment to ensuring transparency and effectiveness in implementation.

Periodic monitoring of implementation and clear feedback mechanisms will allow for improvements during project implementation. The longer-term evaluation of the project's impacts on the population will contribute directly to future policy and project decisions pertaining to urban poverty reduction in the state. The World Bank will provide technical input on monitoring and evaluation

through the Development Impact Evaluation Initiative, a Bank-wide effort aimed at promoting impact evaluations of promising development interventions in a select number of thematic areas, including slum upgrading.

Judy Baker, World Bank.



Slum settlement in Salvador, Bahia

MIDDLE EAST AND NORTH AFRICA

Two decades ago, only 30 per cent of the population of the Middle East and North Africa lived in urban areas, but estimates indicate that by 2020, this figure will have risen to 70 per cent. This rapid change in the demographic structure of most countries in the region is bringing a host of development-related issues into sharp relief, including the lack of vibrant democratic practices and institutions, and the continued dominance of highly centralised systems of urban governance. Local governments generally have limited autonomy, and accordingly, accountability for the provision of services to urban residents is limited. Yet, because of their disproportionate share of economic activity, it is the urban areas that are driving national economies.

Poorly managed urbanisation has resulted in widespread damage to the urban environment. Pollution-related health problems, particularly in urban and industrial centres, are a result of open municipal waste dumps, leaded petrol use in an aging and poorly maintained vehicle fleet, inefficient power generation and poorly regulated emissions from industry. Weak environmental institutions and legal frameworks prevent countries from adequately addressing such environmental challenges.

The Middle East and North Africa region has five per cent of the world's population with access

to less than one per cent of the world's freshwater resources. Population growth, rising living standards and urbanisation increase the pressure on the water supply, leading to higher costs for urban water. Fragile ecosystems are also under threat: the Nile Delta, which accounts for just 2.5 per cent of Egypt's land surface, is one of the most densely populated areas in the world, with population densities of up to 1,600 people per square kilometre.¹³

However, the incidence of poverty in this region is among the lowest in the world, and a number of countries and cities have embarked on ambitious reform programmes. Cities Alliance members are active in providing support to the government of Morocco and its ambitious *Villes sans Bidonvilles* programme, which with its strong political leadership, clear targets, budgetary support and associated reforms has the potential to set an international standard for national slum upgrading programmes.

In June 2005, the World Bank approved a US\$150 million loan to support a number of housing sector reforms in Morocco, in part, because of the clear identification of this issue in the Country Assistance Strategy (CAS), whose key

Two decades ago, only 30 per cent of the population of the Middle East and North Africa lived in urban areas, but estimates indicate that by 2020, this figure will have risen to 70 per cent.



Aerial view of the port of Aden, Yemen

¹³ See the United Nations Environment Programme's GRID-Arendal web site at <http://www.grida.no>.

strategic objectives include reducing slums and increasing access to affordable housing for the poorest residents.

The Cities Alliance is supporting activities in the Egypt, Iran and Yemen, and expects its portfolio to expand rapidly through the development of a large portfolio in Egypt and Morocco, and new activities in Jordan, Lebanon, Syria and Tunisia.



ALEXANDRIA CITY DEVELOPMENT STRATEGY FOR SUSTAINABLE DEVELOPMENT

Alexandria, located on the shores of the Mediterranean and with a population of 3.7 million, is Egypt's second largest city. The city is facing a number of challenges in improving people's living conditions: 30 per cent of its residents live in squatter settlements, only 25 per cent are active in the labour market and most have to cope with severe environmental problems.

At the same time, Alexandria has huge potential for development stemming from its cultural heritage, its skilled population and the availability of large tracts of vacant land that could be used to address the pressures of urbanisation. However, the city has lacked a clear vision of its future and a strategy for tackling long-term economic development. In 2004, Alexandria approached the Cities Alliance for assistance to formulate a long-term

CDS through a broadly based participatory process. The process was supported by Cities Alliance members, the World Bank, USAID and GTZ.

A local CDS team that included senior municipal officials, directors of line ministries, academics, representatives of NGOs and prominent business people was established. A partnership forum was established and stakeholders' consultation workshops were held regularly. Top priorities stakeholders identified at these fora included developing a long-term, local economic development strategy to capitalise on the city's competitive advantages, and to promote an enabling local business environment to attract foreign investment and contribute to job creation and economic growth. Other priorities were developing a strategy for urban upgrading across the city, rehabilitating the environment and designing a redevelopment plan for Lake Marriout and the surrounding land.

Urban upgrading topped the list of priorities because of the large size of squatter settlements and the urgent need to start a socioeconomic development programme. Nag Al Arab, one of Alexandria's 30 squatter settlements, accommodates about 16,000 inhabitants crammed together at a density of 740 people per hectare. Streets are so narrow that the private operator responsible for solid waste collection and management cannot service the area. The settlement has no schools, primary health care units, post offices or youth centres. The illiteracy rate is 30 per cent, and unemployment runs as high as 17 to 20 per cent.

Given Nag Al Arab's location east of the Lake Marriout, most of its residents worked as fishermen, but because of increased industrial pollution in recent years, fish stocks have declined precipitously and many people had to give up their livelihoods.

"We wanted the CDS to include specific measures to improve the living conditions of residents, prevent further deterioration at the Lake, while improving the municipal capacity to deliver services and better manage our local assets."

H.E. Mohamed Abdel Salam El Mahgoub, Governor of Alexandria

"The objective of the CDS is to build consensus among the city's main stakeholders to come up with a shared vision of the city's development through two-way information sharing between the technical experts and city stakeholders."

H.E. Mohammed Bassiouny, Secretary General of Alexandria Governorate

“Our adult children do not have jobs, even those who went to school. They have nothing to do but to hang around doing nothing.”

**Female resident of Nag Al Arab Settlement,
Alexandria**

Under the CDS, a team was set up to review the infrastructure and socioeconomic conditions in Nag Al Arab and other squatter settlements. One lesson the team learned is that to achieve meaningful change in the lives of the poor, identifying a community’s natural leaders is important. In a broad consultation process in the community, the main priorities that emerged included employment generation, improved health care and land titling. As a quick-win measure, and with financial support from GTZ and the World Health Organization (WHO), a community centre with a health care clinic, a youth centre and a library was constructed and equipped.

The strategic planning process encouraged the government of Egypt to request World Bank support, and a US\$100 million investment for the Alexandria Growth Pole Project. The project’s objective is to support economic growth in Alexandria through better management of existing local assets, including competitive economic sectors, cultural heritage assets, land and property that can be leased, sold or revitalised, and under-utilised human resources. The project will focus on the three components identified during the CDS process: undertaking local economic development, upgrading squatter settlements, and improving the environment in the vicinity of Lake Marriout, including redevelopment of vacant land.

Ahmed Eiweida, Caroline Bollini and Dina Mohamed Samir El Naggar, all of the World Bank for the Alexandria CDS team.



Nag Al Arab, Alexandria



Qait-bay and sea, Alexandria

AMMAN: GOOD GOVERNANCE AND MANAGEMENT ARE KEY TO THE CITY'S DEVELOPMENT VISION

Greater Amman Municipality (GAM) is the capital of the Hashemite Kingdom of Jordan, home to more than two million people, representing just under 40 per cent of the total population. Its rapid expansion in population and size over the past decade has placed extraordinary new pressures on the city to plan and deliver municipal services, particularly following the first Gulf War when there was an immediate influx of some 300,000 refugees. In a region marred by instability and conflict, Amman has become for many refugees the safe haven that poses tremendous challenges to city planning and management.

The development of the city of Amman follows the guiding framework prepared under a 2002–2005 Development Plan, with specific objectives and programmes targeting a wide range of sectors, among which are institutional development, including improvement of the system of local revenue collection and management, and urban devel-

Ibrahim Khreis, GAM's Director of International Relations, describes the CA–World Bank collaboration as “an ideal blend of expertise and financial support that will help GAM address one of its most critical challenges.”

opment. Implementation of the Development Plan after three years revealed an urgent need to refine and further detail two programmes within the existing strategy, (i) the municipal management and governance programme; and (ii) the urban development programme.

The specific focus of the resulting Greater Amman Municipality's CDS is on strengthening municipal management and governance, while upgrading its urban planning capacities, including adoption of a citywide upgrading strategy for squatter settlements and refugee camps. City officials see GAM's future success and competitiveness hinging upon the city's effectiveness, inclusiveness and responsiveness to planning, and in the delivery of services to all city residents, including the urban poor.

In the words of Amman's Mayor, H.E. Nidal Hadeed:

Amman is at a critical juncture in terms of its growth potential and ability to provide services efficiently to city residents. We realise as city officials that we cannot do this alone. It will require a broad-based citywide effort in which all city residents are expected to play their part. Good gover-



Satellite image of Amman and surrounding hills



nance, participation, and excellence in service provision are therefore essential ingredients to the fulfillment of our strategy.

With Cities Alliance funding, GAM officials have recruited a municipal management specialist to undertake a broad stocktaking exercise aimed at assessing weaknesses, gaps, overlapping mandates and functions within the municipality. The specialist will also assist GAM in streamlining its organisational structure, while realigning newly reorganised functional departments with defined service delivery targets and standards. A communications strategy for the city and measures to enhance performance of GAM’s “Citizen Services Center” are also under preparation.

One particular area of weakness is GAM’s existing array of information and communications technology (ICT) and management information systems. GAM has more than 15 legacy systems with different platforms and database engines, each working as a separate island with significant breakdowns in communications. The World Bank has provided support in assessing system weaknesses and in mobilising a GAM team to map out business processes as a first step toward a major overhaul of GAM’s management information systems, including a proposal for implementing a completely integrated enterprise system.

The specialist is also assisting the GAM with the implementation of a participatory planning process. This will drive the ongoing efforts to strengthen land use planning, zoning and building

regulations to reduce low density areas and minimise urban sprawl, enabling the city to better accommodate and service the recent influx of new residents.

A series of workshops is scheduled in the coming months to unveil GAM’s proposed approach to revamping its management system and urban planning processes to encourage participation in the various planning activities.

Ibrahim Khreis, Director of International Relations, Department of Greater Amman Municipality, and Stephen Karam, World Bank.



ADEN’S CITY DEVELOPMENT STRATEGY FOR LOCAL ECONOMIC DEVELOPMENT

In 2002, the Cities Alliance, through the World Bank and the government of the Netherlands, began providing support to the port city of Aden for the development of a comprehensive CDS linked to a local economic development programme and infrastructure investments. Through this CDS, Aden seeks to reclaim its former international role, building on its competitive advantages to become a modern city with an economy based on transport services, international trade, tourism, making it an attractive hub for local and international investment.

Following the reunification of Yemen in 1990, the government declared that Aden would be its economic and commercial capital. Political instability in the early 1990s derailed development plans, and it was not until March 2002 that the Yemeni government sought to regain the initiative and chart the city’s future.

A key starting point was to outline a vision and a strategy for the process. The city authorities initiated the “Aden Medium- to-Long-Term CDS for Local Economic Development”, aimed at reducing poverty and improving the quality of people’s lives. The strategy, which was developed with extensive stakeholder participation, focused on unlocking Aden’s growth potential by enhancing

The Cities Alliance undertook a field evaluation of the Aden CDS this year. The main findings of the evaluation were that overall, the CDS and the plans for LED were a measured success. The positive achievements were:

- Introducing and developing participatory approaches to city development;
- Encouraging partnerships among the main actors, both public and private;
- Improving the understanding of some of the key drivers of the economic base and linking this to policy and institutional reforms and urban planning processes;
- Keeping the issue of policy reform as a key theme;
- Using the CDS to shape the World Bank-supported Port Cities Development Programme.

The areas where the CDS process could have been improved include the following:

- The analytical work could have benefitted from more engagement by local actors, which would have led to greater ownership of the conclusions;
- The institutional arrangements for moving from strategy formulation to action plan implementation could have been better designed, and the action plan could have been more detailed;
- The monitoring and evaluation system could have been better integrated into the process from the start;

- The strategy could have been better communicated, and its results disseminated more effectively.

Key lessons from the Aden experience include:

- *Scope:* The CDS approach is strategic and comprehensive. Grant applications that are narrowly focussed on an economic development agenda may be too restrictive, reducing their citywide appeal and underplaying other challenges essential to future growth and poverty reduction;
- *CDS study process:* The resources and time allocated to the preparation of CDS action plans and institutional delivery arrangements should be better spelled out in grant proposals;
- *Action plans:* There is a need to better guide and illustrate what action plans are likely to be;
- *Institutionalisation:* The sustainability of the CDS hinges on how well it is institutionalised. There might be a case for the Cities Alliance to provide simple guidelines and case studies on preparing and implementing CDS;
- *Monitoring and evaluation:* A common weakness of CDSs is the lack of attention paid to defining clear targets of what the city is trying to achieve and then putting in place a simple and appropriate system for monitoring and using them to inform decision-making processes.
- *Co-ordination:* The commitment of, and co-ordination with, other Cities Alliance partners could be made more clear and binding.

the operating efficiency and competitiveness of its seaport, airport and free trade zone, linking them with the wider city economy, and by improving the overall business environment. The strategy recognises that private sector development is critical to success and emphasises building investor confidence and streamlining regulation.

The most tangible output of the CDS and LED processes was the initiation of the Port Cities Development Programme, a 12-year, phased US\$96 million investment programme financed by the World Bank. The project aims at improving the efficiency of local government agencies

and revitalising business clusters through investments that would promote growth and generate employment. The first phase of the project includes making investments in transport infrastructure and commercial areas, developing strategic planning tools and elaborating a master plan and capital investment plans. Design and feasibility studies for investments in the port cities of Hodeidah and Mukalla will also be financed during this phase. The project also includes resources for building local capacity and modernising local administrations.



Aden city view

According to Mohamed Zemam, manager of the Port Cities Development Programme, the involvement of the Cities Alliance was key to ‘sparking’ the development process. Teams of local stakeholders participated in workshops to help develop the vision that would guide all subsequent development projects and initiatives. Cities Alliance-funded consultants worked with experienced local civil servants from the primary stakeholder agencies, helped them formulate a basic plan, and then shape it into a roadmap for the city’s development.

Mohammed Zemam, Project Director, Port Cities Development Programme, and Iskander Satter, Monitoring and Evaluation Specialist, Port Cities Development Programme.



Fish hawkers at Hodeidah port

LEARNING AND KNOWLEDGE SHARING

In addition to the learning and knowledge sharing that take place within the framework of ongoing Alliance activities, the Cities Alliance has continued to evaluate its completed activities to assess their impacts and garner lessons, both substantive and in terms of the Alliance's own grant procedures.

Lessons from Evaluations

This year's evaluations continued to reinforce the significance of the Alliance's core criteria. In particular, building partnerships and the involvement of investment partners from the earliest stages of proposal development are proving critical to sustainability and to scaling up, and argue for continued and strengthened in-country collaboration and coherence of effort amongst Alliance partners.

Valuable, substantive lessons on scaling up slum upgrading and city development strategies are emerging from Alliance activities, including the following:

- Attracting domestic financing for infrastructure investments is critical to scaling up slum upgrading, especially in extending coverage to outlying peri-urban areas. Bringing the formal and informal private sector into the CDS process can be helpful in this regard;
- The CDS should be seen as a continuous process and be used as a dialogue and dynamic tool for cities to engage all stakeholders. Improved relations between local government and communities can be an important outcome of the CDS;
- Integrating the poor in decision-making processes, and building the social capital in poor communities contributes significantly to sustainability and replication. Established local NGOs are often well placed to facilitate participation, especially of women and marginalised communities;
- Engaging a significant degree of local expertise is important, not only for the local knowledge and cultural insights, but for ensuring ownership and increasing prospects of institutionalisation and replication;
 - A CDS needs a firmly anchored institutional home. The sustainability of the CDS hinges on how well it is institutionalised in the mainstream of city governance and management;
 - Monitoring and evaluation should not be treated separately from the actual CDS exercise, but should inform the CDS preparation process. Clear targets of what the city is trying to achieve should be defined, and a system put in place to monitor and use these to inform decision-making processes.



The Cities Alliance has promoted CDSs as a collaborative decision-making process designed to help reduce urban poverty and provide a basis for sustainable urban development . . . virtually all Alliance members have been directly engaged in supporting this process at the country level.

Alliance grants are proving to have significant impacts even with modest amounts, in fostering the use of more effective analytical tools, policy options, and standards of practice. In numerous instances, the knowledge generated through local Alliance activities has offered national authorities additional elements to engage in thinking about and planning for the nation's urban future. Likewise, horizontal learning among CDS cities is proving to be a highly valued outcome.

Strengthening City Development Strategies

Cities Alliance learning activities this year also specifically focused on how to strengthen CDS, including this year's Public Policy Forum in eThekweni, as well as a major CDS Conference in Hanoi.

The Cities Alliance has promoted CDSs as a collaborative decision-making process designed to help reduce urban poverty and provide a basis for sustainable urban development. Over the last six years, virtually all Alliance members have been directly engaged in supporting this process at the country level. As spelled out in the Cities Alliance charter, from the beginning the focus was on 'supporting city-based consensus building processes by which stakeholders define their vision for their city and establish city development strategies with clear priorities for action and investments'. CDSs have been used not only to inspire and challenge different stakeholders, but also to build knowledge around such issues as comparative and competitive advantages; residents' values and preferences; cities' relationships with global, domestic, and sub-national economies; and cities' physical characteristics.

The results to date are encouraging. Cities Alliance members are increasingly using the Alliance's participatory approach to CDSs to

improve the quality and strengthen the impact of urban development co-operation and urban lending. Strong demand from cities to learn from their peers' CDS processes, and to increase city-to-city learning exchanges is also apparent. One of the key lessons that has emerged so far is that for CDSs to be effective, participants need to see implementation, rather than development of the CDS, as their primary goal. The sustainability of the CDS process depends to a great extent on active involvement by national governments and by national associations of local authorities.

Another key lesson is that implementation must be grounded on access to capital, whether derived from city budgets, local capital markets or from investments by development banks. CDSs often lead to necessary reforms, such as the adoption of new policies, and in addition, increase the capacity of citizens and local authorities to make informed choices and achieve greater equity in sharing costs and benefits.

The challenges, priorities and potential of individual cities make each CDS unique, resulting in a number of variations in the design of end products. While many of the different designs are due to diverse local conditions, they also vary because of the various actors' differing experiences. The Cities Alliance has listed a number of good practices on its web site, <http://www.citiesalliance.org/activities-output/topics/cds/cds-activities.html>, most of which have emerged from practical processes that the Cities Alliance has supported.

Cities should assess the impact of CDSs in terms of poverty reduction and other broad development goals. They can achieve this by incorporating methods for monitoring and evaluation throughout CDS design and implementa-

tion, to help determine whether a CDS is achieving its objectives and realising its intended outcomes. Accordingly, during fiscal year 2005 the Alliance commissioned a study to look at the monitoring and evaluation dimensions incorporated in CDSs and to begin developing a normative framework for an approach to CDS monitoring and evaluation and for selecting indicators.

Looking ahead, it is clear that a number of issues need to be integrated into the way cities are formulating their visions and strategies. Some of the key challenges include integrating CDSs and citywide slum upgrading, strengthening cities' role in improving their investment climate and supporting local economic development, incorporating the evaluation of cities' ecosystems in efforts to achieve environmental sustainability and mobilising domestic long-term capital for urban infrastructure investments.

In keeping with its objective of fostering new tools, practical approaches and knowledge sharing for CDSs, the Alliance's secretariat is currently preparing a flagship guideline document designed to summarise the lessons learned and make CDSs as useful as possible. This document will draw on the lessons learned to date and will focus on the following:

- Primary **building blocks** of the CDS process, including
 - i. planning and strategising (for example, guidelines for rapid assessment in CDS processes, vision statements and key strategic thrusts),
 - ii. characteristics of a good strategy,
 - iii. implementation;
- Major **themes** to be covered in a CDS, such as poverty reduction and prevention, local economic growth, competitiveness, job creation, environmental programming and impacts and municipal finance and governance;

- **Process**—participation in and ownership of CDSs, including analysis of the design of CDSs' participatory and ownership-building processes, and of the resulting outcomes, such as the legitimacy and sustainability of the CDS process;
- **Monitoring and evaluation**, including appropriate monitoring and evaluation mechanisms and tools for a CDS both during and after implementation.

Communication and Knowledge Sharing Activities

During the year, the Alliance enhanced its visibility by successfully organising major communications and knowledge events in collaboration with Alliance members and other partners. Attendance at these events was high, and they provided invaluable opportunities for interacting with city clients and for sharing key lessons pertaining to slum upgrading and CDS activities in these cities. Events included a highly successful third CDS conference hosted by the government of Vietnam in Hanoi, which the Alliance organised in collaboration with Japan's Ministry of Land, Infrastructure and Transport, the World Bank, Germany's Federal Ministry for Economic Co-operation and Development and DFID; and the Development Policy Dialogue at the eighth Congress of Metropolis in Berlin, hosted in collaboration with the Federal Ministry of Economic Development and Co-operation, GTZ and the Berlin Senate.

The Alliance's communications and knowledge partnership with the Institut des Sciences et des Techniques de l'Équipement et de l'Environnement pour le Développement (ISTED) also strengthened during the course of the year, with the publication of the Arabic and Spanish versions of the Guide to Working with the Cities Alliance.

Other activities included the redesign of the Alliance's web site to enhance its navigability and user friendliness; the publication of the book *Integrating the Poor: Urban Upgrading and Land*

Tenure Regularisation in São Paulo, which captures lessons learned from the technical and financial support the Alliance provided to the city of São Paulo's *Bairro Legal* (Nice Neighbourhood) Programme; and a video on the impact of Johannesburg's upgrading activities on the lives of its citizens, which the Alliance produced in collaboration with UK-based HBL Media.

Second International Conference on Financing Municipalities and Sub-national Governments, International Association of Development Funds, Washington, DC, October 2004

Cities Alliance hosted a panel on "Local Governments: Facilitating Frameworks and Enabling Policies for Accessing Debt Finance" as part of the Second International Conference on Financing Municipalities and Sub-national Governments organised by the International Association of Development Funds in collaboration with the IDB, USAID and the World Bank.

Moderated by Rajivan Krishnaswamy, the Alliance's senior urban finance adviser, the panel looked at the financing opportunities and options available for linking cities' financing needs with domestic capital markets, focusing on city and national level actions to highlight the complementary roles played by city and national governments in fostering the development of a municipal credit market.

Panel members included:

- **Mark Hildebrand**, Manager, Cities Alliance Secretariat, who explained how the Cities Alliance was focusing its work on municipal finance from the perspective of cities, and the strategic role that UCLG would be playing in engaging networks of mayors in the process;
- **Roland Hunter**, Executive Director (Finance), of the city of Johannesburg, who presented Johannesburg's experience with its recent highly successful issuance of municipal bonds;
- **Eleoterio Codato**, Manager, Urban Department, World Bank, whose presentation detailed the role and the successful experience of municipal development funds in enabling cities to access debt finance;

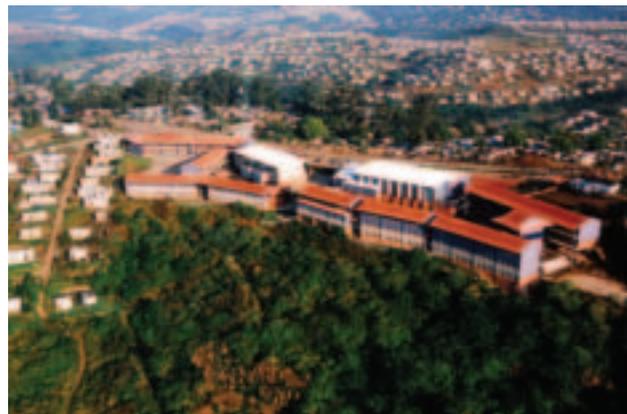
- **Alberto Angulo**, Director (Revenue), of the State Government of Michoacan, Mexico, who described the state's recent efforts to mobilise capital for funding its infrastructure programmes;
- **Brad Johnson** of Resource Mobilization Advisors, Washington DC, who spoke on the enabling legal and regulatory framework that is necessary for the development of a municipal credit market.

Making City Development Strategies Come Alive in South Africa, eThekweni (Durban) Cities Alliance Public Policy Forum, eThekweni, November 2004

eThekweni's experience in implementing its city-wide strategy to improve the living conditions of its residents was the focus of the fifth Cities Alliance Public Policy Forum.

The forum sessions highlighted three key issues in CDSs, namely:

- CDSs and economic development to examine strategies that cities may adopt in response to global economic integration, economic transformation and urban poverty; CDSs and slum upgrading to look at shelter strategies that cities may adopt in response to urbanisation pressures and urban poverty;
- Sustainable finance strategies to examine strategies for funding the implementation of CDSs within a partnership context, focusing on the use of own funds, the gearing of external funds and the mobilisation of community and end-user finance.



Aerial view of Cato Manor, eThekweni

These issues were the drivers of the evolution of eThekweni's 20-year Long-term Development Framework, which included inputs from all city stakeholders from conceptualisation through implementation. The development framework was kick-started with the first of five sets of five-year integrated development plans that were, in essence, CDSs. Translating the strategies into reality involved the creation of the Area-Based Management Programme, an institutional mechanism intended to enable an integrated implementation process, whereby service delivery can be focused within key areas of the city.

Public Policy Forum sessions were held at venues in three of these areas: Warwick Junction, Cato Manor and KwaMashu.

Key lessons from the eThekweni experience include the following:

- Citizen participation is fundamental to improving people's quality of life;
- Good governance is key. In the case of eThekweni it has proved to be an essential tool for moving the city onto a more sustainable development path;
- Continuous review and evaluation of the implementation of the strategy is needed, which can be done by means of a performance management system.

City Development Strategies: From Vision to Growth and Poverty, Third CDS Conference, Hanoi, November 2004

The Hanoi conference followed two earlier conferences on CDS in Tokyo in 1999, and in Fukuo-ka, Japan in 2000. Vietnamese city officials took the opportunity of the conference to showcase their own CDS experiences. The cities of Hanoi, Nam Dinh, Can Tho, Da Nang, Halong, Hue, Haiphong and Ho Chi Minh shared their experiences with poverty reduction efforts, in addition to housing, urban planning, management and preservation of historic sites. In 1999, the government of Vietnam established a national urban development strategy to increase economic growth, alleviate poverty and improve people's quality of life.

According to Vietnamese Deputy Prime Minister, Nguyen Tan Dung in his opening speech: 'The

strategy has effected significant inroads to resuscitating Vietnam's cities. Nearly 80 per cent of urban areas have access to clean water, while residential areas have increased from six square metres per capita to 10 square metres, and the proportion of poor urban households has been reduced from more than 10 per cent of all households to about three per cent'.

At the close of the conference, mayors from more than 100 participating cities signed a joint declaration to work to reduce poverty 'in our own countries, our own cities'.



Deputy Prime Minister of Vietnam, Nguyen Tan Dung

Founding Congress of the Africa Chapter of United Cities and Local Governments, Tshwane (Pretoria), May 2005

Mayors and elected local leaders representing local government structures, associations, villages, towns and city councils throughout Africa unanimously adopted a charter establishing local government as a distinct sphere of government at the Founding Congress of the Africa chapter of United Cities and Local Governments (UCLGA).

UCLGA was accorded the status of local government organ of the African Union. President of Nigeria and Chair of the African Union, Olusegun Obasanjo, who delivered the keynote address at the congress, acknowledged the developmental role and responsibilities of the 'sphere of government closest to the people and most directly responsible for meeting their needs, particularly in the context of a rapidly urbanising African continent that has yet to be put under effective control and management'.

Cities Alliance Policy Advisory Board member, Akin Mabogunje, delivered an in-depth analysis of the state of local government in Africa, noting it is still far from what it should be. Several challenges requiring attention at both the level of central governments and of local governments persist. He argued that the founding of UCLGA should motivate more systemic appreciation of the enormous



Father Smangaliso Mkhathswa, Mayor of Tshwane and UCLGA President

challenges still confronting local governments in many African countries. UCLGA members would have to engage in a ‘second liberation’ struggle, a fight for power-sharing entailed in the devolution of power and resources to local governments. This is a struggle that can be won only if local governments can establish responsible financial management parameters for themselves, promote participatory democracy among all stakeholder groups within their jurisdictions, and involve most of their residents in decision making on matters that affect their day-to-day lives.

The congress also elected the first executive of UCLGA by selecting Smangaliso Mkhathswa, host mayor and president of global UCLG, as the chapter’s first president. Omar Bahraoui (President of the Morocco National Association of Local Governments), Eneas Comiche (Mayor of Maputo and president of the National Association of Local Governments of Mozambique), Baver Dzeremo (President of the Association of Local Government Organisations of Nigeria), Augustin Kampayana (Mayor of Kigali), and Huges Ngouelendele (President of the African National Congress) were all elected vice presidents. Together with the elected executive committee they will form the executive and governing structure of UCLGA.

Jean Pierre Elong Mbassi, Cities Alliance Policy Advisory Board member and chair of the *Partenariat pour le Développement Municipal*, was elected UCLGA’s Secretary General.

Cities and their Role for the United Nations Millennium Development Goals, Development Policy Dialogue, Eighth Congress of Metropolis, Berlin, May 2005

The Eighth Congress of Metropolis offered a unique opportunity for the Cities Alliance to celebrate the fifth anniversary of its Berlin launch and the Cities without Slums Action Plan. The context was a well-attended development policy dialogue



Development policy dialogue panel at the Metropolis Congress organised in collaboration with the Cities Alliance

on “Cities and their Role for the UN Millennium Development Goals” which BMZ, GTZ and the Berlin Senate organised in collaboration with the Cities Alliance.

In the words of Erich Stather, state secretary of BMZ, the Cities without Slums Action Plan is a success story. He pledged Germany’s continued support to the Cities Alliance ‘through its direct co-operation with its partners in the cities as well as through financial and personal support of the Alliance’s secretariat’.

United Nations Under-Secretary-General and Executive Director of UN-HABITAT, Anna Tibaijuka noted that the Cities without Slums initiative had enhanced the visibility of slum dwellers. She appealed for a broader interpretation of MDG Target 11: Improving the living conditions of 50 per cent of the world’s slum dwellers by 2020. She also stressed that upgrading existing slums is necessary but not sufficient: just as important is preventing new slums.

World Bank Vice President for Europe and Central Asia, Shigeo Katsu, who led the World Bank’s delegation to the congress, pointed to two key lessons for cities as they strive towards achieving the MDGs: (i) good city government does count, as its role in developing and implementing sound policies and financing strategies is crucial; and (ii) improved access to basic infrastructure requires action on a citywide scale, and notes that ‘this is why Cities Alliance came into being’.

The World Bank, he added, ‘is proud of the success of the Cities Alliance to date and believes that a strong foundation has been established for its future growth. Cities Alliance support to city development strategies and citywide slum upgrading has already had a significant impact on the Bank’s urban lending, with the Alliance’s US\$60 million in grants directly linked to close to US\$6 billion in investments, of which more than US\$3.9 billion are World Bank loans and credits’.

Knowledge Products Review

During the course of the year, the Cities Alliance secretariat redesigned its web site to enhance the site’s navigability and user friendliness. To this end, the site’s content was restructured and new features such as a “Financing for Cities and the Poor” section to capture Alliance Municipal Finance activities, and a “Spotlight” section focusing on a Cities Alliance member or an initiative it supports were introduced. The new web site was launched in August 2005 and can be accessed by visiting <http://www.citiesalliance.org>. The Cities Alliance also produced a number of publications and a video.

Making City Strategy Come Alive: Experiences from eThekweni Municipality, Durban, South Africa, eThekweni Municipality, 2004

This publication was developed in response to numerous requests to the municipality of eThekweni to share the lessons it learned from its successful

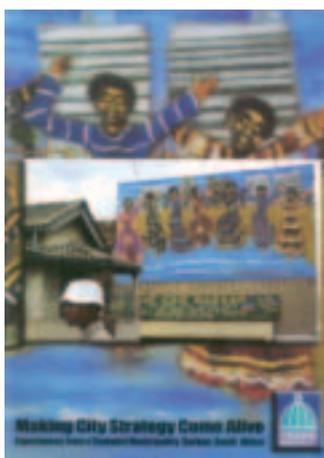
CDS experience. The book tells the story of the CDS in two phases: Part 1 describes the development of the strategy, beginning with the workshop in the Drakensberg mountains in KwaZulu Natal province where the seeds for the long-term development framework were sown, until 2004, when the strategy was implemented, evaluated and reported on. Part 2 presents key lessons that were learned during the development of the strategy.

Milestones in the implementation of the strategy include:

- The KwaMashu town centre development, an initiative aimed at attracting investment and creating a secure business environment;
- The creation of linkages between black economic empowerment and the export sector;
- The partnership with the Development Bank of Southern Africa and the EU to construct the uShaka Marine Theme Park, the world’s fifth largest theme park;
- The provision of the first six kilolitres of water per month at no cost to every household in the municipality that is connected to the municipal water supply system, with the result that 82 per cent of the population now has access to safe water;
- The implementation of a self-targeted, free, basic electricity service that has led to energy rates 26 per cent below inflation levels;
- The promulgation of an affirmative procurement policy to involve greater numbers of small enterprise suppliers, service providers, contractors and consultants, especially blacks in tenders for city contracts;
- The recruitment and training of volunteers to provide HIV/AIDS education and counselling to communities in the municipality, and the establishment of the AIDS Council;
- The democratisation of local government through communications, the regional centres initiative and ongoing community consultation.

Key lessons learned from the strategy development process are:

- Strategy planning processes need to be local and needs based;
- Stakeholder participation is key, and approaches to involving stakeholders should be tailored to the municipality’s needs. In eThekweni, participation was based on workshops held during critical points of the strategic planning process;
- As part of overall development management, a needs-based, participatory municipal budget needs to be part of the integrated development plan or city strategy;



- Measures of performance should be integrated into the strategic planning, budgeting and implementation machinery.

Integrating the Poor: Urban Upgrading and Land Tenure Regularisation in the City of São Paulo, Cities Alliance, 2004

This book captures the process and outcome of the Cities Alliance's collaboration with the city of São Paulo from 2001 to 2004, during which the municipal administration of São Paulo initiated the *Bairro Legal* Programme to scale up slum upgrading and land tenure regularisation as part of a socially inclusive and pro-poor housing urban development policy.

In 2001, the Housing and Urban Development Department of the then newly-elected São Paulo municipal administration launched the *Bairro Legal* Programme, with the aim of turning slum areas into neighbourhoods through a combination of physical upgrading, land tenure regularisation and social inclusion. The Cities Alliance provided technical and financial support for the design and consolidation of the programme in the context of a comprehensive policy involving land tenure regularisation and systematic integration of precarious settlements into the city.

One line of action refers to land tenure security for families living in precarious settlements, which involved a three-pronged approach. The first was the establishment of a negotiations process to avoid the eviction of families living in illegal settlements. The conflict mediation strategy successfully prevented the eviction of approximately

13,000 such families. Second, was the introduction of legislation to enable land tenure regularisation of some 160 slums occupying public land, which benefitted some 45,000 families. Third, was the regularisation of illegal land subdivisions in existence prior to April 2000 by means of the new legislation.

Assistance by the Cities Alliance to the *Bairro Legal* Programme was also designed to produce integrated local development plans in three low-income districts of the city whose residents face physical, social and economic exclusion. Through the *Bairro Legal* Technical Assistance Project, which was financed by the Cities Alliance and executed in partnership with the World Bank, the municipality's Housing and Urban Development Department developed a methodology for preparing local development strategies known as housing and urban action plans. The effort included development of the plans and of the methodology and institutional capacity for implementing them.

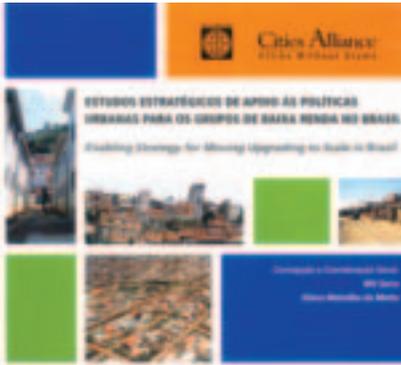
For its innovative *Bairro Legal* Programme, the Geneva-based Centre on Housing Rights and Evictions awarded the city of São Paulo its 2004 Housing Rights Protector Award, an award given each year to a government or other institution that has demonstrated exceptional commitment to the protection and fulfilment of housing rights.

The Millennium Declaration: An Urban Perspective, UN-HABITAT and World Bank, 2005

To set the review of Target 11 of the MDGs in context at the MDGs + 5 meetings in New York in September 2005, UN-HABITAT and the World Bank published a short, user-friendly Note that captures the urban perspective of the United Nations Millennium Declaration. The Note provides a set of 12 structured arguments and declarations that meeting participants could use to contribute effectively to the review.

Copies of the Note are available by emailing: infohabitat@unhabitat.org, or info@citiesalliance.org.





Enabling Strategy for Moving Upgrading to Scale in Brazil, Cities Alliance, 2005 (CD-ROM)

This collection of groundbreaking studies, financed by the Cities Alliance and managed by the World Bank, provides one of the most comprehensive bodies of analytical work on urban

land markets and urban slums in Brazil. The volume includes three CDs and is organised by topic as follows: (i) enabling strategy for moving upgrading to scale; (ii) assessing housing stocks, needs and demand; (iii) carrying out informal housing analysis and evaluating urban upgrading programmes; (iv) assessing urban land markets; and (v) managing land use.

Working with the Cities Alliance Guide, Cities Alliance, 2005 (Arabic and Spanish translations)

The Guide outlines the criteria and basic steps for accessing Cities Alliance grant funding. The new Arabic and Spanish versions of the guide update some of the information already available in the English and French versions published in 2003,

such as the increase in membership of the Alliance’s Consultative Group, the addition of Brazil and Nigeria as new developing country members, and the changes in the Alliance’s co-financing requirements.

Cities Alliance in Action: Impacts of Johannesburg’s Successful City Strategy, Cities Alliance and HBL Media, 2005 (video)

Cities Alliance partnered with UK- based HBL Media on the production of a 10-minute video segment vividly capturing local perspectives on the impact of Johannesburg’s successful upgrading strategy. The segment was part of a 30-minute video continuously broadcast to participants to the third Commonwealth Local Government Conference, held in Aberdeen, Scotland, in March 2005, and broadly disseminated thereafter. It tells the story of Johannesburg’s upgrading strategy from the perspective of a local resident, Thietse, and his family, whose lives changed for the better with the implementation of the strategy. This is interspersed with comments on the need to share the lessons of the Johannesburg experience with Addis Ababa and other African cities, by Johannesburg’s city manager, Pascal Moloji, Director, Brian Shlongwa, and Kubeshni Govender Jones, manager of the city’s Innovation and Knowledge Exchange.

CITIES ALLIANCE ORGANISATION

In accordance with its charter, the governance and organisational structure of the Cities Alliance includes the Consultative Group, the Policy Advisory Board, and the Secretariat.

THE CONSULTATIVE GROUP

The Consultative Group—the Alliance’s board of directors—is responsible for setting the Alliance’s long-term strategy, approving its annual work programme and budget, and reviewing its achievements. The Consultative Group consists of financial contributors to the Cities Alliance Trust Fund and the political heads of the global organisation of local authorities, UCLG, and Metropolis, who have pledged their commitment to achieving Alliance goals. The Consultative Group is co-chaired by the World Bank’s vice president for infrastructure and UN-HABITAT’s executive director. Prospective financial contributors may serve as associate members for two years.

Membership in the Cities Alliance has continued to grow, with Nigeria becoming the first African country and the second developing country to join the Cities Alliance in January 2005. Nigeria is represented on the Consultative Group by its Ministry for Housing and Urban Development.

The Consultative Group has also set up the five-member Steering Committee, made up of a subset of its members, to provide guidance to the Secretariat.

Consultative Group Meetings

Consultative Group meetings are held annually in connection with a global public policy forum designed to share the lessons learned from experience and agree on policy orientations and standards of practice in areas related to the Alliance’s goals.

Consultative Group meetings have been held as follows:

- **Berlin, December 1999:** inaugural meeting, launch of Cities Without Slums action plan, and approval of the Cities Alliance Charter and 2000 work programme.
- **Montreal, June 2000:** first Public Policy Forum on the dimensions of pro-poor urban policies, Consultative Group review of application guidelines, and approval of Cities Alliance Vision statement.
- **Rome, December 2000:** second Public Policy Forum on Local Partnerships: Moving to Scale, Consultative Group approval of amendments to the Cities Alliance Charter, approval of the 2001 work programme and procedures to establish the Policy Advisory Board and Steering Committee.
- **Kolkata, December 2001:** third Public Policy Forum on Sustainable Partnerships for City Development, Consultative Group review of procedures for the independent evaluation of the Cities Alliance, and approval of the 2002 work programme.



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- **Brussels, October 2002:** panel discussion at the European Commission on Achieving the Millennium Development Goal of Cities Without Slums, Consultative Group review of the independent evaluation of the Cities Alliance, and approval of the 2003 work programme.
- **São Paulo, October 2003:** fourth Public Policy Forum on Financing Strategies for Cities and the Urban Poor, Consultative Group approval of the 2004 work programme and procedures for developing country membership of the Consultative Group.
- **eThekwini, November 2004:** fifth Public Policy Forum on Making City Development Strategies Come Alive in South Africa, and Consultative Group approval of new Policy Advisory Board members and the 2005 work programme.

Consultative Group Members as of June 2005

The Consultative Group includes representatives of the following:

- **Local authorities**
 - United Cities and Local Governments
 - Metropolis
- **Governments**
 - Brazil • Canada • France • Germany • Italy
 - Japan • Netherlands • Nigeria • Norway
 - Sweden • United Kingdom • United States
- **Multilateral organisations**
 - Asian Development Bank
 - United Nations Environment Programme
 - UN-HABITAT
 - World Bank

The Policy Advisory Board

The Alliance's Policy Advisory Board is composed of eminent urban experts from each region. They provide guidance to the Consultative Group on key strategic, policy, and regional issues and support the implementation of Alliance activities. The composition, terms of office, and operating procedures for the Policy Advisory Board were established by the Consultative Group at its December 2000 meeting. The board brings together civic leaders

and policy advisers with a formidable range of public and private sector expertise that spans the leadership of community-based organisations, NGOs and their networks, local authority organisations, community banks, community savings and credit schemes, commercial banks, and public sector financial institutions. What they have in common is practical knowledge and political experience in working with poor cities and the urban poor worldwide.

The board meets twice a year and is made up of eight members, two from Africa, two from Asia, one from the Arab states, one from Eastern Europe, one from Latin America and the Caribbean, and one from the industrial countries who serve on a rotating basis, typically between two and four years.

The Policy Advisory Board held its first meeting on 11–12 June 2001 at the United Nations headquarters in New York on the occasion of the General Assembly's special session on Istanbul+5. For the Alliance's November 2004 Public Policy Forum held in eThekwini, the board's members from Africa led some working sessions on sustainable finance strategies, and on city strategies to respond to global economic integration, economic transformation and urban poverty. Board members also convened a meeting with African mayors, civil society leaders and slum dwellers' representatives attending the Forum to discuss the issue of local partnerships.

In May 2005, board members gathered in Abuja, Nigeria for their annual spring meeting, taking advantage of the occasion to gain direct exposure to urban policy issues the country is tackling. The meeting was organised by Professor Akin Mabogunje, board member and Chair of Nigeria's Presidential Technical Committee on Urban Development and Housing, and hosted by Nigeria's Federal Ministry of Housing and Urban Development. The board's meetings with local authorities and community leaders in both Abuja and its fast growing satellite town of Karu, which recently completed a city development strategy, generated a fruitful exchange of experiences.

In the wake of the meetings, Nigeria's Ministry of Housing and Urban Development expressed its intention to launch a comprehensive, data-based urban planning initiative for Nigerian cities, similar in nature to the South African Cities Network State of the Cities Report (2004), in support of more focused and results-driven urban planning processes.

The board meeting in Abuja marked the first rotation of Policy Advisory Board members, as incoming members, Juanita D. Amatong of the Philippines and Paulo Teixeira of Brazil respectively filled the regional representative positions of exiting members Somsook Boonyabancha and Richard Webb. Alliance partners hope to continue drawing on the wealth of experience and knowledge its two exiting members have offered since the Board's formation: Somsook Boonyabancha in her capacities as Director of the Community Organizations Development Institute, a public organisation under Thailand's Ministry of Social Development and Human Security, and Secretary General of the Asian Coalition for Housing Rights, a regional coalition of NGOs, community organisations, and professionals based in Bangkok; and Richard Webb, Director of the Centre for Economics Research of San Martin de Porres University in Lima, former President of the Central Bank of Peru, and a widely published scholar on public policy, poverty and economic reform.

Policy Advisory Board members as of June 2005:

- **Juanita D. Amatong** is a former Secretary of Finance of the Philippines; and a former Executive Director of the World Bank Group. With an educational background in business, economics and public administration, she has worked with international consultancies, in academia, and as a tax economist at the International Monetary Fund. She is a prime proponent of strong local government finance in the Philippines.
- **Yousef Hiasat** is Jordan's Minister of Public Works and Housing, with responsibility for the country's road networks, government buildings, and construction and housing sectors; former Chief Executive Officer of Beit Al-Mal Saving and Investment for Housing, a leading investment and financial firm in Amman; former Director General of Jordan's Housing and Urban Development Corporation, the public institution responsible for housing and urban development policies and housing schemes directed at middle- and low-income households; former Principal Adviser to the prime minister of Jordan on housing and urban development issues; and founding and board member of the Morocco-based Near East and North Africa Urban Forum.
- **Mary Houghton** is President and Director of Shorebank Corporation in Chicago, a commercial bank holding company with US\$1.6 billion in assets organised to implement community development strategies in targeted urban neighbourhoods and rural areas, and an adviser to private banks and microcredit lending institutions in developing and transition countries.
- **Akin L. Mabogunje** is Chancellor of Bells University of Technology; Chairman of the Presidential Technical Board of the Federal Mortgage Bank of Nigeria; Chair of the Board of Trustees, Ijebu-Ode Development Board for Poverty Reduction; Foreign Associate of the United States National Academy of Sciences; former Executive Chair of the Development Policy Centre, Ibadan; and an internationally renowned African development scholar who has published and lectured widely on urban management, rural development, and spatial perspectives in the development process.
- **Jean Pierre Elong Mbassi** is Secretary General of the Municipal Development Partnership for Africa, based in Cotonou, Benin; Secretary General of United Cities and Local Governments of Africa; and an experienced practitioner in urban management and slum upgrading.

- **Sheela Patel** is founding Director of the Society for the Promotion of Area Resource Centres in Mumbai, India, working in alliance with the National Slum Dwellers Federation and Mahila Milan in the federation of community-based organisations of the urban poor, facilitating their direct participation in addressing the problems of cities and their relationship with informal settlements; and Chair of Shack Dwellers International, a global alliance of grassroots community federations of the urban poor.
- **Paulo Teixeira** is a Councillor for the Municipality of São Paulo, Brazil; former Secretary of Housing and Urban Development of the Municipality of São Paulo, responsible for the development of a large-scale slum upgrading and land tenure programme; a member of the United Nations Millennium Task Force Eight, Improving the Lives of Slum Dwellers; and a member of the UN-HABITAT Advisory Group on Forced Evictions.
- **Ana Vasilache** is founding Director of the Partners Romania Foundation for Local Development, a Bucharest-based NGO that supports democratic processes of governance and decentralisation, and works to strengthen the managerial capacities of local governments; former Head of the Settlements Management Office in the Ministry of Public Works and Regional Planning in Bucharest; and has extensive experience with planning legislation and designing participatory strategic planning processes.

The Secretariat

The Alliance Secretariat, housed at World Bank headquarters, carries out the Alliance's mandates and manages its operations.

Secretariat staff

Manager,

Mark Hildebrand

Senior Urban Upgrading Adviser,

William Cobbett

Senior CDS Adviser,

Peter Palesch

Senior Urban Finance Adviser,

Rajivan Krishnaswamy

Senior Programme Officer,

Pelle Persson

Urban Economist,

Pascale Chabrilat

Communications Officer,

Chii Akporji

Programme Officer,

Andrea Merrick

Senior Operations Officer,

Kevin Milroy

Resource Management Assistant,

Françoise Aubry-Kendall

Financial Management Specialist,

V. Rama Krishnan

Programme Assistant,

Patria Consuelo M. Morente

Programme Assistant,

Susanna Henderson

Communications Consultant,

Erika Puspa

Regional Advisers

West and Central Africa, José Tonato

South Asia, Alison Barrett

FINANCIALS

Fiscal Year 2005 Highlights

Cities Alliance members paid in more than US\$16.4 million in contributions during fiscal year 2005, including US\$7.25 million in core contributions, US\$2.4 million for the Community-Led Infrastructure Finance Facility and US\$1.4 million for the Sub-Saharan Africa Facility. Italy paid in more than US\$2.5 million to complete financing for the integrated social and physical slum upgrading programme in Salvador, Brazil.

New funding allocations of US\$14.4 million were approved during FY05, more than double the US\$6.3 million approved in FY04. The FY05 approvals included US\$7.8 million from core funds, an increase of US\$3.1 million from FY04 approvals. Total disbursements exceeded US\$12.1 million during the year. The activities approved in FY05 are linked to more than US\$1.0 billion in prospective investments, bringing the Alliance's links to investment to more than US\$6.3 billion over the past five years.

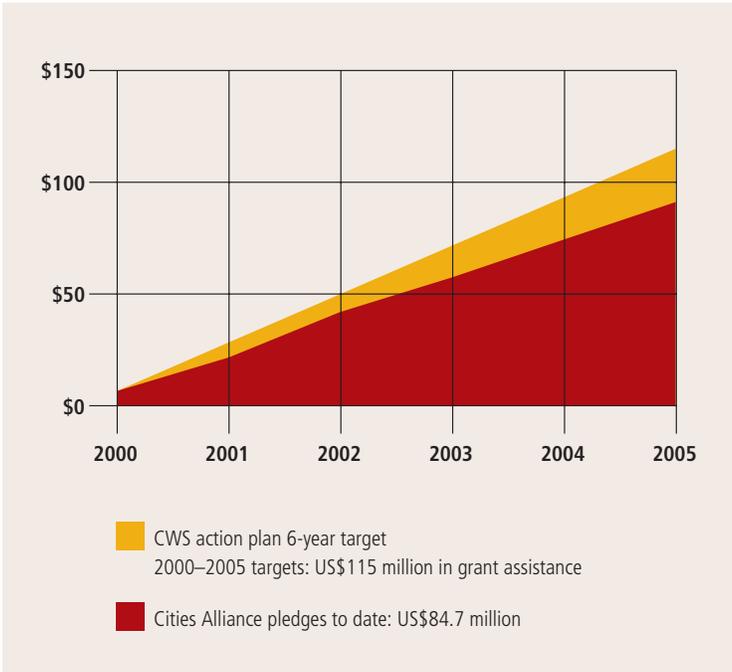
The World Bank sent a strong signal of its support for urban development in general and for the Cities Alliance in particular when it made a commitment to longer-term funding for the Alliance and announced a financial contribution of US\$3.0 million for FY06, almost double the US\$1.7 million funding allocations for the Alliance in recent years. According to former World Bank President, James Wolfensohn, this was in recognition of the Alliance's 'strong performance and important role in addressing critical urban issues'.

A major new initiative launched during FY05 was UN-HABITAT's Slum Upgrading Facility, which is a technical advisory facility to assist national and local governments and community organisations in the development of financially sustainable slum upgrading, low-cost housing and urban development projects designed to attract funding primarily from domestic capital markets. The United Kingdom made a three-year funding commitment of US\$10.0 million for the pilot phase of the facility, including an initial US\$3.0 million approved for FY05. An additional US\$20.0 million is being sought for the pilot phase.

The United Kingdom also committed £300,000 during the year to support the Cities Alliance's knowledge generation and learning activities. This included support for the



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MFTF, and DFID joined with Japan in co-financing the CDS conference held in November 2004 in Hanoi. The Netherlands continued its support for local economic activities, approving US\$250,000 for an initiative, “Incubating LED Partnerships”. Norway committed US\$75,000 for the Alliance’s urban finance initiatives, and Sweden committed US\$75,000 towards pre-implementation activities of the Slum Upgrading Facility.

Italy provided Euro 660,000 during the year for scaling up successful CDS and upgrading programmes in the Latin American and Caribbean region, and next year is expected to finalise its Euro 5.75 million contribution for a statewide slum upgrading programme in Bahia, Brazil.

FINANCIALS

SOURCES OF FUNDS FY00–FY05 (unaudited)			
(US\$ as of 30 June 2005)			
SUMMARY			
Type of funding	Pledges		Paid-in
Core Funding	28,725,000		22,064,809
Non-core Funding	35,230,000		22,113,763
Non-core Secretariat funding	5,720,000		5,180,000
Total funding	69,675,000		49,358,572
Donor	Pledges	Duration	Paid in ^(a)
Core funding			
ADB	500,000	2002–2003	500,000
Brazil	150,000	2004–2006	50,000
Canada	1,500,000	2000–2001, 2003–2006	1,038,326
France	1,100,000	2000, 2002–2004	1,091,493
Germany	1,600,000	2000–2005	1,744,052
Italy	2,600,000	2000–2005	2,162,866
Japan	1,500,000	2000–2004	1,500,000
Netherlands	2,750,000	2000–2004	2,750,000
Nigeria	50,000	2005	0
Norway	2,030,000	2000–2004	2,078,305
Sweden	2,775,000	2000–2005	2,829,383
UNEP	750,000	2003–2005	750,000
UN-HABITAT	200,000	2004	100,000
United Kingdom	6,600,000	2000–2005	5,747,784
United States	1,500,000	2000–2005	1,250,000
World Bank	5,850,000	2002–2005	5,746,326
Total core	31,455,000		29,329,056
Non-core funding^(b)			
Canada	75,000	2004	73,608
Italy	11,635,000	2001–2007	6,986,528
Japan	3,500,000	2000–2004	3,500,000
Netherlands	350,000	2003–2004	350,000
Norway	1,875,000	2002–2004	1,903,039
Sweden	4,350,000	2003–2005	4,772,086
United Kingdom	21,570,000	2001–2007	12,280,813
United States	2,100,000	2003–2007	465,000
World Bank	700,000	2001	700,000
Total non-core	46,155,000		31,031,078
Non-core Secretariat funding^(c)			
World Bank	2,950,000	2000–2002	2,950,000
UN-HABITAT	1,850,000	2000–2007	1,450,000
Sweden	685,000	2005–2007	219,464
Other	1,590,000	2001–2007	1,290,000
Total	7,075,000		6,099,464

Note: Fiscal year covers the period July 1 through June 30.

^(a) Amounts may vary from amounts pledged because of exchange rate fluctuation.

^(b) Non-core funding is earmarked for a specific facility, region, or activity. The facilities include the Community-Led Infrastructure Finance Facility, the Cities Without Slums Facility for Sub-Saharan Africa, the Community Water & Sanitation Facility, and the Slum Upgrading Facility.

^(c) Secretariat funding includes in-kind funding for staff secondments from UN-HABITAT, Germany, the United Kingdom and the World Bank Staff Exchange Programme with the Caisse des dépôts et consignations.

USES OF FUNDS, FY00-FY05 (unaudited)				
(US\$ as of 30 June 2005)				
SUMMARY		FY05		Cumulative
Funding source	Allocations	Disbursements	Allocations	Disbursements
Core activities	7,816,000	4,926,090	29,147,918	18,797,472
Non-core activities	6,617,007	7,252,067	33,574,227	22,906,694
Total uses of funds	14,433,007	12,178,157	62,722,145	41,704,166
APPROVALS BY TYPE OF ACTIVITY		FY05		Cumulative
Type of activity	Core Funds	Non-core funds	Core funds	Non-core funds
City development strategies	2,045,000	0	8,315,012	2,396,620
Scaling up upgrading	1,917,300	4,210,312	8,989,111	22,228,912
CDS and upgrading	2,403,700	1,559,195	8,043,795	3,431,195
Secretariat	1,450,000	847,500	3,800,000	5,517,500
Total approved grants	7,816,000	6,617,007	29,147,918	33,574,227
APPROVALS BY REGION		FY05		Cumulative
Region	Core funds	Non-core funds	Core funds	Non-core funds
Sub-Saharan Africa	606,600	75,000	5,213,240	1,612,620
Asia	1,620,400	0	7,713,425	2,182,600
Eastern Europe & Central Asia	730,000	0	1,588,227	0
Latin America & the Caribbean	798,000	1,944,195	4,561,165	7,419,195
Middle East & North Africa	1,339,000	0	2,634,000	0
Global/Multiregional	1,272,000	3,750,312	4,213,861	16,842,312
Secretariat	1,450,000	847,500	3,800,000	5,517,500
Total approved grants	7,816,000	6,617,007	29,147,918	33,574,227
SECRETARIAT EXPENDITURES				
Expense	FY05	FY04	FY03	Cumulative
Operational:				
Secretariat staff	885,442	516,468	451,443	3,201,863
Consultants, other labour	951	14,480	5,279	414,529
Travel	374,504	234,195	207,533	1,262,940
Other costs	24,945	24,901	77,840	661,612
Subtotal	1,285,842	790,044	742,096	5,540,944
Management and administration				
Secretariat staff	782,318	673,563	622,786	3,338,236
Rent, computing, other costs	273,658	191,803	160,311	798,802
Subtotal	1,055,976	865,366	783,097	4,137,038
Total	2,341,818	1,655,410	1,525,193	9,677,982

FINANCIALS

NEW and ONGOING PARTNERSHIP ALLOCATIONS				
(as of 30 June 2005)				
	Allocation Amount (US\$)	Start Date	Country	Activity
SUB-SAHARAN AFRICA REGION				
	380,640	Mar-03	Burkina Faso	CDSs and local Poverty Reduction Strategy Papers for the Local Governments of Bobo-Dioulasso, Banfora and Ouahigouya
	249,000	Jun-02	Ethiopia	Addis Ababa CDS
	75,000	Jan-04	Ethiopia	Ethiopia Housing Sector Study
	580,000	Jul-04	Ethiopia, South Africa	Participation of Johannesburg and Addis Ababa in the Johannesburg—Addis Ababa Partnership Programme
	75,000	Jul-03	Ghana	Preparing for a CDS in the Kumasi Region
	245,000	Mar-04	Niger	CDSs for Poverty Reduction for Dosso and Maradi
	74,750	Apr-03	Nigeria	Preparatory Assistance for Lagos Strategy Development
	215,000	Jul-03	Regional	Building Partnerships for Cities Without Slums in Eastern and Southern Africa
	215,000	May-04	Regional	Cities Without Slums: Toward Implementing a Support Programme for Countries and Cities of Western and Central French-speaking Africa
FY 05	246,600	Dec-04	Regional	Housing Upgrading Finance Initiative
	750,000	Dec-02	South Africa	South Africa Cities Support and Learning Network
	500,000	Mar-04	South Africa	South African Municipal Water and Sanitation Partnership Initiative
FY 05	75,000	May-05	South Africa	Preparation of the South African National Upgrading Support Programme
	500,000	Jul-04	Swaziland	Development of a Comprehensive Urban Upgrading Programme for Mbabane
FY 05	360,000	Sep-04	Tanzania	Action Plan to Upgrade all Informal Settlements in Dar Es Salaam by 2015
ASIA REGION				
FY 05	215,000		Bhutan	Bhutan National Urban Development Strategy and Thimphu City Development Strategy
	900,000	Dec-01	China	City-Region Development Strategies
	70,000	Oct-03	India	Tamil Nadu Urban Land Market Assessment for Chennai, Coimbatore, and Tiruppur
	450,000	Feb-03	India	Scaling-up the Provision of Universal Minimum Sanitation to Slums in Cities
	182,600	Jul-04	India	Community-Led Sangli Toilet Construction Activity
FY 05	495,000	Jul-05	India	Transformation of Mumbai into a World Class City
FY 05	180,700	Feb-05	India	Hyderabad City-Wide Slum Upgrading Action Plan
FY 05	154,700	Mar-05	India	Visakhapatnam City Development Strategy and Slum Upgrading Action Plan
	250,000	Sep-03	Indonesia	Yogyakarta (DIY): Regional Development and Poverty Reduction Plan through Strategic Urban-Rural Linkages and Regional Integration
	250,000	Sep-03	Mongolia	Development Strategy for Secondary Cities

NEW and ONGOING PARTNERSHIP ALLOCATIONS

(as of 30 June 2005)

	Allocation Amount (US\$)	Start Date	Country	Activity
ASIA REGION, continued				
FY 05	75,000	Feb-05	Pakistan	Towards a CDS System in Punjab
	31,000	Jun-03	Philippines	Preparation of a Proposal on Strengthening Urban Shelter Programmes in the Philippines
FY 05	500,000	Mar-05	Philippines	Integrated Approaches to Poverty Reduction at the Neighborhood Level—a Cities Without Slums Initiative
	500,000	Sep-01	Regional	City Networking and Investment Marketplace Development initiative in Asia
	600,000	Sep-02	Regional	South Asia Regional Adviser
	248,320	Jul-04	Democratic Republic of Timor Leste	City Upgrading Strategy for Urban Dili
	250,000	Jul-04	Vietnam	CDSs in Medium Cities
EASTERN EUROPE AND CENTRAL ASIA REGION				
FY 05	500,000	Jul-05	Azerbaijan	City and Regional Development Strategies in Azerbaijan
	458,427	Mar-03	Latvia	Cities Programme, CDS for Economic Development
FY 05	230,000	Jul-05	Russia	Vologda Development Strategy Alliance
LATIN AMERICA AND THE CARIBBEAN REGION				
	560,000	Apr-01	Brazil	Building an Enabling Strategy for Moving to Scale
	5,565,000	Jun-01	Brazil	Salvador, Bahia, Technical and Social Assistance Project
	165,700	Feb-02	Brazil	Antipoverty and Anti-Exclusion Socio-economic Action Plan: City Networks for Development and Social Inclusion (Rio Grande do Sul)
FY 05	500,000	Dec-04	Brazil	National Urban Development Policy: Support to the National Programme for Land Tenure Regularisation and Socio-Environmental Risk Prevention in Precarious Settlements
	498,400	Dec-03	Chile	Local Development Strategies for Housing Solutions to Overcome Poverty
	324,120	May-04	Colombia	Slum Upgrading and Land Tenure Regularization
FY 05	298,000	Apr-05	Colombia	Housing and Land for the Urban Poor
	256,445	Nov-02	Jamaica	Kingston and St. Andrew Sustainable Development Plan
FY 05	500,000		Panama	Public-Private Partnership for the Provision of Sanitation Services in La Cabima, Panama City
	250,000	Nov-02	Peru	Metropolitan Lima City Poverty Strategy
FY 05	879,195	Jul-04	Regional	Scaling Up Successful Methodologies in the Latin America and Caribbean Region (Italy)
	213,500	Jun-01	Regional	Build Capacities in Urban Knowledge Management
MIDDLE EAST AND NORTH AFRICA REGION				
	200,000	May-04	Egypt	Alexandria CDS for Sustainable Development
FY 05	74,000	Jul-05	Egypt	Preparatory Assistance Proposal for Egypt Urban Sector, Slum Upgrading and City Development Strategies
FY 05	75,000	Mar-05	Iran	Preparatory Assistance to the Ministry of Housing and Urban Development for the Institutionalization of the CDS into the Urban Planning Process in Iran

FINANCIALS

NEW and ONGOING PARTNERSHIP ALLOCATIONS, continued				
	Allocation Amount (US\$)	Start Date	Country	Activity
MIDDLE EAST AND NORTH AFRICA REGION, continued				
	200,000	Mar-04	Jordan	Greater Amman Development Strategy
	295,000	Aug-01	Morocco	Upgrading Project for the Koraat Sbaa Neighborhood in Tetouan
	245,000	Apr-03	Morocco	Metropolitan Co-operation in the Tetouan Region: the Role of the CDS
FY 05	490,000		Morocco	Partnership Framework Agreement for Supporting and Monitoring of the “Cities Without Slums” Program
FY 05	250,000	Feb-05	Regional	Establishing a Regional City Development Strategy Facility at the Arab Urban Development Insitute (AUDI), Riyadh, Saudi Arabia
FY 05	250,000	Jul-05	West Bank and Gaza	Establishment of an Integrated Strategic Planning Process for the Neighboring Towns of Ramallah, Al-Bireh and Beitunia
FY 05	200,000	Jan-05	Yemen	Medium- to Long-Term City Development Strategy for Local Economic Development for Hodeidah and Mukalla Cities
GLOBAL AND MULTIREGIONAL ACTIVITIES				
	49,000	Mar-00	Global	Cities Alliance website
	50,000	Nov-01	Global	Knowledge Dissemination—increase (website, publications)
	100,000	Oct-03	Global	Knowledge Dissemination—increase (website, publications)
	100,000	Nov-04	Global	Knowledge Dissemination—increase (website, publications)
	100,000	Jul-02	Global	Knowledge Generation and Learning
	75,000	Oct-03	Global	Knowledge Generation and Learning—increase
FY 05	100,000	Nov-04	Global	Knowledge Generation and Learning—increase
	70,000	Jun-00	Global	Consultative Group and Public Policy Forum—meetings
	75,000	Sep-01	Global	Consultative Group and Public Policy Forum— meetings— increase
	75,000	Jun-03	Global	Consultative Group and Public Policy Forum meetings— increase (São Paulo)
FY 05	125,000	Nov-04	Global	Consultative Group and Public Policy Forum meetings— increase (Durban)
	30,000	May-01	Global	Policy Advisory Board meetings
	40,000	Nov-01	Global	Policy Advisory Board Semi-Annual Meeting increase
	75,000	Oct-03	Global	Policy Advisory Board Semi-Annual Meeting increase
FY 05	75,000	Nov-04	Global	Policy Advisory Board Semi-Annual Meeting increase
	5,000	Jun-00	Global	Technical Peer Reviews
	15,000	Sep-01	Global	Technical Peer Reviews—increase
	10,000	Oct-02	Global	Technical Peer Reviews—increase
FY 05	20,000	Nov-04	Global	Technical Peer Reviews—increase
	500,000	Sep-01	Global	Pro-Poor Slum Upgrading Frameworks in India, the Philippines and South Africa
	10,000,000	Oct-02	Global	Development of the Community-led Infrastructure Finance Facility—DFID funding
	2,300,000	Apr-03	Global	The Development of the Community-led Infrastructure Finance Facility—SIDA funding
	249,666	Feb-03	Global	Building a Solid Foundation: Overcoming the Obstacles to Scalability of Housing Microfinance for the Poor

NEW and ONGOING PARTNERSHIP ALLOCATIONS, continued

	Allocation Amount (US\$)	Start Date	Country	Activity
GLOBAL AND MULTIREGIONAL ACTIVITIES, continued				
	125,000	Nov-03	Global	Final Project Evaluations
FY 05	75,000	Nov-04	Global	Final Project Evaluations—increase
	225,000	Mar-04	Global	CDS Impacts Study
FY 05	75,000	Dec-04	Global	Capacity Enhancement for Direct Sub-Sovereign Borrowing
FY 05	127,000	Jul-05	Global	Municipal Finance Task Force
FY 05	75,000	Jan-05	Global	Strengthening Cities Alliance Collaboration with UCLG
FY 05	250,000		Global	Developing MDG-based CDSs
FY 05	250,000		Global	UCLG Municipal Finance Commission
FY 05	1,450,000	Jul-04	Global	Secretariat Budget FY05—Core Trust Fund
FY 05	75,000	Jul-04	Global	Secretariat Budget FY05—Norway Non-core
FY 05	70,312	Jan-05	Multiregional	Support for Slum Upgrading Facility Pre-Implementation Plan
FY 05	685,000	Feb-05	Global	Secondment to Cities Alliance Secretariat (Sweden)
FY 05	3,000,000	Apr-05	Multiregional	Slum Upgrading Facility (SUF)—Pilot Programme
FY 05	242,500	Mar-05	Global	Incubating Local Economic Development (LED) Partnerships
FY 05	525,000	Mar-05	Global	Advancing the Cities Alliance Knowledge Generation and Dissemination Agenda (DFID)—including MFTF and Urban Finance cofinancing

COMPLETED ACTIVITIES

(as of 30 June 2005)

	Allocation Amount (US\$)	Completion Date	Country	Activity
SUB-SAHARAN AFRICA REGION				
	41,870	Mar-04	Ethiopia, South Africa	Preparation of the Johannesburg-Addis Ababa Partnership Programme (JAAPP)
	240,000	Jun-04	Kenya	Collaborative Nairobi Initiative on Slum Upgrading Policy Frameworks
	152,000	Sep-03	Madagascar	Slum Upgrading and Community Development in Four Major Cities: Antsirabe, Antsiranana, Mahajanga, and Toamasina
	286,000	Dec-04	Madagascar	CDS for Antananarivo- Infrastructure development, Urban Services Improvement, and City Poverty Strategy
	75,000	Jun-01	Mauritania	Slum Upgrading and Urban Poverty Alleviation
	495,000	Sep-04	Mozambique	Slum Upgrading and Vulnerability Reduction in Flood-prone Cities and Towns
	254,000	Jun-03	Nigeria	Scaling up Upgrading through a CDS Approach in Karu
	100,000	Oct-01	Regional	Regional Roundtable on Upgrading Low-Income Settlements in Africa
	50,000	Mar-04	Regional	Africities 2003 Summit
	165,000	May-02	Rwanda	Kigali Economic Development Strategy
	350,000	Mar-02	South Africa	Johannesburg City Level Comprehensive Development Framework
	40,000	Mar-02	South Africa	Preparation of Southern Africa Cities Alliance
	36,000	Mar-04	Swaziland	Preparation of the Mbabane Comprehensive Slum Upgrading and Finance Programme

FINANCIALS

COMPLETED ACTIVITIES, continued				
	Allocation Amount (US\$)	Completion Date	Country	Activity
ASIA REGION				
	185,000	Sep-03	Cambodia	Scaling up Community-Driven Development Processes in Phnom Penh
	54,640	Dec-04	Cambodia	Improving Tenure Security and New Housing Options for the Urban Poor in Phnom Penh
	500,000	Dec-02	China	Metropolitan Level CDS in One Major City-Region and One Provincial Capital
	250,000	Dec-02	China	Changsha City-Region, Guiyang and Shengyan City Development Strategies: Urban Indicators Project
	226,000	Sep-03	India	Local Partnership for Poverty-Focused CDS in Hyderabad
	67,000	Dec-03	India	Preparation of Gujarat State Urban Slum Policy
	150,000	Feb-03	India	City-Wide Scaling Up of Slum Upgrading (Ahmedabad)
	30,000	Mar-01	Indonesia	Proposal Preparation: Poverty-focused CDS
	600,000	Sep-04	Indonesia	Institutionalising Poverty-focused CDSs
	160,000	Aug-01	Nepal	Kathmandu CDS and Informal Settlement study
	30,000	Apr-01	Pakistan	Proposal Preparation: Peshawar CDS and City Assistance Programme
	150,000	Jun-03	Pakistan	CDS and Cities Without Slums initiative for Peshawar
	30,000	May-01	Philippines	Proposal Preparation: Expansion of the CDS Programme
	600,000	Jul-04	Philippines	Scaling-Up Poverty-Focused CDSs
	150,000	Dec-00	Regional	Asian CDS Workshop 2000
	300,000	Dec-03	Vietnam	Enhancing Access of the Urban Poor and Vulnerable Groups to Basic Infrastructure and Housing
EASTERN EUROPE AND CENTRAL ASIA REGION				
	75,000	Jun-04	Bosnia and Herzegovina	Preparation of Mostar's Local Economic Development-Capacity Building, and Business Improvement Programme
	75,000	Jun-01	Bulgaria	Sofia CDS, Phase I
	249,800	Jun-03	Bulgaria	Sofia CDS, Phase II
LATIN AMERICA AND THE CARIBBEAN REGION				
	180,000	Jan-04	Brazil	Recife Metropolitan Region Development Strategy
	300,000	Jun-04	Brazil	Bairro Legal programme (São Paulo)
	75,000	Mar-04	Brazil	Housing and Urban Development:—Support to a Pro-Poor National Policy
	96,000	Jul-01	Central America	Urban Review
	84,000	Sep-02	Central America	Regional Coordination towards a Sustained Programme for Upgrading
	320,000	Sep-03	El Salvador	Improving Execution Capacity for Urban Upgrading Programme in the Metropolitan Area of San Salvador
	245,000	Jul-04	Mexico	Scaling up Upgrading and Managing Informal Urban Growth in the Metropolitan Mexico City Area
	475,000	Jun-04	Regional	Moving to Scale in Latin America and the Caribbean (Italy)

COMPLETED ACTIVITIES, continued

Allocation Amount (US\$)	Completion Date	Country	Activity
MIDDLE EAST AND NORTH AFRICA REGION			
130,000	Mar-02	Egypt	Upgrading Informal Areas in the Ismailia Governorate
75,000	Dec-03	Iran	National Dialogue on Citywide Slum Upgrading
150,000	Jun-04	Yemen	Aden Medium-to Long-Term CDS for Local Economic Development
GLOBAL AND MULTIREGIONAL ACTIVITIES			
50,000	Jul-02	Global	Urban Indicators Linkages
150,000	Sep-02	Global	Preparatory Assistance Fund
50,000	Jul-00	Global	Public Policy Forum, June 2000
60,000	Jun-01	Global	Urban Upgrading: A Resource Framework
67,000	Mar-02	Global	Consultative Group and Public Policy Forum meetings—DFID cofinance of Kolkata PPF
5,000	Jun-03	Global	Millennium Summit Product and Activity
20,000	Jun-01	Global	Short Note Series
210,000	Jun-03	Global	Housing Finance for the Poor: Innovations and Good Practices from the Field
450,000	Mar-02	Global	Consolidation of the Experience from Seven CDSs of the Urban Management Programme
195,000	Nov-02	Global	Cities Alliance Independent Evaluation
13,195	Oct-02	Global	International Mechanisms to Promote Alternatives to Forced Evictions
200,000	Dec-04	Global	CDS Conference, Hanoi: Measuring and Improving CDS Impacts

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ABBREVIATIONS AND ACRONYMS

AfD	Agence Française de Développement [French Development Agency]
AUHF	African Union for Housing Finance
AVSI	Associazione Volontari per il Servizio Internazionale [Association of Volunteers in International Service]
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung
CAIXA	Brazil's Housing and Urban Development Bank
CAS	Country Assistance Strategy
CDS	city development strategies
CIDA	Canadian International Development Agency
CLIFF	Community-Led Infrastructure Finance Facility
DBSA	Development Bank of Southern Africa
DCA	Development Credit Authority (USAID)
DFID	Department for International Development (UK)
EU	European Union
FAC	Fonds Français d'Aide et de Coopération
FAO	Food and Agriculture Organisation
FEC	Fonds d'Équipement Communal (Morocco)
FEICOM	Fonds Spécial d'Équipement et d'Intervention Intercommunale (Cameroon)
FICOM	Fonds d'Investissement des Communes (Burkina Faso)
FINDETER	Financiera de Desarrollo Territorial (Colombia)
FODECOM	Fonds de Démarrage des Communes (Burkina Faso)
GDP	gross domestic product
GTZ	Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
IADF	International Association of Local and Regional Development Funds in Emerging Countries
IDB	Inter-American Development Bank
IEF	Infrastructure Economics and Finance (World Bank)
IFC	International Finance Corporation
IMF	International Monetary Fund
INCA	Infrastructure Finance Corporation Limited (South Africa)
ISTED	L'Institute des Sciences et des Techniques de l'Équipement et de l'Environnement pour le Développement.
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
LED	local economic development
MDFO	Municipal Development Fund Office
MDG	Millennium Development Goals
MFTF	Municipal Finance Task Force
NEPAD	New Partnership for Africa's Development
NGO	nongovernmental organisation
NSDF	National Slum Dwellers Federation
OECD	Organisation for Economic Co-operation and Development
PDM	Partenariat Pour le Développement Municipal
PIDG	Private Infrastructure Development Group
PPIAF	Public-Private Infrastructure Advisory Facility
PRODUR	Programa de Desenvolvimento Urbano do Estado da Bahia (Brazil)
SAGEDECOM	Service d'Appui à la Gestion et au Développement des Communes (Burkina Faso)
SIDA	Swedish International Development Cooperation Agency
SACN	South African Cities Network
SUF	Slum Upgrading Facility
TNUDF	Tamil Nadu Urban Development Fund (India)
UCLG	United Cities and Local Governments
UCLGA	United Cities and Local Governments of Africa
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UN-HABITAT	United Nations Human Settlements Programme
USAID	U.S. Agency for International Development
USDRP	Urban Sector Development Reform Project (World Bank)
WHO	World Health Organization



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