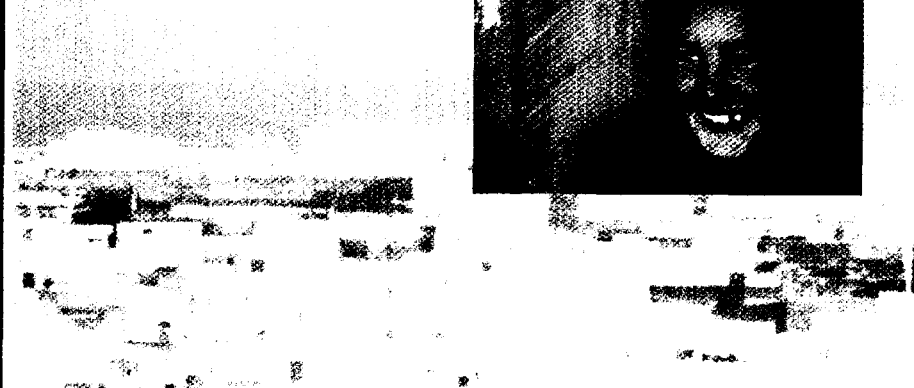


Livable Cities for the 21st Century

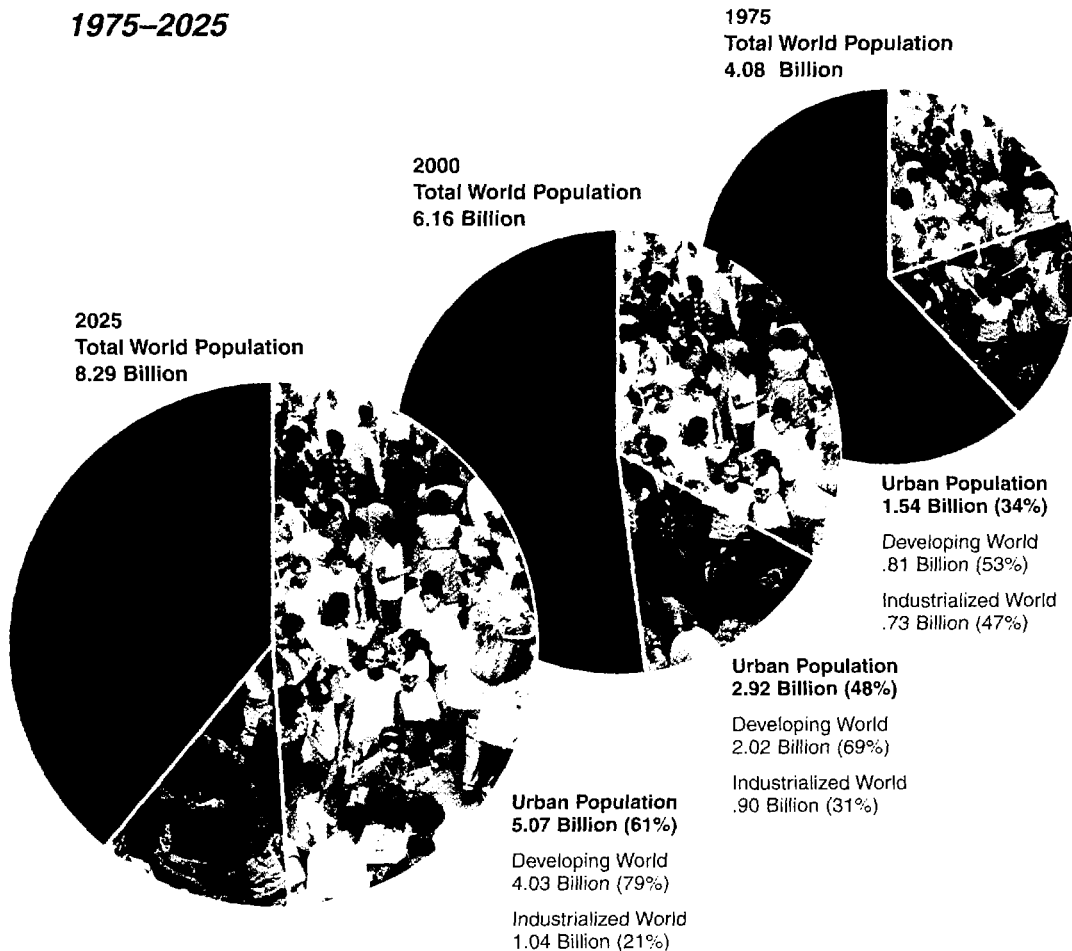


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Nov. 1996

INCREASE IN THE WORLD'S URBAN POPULATION

1975–2025



The Urban Transformation in the Coming Decades

The developing world's cities are currently expanding at 62 million inhabitants per year, which is equivalent to adding a country the size of France, the United Kingdom, Egypt, Turkey or Thailand every year. By the year 2015, urban population in developing countries will double in size and, for the first time, will surpass the rural population. Fully 88 percent of the world's total population growth will be located in the rapidly expanding urban areas—and 90 percent of that urban growth will be absorbed by the developing world.

Large cities will house an increasing share of urban dwellers; one in four will live in cities of over 500,000 inhabitants, and one in ten will live in a rapidly growing number of "megacities" of over 5 million residents. Whereas 28 of the world's 38 cities with more than 5 million inhabitants were in developing countries in 1995, by the year 2015 the number will be 59 of 71 such cities.

The largest cities are slowing in growth, with natural increase predominating over immigration. In these metropolitan areas—each one comprising many municipal jurisdictions—the urban peripheries typically grow much faster than the core cities. But the highest urban growth rates are often observed in the secondary cities of developing countries. The fast pace of growth of intermediate cities of between 500,000 and 1 million population means that many such cities will be transformed into large metropolitan areas within a decade. The number of intermediate and large cities is increasing dramatically—from 441 cities with more than half a million inhabitants in 1995, there will be 710 such cities in 2015.

Source: United Nations, *World Urbanization Prospects: the 1994 Revision*. United Nations, New York, 1995

DIRECTIONS IN DEVELOPMENT

Livable Cities for the 21st Century

The World Bank
Washington, D.C.

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Foreword

Whatever happened to the global village? It may exist, in some distant cybergalaxy, but as a concept for galvanizing commitment to development and planetary consciousness, it may have missed the point. The “global city,” on the other hand, offers a better framework for understanding and shaping the next millennium. A city—with all its abrasive, creative energy, with all its turmoil and opportunity—is not just a metaphor, but soon a reality for most of humanity. To look at our cities is to see into our future.

The prospects are uncertain at best. Especially in the urban centers of developing countries, overcrowding, poverty, and environmental decay are being compounded by inefficient systems of municipal finance and administration. The plethora of problems threatens to poison the promise of urban growth. The challenges seem unmanageable. The resources deployed against them have been inadequate.

Nonetheless, as the first chapter relates, from its twenty-four-year history as a lender for urban development, the Bank itself has learned that positive change is attainable—not easy, not automatic, but attainable. It is also necessary. Cities are where we live. Where our children and grandchildren will live. Cities must reflect the best of human civilization. The second chapter focuses on three areas where such change is coming but, as yet is coming neither fast enough nor on a broad enough scale. It identifies actions that must be taken.

The point of telling the Bank’s story and analyzing the corrective endeavors in which it and its borrowers are engaged is not to preach. There is no one right set of answers. There are, however, many sets of promising answers. We all need to know what others are doing and how well and set our sights on a common agenda.

In releasing this publication at the City Summit, the Bank hopes that readers of this essay will join as neighbors in the global city. In that community of enterprise and imagination, we must all become partners engaged together in trying to make all of the world’s cities richer, safer, cleaner settings for sustainable human development.

*Ismail Serageldin
Vice President
for Environmentally Sustainable Development
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Summary

As one of the World Bank's contributions to the Habitat II process in Istanbul, this publication first tells the story of nearly a quarter century of the Bank's program of urban assistance for developing countries. It then turns to the future to draw attention to priorities for action.

WORLD BANK EXPERIENCE

Since the World Bank began its specifically urban lending program in 1972, it has approved urban-oriented loans amounting to \$25 billion. Over the next five years, another \$15 billion in lending is planned. Among the Bank's wide range of activities in different sectors, the urban program has been particularly successful. It has ranked among the highest-performing sectors in terms of success rates at completion. More importantly, urban lending was initiated with its primary focus on projects to improve the living environment of the urban poor. The Bank helped pioneer new means of targeting subsidies and recovering costs to reach larger numbers of the poor. It developed new client relationships, establishing links with local governments, and worked directly with communities, backwaters at the time—at the forefront today in the wake of decentralization and democratization.

Later work has expanded to encompass sectoral issues that not only affect the success of investment projects, but how well the vast stock of infrastructure assets in developing country cities—roughly estimated to be valued at \$3 trillion—are managed. Issues covered include the policies governing financing flows to local government and housing, and the regulatory framework for the use of key urban assets such as land. There have been significant successes in many areas; although they give no reason for complacency, they should give rise to optimism. Many have argued that developing cities are “basket cases” without potential for improvement. After nearly a quarter of a century of experience, we know that tangible progress is possible.

ACTIONS TO MAKE CITIES LIVABLE TODAY

Bringing basic services to slums. It is intolerable that today so many millions of people still live in urban slums without basic services like clean water, sanitation, basic roadways or footpaths, and drainage. The burden of these service failures in terms of impacts on health and abil-

ity to work are heavy. Yet the costs of providing these basic services—if done right—are quite affordable, on the order of 0.2 percent to 0.5 percent of gross domestic product (GDP) phased over fifteen years. There are examples of countries that have addressed the problem on a large scale at very reasonable costs. A strong commitment to replicating this experience far more broadly to bring basic services to the poor should be made now.

A healthier urban environment. By far, the heaviest burden of urban environmental problems is on human health. The three main environmental problems affecting human health—lead, dust and soot, and microbial diseases—all lend themselves to solutions with modest costs. Action on these problems should be taken now. Lead in gasoline should be phased out on an accelerated basis. As noted above, to reduce water-borne diseases, bringing basic services, top among them, clean water, to all city dwellers must be done. This measure is affordable. Many investments to reduce emissions of dust, soot, and smoke from industry and power plants have high returns. They should be made.

Finance for people in cities. The financing of cities needs to be revamped if we are to meet the challenge of making cities livable. In an era of decentralization, intergovernmental finances need to become more transparent, more closely related to the responsibilities placed on local governments, and more closely linked to the financial and managerial performance of local governments. The resources at hand must be managed more effectively: by pricing urban services better, by building partnerships with the private sector to manage and finance urban infrastructure, and by building much stronger local government institutions to operate the nuts and bolts of city management. Finally, local governments need to forge stronger links to those who ultimately pay for the services provided—the people in cities, the stakeholders who must support the tough decisions that underpin good city finance. Without clearer links between expenditures and community improvements, urban finance cannot be made to work better.

Success in all these areas is attainable, but it will not be achieved without tapping the creative energies of people in cities. Strong partnerships for civic action, with people in communities, with commercial, financial, and industrial interests, and with central governments will be a key ingredient in making cities livable now and in the future.

1. The Continuing Challenge of Urban Development: The Evolution of World Bank Urban Assistance

INTRODUCTION

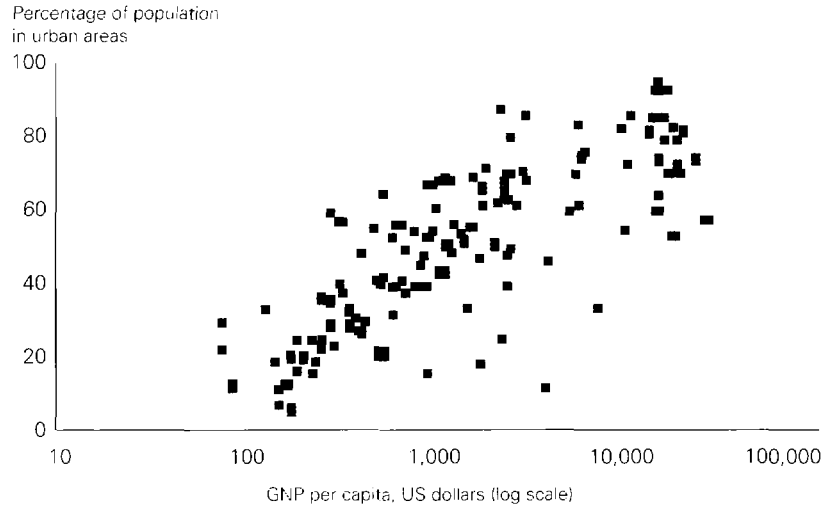
Cities everywhere are makers of wealth, magnets for the industrious, motors of invention. In developing countries, more than half of GDP originates in cities. Urbanization is a companion and stimulus of development. As the process has accelerated, however, cities in Africa, Asia, the Near East, and Latin America have also collided with the challenges of congestion and pollution, with concentrated poverty and uncontrolled sprawl, and with problems that at the least impede productive growth and, at the worst, stifle it.

The challenges are not new. Aristotle doubted if “a very populous city can...ever be properly governed.” Bismarck urged that “great cities must be obliterated from the earth.” Cities have long had to demonstrate resilience and ingenuity in the face of myriad crises, both physical and human. Cities around the world from Mexico City to Skopje and Tashkent have had to rebuild painfully following devastating earthquakes. Warsaw rebuilt after World War II, having been 80 percent depopulated. Phnom Penh, after becoming a ghost town in the 1970s, was twenty years later home to one of every ten Cambodians.

Such urban upheavals are the dramatic exception, but *the escalation of urban population in low- and middle-income countries—a peaceable revolution, but still an upheaval—is nearly universal.* Whereas in 1960, less than 22 percent of the developing world’s population was urban, the proportion averaged 34 percent by 1990. Thirty years on it is expected to exceed 50 percent, and the total number of such city residents by 2020 is due to reach 4 billion, more than twice today’s total.

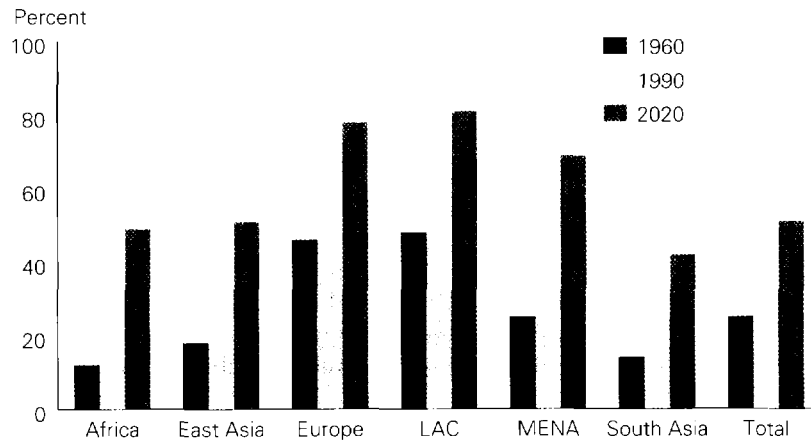
In those swelling cities, as many as one inhabitant in four now lives in poverty. The estimated 400 million urban poor of 1996 represent an enormous challenge. As their numbers rise toward intolerable levels in the coming century, the challenge of housing and serving them joins the need to reverse environmental decay and to insure social cohesion as the primary concerns on the urban action agenda.

Figure 1.1. Urbanization and Per Capita Income (by country)



The World Bank has been addressing these urban challenges for nearly a quarter of a century. When it established a program with a specifically urban focus in 1972, it already had extensive experience in lending for infrastructure, such as water supply and power. The specifically urban program started with demonstration projects that focused on improving the living environment of the urban poor. Since then, the scope of Bank work has expanded to urban policies, fiscal systems, intergovernmental relations, and urban institutions, that is, to the elements of the many complex systems that make cities work for the people who live in them. The undertaking is ambitious. Its reach, however,

Figure 1.2. Urbanization by Region: 1960, 1990, and 2020



Note: LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

only begins to equal the range of challenges faced by developing world cities and their inhabitants.

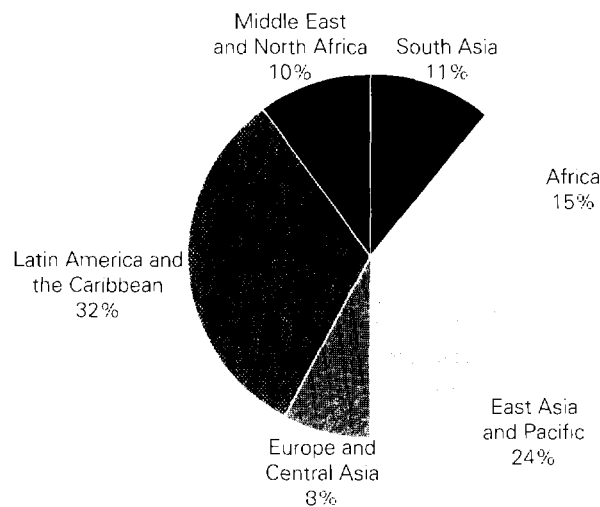
While this chapter details the Bank's experience and the evolution of its work, the history is presented only as a prelude to the second portion of this publication. There, in discussions of ways to provide basic services to city slums, to reverse environmental degradation and improve human health, and to finance productive cities, this publication sets out options for action.

TWENTY-FOUR YEARS OF LENDING EXPERIENCE

Since the World Bank began its urban lending program in 1972, it has approved nearly \$15 billion for roughly 260 development projects in over 65 countries. Counting complementary urban environment, water, and sanitation projects, the total portfolio of urban-oriented loans grows to \$25 billion. These sums represent a substantial commitment to urban development. They have extended the reach of World Bank assistance to thousands of cities and towns. While the Bank funds only fractions of the urban investments made in the developing world, these investments have tried to focus on finding sustainable approaches to develop urban housing and infrastructure, achieve environmental improvements, address the needs of the poor, and increase the productivity of cities.

Among the Bank's wide range of activities, the urban program has been a particularly successful one. *Over the life of the program, urban development has ranked among the highest-performing sectors, with an overall success rate for completed projects of about 80*

Figure 1.3. Total Urban Lending 1972–1995 (\$25.013 billion)



Note: Total Urban—Urban Development, Urban Water, and Urban Transport.

percent. The economic returns of urban investments have been among the highest of those made by the Bank, and the gap between the returns expected at the planning stage and those actually achieved have been the smallest. More importantly, urban lending was initiated with its primary focus on practical and direct measures to improve the living environment of the urban poor. To implement its urban program, the Bank helped pioneer new means of targeting subsidies and recovering costs to reach larger numbers of the poor. It developed new client relationships, established links with local governments, and worked directly with communities, backwaters at the time—at the forefront today in the wake of decentralization and democratization. These elements are now recognized as critical for the broader goal of sustainability, difficult as they have often proved to put and keep in place. While the successes of Bank urban lending should give no reason for complacency, they should give rise to optimism. When the Bank's program started, many argued that developing cities were "basket cases" without potential for improvement. After nearly a quarter of a century of experience, we know that tangible progress is possible.

THE FIRST DECADE

The first decade of the Bank's urban lending program focused strongly on providing shelter and basic services to the poor. The primary goal was to provide them in a more cost-effective fashion than the public housing programs to which many governments had resorted in the 1960s and 1970s. The Bank supported projects that built on an incremental process of improvement, common to the informal sector in developing countries. The basic premise was that provision of secure tenure and a range of basic services would allow households to improve their own housing at a pace dependent on their incomes and preferences. The improvement of their living environment was expected to help poor households to become more productive and increase their income over time. Today this need is recognized as an essential one even for the poorest, as demonstrated by the pioneering work of institutions such as the Self-Employed Women's Association and the Grameen Bank. The Bank's recent support of a special fund (the Consultative Group for Assistance to the Poorest, C-GAP) for lending to the poorest has been established to assist in meeting these needs.

Typically projects provided a combination of land tenure, minimal services, and a core house on newly developed vacant land (known as sites and services), or a combination of tenure and services like water, latrines, drainage, and access to modest footpaths to existing squatter settlements (slum upgrading). Much of the emphasis of the projects was on applying better designs and more cost-effective development standards.

The standards set in sites and services projects, including those in Botswana, El Salvador, Jamaica, Kenya, Peru, and Tanzania during the 1970s showed the way to making shelter and basic infrastructure that is more accessible and affordable than high-cost public housing had been. The completed projects lowered the costs of housing and residential infrastructure by up to 75 percent. Projects in Botswana, Brazil, Tanzania, and Thailand proved effective in reaching households in the lowest tenth of the income distribution. Moreover, contrary to the fears of many, they did not produce slums, but rather demonstrated that poor beneficiaries had the incentives to improve their own housing situation.

Early on, the issue of maintenance and management of these investments arose. Local governments usually took these responsibilities on, but had very little capacity to handle them well. Recognizing the need for managerial expertise at the local level, the Bank financed efforts to improve municipal administrative and technical capacities. In these activities, the Bank relied on varying combinations of financial initiatives and technical assistance, in such areas as strengthening local finances and accounting. Projects in Kenya and Calcutta were typical,

Box 1.1. Expanding Benefits to Poor Women: Financing a Productive House

Programs to provide shelter and services yield more than basic needs benefits. The Self-Employed Women's Association (SEWA) of India has learned through twenty years of experience that financing housing for low-income women is profitable in several ways, not only to the lender, but also to the borrower.

Traditionally, there have been few channels to finance housing for women. While this may in part be attributed to the fact that women, due to lower earnings prospects, generally are seen as higher credit risks, another plausible explanation lies in the fact that a woman's house is rarely viewed as a productive asset. However, SEWA has operated on the basis of a radically different—and extremely sensible—assumption, namely, that *the home plays a central role in the earnings activities of self-employed Indian women.*

The home then is a productive asset, functioning at various times as a warehouse, a storehouse, and source of inputs such as water and electricity. Access to shelter enables women to work year round, protected from monsoons, floods, and other interruptions. The house provides greater security; allows accumulation of material, products, and inventories; and facilitates linkages to services necessary for profitable activities. For these reasons, SEWA's commitment to providing housing finance for poor women has increased over time.

Source: Ela R. Bhatt (February 27, 1996), "Financing a Productive House," Economic Times.



focusing on improving property tax revenues at the local level through property reevaluations.

LEARNING FROM EXPERIENCE: NEW APPROACHES TO URBAN LENDING

A single well-built house in a decayed neighborhood will not, by itself, convert blight to bloom. Where squatter settlements are multiplying faster than investments in urban services, one sewer or two drinking-

water lines or three paved and lighted streets will not, of themselves, bring order to rapid urbanization or decent lives to large numbers of the city poor.

A focus on only provision of new services even to poor people is not enough. Overburdened city officials in developing countries too often lacked the resources and the skills for the essential, unglamorous work of maintenance and management. Often, the source of their weaknesses could be found in their relations with central authorities. If the national government controlled revenues and spending decision, it could—and often did—allocate capital to an ambitious urban project without ensuring the steady flow of financial and technical support a new housing estate or water system must have. That chore was treated as a local responsibility, but it fell to localities with little fiscal capabilities or authority of their own.

Absorbing this reality, the Bank shifted some of the emphasis of its urban lending in the 1980s. *Along with the basics of infrastructure development—tangible investments in drains, pipes, roofs, and roads—urban projects began to widen their scope to embrace the policy setting in which cities lived and grew and either prospered or decayed.* Lending for municipal finance became a stimulus to new patterns of governmental burden-sharing, to changes in the old rules of the game. Neighborhood-based shelter projects were supplemented with support to housing finance systems. The instruments were the policies that weakened the finances of these institutions, and prevented them from expanding their lending to the lower end of the market. Lender and borrower alike weighed the health of the macroeconomy and the effects of fiscal and regulatory arrangements on the viability of projects and on the sector as a whole. And out of that scrutiny came emphasis on policy reform.

HOUSING FINANCE

Annual spending on housing ranges between 4 percent and 7 percent of gross national product (GNP) in developing countries. The performance of the sector is critical to individual households, as well as to overall economic growth, but to the extent that housing finance came largely or exclusively from public institutions, it disappointed expectations. *Broadly, public subsidy policies stunted the growth of housing finance. And narrowly, public credit schemes rarely benefited the poor on a broad scale. Too large and too poorly targeted in many countries, the subsidies went to better-off borrowers. Alternatives were needed, and the Bank encouraged new approaches that expanded the role of the private sector and that targeted the poor.* Some examples illustrate achievements.

- Two Bank-financed projects in Chile brought significant change to housing finance while promoting new construction in sites and ser-

Box 1.2. Urban Transport Assistance: Evolving and Expanding to Meet Growing Needs

From urbanization can flow very acute problems of moving people around cities, problems of public transport and of public facilities for private transport. Economic growth that puts more and more people into their own vehicles can turn traffic problems into acute congestion. In Asian cities, for instance, rush-hour traffic moves on average at only 16 kilometers an hour; in Bangkok, the average is closer to 9 kilometers an hour. Such gridlock worsens air pollution and cuts deeply into productivity. As the transport challenge has grown, the Bank has broadened its support for innovative responses.

The first programs, beginning around 1972, concentrated on using and improving existing assets; on better maintenance of streets and sidewalks; on development of public transport systems, usually buses; and on the design and implementation of traffic management schemes. Series of loans that built one on another supported the establishment and expansion of urban transport planning and management programs.

Typical of these programs were the loans to Brazil that began in the late 1970s and helped numerous urban areas to establish metropolitan planning and coordination units, to train personnel in the relatively new field of urban transport, to develop highway and road maintenance and management programs, and to put comprehensive traffic management schemes in place. From these initiatives came some of the world's most innovative experiments with special traffic lanes for buses. The Brazilian designs not only gave buses the right of way in designated corridors, but eased pedestrian access to the bus stops and bus drivers' ability to get their vehicles back onto the roads after picking up or dropping off passengers. Buses became, in many instances, safer, faster, more attractive people movers. The projects also pioneered bringing public transport closer to low-income communities and purposefully used local labor and materials in insuring that

vices and core housing schemes. Between 1973 and 1992, as housing finance was privatized, housing investment doubled while the volume of public outlays shrank by 40 percent. A key innovation was the distribution of vouchers to means-tested recipients—clients who otherwise had no choice but public housing. Vouchers gave them the freedom to deal with private builders. Over 80,000 households benefited, and the cost of housing to them fell by more than 16 percent to about \$3,000 per unit.

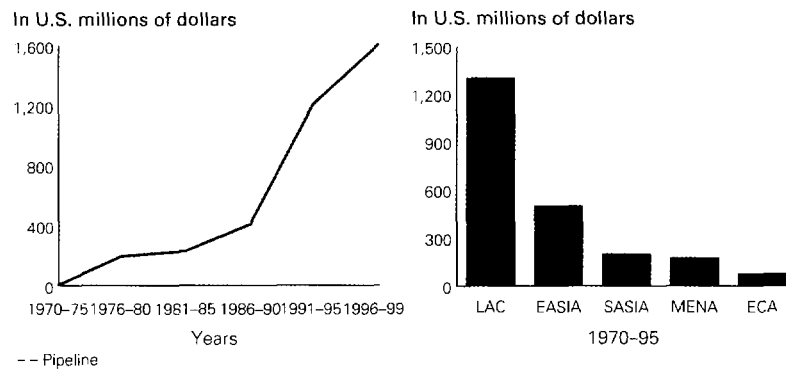
- In India, the Bank supported the tradition-breaking Housing Development Finance Corporation (HDFC) in successfully challenging the assumption that middle- and lower-income households could only afford housing if they received public assistance to finance their purchase. Without subsidies, it was thought, the poor might be able to rent, but they could not buy. HDFC, a private bank founded in 1978 with an equity contribution from the International

Box 1.2. cont.

over 1,500 kilometers of roadway in about 300 communities would be passable in any weather.

Since cars often multiply to fill the roads built for them, city officials cannot rely just on asphalt to manage the growth of motor vehicles and the environmental ills they bring. Accordingly, the Bank and its borrowers have been devising new lines of attack. Among them are efforts to use price incentives and penalties to move people out of private automobiles and into alternative transport. Other projects are working to improve integrated transport systems based on appropriate technology (both bus and rail-based, as well as nonmotorized). Finally, a good deal of current urban transport lending is exploring ways to involve the private sector more extensively in public services while emphasizing the need to make transport systems more accessible to poor commuters.

The following figures indicate the evolution of urban transport lending in financial terms over the years, as well as the regional distribution:



Finance Corporation, has not only exploded that myth, it has become a leader in Indian housing finance with the help of a Bank loan in 1988. Its success has spurred the creation of roughly thirty new private institutions specializing in housing finance. Requiring coguarantors on its loans and maintaining an aggressive effort to collect payments from its 160,000 borrowers, HDFC has managed to create a portfolio in which half the loans—averaging \$2,500 for housing units costing less than \$6,000 on average—have gone to families below the median income level.

- In Mexico in the late 1980s, the Bank supported the shift of housing finance into the private sector and the development of a new mortgage instrument which offered affordable loans that earned positive real returns. With greater availability, lending volume increased dramatically—almost sixfold over the project period from \$900 million to over \$5 billion. A follow-on operation supported a low-

Box 1.3. Community Upgrading Initiatives in Ghana

On the ground in Africa and elsewhere, the World Bank has long been an active partner in community upgrading efforts. In Ghana's capital of Accra, it has built a steady record of experience, starting in one poor, environmentally blighted neighborhood and spreading, over a decade of involvement, to reach more than 300,000 people. A summary history (below) shows the progress from a 30-hectare project in one community to a plan for three settlements covering some 530 hectares and toward demand-driven community involvement.

The Accra District Rehabilitation Project (1985–1992). The first major intervention to improve an existing poor, densely populated, unplanned urban community in Ghana, this upgrading scheme tackled the grave problems of East Maamobi, a densely populated 30-hectare slum in Accra that was home to some 19,000 people. Extremely poor environmental conditions placed a heavy burden on the community, which was alleviated in part by the highly visible improvements upgrading introduced along with health and environmental benefits. The scheme cost an average of \$53,000 per hectare or \$100 per capita in 1984.

Ghana: Priority Public Works Project (1987–1991). Replicating the initial progress in East Maamobi and responding to pressure for similar actions from residents of the adjacent community of West Nima, upgrading work expanded the coverage of basic infrastructure. The noticeable rise in economic activity in the first project area, following the provision of basic services, showed neighboring areas the benefits of upgrading. The West Nima project covered 25 hectares, benefiting some 21,000 people at a cost of \$150 per capita.

Urban 2 (1991–1994). This effort included studies of seventeen communities, and an upgrading program for a community in the city of Tema.

Urban Environmental Sanitation Project (1995). The newest project, aimed at three communities in the Accra area housing some 265,000 people on 530 hectares, represents a major departure from its predecessors. Where as earlier upgrading interventions were largely "top-down" initiatives (due principally to weaknesses in local managerial capacities), decentralization—a main thrust of the government's policy—is engendering a "bottom-up" approach. Communities with the gravest infrastructure needs and environmental deficiencies will be able to choose the investments they prefer from a menu of options within maximum cost targets. Those who are willing to pay half the cost of additional works will also have access to a small fund for environmental infrastructure. Densities in the affected communities are fairly high for Ghana, running from 380 to 715 persons per hectare. Estimated costs range from \$34 to \$45 per capita.

income housing fund that worked to target subsidies more tightly to the poor. Half of the more than 140,000 units financed under the project were affordable for beneficiaries down to the lowest fifth of the income distribution (less than \$150 per month) at an average cost of \$2,000 per unit.



MUNICIPAL FINANCE AND DEVELOPMENT

In the 1980s, the Bank gave significantly more attention to efforts to improve systems for financing and managing municipal infrastructure facilities and services. While from 1972 through 1980, only seven urban sector studies addressed this concern, from 1980 through 1984, the Bank produced twenty-eight such studies, focusing primarily on intergovernmental fiscal relations. These studies—in Brazil, Mexico, Pakistan, and elsewhere—clarified the distorted incentives that resulted from prevailing systems of intergovernmental transfers, the linkages between transfers and local tax effort and the frequent mismatch between responsibilities and revenue, all of which played a role in the lackluster performance of some local governments. Stemming from Bank experience in urban lending, the Bank also undertook a serious body of global research and policy work on municipal finances and institutions in developing countries. This work complemented the substantial work on housing in developing countries the Bank has also supported. The broad comparative analysis of these global studies helped elucidate the institutional and policy constraints that have long affected local government performance, constraints that went well beyond the meager human and financial resources that so often preoccupied governments.

Twenty-five urban development loans, approved from 1980 to 1992, targeted municipal finance for infrastructure. A major focus of these projects was on building stronger credit institutions and improving the criteria used to allocate capital financing among local governments. For example, the first Jordan Cities and Villages Development Project established eligibility guidelines for municipal borrowers. The Sri Lanka Municipal Management Project and the Indonesia Urban Sector

Box 1.4. Successful Municipal Credit in Colombia

Colombia's experience with its municipal credit institution is a success story, with a history going back more than twenty years. The municipal credit institution, supported through funding of the World Bank, has evolved through successive incarnations into the Financiera de Desarrollo Territorial (FINDETER), an autonomous agency that operates under the finance ministry.

FINDETER does not lend directly to municipal governments, but rather operates as a discount agency to private sector and state-owned commercial banks that make the loans, appraise the projects, and monitor performance. The system's success has depended on the quality of FINDETER's staff and that of the intermediaries through which it lends. Under the control of the finance ministry, it has been relatively insulated from political pressures.

Between 1975 and 1990, more than 1,300 projects with a value of more than \$1 billion were financed, assisting 600 municipalities. The system's funding does not rely on government budgetary appropriations, but rather on bonds, recycling of its loans, and foreign credits from bilateral and multilateral sources.

Source: World Development Report 1994: Infrastructure for Development.

Loan focused on the institutional environment within which municipalities operated. Projects in Brazil and Morocco sought to alter the terms on which central or provincial governments funded local capital investment, shifting from grants to loans. Local governments were also required to provide financial action plans that demonstrated their creditworthiness as conditions to be eligible for loans. *Projects such as these have shown that local governments can muster the discipline to repay loans when the right incentives are in place.* Many of the loans also supported components to improve property tax revenues or otherwise bolster municipal finances. *In Indonesia, the property tax valuation system was revised and in a first project, the average increase in property taxes was 33 percent. The second project achieved increases of 15 percent in real terms.*

WATER, SANITATION, AND SOLID WASTE MANAGEMENT

The Bank's water and sanitation lending had two principal thrusts—support to urban utilities and rural basic services. The work with utilities included expansion of water coverage and conventional sewerage, plus several small pilot components geared to nonconventional sanitation in urban areas. The Bank has expanded its steady support for the construction and efficient management of water supply and sanitation systems to include attention to such sectoral issues as adequate pricing and allocating responsibilities between the public and

private sectors. In Côte d'Ivoire, for example, water and sanitation lending stimulated institutional and financial reform, privatization of water supply management and of sewer systems operation, and maintenance and pricing reform.

A strong commitment to accelerating basic sanitation improvements for the urban poor emerged in the late 1980s. Starting with Brazil's Water Project for Municipalities and Low-Income Areas in 1988, projects began to emphasize ways to let urban and peri-urban poor communities choose their sanitation systems from an array of technical solutions with varying cost and maintenance requirements. Subsequent similar projects include Burkina Faso and Ghana, Sri Lanka's Community Water Supply and Sanitation project, and projects in Bombay, Indonesia, the Philippines, Uganda, and Zambia.

As an environmental concern growing in difficulty and importance along with the rise in urban population, solid waste and its safe disposal is a problem area. Spending, though high, is far from matching the size of the challenge. Given the reality of limited municipal resources for handling waste, related Bank lending has concentrated on improving efficiency and expanding the reach of solid waste collection services.

A number of Bank projects contain the ingredients of successful strategies for other cities in the future. Among the advances this lending supported were the following:

- Improved institutional arrangements, particularly the creation of metropolitan authorities to overcome interjurisdictional conflicts over administrative and fiscal responsibilities for solid waste disposal and transfer (Antalya, Colombo, Curitiba, and Manila).

Box 1.5. Emergency Operations: A Continuing Feature of Bank Urban Assistance

Emergency assistance in response to earthquake, flood, political upheaval, and other disasters has long been a part of the Bank's urban lending program. The typical loans have provided financing for rebuilding and repairing housing, factory shells, and basic infrastructure, as well as for restoring basic urban functions, alleviating severe problems of economic and social displacement and health and environmental degradation (restoring potable water supplies and sanitation facilities). Examples include flood reconstruction in Brazil, Sudan, and Yemen; earthquake assistance to Armenia, China, Guatemala, India, Iran, Nepal, Nicaragua, and Yugoslavia, and loans to restore functioning cities in the wake of civil war and political upheaval in Croatia and Uganda. Emergency loans have been made for as much as \$400 million (to Mexico in 1986) and, as a part of reconstruction, have laid foundations for increased efficiency in providing housing and services. Projects in Bosnia and in the West Bank and Gaza under preparation in collaboration with a consortium of other donors are high priorities in the current urban program.

- Adoption of strategic service planning for metropolitan areas (Belo Horizonte, Colombo, Curitiba, and Tehran, as well as São Paulo's Guarapiranga watershed).
- More efficient management and finance that introduced competition and engaged the private sector in service delivery (Antalya, Bogotá, Colombo, Lahore, and Shanghai), as well as strengthening the managerial capacities of municipal authorities in preparing performance specifications and tender documents and monitoring and supervision.
- An emphasis on environmental protection, closing dumps and opening new sanitary landfills (Antalya, Belo Horizonte, Colombo, Curitiba, Lahore, Manila, Salvador, and São Paulo).

LEARNING FROM THE PAST TO BUILD THE FUTURE

As the Bank expanded both the volume and the variety of urban lending activities during the 1980s, it widened its vision as well. It learned from experience that the foundation essential to a successful infrastructure project, for instance, lay in the policy and regulatory environment of the affected city, in the fiscal conditions of local and central governments and their dealings with each other, and in the overall health of the economy. For investments in housing or water supply or sanitation services to be fully effective, the project design had to take into account and usually seek to reform a wide range of institutional and management activities.

Slum upgrading projects were judged successes because of the welcome and visible advances they achieved in poor neighborhoods. They prevented rainy season floods from washing homes and households away. They brought safe water within walking distance. They established collection points for waste, and gave squatters who had lived in fear of the bulldozer a sense that their tenure would stay secure. Such successes, however, had their limits. *Local governments needed the resources, the incentives, and the capability to manage good infrastructure if these neighborhood improvements were to be broadened and sustained.*

Another key to successful urban development was to be found far from the offices of municipal or national decisionmakers in the boisterous workings of the informal or private sector. A concrete expression of that focus can be found in the *Agence d'Execution de Travaux d'Interêt Public* (AGETIP) projects in Africa. These public-private partnerships to build, operate, and maintain all sorts of urban infrastructure are proving to be speedy, efficient, and responsive to local needs. Changing the system of contract awards to use very simple bidding documents and reforming disbursement practices to replace long delays with weekly payments have introduced a new tempo to city projects and made it easier for new players in the informal sec-

tor to be a part of the action. Quality and quantity of urban services have improved, and economic growth has received added stimulation.

Along with these significant adaptations in the Bank's approach to urban development, two other concerns have risen in importance. One is a critical facet of rapid urbanization: environmental decay and its impact on human and economic health. The second concerns the special needs of economies in transition from communist rule.

URBAN ENVIRONMENT

From the beginning, Bank urban assistance has had an important environmental dimension. Problems of urban environmental health and industrial pollution have gained added prominence inside and outside the Bank, especially since the 1992 Earth Summit in Rio de Janeiro and the *World Development Report 1992: Development and the Environment*, issued the same year. *By the end of fiscal 1995, during which nearly 70 percent of the Bank's environmental lending was directed to such "brown" issues as air and water pollution, solid waste disposal and energy, fifty-five projects, involving Bank commitments of nearly \$6 billion, were being carried out in thirty countries.* To illustrate the range of these activities, Table 1.1 lists all projects covering the brown agenda approved since Rio de Janeiro.

Over the years, more and more of these projects have tackled problems of handling urban waste, including both domestic treatment and disposal of sewage and management of solid waste. Recent examples include an urban waste disposal project in Korea, a solid waste and environmental management project in Lebanon, and three recently approved operations in the Baltics. Many new projects emphasize ways to strengthen coastal zone management.

A second emerging characteristic of urban environmental projects is a city-oriented, cross-sectoral attack on pollution, typified by a water pollution and watershed management project covering three metropolitan areas along the Guarapiranga River in Brazil (1993) and by urban environment projects in Burkina Faso; Colombo, Sri Lanka; Surabaya, Indonesia; and Lomé in Togo. These and similar undertakings recognize the reality that pollution is no respecter of jurisdictional or organizational boundaries. These projects bring together the key stakeholders—communities; industry, both public and private; and service agencies, such as water utilities—to come up with solutions designed to have a sustained impact on the environment in the affected area.

With many cities endeavoring to formulate and implement "Local Agenda 21s"—as enjoined by the Earth Summit in Rio de Janeiro—the World Bank has joined with a number of donor agencies, networks of local governments, and professional associations that provide a range

Table 1.1. Projects for Urban Environmental Management and Pollution Control, Fiscal 1993–95 (millions of U.S. dollars)

<i>Fiscal year and country</i>	<i>Project name</i>	<i>World Bank financing</i>
1993		
Brazil	Water Quality and Pollution Control Project—São Paulo/Paraná	245
	Minas Gerais Water Quality and Pollution Control Project	145
China	South Jiangsu Environment Protection Project	250
Egypt	Private Sector Tourism Project	130
India	Renewable Resources Development Project	190
Korea, Rep. of	Kuangju and Seoul Sewerage Project	110
Mexico	Transport Air Quality Management Project	220
Turkey	Bursa Water Supply and Sanitation Project	130
Total		1,420
1994		
Algeria	Water Supply and Sewerage Rehabilitation Project	110
Brazil	Espirito Santo Water Supply and Coastal Pollution Management Project	154
China	Shanghai Environment Project	160
Ecuador	Mining Development and Environmental Control—Technical Assistance Project	14
Estonia	District Heating Rehabilitation Project	38
Indonesia	Surabaya Urban Development Project	175
Mexico	Northern Border Environment Project	368
	Second Solid Waste Management Project	200
	Water and Sanitation II Project	350
Togo	Lomé Urban Development Project	26
Total		1,595
1995		
Burkina Faso	Urban Environment Project	37
China	Liaoning Environment Project	110
Estonia	Haapsulu and Matsalu Bays Environment Project	2
India	Industrial Pollution Prevention Project	168
Korea, Rep. of	Environmental Improvement Project	100
	Waste Disposal Project	75
Latvia	Liepaja Environment Project	4
Lebanon	Solid Waste/Environmental Management Project	55
Lithuania	Klaipeda Environment Project	7
OECS countries	Solid Waste Management Project	12
Poland	Katowice Heat Supply and Conservation Project	45
Russian Fed.	Emergency Oil Spill Recovery Project	99
Sri Lanka	Colombo Environmental Improvement Project	39
Thailand	Clean Fuels and Environmental Improvement Project	90
Total		843
Total since UNCED, fiscal 1993–95		3,858
Active projects approved before fiscal 1993		2,217
Total active portfolio		6,075

Box 1.6. Improving the Urban Environment in Colombia

In the 1980s, Colombia achieved one of the highest growth rates of GNP in Latin America and one of the most stable paths of growth. It is now working to ensure that economic growth is not achieved at the expense of environmental protection and sound management of natural resources. In 1993, the government adopted an environmental framework law, Law 99, to establish a national environmental information system (SINA) and to create a new Ministry of the Environment. Under this new system, the Ministry of the Environment is the focal point for environmental policy and intersectoral coordination at the national level. In addition, thirty-two autonomous regional corporations will help to establish appropriate institutional and regulatory frameworks and will plan, implement, monitor, and enforce environmental and natural resources management programs.

The objective of a recent Bank project is to support implementation of Colombia's national environmental policy by creating and strengthening environmental management institutions in the urban centers of Barranquilla, Bogotá, Cali, and Medellín; by promoting environmental planning in selected mid-size cities, industrial corridors, and urban areas of special interest; and by establishing those components of SINA that will help to improve urban environmental management. The project will provide technical assistance with the goal of establishing a sound institutional and regulatory framework at the local level and will identify priorities for environmental mitigation.

of assistance in the field of environmental management. A few such examples of partnerships with communities are the following:

- The *Urban Management Programme* (UMP), funded by the United Nations Development Programme (UNDP) and a group of bilaterals, and jointly executed by UNCHS (Habitat) and the World Bank, assists cities through applied research, development of methods and tools, training and dissemination. Through UMP regional offices, city-to-city networking helps promote environmental management strategies.
- The *Metropolitan Environmental Improvement Program* (MEIP), a UNDP-funded effort executed by the World Bank, works with large Asian cities to develop and implement environmental management strategies. Furthermore, by linking this work with Bank and other bilateral-supported projects, action plan implementation is already under way in some cities.
- The UNCHS *Sustainable Cities Programme* (SCP) works with cities in all regions to provide municipal authorities and their partners in the public, private, and popular sectors with an improved environmental planning and management capacity.
- The *International Union of Local Authorities* (IULA), representing over fifty national associations of local government, seeks to integrate environmental concerns into local planning and management. IULA is also one of the sponsors of the *International Council for Local*



Environmental Initiatives (ICLEI), which develops tools and management approaches for environmental protection and helps cities develop Local Agenda 21s.

With regard to industrial pollution, recent Bank lending has moved beyond funding pollution control equipment for state-owned enterprises to providing technical assistance for formulating and enforcing monitoring and regulatory policy, as well as arranging credit for private pollution control facilities. Strategies for preventing pollution and promoting cleaner industrial technologies are also growing in importance. Projects in India and China, in particular, have supported this approach.

TRANSITION ECONOMIES OF EASTERN EUROPE AND CENTRAL ASIA

Bank urban lending for the transition economies has expanded rapidly in the last few years. Total commitments have increased from an average of about \$30 million in 1986–90 to over \$400 million in FY95.

Fortunately, problems of rapid demographic growth and inadequate access to basic services do not figure importantly in these countries. Nonetheless they face major social, financial, and economic challenges in urban areas as industries and employment opportunities are restructured and economic and social institutions undergo substantial shifts.

The transformation of the housing sector from public planning and public ownership to a market-based system, for instance, requires not just a liberalized financial system but reform of the regulatory framework and even carefully targeted subsidies to cushion rising costs for previously subsidized rents, water, heat, and power. A substantial portion of Bank lending to the region thus far has encompassed housing or reconstruction. Recent projects include Albania, Armenia, Russia (housing and earthquake reconstruction), Croatia (reconstruction), and Poland (housing finance).

In many countries, restructuring and decentralization of government have been a key feature of recent political changes, bringing with them substantial challenges for urban finance and management. Bank sector work and policy advice have focused on this area in Poland and Russia, for example, and as the environment for lending matures, municipal infrastructure projects are expected to develop in a range of countries. Municipal projects have already started to come on stream in the Baltics and are under preparation in Poland.

THE PIPELINE

In line for lending between 1995 and 2000 are anticipated loan commitments amounting to \$15 billion for nearly 170 projects encompassing urban development, water, urban transport, sanitation, and urban environmental protection. Lending in coming years will be driven primarily by country needs and programs and can only be roughly projected now. We expect to build on our experience in working in poor neighborhoods to help countries bring basic services to the poor on a larger scale, the scale required by the rapid tempo of urban growth. This effort will be complemented with stronger effects to improve city-wide infrastructure, finance and management in an era of decentralization. Drawing from our extensive experience, the Bank will help those cities willing to shift to new and better ways of organizing their finances to tap private capital, domestically and internationally. Our strong commitment to the urban environment will continue to grow and expand in scope.

What is of particular note in recent and upcoming projects are the changes in project design used to meet these broad goals. Stronger involvement of community groups and nongovernmental organizations (NGOs) in the design and implementation of projects is an important trend, reflecting innovations on the ground in borrowing countries. So too is the increasing emphasis on public-private partnerships in the provision of a wide range of key urban infrastructure services.

The way Bank business is done must be relevant to local capacities and local needs. Projects must seek to mobilize local energies, to engage a wide array of stakeholders, to build broad-based ownership, and to foster local innovations. In short, as content alters, so does style—to make the lending process more responsive, broader-gauged, and more socially as well as economically effective.

2. Making Cities Livable Now

The urbanization of the developing world has created or aggravated so many profound problems that pessimists might side with Jean Jacques Rousseau in regarding cities as “the abyss of the human species.” The problems are indeed dismaying, but they are not insoluble. The City Summit, as an occasion for reflection as well as a stimulus to action, enables us to see how broad and varied the agenda for urban action is.

It also requires us to choose priorities, to mobilize around a few key challenges that deserve immediate attention. The remainder of this chapter highlights actions in two critical areas—poverty and environment—that merit this priority. The chapter concludes with a discussion of a key means to achieving these urgent ends—finance, finance that works for people in cities.

BACK TO BASICS: URBAN SERVICES FOR THE URBAN POOR

“He listened to the earth and wept unceasingly for water, for work and for the cure of the illness spread by the garbage and factory waste.”

Latife Tekin

Tales from the Garbage Hills

Almost by definition, a slum in a developing country is a place where water supply is as unreliable as electricity, where roads are unpaved, drains uncovered, garbage uncollected, and buses almost unknown. Each of those failures imposes a burden on people already deeply burdened by poverty. *The urban poor, energetic and ingenious as they may be as individuals, too often find their way forward impeded by obstacles no individual can overcome or dismantle alone. The absence of basic support services saps their strength. It denies society the full contribution they could make.* It compounds their destitution and traps the urban poor on the outskirts of hope.

Safe, accessible drinking water is an all-too-common example of a basic commodity denied to the urban poor. Where cities fail to provide it, street vendors step in. But their prices can run twenty-five to fifty times as high as municipalities such as Jakarta, Karachi, and Port-au-Prince charge for the same service. In Baku, Azerbaijan’s capital, the poor commonly pay seventeen times the city water bills for alternative sources of supply. The result is a heavy, informal tax on people least able to pay it. It is a penalty paid for living where city water pipes do not reach, a penalty that reduces the chances of escape.



Nor is the burden only monetary. Women—still the “hewers of wood and drawers of water” in poor communities—often lose hours of valuable, potentially productive time simply bringing water to their homes from far away. In Chawama, a neighborhood in Zambia’s capital, a number of housewives regularly make two hour-long trips a day to fetch water for their families. And because the water is also often unsafe, disease imposes a further hardship on the poor. In the Middle East and North Africa, five of the six most common contagious diseases are waterborne. While children are the most frequent victims, family members who nurse them must also forego the outside income they might otherwise have earned. Just by increasing the supply of uncontaminated

water, the countries of the region could see illness drop by 30 percent and the productivity of the poor rise accordingly.

Another roadblock in the path of the urban poor is transport, either its absence or its high price. Nearly two of every three employed squatters in New Delhi has to walk to work. In Manila the poor pay twice as high a percentage—14 percent—of their incomes to get to their jobs as do the nonpoor, while in an Ecuadoran city many girls in low-income families drop out of school because there is no safe transport for them.

Without basic services, in short, slum dwellers in Accra or Quito or Surabaya, in Asyut on the Nile or Bombay on the Indian Ocean are forced deeper into a marginal existence, unable to realize their own potential or to contribute their full worth to their communities. The loss is not just theirs. It weakens the societies that they could be helping to build. It is an unnecessary loss, a waste of energy and talent that developing nations cannot afford and can prevent.

FINANCIALLY SUSTAINABLE SOLUTIONS ARE FEASIBLE

Urban growth makes the challenge larger and more urgent every year. As the cities of the developing world expand, so, inevitably, do the numbers of urban poor unsupported by basic municipal services. While the proportion of city dwellers without water and sanitation dropped as a percentage of total urban population, the absolute number of the poor without adequate sanitation actually rose by 20 million between 1980 and 1990. In India's main cities—Bombay, Calcutta, and Delhi—between 40 and 50 percent of the residents live in informal, congested, often illegal settlements, unhealthy slums unserved by city facilities. Of 8 million Manilans, an estimated one in five is a squatter, many of them living below the municipal poverty line.

Providing for such numbers and such need is a colossal task, but the problem of getting basic services to slums can be solved at a realistic cost—between 0.2 and 0.5 percent of GDP over the next fifteen years—if done right. It cannot be done by attempting to install a traditional, full-service urban infrastructure in every poor (or even prosperous) neighborhood. The cost is prohibitive. Just to maintain the limited levels of full service over the next fifteen years would cost more than twice as much as the comprehensive provision of basic urban services. In place of low-density land use, planners will need a "best-use" approach to land management, again achieving substantial savings in costs.

Those are not unreasonable tradeoffs. In some countries they have already brought results. Indonesia, for instance, has had twenty-five years of experience with its Kampung Improvement Program (KIP). *From beginnings in Jakarta, KIP reached nearly 15 million people and spread to some 300 local government units around Indonesia, emphasizing the provision of basic services: water, sanitation, shelter, and*

roads. Strong partnerships, and allocating roles and responsibilities to local and central governments, while engaging the community to participate and “own” the program, have been key to success. Tunisia, too, has established a countrywide program aimed primarily at rehabilitating low-income settlements. Parallel efforts have been undertaken in Bolivia, India, Jordan, Morocco, Pakistan, and the Philippines, among other countries. Brazil, Guatemala, Venezuela, Ghana, Sierra Leone, and South Africa are currently attempting similar local upgrading projects.

These programs work. Technically, they are feasible. Financially, they are practical. Pilot projects alone will not satisfy the needs. What is essential is commitment—commitment at the top and commitment for the long haul to scale up the many good projects to sustainable programs.

Box 2.1. Right Choices Make Big Differences

The table below summarizes the differences in the capital, operations, and maintenance costs of providing basic services in three regions through the year 2010, depending on population density and the level of services chosen. Full service comprises (a) metered water for each housing unit, (b) conventional sewerage, (c) all roads curbed and paved, and (d) lined channel drains and/or pipes and culverts. Basic service on the other hand provides (a) access to a water standpipe within 250 meters of housing units, (b) simple on-site sanitation or communal facilities, (c) gravel surfaced roads with paved access in areas of high rainfall, and (d) unlined channel and line crossings with lined drains only where rainfall is heavy.

Estimated Costs of Basic Versus Full-Scale Service Infrastructure for Selected Regions (costs in US\$)

Region	Allowable density ^a	Investment		Operations and maintenance	
		Level of service	Cost/ hectare	Cost/ capita	Cost/ capita
Africa	Low (150p/ha)	Full	65,200	435	32.80
	High (360p/ha)	Basic	29,850	83	6.15
Latin America	Low (150p/ha)	Full	102,700	685	51.33
	High (360p/ha)	Basic	41,800	116	8.82
South and East Asia	Low (150p/ha)	Full	30,550	204	17.22
	High (500p/ha)	Basic	16,050	32	3.13

a. Density in persons per hectare.
Source: World Bank data.

These projections demonstrate the value of choosing the right level of service and of accepting reasonable, rather than ideal, densities in urban planning. The less ground to be covered, and the more people to be served, the lower will be the costs of infrastructure investment. The estimates tell the same story around the developing world. It is a basic truth about basic urban services.

KEYS TO CITY SERVICES

This commitment—above all, from central and local governments—heads the short list of key ingredients for successful programs to provide basic services for all the urban poor. Ground-level involvement is just as crucial. The programs that work are those that the poor help to shape themselves. No one knows better than the residents of blighted neighborhoods what services they lack and what level of service will improve their health and well-being. No one is better positioned to engage an entire community in the work of improvement and self-improvement.

Box 2.2. Bringing the Basics to the Urban Poor—It Can Be Done; It Has Been Done; the Kampung Improvement Program, Indonesia

Providing basic infrastructure and municipal services to the urban poor is widely viewed as a daunting, if not impossible, task, but it can be done. In Indonesia, it has been done on a large scale.

What is behind the remarkable successes of the Kampung Improvement Program (KIP) that began in the city of Jakarta in 1969? How has it managed to improve the quality of life and environment of millions of urban poor throughout the country? The crucial elements have been a realistic focus on primary needs and on poverty, community involvement from the start, and enduring political and financial commitment.

Far from utopian in scope, early KIP initiatives concentrated on providing Kampung residents in the capital with basic amenities—water distribution and drainage and access paving—that they could not organize and build for and by themselves. Even those limited investments, however, have had significant multiplier effects. They have generated private outlays, it is said, up to seven times the value of public funds.

Over the years KIP benefits have reached more than 15 million low-income urban residents. In projects funded by the World Bank, the average cost varied from \$23 to \$118 (in 1993 U.S. dollars) per person. Along with physical improvements on 11,331 hectares, KIP activities have spurred Kampung dwellers to invest themselves in upgrading their housing and surroundings. Since residents took part in the actual work of construction and relocation, the KIP approach has also fostered community spirit and, in many but not all instances, community involvement in maintaining the roads, drains, water supply, sanitation facilities, schools, and clinics that KIP brought to the worst neighborhoods of Indonesia's cities.

By delivering basic services to the poorest and to areas of deepest environmental blight, KIP has set realistic goals and reached them. By stressing community participation, it has contributed to the growth of self-sufficiency and the spread of cooperation with poor neighborhoods. By ensuring steady support to KIP, the government of Indonesia (with World Bank help) has created a model that proved possible to replicate country-wide, which can serve as an example to many other developing nations.

The financial commitment can come most effectively as targeted funding for capital outlays at a level that can be sustained to address the scale of the problem, designed to leverage locally provided resources. As an essential start, however, subsidies that now benefit middle- and upper-income users of municipal services must end. Such help should go to those most in need.

Shifting the flow of subsidies is likely to cover only part of the cost of basic service programs. In the Kampung Improvement Program, Indonesia's central government financed nearly one third of the projected annual capital costs, letting local authorities provide the balance and even add funding where they decided to go beyond KIP goals. Tunisia allotted a larger role to central government—as much as two thirds of total project costs—in the early years of upgrading, but assigned subsequent financing responsibility primarily to municipal development funds.

The programs will also have to enlist many participants in both planning and execution. Not only must central and local governments share the burden and involve the affected communities from the start, their projects will need the active participation of local utilities and NGOs.

When the urban poor are helped to help themselves, the provision of basic services goes beyond bricks and mortar into the engineering of a stronger community. Investments that are sound on economic grounds can also pay significant social dividends. *Slum families affected by upgrading programs in Manila between 1976 and 1985 are estimated to have put an average of \$700–\$1,500 into improving the homes they could feel were truly their property. These private investments, in fact, exceeded public spending on infrastructure under the entire program.*

CHALLENGE AND RESPONSE: REVISED EMPHASIS ON SERVICES TO THE POOR

Developing nations and the international community have a choice. They cannot halt the tide of poor migrants to cities; the natural growth of urban populations can only decline slowly. They can either ignore the conditions in which these hundreds of millions of people live or work to better those conditions. The correct choice should be obvious.

The costs of bringing basic municipal services to all urban slums are manageable. Some can be met by shifting subsidies from one part of the population to another, needier part. The level of service need not be opulent. It should, however, be set in consultation with the users, not by mandate from above. Examples of effective programs (and of programs that have failed) are well known. The Bank, having participated in many of them, is ready to assist those countries willing to take on the challenge. The stakes of not mounting such an effort to bring services to the poor are very high—it can and should be done.

CLEANER AIR, CLEANER WATER, HEALTHIER CITIES

“The battle for the environmental future of our planet will be won or lost in the cities, particularly the cities of the developing world.”

Maurice Strong

Pollution is waste. The mounting cost of pollution in the cities of the developing world is a waste of human and physical resources. Too long accepted as a by-product of development, environmental pollution is coming to threaten it.

Dirty air shortens lives and, through lead poisoning, stunts mental capacities. Unsafe drinking water spreads epidemics of disease. Uncollected refuse breeds flies and vermin—carrying sickness. And, along with traffic congestion, all these environmental hazards take a heavy toll on the economic well-being of cities where such pollution goes unchecked. Without a sustainable environment, some cities may become themselves unsustainable human habitats.

Pollution claims a high share of its victims from among the urban poor. The poor are the city dwellers most likely to rely on impure water sources, the least likely to have access to municipal sanitation services, the most likely to live along heavily traveled roads and to breathe exhaust fumes instead of clean air.

They may pay the cost of environmental neglect with their health, even their lives. But the broader cost falls on all those who live in polluted urban environments and lose to pollution the productivity of which, in a cleaner setting, they and their society are capable. *The hidden but all-too-real environmental tax on urban dwellers is high—annual costs from dust and lead pollution in Bangkok, Jakarta, and Kuala Lumpur combined have been valued at \$5 billion or about 10*



Box 2.3. Pricing Urban Pollution

What does unsafe drinking water cost? In Jakarta, an estimated \$300 million a year in impaired health. In Bangkok, 6 percent of all annual deaths now caused by dysentery, enteric fever, encephalitis, polio, typhus, and acute diarrhea.

What is the price of dust and lead pollution? An estimated average of nearly 10 percent of the annual city incomes of Bangkok, Kuala Lumpur and Jakarta.

What can be saved by cutting the level of particulates—dust and soot—in urban air? In eighteen Central and Eastern European cities, 18,000 fewer premature deaths annually and \$1.2 billion a year in working time gained would come from achieving European Union air pollution standards.

How many lives will cleaner air save? In Cairo, with the highest levels of such emissions among the world's twenty largest cities, an estimated annual total of 4,000 to 16,000 lives now lost to pollution from industry, power plants, motor vehicles, trash burning, construction, and natural sand and dust would be saved.

How much does traffic congestion cost? In Bangkok, at the least, the cost is \$400 million a year—the amount that could be saved just by making peak-hour traffic move 10 percent faster.

Where can pollution be cut and savings gained? In energy production and use, efficiency gains of 20 percent in electricity output and use would save Asians some \$90 billion by the year 2000 in levels of new capital investment.

percent of city income. With flexibility and determination, these costs can be significantly reduced.

PRIORITIES FOR PROGRESS

Urban environmental decay in the developing world has been a long process, gaining momentum especially in the last decades. It will not be rapidly reversed. It can be reduced, however, by stages and by focusing technically simple, cost-effective measures on the most severe, visible, concrete problems. All-encompassing, ambitious efforts to deal with the array of environmental problems have failed before. If attempted, they will fail again. Sustained incremental action, by contrast, can succeed.

The greatest burden of urban environmental problems is on human health. We should focus our efforts on environmental problems with major health impacts in developing country cities, as indeed rich countries have done in the past and continue to do. Three problems besetting almost all developing country cities deserve priority attention on grounds of their substantial effects on health and productivity. Happily, all three respond to cost-effective solutions.

Box 2.4. Local and Global Benefits Through Innovative Financing of Pollution Reduction in Slovenia

Slovenia's priority environmental concern is reducing ambient levels of dust and sulfur dioxide in its largest cities and towns, especially during the winter. The primary cause of this pollution is the use of low-quality coal by households and small boilers. The World Bank-financed Environment Project will establish an Air Pollution Abatement Fund as a trust fund managed by the Slovenian EcoFund. The fund will be used to finance conversions from coal to gas or district heat. Eligibility for conversion loans will be restricted to households in municipalities that have high levels of air pollution in winter and which have adopted appropriate smoke-control regulations. It is anticipated that the problem of air pollution from household heating and small boilers will be largely solved within six to eight years. The project (with a World Bank loan of \$24 million) is expected to yield an economic rate of return of about 17 percent, excluding environmental benefits, or more than 40 percent, including the health benefits of reducing air pollution. At the same time, the project will make a contribution to meeting Slovenia's sulfur reduction targets under the Second Sulfur Protocol.

Source: "The World Bank and Environment in Central and Eastern Europe." World Bank 1995.

PARTICULATE AIR POLLUTION

Dust and soot—*particulate air pollution*—is a widespread threat to respiratory health. Only three of the world's cities—London, New York, and Tokyo—meet the standards of the World Health Organization for emissions that come from vehicle exhausts, industry, power plants, space heating, construction, cooking, and trash burning. The problem is severe. It is also manageable.

With modest investments in dust-collection and filtering systems, but with genuine commitment and vigilance on the part of workers and management, industrial and power plant output of dust and smoke can be greatly reduced. *In Santiago, Chile, a program aimed at cutting fine particulate emissions is expected to yield benefits on the order of \$18,000 per ton of lowered emissions. In terms of health savings alone, the control program could cost as much as \$50–\$100 million and still be cost effective.*

Particulate air pollution from home heating and cooking is harder to control than industrial production, but switching from coal to natural gas as a household fuel brings dramatic improvement. The World Bank has supported such a program in Slovenia, and a similar conversion program is under way in Beijing.

LEAD

Lead poisoning does immense damage to children, affecting more than 90 percent of those in African cities and 29 percent in Mexico City.

Box 2.5. Cost-Effective Ways to Control Emissions from Transportation Sources

Cost-effective measures to control lead emissions may include (a) taxing fuels differentially according to lead content, and (b) reformulating the leaded grade of motor fuel. Vehicles using a leaded grade of gasoline would not be using catalytic converters, and will thus have much higher lead emissions than the (mostly catalyst-equipped) vehicles using unleaded gasoline. Since the vehicle stock in Central and Eastern Europe is, on average, old (in Hungary, 42 percent of passenger cars are more than ten years old, 62 percent are more than seven years old), poorly maintained, and includes a high proportion of cars with highly polluting two-stroke engines (in Hungary, two-stroke engines comprise nearly one-third of the vehicle fleet), cost-effective strategies may involve targeting these vehicles. Possible measures may include an ownership tax that rises as the vehicle ages and an ownership tax on vehicles with two-stroke engines. Alternatively, governments may offer subsidies for vehicle scrappage or incentives, such as tax breaks, for the acquisition and use of "clean" cars.

Because of their intensive use, the amount of pollution emitted by buses, trucks, and taxis is very high in relation to their proportion in the vehicle fleet. Therefore, focusing on high-use vehicles may be a cost-effective approach for many urban areas. A recent study comparing mobile sources emission control options for Budapest concluded that the least expensive way to reduce mobile source pollution is to replace standard diesel bus engines with "clean" engines, which are also more fuel efficient than standard engines. Another study showed that retrofitting high-use vehicles, such as trucks, to operate on "clean" fuels, such as liquid petroleum gas or compressed natural gas, may be cost-effective for some cities. Finally, it may be cost-effective to target taxis for emission controls.

Source: Clyde Hertzman, Environment and Health in Eastern Europe. World Bank 1995.

It has cost youngsters in Bangkok an average of four IQ points and, even before its clinical symptoms appear, it diminishes its victims' neurological capacities, powers of concentration, and prospects of mastering the advanced skills of the modern workplace.

Reducing lead—whether from gasoline or industrial emissions, from lead plumbing, smelters, or fertilizer—means blocking its passage into air, food, and water. As with dust and soot, solutions are available that produce higher benefits than costs and require relatively simple technical means. In lead-producing industries, better filters and dust-collection systems can be highly effective as long as workers are trained to employ them properly and management is committed to making them work.

A surefire method of reducing airborne lead is to phase out leaded fuel and mandate the use of only unleaded gasoline. Action needs to be taken now. The cost of conversion to refineries is manageable; what is needed to effect the change is the right incentives to producers and

consumers. Thailand has made the switch over a five-year period. Malaysia is following suit. In the United States the benefits gained from the move to unleaded fuel were eleven times the cost of the process.

MICROBIAL DISEASES

Microbial diseases—costing billions of dollars in lost lives and unhealthy workers—are endemic in the poorest parts of most cities of the developing world. Where water sources are contaminated, sanitation facilities minimal or nonexistent, where rats, flies, and mosquitoes abound, typhus, dysentery, and encephalitis are among the scourges of the poor.

Too often, municipal water and sanitation services that can effectively reduce microbial diseases have been operated on the assumption that the poor could not afford water and sewer lines. In fact, these potential customers are already allocating a high proportion of their household expenses—20 percent in Port-au-Prince, Haiti—for water supplied from vendors. Many studies have found that such urban families will not only pay the city to bring safe and reliable drinking water to them, but will pay for waste water removal and treatment as well.

To reduce the toll of water-borne microbial diseases, city authorities need first of all to discard old assumptions about the need to subsidize the overall provision of clean water and sewerage. As often as not, they will find that the cost of bringing their service to the poor is lower in environmental and economic terms than the cost of letting the slums serve as breeding grounds for disease.

Other types of community programs that raise levels of health care and education and that improve nutrition and food preparation skills can also make headway against the water-borne diseases of the urban poor. The simple step of supplying safe water is critical. Provision of safe water not only has a major impact on illness, but in some cases can even have a beneficial side effect on indoor air pollution. Slum dwellers who no longer have to boil their drinking water will need fewer fires and will produce less soot and smoke as a result. Their lungs, as well as their water, will be cleaner and so will the city's air.

TACTICS FOR ENVIRONMENTAL STRATEGY

The three problems highlighted here are far from the only urban environmental ills of the developing world. Sulfur dioxide and ozone pollution foul the air of many metropolitan areas just as heavy metals and toxic wastes poison the water and soil. *As priorities for action, however, the greatest threats to human health should be tackled first. Reducing soot, dust, lead, and microbial disease presents opportunities to achieve tangible progress at relatively low cost over relatively short periods.*

Those are important considerations for government officials and for private citizens alike. It is too easy for developing societies to dismiss their environmental problems as too vast and too costly to be tackled. To build the essential commitment to change, it is necessary to take on challenges that can be met and mastered.

- Lead in gasoline should be phased out on an accelerated basis.
- Bringing basic environmental services, top among them clean water and sanitation, to all city dwellers must be done as advocated in the previous section. If the right design choices are made and phased in over fifteen to twenty years, this measure is affordable.
- Many investments to reduce emissions of dust, soot, and smoke from industry and power plants have high returns. They should be made.

Taking these actions will necessitate involving the stakeholders in cities: financiers, industrialists, parastatals, utilities, communities, NGOs, and the wide array of groups in civil society. They are as essential in supporting the big visible decisions as they are in building a new set of values and day-to-day behaviors that will discipline polluters and change the environment of cities.

Environmental strategy should, of course, be part of long-term planning, but the first need not wait on the second. The problems of urban pollution in the developing world are severe, but they are not beyond remedy. Cost-effective and relatively simple solutions are available. They will bring results and lay the groundwork for more. There is no reason to wait or time to waste.

FINANCE FOR PEOPLE IN CITIES

“In the end cities exist as an expression of man’s attempt to achieve his potential. It is poverty that pollutes the promise. It is development’s task to restore.”

Robert McNamara
World Bank President, 1968–1981

THE CHALLENGE OF URBAN FINANCE

Cities are like vast turbines generating wealth rather than energy, but their massive power to contribute to economic development and to create opportunity delivers its benefits unequally. *The challenge to cities is to tap the wealth they generate to finance the many common goods (services like water, power, garbage collection, and transport systems) that are so essential to making cities livable and to maintaining their productive potential.* Failures to do this fall particularly heavily on the urban poor, but also affect the capacity of cities to attract private investment in an increasingly competitive and integrated world market. Firms competing in the global market are attracted to cities with reliable ports, and road, water, electricity, and telecommunications systems.

The level of resources already devoted to urban services is not insubstantial at 2–5 percent of GDP. *Yet, often these investments do not perform as effectively as they could in meeting the demands of rapid urbanization and maintaining the productivity of cities, due to the weakness and inefficiency of traditional institutions and incentives governing urban finance.*

Traditionally central government control has been the standard both in raising municipal finances and deciding how to invest them. That arrangement, however, has grown increasingly unreliable and inefficient. Central governments are hard put to respond to diverse local realities and preferences. When times are tough and budgets in deficit, central control is particularly problematic; capital spending on infrastructure is often one of the first items to be cut back. As a result, service deficits in the mushrooming cities of the developing world remain enormous.

THE CHANGING FORMS OF URBAN GOVERNANCE

Major changes already under way—decentralization for one—offer avenues for remedying the failures of urban finance. Top-down, centralized planning for investment decisions has often failed to deliver, and decisionmaking authority over revenue raising and service supply is gravitating to local levels. Thus, in many countries the urban financing challenge—the challenge to manage available resources more efficiently, maintain existing infrastructure and mobilize new resources—

is passing from the central government to the cities, metropolitan areas, and even to neighborhood associations. Not a solution in itself, decentralization offers opportunities and incentives to provide and pay for urban services more responsively and efficiently.

Decentralization and democratic forms of decisionmaking on their own are not sufficient to bring about improvements in urban service delivery and associated financing. Even in decentralized and mature democracies, elected local officials have difficulty tapping the wealth to finance investment needs in social and physical infrastructure. The ballot is a fairly blunt instrument for ensuring accountability at election time over decisions to extend trunk infrastructure. It is even less effective to "vote the rascals out" where city governments have not been given discretion over expenditure or revenue decisions. Additional measures are needed to assure that local decisionmakers are accountable for their performance. *Partnerships with local communities and consultations with the residents on major investment decisions both help to increase the level of accountability not only of city hall but of urban residents who must ultimately pay for the services they demand.*

Decentralized financing demands more active partnerships (a) between local governments, citizens, and community groups; (b) between service providers and their customers; and (c) between international investors and local authorities. Cities all over the world are experimenting with these new relationships, working with grass-roots community organizations, for instance, to set priorities for investment and to mobilize the necessary resources. In Adjame, Abidjan, for example, neighborhoods charge user fees for the services they provide. They receive limited seed capital from the municipality, but no subsidies. In Tijuana, Mexico, community groups select service priorities, pay for the residual costs not covered by the municipality and perform the work themselves. In Lublin, Poland, city government worked with low-income neighborhood groups whose communities were slated for redevelopment to upgrade and regenerate these areas. In Colombia the community at large must approve a town's development plan before central-level funds will help pay for specific investments.

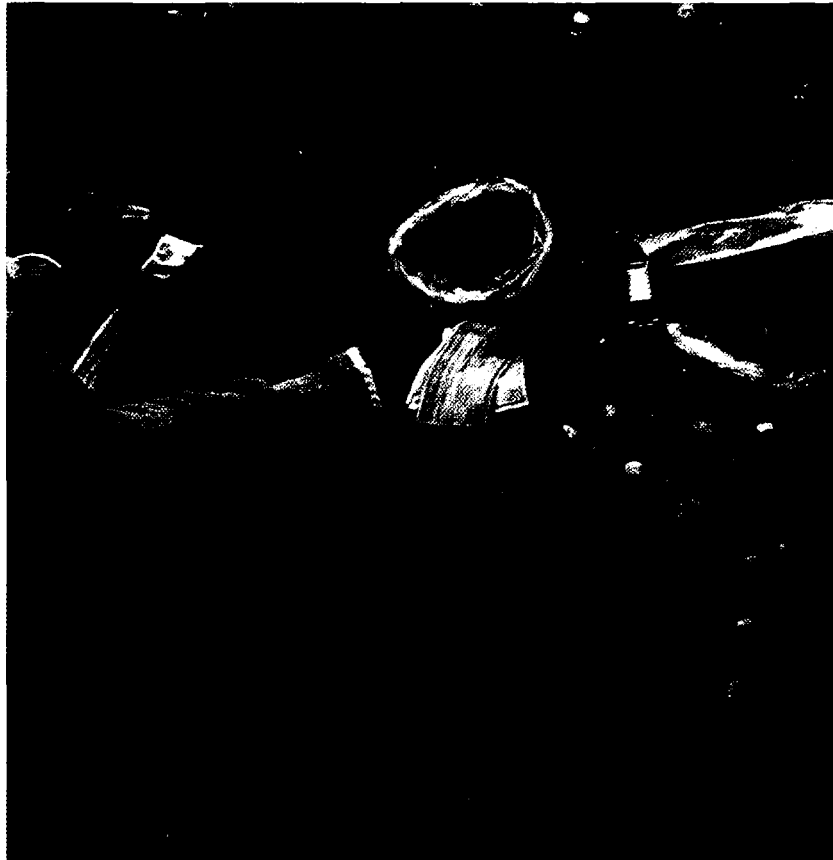
Engaging community groups works because it puts decisions in the hands of those most motivated to assure performance and best placed to see a direct link between their expenditures and community improvements. All these measures point to a more participatory and transparent form of governance that reaches out to all involved parties in the process of setting priorities and mobilizing the resources needed to finance them. This will be a key to new and better urban finances.

INTERGOVERNMENTAL DIMENSIONS OF URBAN FINANCE

Of course, for decentralization to provide opportunities for more sustainable forms of urban finance, the rules governing the transfer of

resources between higher and lower levels of government need to be clarified. With or without devolution, societies do not expect cities to be totally self-financing. Central governments, even in developed countries, continue to underwrite a large part of the service investments of lower-level governments through grants in aid, subsidies or some form of revenue sharing. The magnitude of these transfers as well as the inherent powers of central authorities gives crucial importance to the design of the intergovernmental financing system.

Efficiency and appropriate incentives have not always marked the design or performance of such systems. In some of the transitional countries, functional responsibilities for service expenditures have been passed down the line before settling on the source of the revenues that would pay for the services. Such unfunded mandates wreak havoc with the ability of cities to deliver on their newly assigned responsibilities for social and physical infrastructure, let alone undertake multiyear investment planning or improve their borrowing capacity. The net effect is to shift central budget deficits to the local levels. Even where local governments have been given revenue-





raising authority, they have not always been willing to make the hard choices that go with exercising their own taxing authority or setting user charges at realistic levels, when central government transfers are easily available instead. In Latin America, for example, revenues were decentralized before clarifying the assignment of functions to lower levels of government, thus eroding the willingness of local governments to raise their own revenues. This has acted as a disincentive for city governments to mobilize their own revenues or to manage their resources efficiently. In the Philippines the amount of centrally collected revenues shared with local governments was increased as was the power of local governments to increase local property taxes and

Box 2.6. Coordinating Reform in Transition Economies

The restructuring of the state, a process moving at varying speed in various formerly communist states in Europe and Central Asia, is leading different levels of government to find a stable, new division of responsibilities. With national budgets under heavy pressure, bills that were once paid out of central funds are now falling on provincial or municipal authorities who often lack the resources to meet the burden. Their bludgeoned budgets also can make them skeptical of privatization. Many local governments are reluctant to give up their ownership of profitable commercial and industrial enterprises or real estate. Their hesitation is often compounded by the absence of agreement on new tax systems and revenue sharing.

Privatization has another perceived drawback. It allows formerly public enterprises to shed social obligations, such as the provision of workers' housing, health, and child care. When these responsibilities fall on the shoulders of local authorities, they must find ways to finance services their constituents continue to expect.

Some new arrangements are the product of improvisation. In the small city of Pereslavl-Zalessky north of Moscow, for instance, the director of the Slavich Company, which produces photographic film and related technology, negotiated the transfer of the enterprise's unprofitable social "assets" to the city. To finance the costs of maintaining its newly acquired housing, clinics, and kindergartens, the city, in turn, moved to resell the Slavich-built housing to its worker-tenants.

Such interventions can only be short-term expedients. Even the swap in Pereslavl-Zalessky did nothing to resolve the broader question of which levels of government will take ultimate responsibility for financing and providing infrastructure services and how an effective social safety net is best established. Nor do such transactions establish a regimen for user fees for such services as heat, electricity, and water supply. Until now, those charges—like rents in public housing—have been typically far below costs. To raise them to rational levels would almost certainly produce very desirable savings of natural resources. The necessary increases, however, would also wrench living costs higher and, without compensatory subsidies to cushion the adjustment, would almost certainly infuriate consumers, many of them too poor to pay.

A final complication, macroeconomic difficulties, has shrunk the fiscal pie, and made it that much harder to divide and much more volatile. Finding the right balance in bearing the burden of these difficulties will not be simple, but must not lose sight of the basic services cities are now asked to provide.

impose fees and taxes. However, local governments have been reluctant to make use of these new taxing powers, preferring to depend on the increases in shared revenues. The design of better systems is not simple and must refer to a range of sometimes conflicting demands, as illustrated by the particularly difficult case of the transition economies.

These difficulties can be overcome. In many of the transitional countries, city governments have taken on the challenge and are seeking out financing alternatives to make them less vulnerable to reductions of central funds. User fees for services like heating and water are being increased to reflect costs. Property tax systems are being revamped. In countries like Mexico and Pakistan, revenue-sharing formulas are being structured to reward localities that raise their own revenues.

Much can be done to put in place better intergovernmental finance systems. Clarifying functional responsibilities and identifying revenue sources for local service provision should occur in tandem. Cities should not only be given access to revenues that they are best able to exploit (for example, fees for services, taxes on property, automotive and betterment charges), but they should be given the freedom to determine the rates for these charges. At the same time, the rules governing the structure of shared revenues should be stable and transparent over time. The rules of the game in transferring funds to local governments should emphasize, far more than they do, performance in financial management, efficient use of resources, and mobilization of local revenues.

Better intergovernmental systems will give local governments an incentive to raise more and better local revenues. They have a number of tools at their disposal; they need to be used more aggressively. *Where direct beneficiaries can be identified, user charges for services such as water, and transport and sewerage serve to make households aware of the link between the provision and cost of services. These direct charges can also oblige users to reexamine their behavior and make the tough choices that are necessary to cut back on consumption of increasingly scarce resources like water. Where benefits go to the general public, for example, local roads and street lighting, local taxes are more appropriate.* Despite the important role that user charges can play in mobilizing revenues from the direct beneficiaries of services, many cities are still reluctant to charge the full current cost of services, much less take into account capital replacement and expansion costs. For example, 80 percent of Budapest's 2.5 million commuters use public transit. Yet, at present only 30 percent of the cost is paid for through fares while the remaining balance is subsidized by the city and national government.

PRIVATE SECTOR PARTICIPATION

With national and local governments unable to meet both social and infrastructure needs on their own, many are turning to the private sector to manage and/or finance their infrastructure investments and infrastructure companies. Latin American cities, for instance, are increasingly using concessions as a tool to bring domestic and even foreign equity and loans into urban finance. Buenos Aires and Mexico

Box 2.7. Côte d'Ivoire's Experience with a Concession for Water Supply

The watchword in private water supply in West Africa is an acronym: SODECI. The company began operating the Côte d'Ivoire capital's water system thirty years ago and now manages more than 300 piped water supply systems across the country. Its 300,000 individual connections, increasing by 5–6 percent a year, already reach some 70 percent of the nation's 4.5 million urban residents—2 million in Abidjan and the rest in settlements of 5,000 to 400,000 people.

A high percentage of its urban customers are poor, users whom SODECI values as a matter of policy. To facilitate service to them, it foregoes direct hook-up charges on three out of four of its domestic connections. The policy works. SODECI has a 98 percent or better collection rate from its private, as opposed to government customers and a profitable track record.

From its original concession to supply water in Abidjan, the company took on lease arrangements to produce and distribute water in other municipalities. Recently, in the course of a broader service-sector reorganization, SODECI won a countrywide concession contract for water operations and investments. The grant is a tribute to its accomplishments. First, it has succeeded in providing service that comes close to industrial countries' standards. Second, the cost of SODECI water to consumers is no higher than in neighboring countries in similar economic conditions or in members of the CFA Franc zone, where tariffs rarely cover capital and operations and maintenance costs, and service lags behind.

While 46 percent of its capital comes from SAUR, a French water company, and 2 percent from the Ivorian government, private Ivorian interests own a majority of SODECI's shares and collect the dividends those shares pay. Its bonds are one of the main items traded on Abidjan's financial market, and its performance as a private firm supplying a public service could well be a model elsewhere in West Africa and beyond.

Cities have managed to privatize their water companies by attracting financing in the form of concessionaire equity and syndicated bank loans from foreign and local banks. Concessions, leases to private companies that require some equity financing, are also becoming more prevalent in the delivery of solid waste services in a number of cities from Accra, Ghana, to Sfax, Tunisia, to São Paulo, Brazil. The available evidence is that cities like Buenos Aires, Caracas, and São Paulo that have allowed competitive private operation of solid waste services, have been able to provide this service at half the cost of public sector companies and to operate it with lower subsidies. *The shift to greater private sector participation brings several benefits in service delivery, not the least of which is the efficiency in managing investments and the reliability of services, lower costs, and more discipline in assuring cost recovery, as is illustrated by the case of the private management of Côte d'Ivoire's water company.*

The growing trend of shifting responsibility for producing, managing, and financing services to the private sector does not mean that the role and accountability of government are no longer important. *Authorities at national and local levels play a critical role in determining the responsibility for delivering services, the efficiency of pricing, and the enforceability of contracts.* Without such oversight, private monopolies could simply take the place of public ones. Unfettered markets are not the solution. Urban and national governments will long need to provide targeted subsidies to insure access for the poor to services provided on commercial terms. *Public sector interventions to protect the poor must be carefully crafted so as not to distort prices for services and discourage private provision. Subsidized prices for services have been shown to benefit the better-off disproportionately and limit the capacity of infrastructure agencies to extend services to reach the poor. Moreover, numerous experiences have shown that the poor are willing to pay for reliable services.* Chile, as an example, instituted a system of subsidies for water connections specifically targeted to low-income households, paid for by charging higher rates for higher levels of consumption, rather than trying to subsidize prices directly. Crafting the measures—regulatory, legal, and managerial—to achieve this shift in government's role is a high priority for local and central governments.

THE CHANGING LANDSCAPE OF URBAN FINANCE

To meet the service responsibilities being shifted to cities, as well as the demands for capital investments generated by the pace of urbanization, city governments need to position themselves to get better and more access to credit. The demand stemming from urbanization is without parallel. The infrastructure investments needed to sustain the high levels of economic growth in East Asian countries alone would require commitments of between 6.5 percent and 7 percent of their GDP. At the same time, the trend to privatize services and the use of concessions for urban infrastructure are also increasing the developing world's appetite for domestic and international private financing. As central government support drops, cities must begin to bid for funds in newly competitive financial environments.

At least in some countries and for certain types of investments, a growing private capital market has emerged to meet this multifaceted challenge. On the international front global capital transfers have shifted dramatically into emerging markets in Asia, Latin America, and Eastern Europe. In 1995 the total net capital flows to the emerging markets reached \$167 billion. The structural transformations occurring in many emerging economies—privatization of state-owned enterprises, deregulation of financial markets, improved regulation of the financial sector, new tax and trade laws, liberalization of trade—are attracting this investment. Private financing of infrastructure, access to interna-

tional capital markets and the development of domestic financial markets often occur in parallel. A review of the increase in the size of domestic stock markets clearly indicates that infrastructure privatization has contributed to their expansion.

The tide of capital drawn to this altered reality, however, does not necessarily flow into municipal finance. Cities are not always regarded as the best credit risks, and easy as it is to identify the conditions for attracting private finance, local governments can find it very hard to meet them. Where international capital has moved in or domestic capital markets have emerged, as in Thailand and Malaysia, the funds have flowed towards the financing of projects rather than generalized municipal debt.

As sophisticated as the world of international capital finance may seem, becoming creditworthy in the eyes of the investors is a matter of hard work on the nuts and bolts that form the basic foundations of city management. *Fundamentally what is entailed are effective institutions at the city level with credible and intelligible accounting and management systems, independent auditing procedures, multiyear capital and operating budgets, transparent procurement systems, adequate financial reporting mechanisms, appropriate administrative reforms to control personnel expenditures, and accountable local officials backed by reasonably satisfied tax and rate payers.*

In assessing creditworthiness, lenders ask basic questions: Are cities willing to repay their debt? Do they have the capacity for repayment? And are they likely to make their payments on time? Over the long term, perhaps the biggest risk issue is whether a municipal borrower has a stable source of local or outside revenue on which creditors can count.

The range of tools available to mayors for mobilizing the necessary revenues for capital investments has grown. Some cities are relying on project investment where revenues generated from the project are pledged to obtain the capital funds. Such project finance has become common in middle-income countries in Latin America and Asia but is also being sought by some low-income countries. Others are turning to the private sector to produce and manage service either through outright privatization of utilities as in Argentina or more commonly through leasing and management contracts.

A number of devices—some more promising than others—can help develop a municipal credit market: municipal development funds and rediscounting facilities, loan pools, guarantees and bond banks. But there is no substitute for assuring the fundamentals of municipal creditworthiness and financial sector development over the long run. As they make the necessary, systemic changes, creditworthy cities will emerge and be able to access private capital, even, in some instances, to issue bonds. Most small towns, however, will have to long rely on government-sponsored municipal development funds or rediscount facilities or use loan pools to spread the risks. In the form of a municipal

rediscount facility, such instruments have been used in Colombia and the Czech Republic to build a municipal credit market by strengthening the capacity of commercial banks and other lenders and placing municipal lending on a solid commercial basis.

No magic solutions will make it simple for the cities of the developing world to tap private capital markets. Long-term progress on the fundamentals of financial sector development and municipal creditworthiness, however, will insure in time, a steady flow of credit. In many countries, financial sector reforms are well under way, outpacing developments on the municipal front. Cities that institute such reforms and put their management and financial systems in order will gain the credibility they need to finance the urgent investments they must make. Only by changing the machinery of government can they reap for themselves and their societies the full, rich fruits of urbanization.

Conclusion: Looking Forward

Cataloguing the failures of the world's great new cities is all too easy. It is also more than a little misleading. Urban ills in the developing world are grave. Yet they are not so debilitating as to paralyze the transforming energies that cities—and only cities—generate. The challenge of development is to direct those energies in the right channels, toward attainable ends and with enduring commitment. The process only begins with the identification of the problems that the World Bank, for one, believes should be tackled first:

- The provision of basic services to the poor.
- Taking action on the top three threats to human health in cities: lead, dust, and microbial diseases.
- Making municipal finance more businesslike and inclusive.

Just as important and critical to achieving these goals is the building and mobilization of broad partnerships capable of sustained civic action.

Take slum upgrading, for instance. The goal of bringing services to all slum dwellers is achievable. The costs are manageable. We argue for a commitment to action on a large scale now, but involving the community will be an essential ingredient in success. Given the opportunity to join in setting investment priorities for their neighborhoods, poor people move from a passive status to an active sense of ownership, and are far more likely to contribute to the costs. With a stake in their neighborhood's water or sanitation system, they will have an expanded interest in seeing that the system operates well and is properly maintained. Households benefiting from upgrading have made substantial investments on their own once their neighborhoods were improved. Formerly outsiders, slum dwellers can become partners in the city's betterment.

To improve the urban environment today, a few concrete actions should occupy our attention. Lead in gasoline should be phased out on an accelerated basis. As mentioned above, bringing basic services, top among them, clean water, to all city dwellers must be done. This measure is affordable. Many investments to reduce emissions of dust, soot, and smoke from industry and power plants have high returns. They should be made. To proceed effectively with these environmental improvements, a process of community participation is needed. Even measures, such as removing lead from gasoline, that are relatively inexpensive still require determined public education efforts to win wide support. City officials who join with environmental action coalitions to

mount such awareness campaigns can also work with their allies to keep polluters' feet to the fire. Because there can be painful tradeoffs involved in curtailing pollution, consultations must begin early to achieve community consensus on how to share the costs and what benefits to expect. And consultation that leads to visible progress and concrete results will build the growing public support necessary to maintain or even increase the momentum.

Without a solid financial and administrative system, of course, cities cannot be effective agents of their own salvation. Much remains to be done to achieve this goal in developing country cities. In an era of decentralization, intergovernmental finances need to become more transparent, more closely related to the responsibilities placed on local governments, and more closely linked to local government financial and managerial performance. The resources already at hand in cities must be managed more effectively: by pricing urban services better, building partnerships with the private sector to manage and finance urban infrastructure, and building much stronger local government institutions to operate the nuts and bolts of city management. Obtaining the agreements necessary to establish a sound local financial base will be, above all, a matter of creating working partnerships between public authorities and the many stakeholders in cities. Whether the issue is the user fees for city-supplied water, a permit system for industrial emissions, or a betterment levy for storm drainage improvements, authorities need to have a working understanding with their constituents about the price and purpose of reforms. Reforms in municipal finance amount to major revisions in old social contracts. Unless those changes are widely understood and supported, their effective life may be nasty and short.

The World Bank's long and varied experience in assisting urban development contains many examples of success along with some others that have not worked as well. From that history, a simple lesson emerges: teamwork works. Partnerships in devising and executing programs to counter poverty, pollution, and financial disarray in the great, but greatly troubled, cities of the developing world is the sort of teamwork the Bank hopes to encourage and to join. The Bank's resources can help, but the crucial ingredient in this wide-ranging and imperative work of making the human habitat habitable is the difference that ordinary people make when challenged to join in doing extraordinary things.

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The great city is that which has
the greatest man or woman; If it
be a few ragged huts, it is still the
greatest city in the whole world.

-WALT WHITMAN
Song of the Broad-Ax



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