

# PART THREE

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## 8. What constitutes a good City Development Strategy?

(i) Strategic thrusts are the product of high quality rapid assessment, the Vision, and SWOT analysis. The thrusts follow logically from the foregoing. Thus it is internally consistent

(ii) It consists of a limited number of strategic thrusts, the product of tough choices. In a good strategy, *nothing is of equal importance*.

(iii) It is realistic, but challenging.

(iv) Because it focuses on a limited number of actions, the CDS has a high probability of producing results.

(v) Achievement is measurable, and is measured, using a set of lean, powerful results-oriented indicators.

(vi) Strategic thrusts are cross-cutting, rarely is a strategic thrust implemented by one agency. Different types of agencies, enterprises, and actors, different modes (e.g., public sector delivery, public-private partnerships, changed household behavior motivated by changed incentive structures, awareness campaigns) are utilized to implement strategies.

(vii) Responsibility for implementation is clearly defined, against definitive targets and timelines. Champions need to be identified to push implementation of each strategic thrust.

(viii) Incentives are in place to drive performance – to institutions and individuals that excel in strategy implementation. These can take a variety of forms, e.g., financial, awards, and community recognition.

(ix) Flexibility exists within the strategic framework to adapt and change tactics as conditions change, but the Vision remains constant.

## APPENDIX 1: LIVELIHOOD THEMES

CDS assessments should address a subset of the following:

### 1. Business Climate

1.1 Incentives offered by the local jurisdiction. Some incentives are wasteful, e.g., business service firms are more sensitive to personal income tax rates that help to retain and attract talent, whereas manufacturing firms are more sensitive to land costs and tariff structures (obviously a national function). CDS assessment should critically examine incentives offered businesses to locate, stay, and expand in the locale, to ensure that the most cost-effective approaches are being taken, location incentive programs are expensive and have to be targeted very carefully in order to be effective; furthermore, international trade agreements associated with the WTO increasingly limit the types of location incentives that can be offered.

1.2 Nuisance taxation. As decentralization, a trend in most developing countries, results in local governments having more latitude to tax, such powers are often abused or applied in counter-productive ways. Nuisance taxation, frequently border line illegal, will discourage firms from locating, drive others away, and discourage new business start-ups. Properly designed systems of local taxation and user fees that improve the supportive environment for business will have the opposite effect in terms of the business environment.

1.3 Ease of business start-ups. The World Bank and analysts such Hernando de Soto have undertaken considerable work on business start-ups.<sup>35</sup> Although much red tape involved in business start-ups is imposed by national governments, outside local control, a big part of the problem lies with local governments who add on their own bureaucratic hassles for local permits, local taxes with low cost-benefit value, etc. There appears to be a direct correlation between urban economic success and the amount of time required to start a business, that is, it is generally more difficult to officially start businesses in poor cities (in many developed cities, a company can be legally established in a day, or even a few hours). In poor cities, particularly in Africa, the decline in formal employment can be partly attributed to difficulties associated with formalizing businesses – if the barriers to formal business creation are substantial – there will be few business start-ups. CDS assessment should document the time it takes to start a business (de Soto has done this in his research, thus a methodology exists), the number of steps involved, the cost (including costs of corruption); CDS analysts can work through the process with a local start-up case study to obtain accurate information.

1.4 Investment approval processes for foreign firms and joint ventures. These processes vary widely among cities worldwide. For example, in some Chinese economic zones one stop service can result in approvals in less than a day, in other cities of the world such processes can take over a year, to the point where MNCs give up, and go elsewhere.

1.5 Operating environment of informal sector. Laws and regulations affecting operations of small informal businesses, e.g., street vendors, repair services operating in residential areas, etc.

1.6 Government attitudes toward the informal sector. Is the local government supportive of the informal sector and livelihood expansion within it, or does it view the informal sector as a problem? Cities such as Wuzhou in China that have encouraged informal sector activity, but at the same time introduced human resource and small business development programs to upgrade such activities, have often experienced positive impacts.

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<sup>35</sup> De Soto, H., *The Mystery of Capital*, New York, Basic, 2000 (Chapter 2).

## 2. Competitiveness

2.1 Basic economic trends. Time series data on employment and output by key sectors and clusters. Income (per capita and household) trends.

2.2 Degree of diversity versus specialization. In general, smaller cities benefit from diversity because they are more vulnerable, whereas larger cities should strive for specialization in activities in which they are globally competitive.

2.3 National and world class economic activities. Does the urban area engage in any activities in which it is a national or global leader? Often cities with low profiles will be a world or national leader in a given activity. Often such activities show up as clusters, which become learning systems.

2.4 Productivity gains. What is the labor and capital productivity record (returns to labor and capital) of the city?

2.5 Economic mix and change. Is the mix of economic activity in the city associated with fast growing activity nationally and internationally. Simple measures such as shift-share can be used to measure a city's economic mix, if data is available. How fast is the economy changing, and is it moving toward a higher value mix? In turn, controlling for mix, is the economy performing better or worse than expected relative to national and regional norms?

2.6 Movement up the value chain and cluster deepening. Are local firms and clusters moving up the value chain? How? Are clusters deepening, i.e., are more suppliers and more sophisticated suppliers emerging? Is the local, national or provincial (state) government actively attempting to recruit firms that would deepen local clusters?

2.7 Rate of start-ups and business deaths. At what rate are new businesses, formal and informal, being created? How conducive is the environment for new firm creation?

2.8 Foreign Direct Investment (FDI). What is the track record for foreign investment over the last 10 years? To what activities is FDI flowing, manufacturing, real estate, trade etc.?

2.9 Innovation. What types of innovation are occurring in the city? In assessing innovation, assessment should not be limited to so-called high tech firms. A garment industry can as easily display innovation as a software cluster, e.g., development of high value fashion clusters as in Milan, Bangkok. Unless there is innovation, leading to productivity increases, it is impossible for a city to increase its competitiveness, gains from additional application of labor and capital in isolation will not translate into greater competitiveness in the long run. Total factor productivity needs to improve.

2.10 Performance of anchor firms. Are leading firms that anchor clusters growing quickly or are they stable, are they moving up the value chain, are they encouraging growth of suppliers? Are anchor firms in industries and clusters growing faster or slower than international and national norms (shift-share)? Are any anchor firms threatened by oversupply of the product they produce or technological obsolescence of their product, e.g., firms producing chemical photographic films? In such cases, are new product lines being introduced to substitute for obsolescence in other product areas?

2.11 Labor market efficiency. How is information concerning labor opportunities disseminated? Does the local or national government operate efficient labor information centers? Do private labor matching services operate? How efficient are these services, both public and private? How many people do they place annually, in absolute terms and as a percentage of the labor force?

2.12 Marketing and promotion. How does the city market and promote itself, given that about 10% of advertising expenditure in middle income and developed jurisdictions is used to market place? What attributes, clusters, or activities are at the center of marketing efforts, e.g., tourism, manufacturing investment opportunities, locational incentives? To what extent is this marketing targeted, e.g., to cold climate tourist markets if the city has a sub-tropical or tropical climate? What media are used to market place? To whom? How successful is this marketing?

2.13 Attracting talent. What policies are in place attract talent? How successful are these policies in terms of number of talented individuals attracted to the city? Are national immigration policies conducive to attracting international talent, or do they constrain such flows?

### **3. Human Resource Development**

3.1 Educational quality and quantity (enrollment at various levels). Measured using key indicators. Quality is as important as quantity.

3.2 Education – economic alignment. The degree of alignment between emerging economic activities / clusters and local educational curricula, particularly technical.

3.3 Access to education. Access to education, particularly by the poor and migrants. Barriers to access, e.g., financial, admissions procedures, information, and local registration requirements, which make it difficult for children of migrants to enroll in schools, a common problem in peri-urban areas in some countries).

3.4 Financial support to students. Financial support to lower income children to attend school, including student loans.

3.5 Access entry level jobs. The existence of courses in occupations with minimum barriers to entry and increasing consumer demand, e.g., drivers, barbers. Access conditions (cost, information, location) to these courses.

3.6 Labor market geographic accessibility. What are the mean (average) time and financial costs of traveling from home to employment, particularly for lower income residences?

## APPENDIX 2: IMPROVING ENVIRONMENTAL QUALITY, SERVICE DELIVERY, AND ENERGY EFFICIENCY

CDS assessments should address a subset of the following:

### 1. Environmental Quality

1.1 Air pollution. Is air pollution increasing or decreasing, measured in terms of key indicators, e.g., suspended particulates? What are the health implications of air pollution, particularly in terms of respiratory disease, measured in years lost to work, mortality? What set of measures would be most effective in drastically reducing air pollution, e.g., closing firms exceeding emission standards, changes in fuel and automobile standards (normally national government functions), introducing polluter pays policies, banning certain fuels (e.g., burning coal at street level, as Beijing did), etc.?

1.2 Waste water and water quality. Is water quality improving or declining in key water bodies in the urban region? What is the extent of waste water system coverage, including non-conventional systems such as community cistern and septic systems (which if maintained, can be more cost-effective in lower density urban areas such as peri-urban areas; the practice is well-developed in Japan)? At what percentage of capacity do existing waste water systems operate? If operating problems exist, which is the norm, rather than the exception, in most developing cities, is this the result of lack of sustainable finance (energy for pumping, chemicals), technical capacity, etc.?

1.3 Pollution sources. What and where are key point sources of air and water pollution? What would be the impact of closing the bottom x% of polluters?

1.4 Sustainability and safety of water supply. Is water supply sustainable or not, e.g., harvesting of groundwater, insufficient water to supply forecast demographic and economic growth? What is the safety of water for human use, is it subject to toxic accidents (e.g., Harbin 2005)?

1.5 Loss of agricultural and environmentally sensitive land. What is the annual loss (and time series trend line) of Class A agricultural land to urbanization? What are the implications in terms of agricultural production (by value and key crop output) in the Extended Urban Region? Have measures been taken to limit this loss, e.g., growth boundaries, land quotas, zoning steering urban expansion away from Class A agricultural land? How effective have these measures been? If a problem, is it a result of poor policy design, or lack of enforcement? To what extent is land being removed from environmental sensitive uses (through conversions to urban uses), e.g., wetlands, steep sloped land, land of scenic or heritage merit?

1.6 Amenity. Particularly in the case of middle-income cities, how attractive is the city, to residents, tourists, investors, retirees, students, potential in-migrant talent?

1.7 Natural hazards. What natural hazards threaten the city? What can be done to lower risk in terms of land use, emergency preparedness, building codes, etc?

## 2. Service Delivery and Policy Frameworks

2.1 Demand for services. Socioeconomic trends, particularly demographic, underpinning the demand for public services, e.g. population growth relative to the supply of basic public services.

2.2 Delivery of basic needs. To what extent are basic needs (water supply, garbage pickup, basic sanitation, electricity supply) being met, i.e., percentage of the population served (coverage)? Are low income neighborhoods served? What are the trend lines in terms of coverage? Are user fees charged? Are the user fees sufficient to ensure sustainable delivery of basic services? Are basic services affordable (what percentage of the population can afford a given service)? Are rate structures customized according to neighborhood economic status, ability to pay, etc?

2.3 Health, education, literacy status. What is the health education, and literacy status of city residents, measured using key indicators, by sub-areas of the city, and by household economic cohorts (if data available).

2.4 Quality of basic services. Quality of basic services, e.g., primary education and health care, measured against benchmark institutions in comparable cities.

2.5 Delivery of services to migrants. Are services available to migrants in both core city slums and peri-urban areas? If not, what precludes access, e.g., local registration requirements, lack of local facilities and programs or capacity at these facilities?

2.6 Public health. What are the key causes of sicknesses and death? How healthy are the city's residents compared with other cities at a comparable level of economic development? What are rates of infectious disease, such as HIV-AIDS? How effective are programs to address infectious disease, how could they be improved? How prepared is the city for new health threats, e.g., an influenza pandemic. What are traffic death and injury rates? What measures are being taken to reduce traffic deaths among pedestrians, bicyclists and motorcyclists, and vehicle occupants?

2.7 Efficiency in delivery of environmental infrastructure. Are appropriate technologies being used to deliver basic environmental services, such as provision of potable water, solid waste disposal, given physical conditions and the level of economic development? Are the unit costs of infrastructure delivery (both capital and operating) higher or lower than in comparable cities?

2.8 Maintenance. How well are environmental systems maintained, measured in terms of percentage of capacity operating?

2.9 Energy and environmental policy frameworks. What are the policy frameworks facing firms, households, infrastructure providers in regard to behavior affecting environmental quality, resource and energy consumption? (See Figure 3.) Are they enforced? What changes in policy frameworks would have the greatest positive benefits, bearing in mind that greater economic benefits can often be realized by changes in policy frameworks (e.g., user fees for garbage pickup over a certain weekly volume) than by capital expenditure (e.g., building additional landfills).

### 3. Energy Efficiency

3.1 Energy efficiency. What is energy consumption (latest year available and time series) per capita, per unit of GDP, by key industrial processes in the city, by energy source?

3.2 Urban form and energy consumption. Is the existing urban form energy conserving? What financial savings would be realized through changes in urban form, particularly through lower transportation costs and unit costs of infrastructure delivery? What is the current level, and trends, in terms of density and sprawl as measured by conventional urban density, sprawl, and form quantitative indicators?<sup>36</sup> Such indicators were used effectively in assessment work for the Chengdu CDS.

3.3 Demand management. In managing energy consumption, what is the balance between demand management and supply enhancement strategies? How is demand managed? How is new supply determined and financed?

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<sup>36</sup> Schneider, A, K. "Seto, D. Webster, J. Cai, and B. Luo, *Spatial and Temporal Patterns of Urban Dynamics in Chengdu, 1975-2002*, Stanford: Stanford University (Asia Pacific Research Center), 2003 (Discussion Paper) (<http://APARC.stanford.edu>).

## APPENDIX 3: SPATIAL FORM AND INFRASTRUCTURE

CDS assessments should address a subset of the following:

### 1. Infrastructure

1.1 Infrastructure delivery performance. How, and by what institutions (public and private), are key infrastructure services delivered? What is their performance record in terms of coverage, reliability, cost-effectiveness? How are infrastructure services regulated?

1.2 Infrastructure delivery modes. What changes are being considered in terms of infrastructure delivery and maintenance?

1.3 Planned infrastructure. What important new civil and environmental infrastructure is coming on stream: under construction, committed, planned?

1.4 Trunk infrastructure and urban form. How important is trunk infrastructure, e.g., sewers, expressways in shaping the city?

1.5 Housing supply and demand. How many new housing units (formal and informal) are produced annually (time series data)? Trends in terms of (i) property prices, (ii) building permits issued, and (iii) housing vacancies.

1.6 Affordable land and housing. Where is land available at a reasonable price for affordable housing? Is this the result of market forces, or government subsidies? Is this land readily accessible by affordable transportation to key employment nodes in the city? How is it serviced?

1.7 Transportation networks. Identify major transportation infrastructure networks (existing, planned committed), particularly expressway and mass transit networks. Is the expressway network predominantly radial or ring road in shape? Which came first, radial or ring links, and how did this sequencing affect urban form? What has been, is, and is likely to be, the relationship between development of major transportation networks and land use? How do inter-city routes (highways, rail) affect the structure of the city? Are road systems being managed pro-actively, e.g., intelligent highways, road pricing, HOV lanes, or are they being left to laissez-faire use?

1.8 Public transportation facilities and services. What types of public transportation exist, both formal and informal, e.g., heavy and light rail, bus ways, traditional bus systems, flexible van systems often operated by the private sector (the fastest growing form of public transit worldwide, both in developing and developed cities)? Are informal public transportation operators, such as van operators connecting employment and residential nodes, harassed or encouraged? Are they regulated for basic safety compliance? What is the route network, service quality, etc., of public transportation systems? What percentage of the population uses public transport (widely defined), especially for travel to/from work?

1.9 Urban nodes and public transport demand. Are there significant employment / commercial / residential nodes that would justify rapid transit systems to connect them?

1.10 Major transportation facilities. Identify major transportation facilities, particularly airports, seaports, and rail terminals (including high speed rail, inland container terminals). What is the relationship between these facilities and past, present, and emerging land use? In particular, are high population and employment densities associated with areas proximate to transportation facilities? If not, what can be done to encourage such a dynamic?

1.11 Movement of goods. Can goods be moved to/from the nearest port and airport reliably and quickly, and at what time and financial (per unit) costs? Congestion can deal a heavy blow to competitiveness, especially to manufacturing firms based on just-in-time processes. For example, the CALA peri-urban area south of Manila has suffered considerable loss of competitiveness (relative to Bangkok and Chinese coastal cities) largely because of congestion, the product of a lack of EUR and Metropolitan scale planning and infrastructure implementation.<sup>37</sup>

1.12 Telecommunication services. How reliable are telecommunications services? Are they priced competitively? Increasingly, telecommunication costs and reliability are an important factor in urban competitiveness. (Some cities, such as Singapore, charge telecommunications services at extremely low rates (with laws in place to prevent abuse, e.g., preventing unjustified hotel surcharges on telecommunication services), realizing their importance in enhancing competitiveness. At the other end of the spectrum, some cities, e.g., many in Sub-Saharan Africa have high cost telecommunications systems that virtually ensure large scale manufacturing will not develop, even if other factors are in place.) How reliable are broad band and wireless high-speed internet services? Does the national government block certain information or otherwise interfere with free transmission of information? What is the rate of mobile phone penetration among the population? (Mobile phones have extremely high rates of economic return, diffusing market and logistics information, etc., especially to the poor.)

## 2. Spatial Form

2.1 Formal and informal spaces. Is the city essentially formal and modern in terms of physical structure, or is it predominantly informal with a small modern downtown? The title page illustrates typical sub-Saharan urban structure, in this case Nairobi, with the “modern” city, including the CBD, being small, and in sharp contrast to the rest of the built environment.

2.2 Urban density. How dense is the city? Is there steep density fall-off to the periphery, is the density slope flat, or is it a “U” shape reflecting higher densities on the edge as land values have risen in recent years?

2.3 Land and property value gradients. What is the slope of land and property value (residential, commercial, industrial) gradients from the center of the city outwards?

2.4 Land and housing markets. Describe the behavior of land and housing markets over time in the city. How efficient are these markets?

2.5 Monocentric versus multi-nodal form. Does the city have a strong Central Business District (CBD), or is it multi-nodal in structure with a weak CBD?

2.6 Peri-urban spatial form. Is peri-urban development contiguous, i.e., a continuation of the built up area, patchwork in nature, or focused around satellite cities? What are the energy, congestion, and competitiveness implications of physical development on the fringe?

2.7 Location of the service economy. Are high-end business and professional services (to the extent that they exist) concentrated in the CBD, as in most developing cities? Or, are they located in edge city nodes, as in the United States, and increasingly in some developing cities such as Beijing?

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<sup>37</sup> Webster, D., *On the Edge: Shaping the Future of Peri-urban Asia*, Stanford: Stanford University (Asia Pacific Research Center), 2002 (Discussion Paper) (<http://APARC.stanford.edu>).

2.8 Spatial distribution of employment and economic output. What and where are the major economic nodes (measured in terms of employment, economic output) in the city, e.g., industrial parks, science parks, office complexes, economic clusters, etc.? How is the spatial distribution of employment and economic output changing?

2.9 Social geography. Where do the richest people live, the poorest? What neighborhoods are in decline, which are in ascendancy, i.e., becoming fashionable? What times of social issues are associated with specific areas of the city? Are certain areas of the city associated with specific ethnic, religious, or linguistic groups?

2.10 Geography of poverty. How is the *geography of poverty* changing? For example, in many fast-growing middle income cities, e.g., in Southeast Asia, the geography of poverty is changing dramatically, the poor are increasingly found in peri-urban areas where manufacturing enterprises locate, and less in inner city areas. Or is the geography of poverty relatively static, with poor neighborhoods densifying, as is the case in many Indian cities?

2.11 Location of slums and squatter areas. Where are slum areas located? Is the pattern one of many mini-slums or vast slums such as Klong Toey in Bangkok or Davari in India? What is the absolute population living in slum areas; what percentage of the city's total population live in slums? Is the mean population size of slum areas increasing or decreasing? For example, is there a proliferation of "mini-slums", or do large slum areas account for high percentage of the slum population. Are slum areas contested in terms of leadership, ethnic groups, etc.? To what extent is tenure of residents secure? Which slum areas are being upgraded, which are becoming worse in terms of living conditions? Why? Are slums disappearing in certain areas? How and why? What has happened to the former residents of these areas, did they move to other slums or "graduate" to middle income neighborhoods?

2.12 Land readjustment. Is land readjustment, which can generate win-win outcomes occurring in the city? Is there potential for land readjustment, either in the city center or at the periphery? If not why not, e.g., lack of trust in regulatory frameworks or capacity of local governments to oversee such arrangements, guaranteeing the rights of all participants?

2.13 Destination of migrants. Where do migrants tend to settle? Why?

2.14 Geography of investment. Which areas of the city are experiencing investment, disinvestment (as is the case in parts of many developing cities, e.g., Manila)? Why?

2.15 Congestion. Which parts of the city are most congested? What can be done to alleviate this congestion, bearing in mind that high densities and congestion need not be correlated? (Congestion is density that is poorly managed, smart urban growth is high density well-managed.)

2.16 The knowledge economy. Where are the most important knowledge clusters in the city? Where are ideas exchanged, e.g., universities, high tech campuses, transaction rich environments, key café and pub areas? Have universities spun off nearby science parks, knowledge entrepreneurs, incubation facilities, etc? If so, are they geographically proximate to universities and specialized technical institutions? If not, why not, e.g., lack of nearby land and facilities?

2.17 Expansion vectors. In which directions is the city expanding most rapidly, i.e., where are the key vectors of expansion? What is the relationship between land use and urban structure plans and actual on-the-ground physical development patterns?

2.18 Street life, entertainment, and recreation. Which parts of the city have the most active street life? Where are the entertainment areas, for families, for individuals, by day, by night? Are recreational areas accessible to the poor, to residents of the core city, or are they concentrated on the periphery?

## APPENDIX 4: FINANCIAL RESOURCES

CDS assessments should address a subset of the following:

### 1. Local Government Financial Resources and Institutional Structures

1.1 Local government budgets. Over time, how has the size and composition of the local government(s) budget changed? This would include tables of revenues and expenditures over the last five years (or if more appropriate: last full economic cycle) and forecasts of expected revenues and expenditures, based on differing assumptions (scenarios). This analysis would distinguish between new borrowings, debt repayment, and also between capital and current expenditure/revenue. A statement of accounting standards would be attached.

To what extent (projects, programs, monetary value) has the local government leveraged its resources through innovative financing mechanisms such as BOT, BOO, public-private ventures, etc.?

1.2 Local government revenues and expenditures. Over time, how have revenues and expenditures changed? Has the source of revenues changed? This analysis would include description of each tax and rate-setting powers, description of user fees collected, tax and other revenue arrears, and a description of non-recurring revenue sources, e.g., asset sales and privatizations.

1.3 Capital planning. Capital improvement plans of the local government(s) and investment policies. To what extent have past capital improvement plans been executed?

1.4 Off budget revenue and expenditures. How large is off-budget revenue (e.g., revenue from concessions, sales of land, etc., not included in the formal budget) and expenditure compared with the formal budget? How is this money spent? Is off-budget revenue and expenditure transparent?

1.5 Transfers. Over time, to what extent has the amount and relative importance of transfers (from national or other senior-level governments)? On a per capita basis, how does the amount of transfers compare with other cities in the country? Is the city entrepreneurial in lobbying for transfers or prefers self-sufficiency, e.g., wanting to avoid conditions attached to specific grants?

1.6 Extent and impacts of decentralization. Is the national government implementing decentralization (fiscal, administrative, political). If fiscal decentralization is ongoing, is it based on changes to both expenditure and revenue mandates, or mainly expenditure (as is normally the case). How is decentralization affecting local public sector revenues? Is it resulting in more or less local revenue generation? (Many decentralization frameworks facing developing cities offer little or no incentive to raise local revenues, and some, as in Indonesia or the Philippines, may actually discourage local revenue generation.) How is the city faring fiscally relative to other cities in the nation as decentralization proceeds?

1.7 Debt. What is the debt load and service of the city? What is the city's repayment performance? What conditions constrain (further) borrowing by the local government(s)?

1.8 Access to credit. Does the local governments issue bonds? Do local governments have access to on-lended or pooled funds (through mechanisms such as Municipal Development Funds)? Has the local government(s) borrowed from these facilities? If so, how much, over what time period?

1.9 Credit rating. Is there a credit rating service for local governments operating in the country? If so, what is the credit rating of the city and how has it changed over time?

1.10 Autonomous bodies. Within the city are there fiscally autonomous or semi-autonomous enclaves, e.g., special economic zones, industrial parks, science parks?

## **2. Mobilizing Non-Government Capital**

2.1 Impact of land readjustment. How much capital could be attracted if land readjustment involving high quality development were undertaken in key well-located neighborhoods, especially slum areas? What policy measures, trust and awareness building, and other measures, would be needed to unleash this capital through land readjustment processes?

2.2 Impact of land tenure. How much additional credit would flow to informal housing areas if land tenure were ensured? What policy measures are needed to unleash this flow of capital?

2.3 Housing credit. Is credit readily available to low-income households for purchase of housing. (This varies widely among countries after controlling for income.) Is this credit available through the commercial banking system? To what extent is government involved, e.g., through special institutions such as housing banks, provision guarantees, etc? What is the monthly household income threshold that enables a household to purchase a basic house in the metropolitan area?

2.4 Financing local infrastructure. Do consumers of housing and other buildings pay for the cost of local infrastructure through special tax assessments etc. (repayable through mortgages) or do buyers get a “free ride” from overall city revenues or suffer from lack of local infrastructure? (See Figure 5.)

2.5 Micro finance.<sup>38</sup> What is the amount of micro credit dispersed annually (most recent year for which data is available in the city, plus time series data)? What is the total amount of micro credit in circulation? In allocating micro finance, which groups are eligible, or given preference, e.g., are women given preference? For what can micro credit be used? Is micro finance organized on a community basis or through different institutional mechanisms, e.g., worker co-operatives or trade organizations? How do levels of disbursement, repayment rates, and developmental impacts of micro credit compare with best-case cities? What changes in policy or public leadership would substantially enhance the flow of micro credit?

2.6 SME credit. Do commercial banks readily lend to small and medium-sized enterprises (SMEs) that are credit-worthy in terms of potential, but possibly not in terms of collateral? Or, is the commercial banking system biased toward large businesses?

2.7 Voluntary organization finance. How successful are third sector organizations (Voluntary Organizations [VOs], Non-Governmental Organizations [NGOs], etc.) in attracting funds? Are these funds used effectively; are such organizations financially transparent?

## **3. Private Sector Financial Flows**

3.1 Foreign Direct Investment. How has the size and composition of FDI flows to firms operating in the city changed over time?

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<sup>38</sup> For detailed information on micro finance, see: Ledgerwood, J., *Sustainable Banking with the Poor: Microfinance Handbook*, Washington: The World Bank, 1999.

3.2 Domestic investment. How has the amount of domestic investment in productive enterprises changed over time, both in aggregate and by sector/cluster? Do companies operating in the city reinvest profits or do they leak out? What policy actions would increase the flow of capital into productive activity in the city, including incentives to reinvestment of profits earned through economic activity in the city?

3.3 Commercial banking flows. Based on central bank data, does the city experience net inflows or outflows of capital through the commercial banking system? What can be done to improve performance in this regard?

## APPENDIX 5: GOVERNANCE

CDS assessments should address a subset of the following:

### 1. National Urban Policy Frameworks

1.1 National urban policy frameworks. What are the national urban policy frameworks facing the city? Undertaking this work is difficult because most national policy frameworks impacting urban areas are both explicit, e.g., grants for urban mass transit systems, and implicit, e.g., international trade or corporate taxation policies. Of particular concern are powers of the national or other senior governments related to: (i) financial and debt oversight, (ii) service provision, (iii) financial autonomy and debt issuance, including foreign currency or debt restrictions, (iv) environmental regulations, (v) privatization, and (vi) pending or proposed legislation that impacts revenue sources, issuance of debt, pledged security, operation of utilities, or shifts in service mandates of local governments.

1.2 Local priorities and national frameworks. How do local priorities align with national frameworks? Do they reinforce potential CDS strategic thrusts or inhibit it? If the latter, should such national policies be taken as a given, or should efforts be made to change (through urban political power, lobbying, etc.) such policies. (Urban areas tend to be quantitatively under-represented virtually world-wide in terms of member of parliament, etc., relative to urban population share.) The larger and more economically and politically powerful a city, the greater its potential to exert pressure to modify national urban policy frameworks.

### 2. Institutional Structure and Processes of Local Government

2.1 Local government structure and processes. What is the structure of local government (organizational chart)? How are decisions made? To what extent is this structure determined by national laws, to what extent has it been, and can be locally customized? If the latter, is the present structure and process consistent with contemporary issues and needs, or more a reflection of past realities? Later in the CDS process, what changes are needed in governance structures, processes, network enhancement, knowledge generation and transfers to effect the strategy?

2.2 Appointment of officials and governing bodies. Which officials are elected locally, appointed? What are the electoral procedures for governing body and chief elected officers? Is the local government led by independent representatives or are leaders representatives of political parties? Are these political parties nationally organized? If so, is the local leadership aligned with the ruling national party? Does this situation have implications for implementation of the strategy?

2.3 Corruption. What is the level of corruption in local government(s)? What can be done to reduce corruption?

### 3. Role of Local Government in the Context of Decentralization

3.1 Decentralization impacts on local government. Determining the effects of the decentralization framework on city finances requires information on the following:

- (i) The size of the transfers and their relative share of the city's operating revenues
- (ii) The degree to which the decentralization framework motivates or discourages local revenue generation.

- (iii) The extent to which transfers are earmarked for specific purposes (earmarked) or can be used to fund operations and debt service
- (iv) Revenue sources that have been legally delegated to the city
- (v) Flexibility of the city to effectively adjust its tax sources and levels in response to changing economic conditions
- (vi) Legal and political risks associated with the national revenue-sharing system
- (vii) The direction of any changes in the decentralization framework (toward more or less decentralization)
- (viii) Functions (mandatory and optional) delegated to the city
- (ix) The size and type of mandated expenditures, e.g. public health, public education, public transportation
- (x) The degree to which operating expenditures may be funded by user charges, fees and taxes delegated to the unit, or earmarked revenues from another unit of government
- (xi) Whether the city can adjust its expenditure budget quickly under changing economic conditions.

#### **4. Metropolitan Governance**

4.1 Inter-jurisdictional cooperation. How are functional responsibilities assigned horizontally, e.g., between municipalities and constituent districts and counties, and vertically, e.g., between municipalities, provincial, and national governments? Are measures in place to co-ordinate delivery of services on a metropolitan and/or extended urban region scale, e.g., special districts, councils of local governments, voluntary agreements among local governments, voluntary agreement motivated by incentives (e.g., matching grants from senior governments).

#### **5. Capacity**

5.1 Capacity and development priorities. Is the local government, in terms of staffing, power and prestige of different departments, etc., well aligned with the emerging economy and social issues? Often there is severe misalignment. For example, tourism is the world's largest industry, and one of the few service industries where developing countries enjoy comparative, and often competitive advantage. Yet, in many cities, government pays little attention to this sector, even when it is the most important, or one of the most important, in the urban economy. Similarly, the informal economy dominates in many developing cities, especially in sub-Saharan Africa, many South Asian cities, etc., but few government agencies exist to enable its performance.

5.2 Institutional strengthening and building priorities. What specific changes in government structures, institutional strengthening or building, are needed to improve performance? Later in the CDS process, the question should be asked in terms of implementing specific strategic thrusts.

5.3 Attracting and retaining talent. Is the local government attracting talented creative people? If not, why not? What could realistically be done to improve the situation?

#### **6. Relationship to the Private Sector and Civil Society**

6.1 Relationship to the private sector. What is the relationship between the local government(s) and the private sector, e.g., leading firms, property developers? In many cases, large firms, particularly multinationals, have enormous resources, including problem-solving skills, which can be useful to the community, but they operate in isolation from the local government, having closer relationships with the national government.

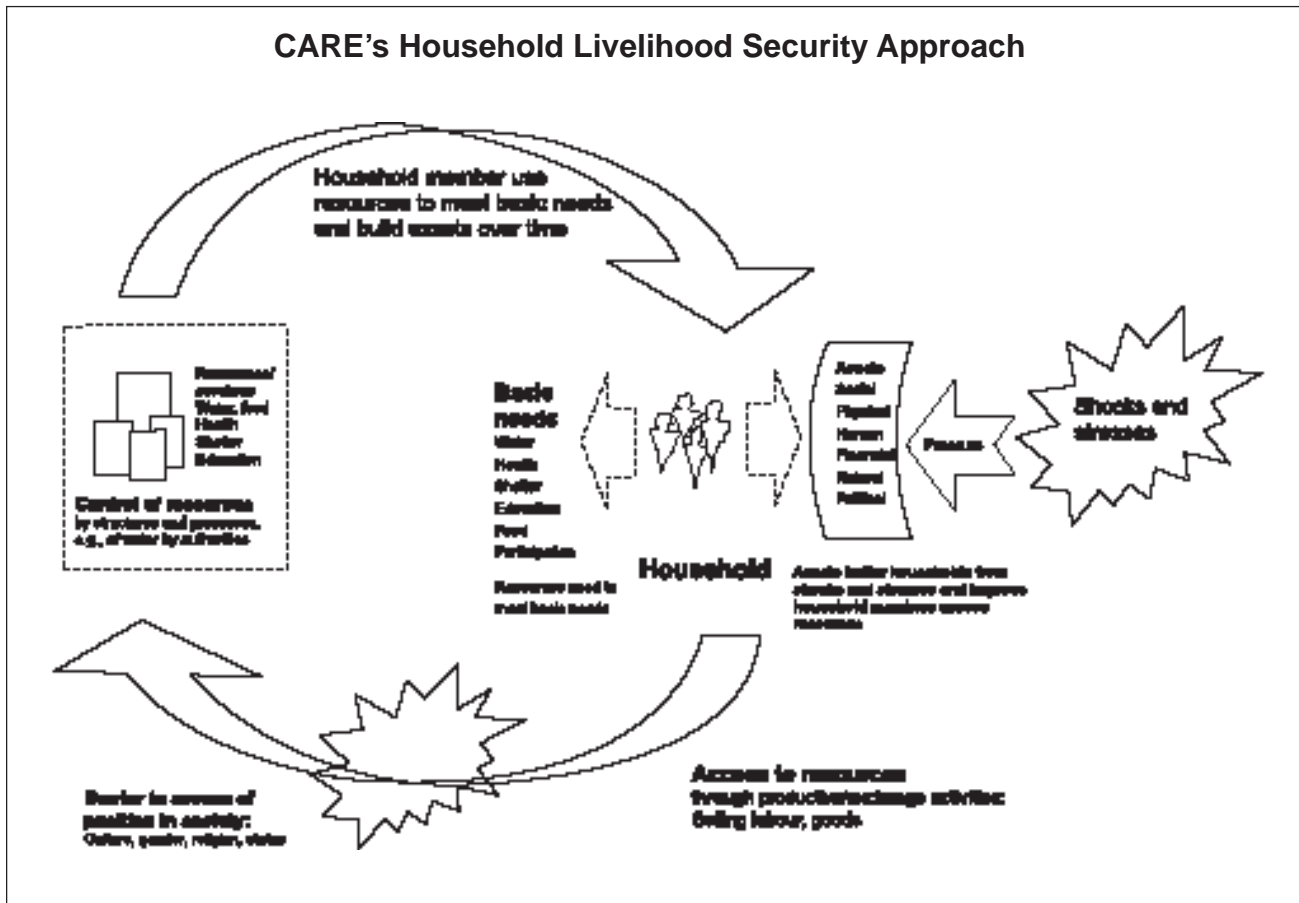
6.2 Modes of private sector cooperation. Does the local government engage in PPP, awarding of concessions, innovative finance such as Build-Own-Operate (BOT), etc.

6.3 Relationship with civil society. How strong are third sector organizations, local, national, and international? How does civil society cooperate and interact with local government in shaping the future of the city? What important is the role of civil society?

What is the character of the relationship between the local government and the civil society, enabling, hostile?

6.4 Local government capture. Have local government jurisdictions in the extended urban region been captured by specific interest groups? Peri-urban area jurisdictions are particularly vulnerable to capture by mafia type groups, business groups, and civil society organizations.

APPENDIX 6



Source: CARE

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