



# Guide to City Development Strategies Improving Urban Performance





Guide to City Development Strategies  
Improving Urban Performance

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## Abbreviations and Acronyms

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ADB	Asian Development Bank
BMA	Bangkok Metropolitan Administration
CDS	City Development Strategy
EUR	Extended Urban Area
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GEF	Glasgow Economic Forum
GAM	Greater Amman Municipality
GoM	Government of Maharashtra, India
GDP	Gross Domestic Product
HLS	Household Livelihood Security [CARE approach]
IDP	Integrated Development Plan
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
NGO	Nongovernmental Organisation
OECD	Organisation for Economic Cooperation and Development
PDC	Penang (Malaysia) Development Corporation
PSDC	Penang Skills Development Centre
SACN	South African Cities Network
SWOT	Strengths–Weaknesses–Opportunities–Threats
UMP	Urban Management Programme—UN-HABITAT
WDR	World Development Report
WTO	World Trade Organization





# Executive Summary

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## CONTEXT

### The Role and Potential of Cities

The premise of city development strategies (CDSs) is that well-positioned and well-timed public, private, and civil society strategic interventions can significantly alter a city's development path. If national urbanisation policy frameworks complement local strategies, change is likely to be deeper and quicker. Empirical evidence indicates that the performance of cities can change enormously within a short time—certainly within a generation, that is, 10–20 years. Dormant cities, such as Shanghai and Glasgow, have returned to health in a fairly short time as a result of focused strategies incorporating policies, political will, and catalytic investment. In contrast, cities lacking coherent city development strategies, such as Lagos and Manila, have had problematic track records.

The performance of 21st century cities is of global concern. Urban regions will be the most important mechanisms of poverty prevention and alleviation—the front line in the adjustment to a post-petroleum world (cities consume most of

the world's energy and commodities, including intercity flows). And because they account for more than 80 percent of global economic growth, cities will determine the economic fate of nations and continents. Because cities are so productive—a result of density and high-transaction environments—cities drive much higher levels of household income than nonurban areas, consume less energy per unit of economic output as they develop, have lower per capita costs for environmental infrastructure, and so on.

These positive impacts of urbanisation are being leveraged by the rapidly increasing global urbanisation. By 2030 at least 61 percent of the world's population will live in cities, and by 2060 the world will likely be fully urbanised (that is, more than 80 percent of the world's population will live in cities). However, some cities are performing far below their potential, particularly those in Sub-Saharan Africa, resulting in lost opportunities for their populations and in unrealised development benefits for their region.

Nearly three-quarters of Africa's urban residents reside in slums.

## Emerging Challenges

Developing cities, like their industrialised counterparts, face considerable uncertainty. Most cities are confronted with the tasks of managing unprecedented population growth rates and are already unable to cope with existing backlogs. The decentralisation of responsibility to the local level—an imperfect and uneven process at best—is often not matched by the allocation of resources or authority. As the numbers of urban poor grow, inequalities in opportunity and income deepen—nearly three-quarters of Africa's urban residents reside in slums, often unrecognised and unserved by their local government. Furthermore, as we have seen in Casablanca, Dar es Salaam, London, Madrid, and New York, no city is immune to terrorism. Poorly performing and failed states make life in cities perilous. Glob-

al warming is also expected to cause rising sea levels, threatening many large industrialised and developing cities. In short, many developing cities clearly face a perilous future unless better strategising, incorporating anticipation and foresight, becomes the norm. Indeed, resilience is becoming as important as competitiveness in urban performance.

## Why do a CDS?

Given a competitive and uncertain economic environment, developing cities need discipline to most effectively use their limited financial and human resources to achieve targets. The capital available to any given city is also highly elastic and only flows to cities that show potential and have well-thought-out urban futures. An effective CDS process can both attract capital and discipline its use.

An effective CDS is designed to shock the system, albeit under controlled conditions. The *Mumbai First* strategy, driven by the business community, although not accepted by the overall community, did just that. It catalysed new thinking about Mumbai and raised the possibility of a completely different future. Using the best domestic and international resources available, an effective CDS assesses a city frankly and objectively, enabling the city to see its future more clearly and to identify the best routes forward.

Local governments alone cannot turn a city around. They control a minuscule portion of the capital available for city building and often have an even smaller proportion of the available talent in urban innovation. Although important as catalysts and as representatives of the public interest (in theory, at least), local governments should work in partnership with private interests and civil society to change a city's developmental direction—CDS processes are based on private, public, and civil society partnerships.



View of Kisumu, Kenya

## GUIDELINES

To assist in the design of a CDS process, these guidelines are organised around five substantive themes and eight methodological steps to set the building blocks.

### Themes (Substance)

The five important themes are:

- Livelihood, such as job creation, business development, and sources of household income;
- Environmental sustainability and energy efficiency of the city and the quality of its service delivery;
- Spatial form and its infrastructure;
- Financial resources; and,
- Governance.

#### *Livelihood (Jobs, Business Start-ups, and Household Income)*

Virtually every CDS has to address the question of livelihood—the bottom line in every city is household income. In most developing cities, the creation of jobs will not absorb all the additional people in the urban labour force. Thus, livelihood enhancement is as much about support for individual entrepreneurs and small business start-ups as it is about formal employment in existing firms. The poorer the city is, the more important the informal sector will be. Because it is difficult to sustainably reduce poverty unless poor households can increase their income, economic growth is essential to improving the lot of the urban poor, especially new migrants to the city.

Livelihoods in developing cities are inextricably bound up with the business climate. Local governments can do much to help small businesses: for example, they can minimise nuisance taxation, offer training, and support start-ups.

The competitiveness of cities (how they perform vis-à-vis other cities in a given activity) is becoming more important than comparative advantage. An analysis of competitiveness and strategies to enhance it would best start from the perspective

of economic clusters, rather than traditional economic sectors.

Human resource development, especially over the medium run, is critical to competitiveness. CDS processes should identify ways to improve access to education and training, particularly for the poor, enhance the quality of training programmes and align local educational curricula with the emerging urban economy.

#### *Environmental Quality, Service Delivery, and Energy Efficiency*

In the past, CDS processes tended to view environmental and energy concerns in two ways: (i) as “add-ons” to overall strategies driven by economic and spatial concerns; and (ii) as a subject for conventional environmental infrastructure programming. Given the rising cost of energy, the vulnerability of freshwater sources, urban sprawl and related mobility costs, and the increased frequency of natural hazards in many cities, environmental and energy considerations should become part of the core CDS strategic process. Although programming of infrastructure services, such as sewer trunk and feeder networks, is obviously an important routine task for cities, CDS processes should incorporate innovative thinking; for example, addressing types of technology to be used, and the role of demand management.

The extent to which a city addresses looming energy and water cost/supply squeezes may significantly determine its future competitiveness. Energy costs affect virtually every product and service a city sells, as well as influencing the standard of living of households, particularly poor ones. An effective CDS would suggest incentive structures to induce more efficient use of energy in industrial processes, building construction and use (green buildings), household consumption, and urban form.

In terms of service delivery, the CDS should focus on coverage (geographic), accessibility and affordability (price), and quality versus cost (often, tradeoffs need to be made, depending on the socioeconomic status of the neighbourhoods).

*An effective CDS is designed to shock the system, albeit under controlled conditions.*

*CDS processes should include an understanding that it is the role of local government to mobilise financial resources, both from within and from outside the city.*

### ***Spatial Form and Infrastructure***

Recent extensive research in East Asia has stressed the importance of infrastructure in support of both pro-poor development and urban competitiveness (ADB, JBIC, and World Bank 2005). The neglect of infrastructure investment in most developing cities over the past 15 years has greatly inhibited their performance. Infrastructure assessment and investment planning are complex and require careful attention in CDS processes. Often, tradeoffs are required (and synergies may exist) between equity objectives (providing basic services to all members of urban society at affordable rates) and economic objectives, which may be facilitated by expressways, ports, airports, and so on.

Cities should be concerned about their spatial form. However, urban form should not dominate the content of a CDS. Land-use and physical plans would flesh out the physical implications of the CDS and be deliberately linked to it. Spatial form, from a strategic perspective, is of particular concern on three counts: (i) the close relationship between urban form and energy efficiency; (ii) the close relationship between attractiveness of cities (amenity) and economic performance (it is virtually impossible for an unattractive city to move into higher value economic activity); and (iii) the critical importance of land (availability, location, tenure) in addressing the challenges of slum communities.

City planners should not treat slums as unique, outside the land market. Rather, they should recognise the market value of slum community land (very valuable, especially if it is in the city core) and orchestrate win-win outcomes through the use of market-based techniques, such as land readjustment, that have the potential to leverage enormous amounts of capital from slum communities.

Accessible land must be available for a wide range of actors, ranging from formal developers to newcomers themselves, to provide housing and communities for new migrants. It is much easier to

prevent poverty by effectively absorbing migrants into housing, transportation, and livelihood systems than to deal with the problems later. The number of rural-urban migrants to developing cities over the next 30 years will exceed the flows of the previous 30 years. Thus, prevention is as important as alleviation, if not more so. Peripheral communities need to be connected to employment nodes by affordable, efficient transportation systems. Fortunately, developing cities are becoming more multinodal, making concentrations of employment more accessible to the poor.

### ***Financial Resources***

Many CDS processes have emphasised the importance of local government budgets, giving less consideration to the nonpublic resources of society. Local government financial management is very important and it is essential that it be done effectively, as outlined in Appendix D. However, CDS processes should include an understanding that it is the role of local government to mobilise financial resources, both from within and from outside the city, as well as from public (national government programmes, for example), private (domestic and multinational companies), and civil society (voluntary organisations) sources. Over the medium term (10 years), the amount of capital that a city can raise to improve its public and private environments is highly elastic and potentially very large, given the right policy frameworks, marketing, and promotion, and so on.

### ***Governance***

Like finance, governance far transcends the role of local government. However, local government has key roles to play: representing the public interest, being a stimulus to urban innovation, and taking responsibility for delivery of key services (either directly or indirectly through innovative mechanisms, such as build-own-transfer).

An effective CDS programme needs to develop national policy frameworks, both explicit ones, such as urban infrastructure grants, and implicit ones, such as the effect of changes in tariff structures on key firms in the urban economy. Often, other agencies will already have assessed the national urban policy framework.

It is important that CDS processes address the changing role of urban government under conditions of decentralisation, a worldwide trend. With devolution of powers, local governments have much more control over, and responsibility for, urban futures. Unfortunately, in many developing cities, decentralisation has lowered the level of performance because of local capacity constraints, corruption, and inadequate resources to meet the increased responsibilities and is often compounded by the unclear assignment of functions. Nonetheless, decentralisation clearly makes rapid changes in city performance more feasible, although its effects on city performance may vary within nations, creating winners and losers. *Decentralisation makes CDS processes more important: the potential gains from implementing a CDS are much higher in decentralised governance environments.*

CDS processes need to take into account the question of metropolitan governance. Virtually every large city in the world suffers from inefficiencies and lost opportunities because of the fragmented, uncoordinated urban governance that occurs in metropolitan areas with a proliferation of local governments. There is a long and varied worldwide experience of metropolitan governance—best-practice learning should provide a filter through which to identify appropriate metropolitan governance structures in CDS cities.

### Building Blocks (Process Methodology)

The eight building blocks of the CDS process are:

- Initiating the process;
- Establishing the initial parameters and the scope of the CDS;
- Making an initial assessment;
- Formulating a vision;
- Identifying strengths–weaknesses–opportunities–threats (SWOT analysis);
- Setting strategic thrusts;
- Building awareness; and
- Starting the implementation.



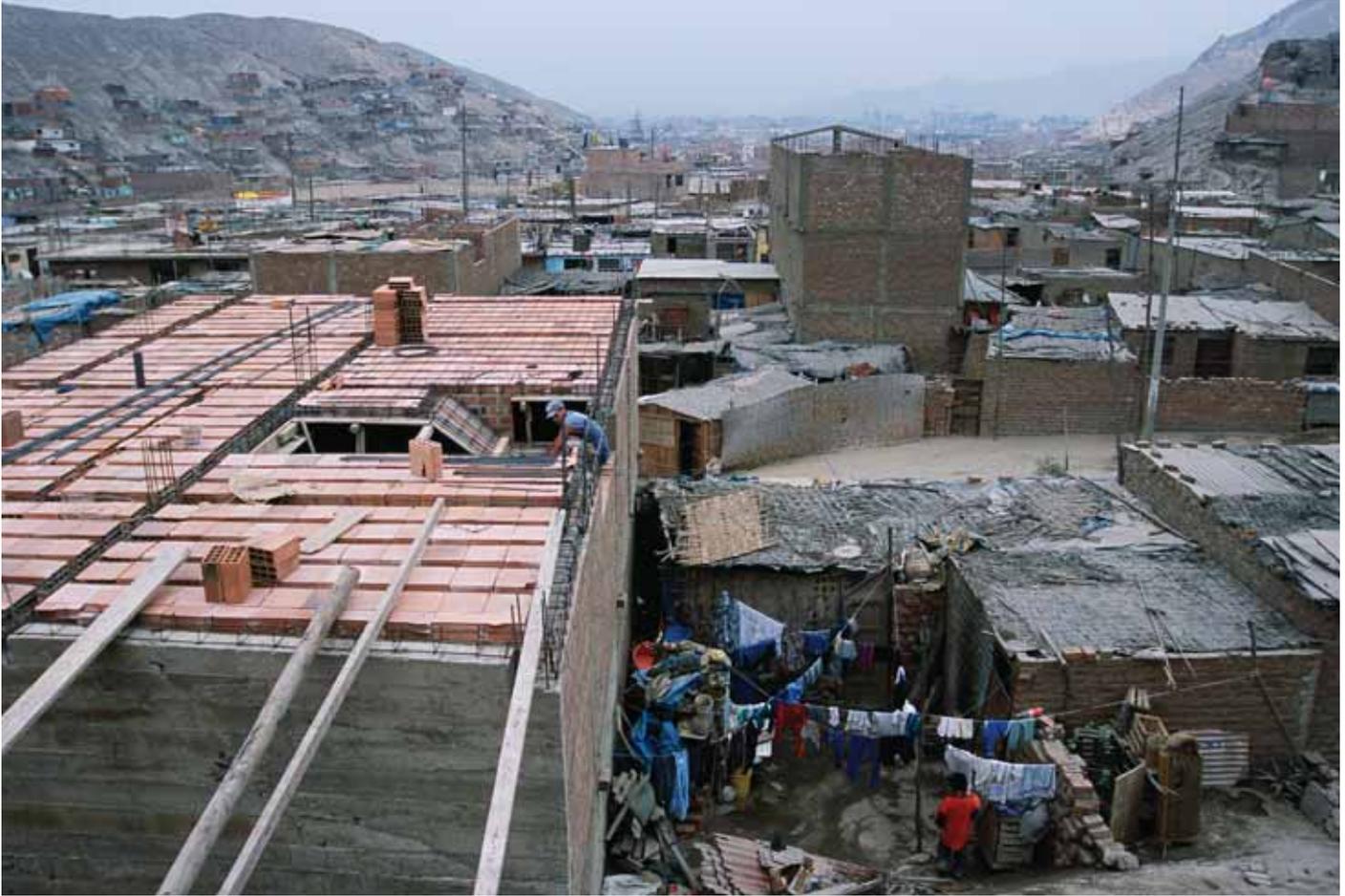
Aerial view of Dakar, Senegal

The methodological sequence to be used in a CDS is well understood, and a broad consensus now exists on the appropriate methodology, as Figure 6 and section 7 describe. Over the past 25 years, several handbooks, both by Cities Alliance and by outside authors, have described the process. On the basis of feedback, the process is improving.

The key methodology of a successful CDS, derived from experience, includes the following.

#### ***Initiating the Process***

There is a need for high-level guidance and coordination. If the mayor or equivalent political figure is not seriously involved in the CDS process, it should be abandoned. The process should be guided by a *Key Stakeholders Group*, or equivalent body that represents key interest groups in the city. Although open-access input from town meetings, radio call-in shows, and so on is useful, collaborative approaches to strategy development require a small but representative group (the key stakeholders group) to negotiate hard content. One cannot merely create “wish lists” designed to please everybody.



Building for the future in Lima, Peru

CDS processes would not result in new institutions or offices. Instead, one powerful office in the city, normally the mayor's office, would oversee a wide spectrum of functions. However, a CDS process might recommend, as an output of assessment and strategising, institutional changes in the governance of the city. The initiation process needs to result in agreement on the spatial scale of the analysis (extended urban region, metropolitan region, or city proper?) and the breadth of issues to consider in assessment and strategising.

For spatial definition, there is an obvious trade-off between geographic area (coverage) and depth of understanding. Therefore, a scan-scope approach, starting spatially with at least the metropolitan area, as section 7.3 describes, is usually very effective.

Defining the breadth of issues is difficult (the "where do you enter?" question). Normally, if a city has not done high-quality CDS work, a wide spectrum is best. However, in cities where the opposite is the case, a more focused substantive field of action may be appropriate. In all cases, the CDS technical team and key stakeholders group should openly and innovatively consider the whole process, always thinking creatively to recommend better strategies and ways to intervene.

#### ***Initial Assessment***

The city should be assessed initially by a team led by leading domestic and international urban analysts and supported by local urban researchers. The speed of an initial assessment should, however, strike a balance between quickly meeting political processes and expectations and gathering enough relevant information.

The initial assessment employs a scan–scope methodology, zeroing in on spatial areas and substantive issues of particular concern. The initial assessment should, with a futures-oriented perspective, identify and assess core change drivers, such as demographics, technology, and the international economic environment. Clusters should be the basis of economic analysis, as traditional sectoral analysis is not geared to identifying trends and opportunities or understanding the informal sector and the “new” economic activities in technology and high-end business, professional, and design clusters. A useful assessment need not be very specific; more important is understanding the overall magnitude, direction, and rate of change. Benchmarking is an important component of the initial assessment. Once the analysts understand the city, they compare its performance with *comparable*, *competitor*, and “*aspirational*” cities (those performing at the level to which the analysed city aspires).

### **Formulating a Vision**

A Vision is a statement of where a city wants to be, usually 10–15 years in the future. The Vision statement needs to be specific, internally consistent, and realistic but challenging. It should stress what is unique about the city and be short (experience shows that 60 words is enough) and easy to read. A Vision is important because it aligns stakeholders’ energies so that the stakeholders work cooperatively and for the same goals. A Vision is not normally changed over the medium run (10 years); it is like a lighthouse, with a fixed position. However, in today’s fast changing and uncertain world, tactics need to change regularly to ensure that the city achieves its Vision. Successful cities are *flexible* and *adaptive* in pursuing their Visions, recognising that traditional, especially rigid, static, or top-down, planning can be harmful. Many systems in a city are self-organising, yielding positive outcomes if set within appropriate visions and policy frameworks, and prompted by strategic thrusts.

### **Identifying Strengths–Weaknesses–Opportunities–Threats (SWOT Analysis)**

The strengths–weaknesses–opportunities–threats (SWOT analysis) is undertaken in the context of the Vision, rather than in an open-ended manner. The results of the SWOT analysis enable a city to build on and leverage its strengths and opportunities. Equally important, it enhances a city’s ability to avoid threats or to take actions to minimise them.

### **Strategic Thrusts**

Strategic thrusts are the heart of the CDS. They are cross-cutting, interlocking actions, delivered in many ways (for example, through direct investment by government or private–public partnerships), almost always involving more than one agency. Strategic thrusts deliver maximum impact cost-effectively. Because a city cannot focus on too many initiatives at one time, strategic thrusts are normally limited to five. Each strategic thrust contains, in turn, several actions.

Strategies are based on hypothesised causal relationships between interventions and outcomes and are informed by international experience and the SWOT analysis. Identifying strategic thrusts is an iterative process. Once the strategic thrusts become clearer—for example, a decision is made to pursue a convention-based tourism strategy—specialised technical expertise is needed to help formulate them. Strategic thrusts always need to be paired with a few powerful indicators: usually one *composite flagship indicator* and several (fewer than 10) *priority indicators*.

### **Awareness Building**

A successful CDS process needs the support of most of the community, especially the key stakeholders. Total consensus is never possible; in fact, it would be a sign of a weak CDS. The most effective ways of disseminating a CDS vary from city to city and rely on a mix of media, such as Internet sites and radio. Certain media—such as newspaper inserts, videos, posters, and models—work well across a wide spectrum of cities.

*A CDS is of no value unless implemented.*

### ***Implementation***

A CDS is of no value unless implemented. *Implementation Task Forces* need to be established, responsible for each strategic thrust. The implementation task forces formulate more detailed action plans, clearly indicating responsibilities, timelines, milestones, and expected inputs, outputs, and outcomes (results or impacts). Indicators may need to be refined. Most important is a sustainable monitoring system to gauge success based on the identified indicators. Most monitor-

ing systems are unsustainable because they have too many or unrealistic indicators and allocate no money for their ongoing operation. Thus, *sustainable indicator systems* are essential.

An important role of the implementation task forces is to identify, assess, and chase down sources of finance. To get the CDS off to a good start, emphasis should be on early implementation of low-risk, high-profile initiatives.

## **What Constitutes a Good City Development Strategy?**

### **Effective CDS processes, outputs, and outcomes have the following characteristics:**

- They are internally consistent. For example, strategic thrusts follow from the Vision and SWOT analysis;
- The CDS has only a few strategic thrusts, the products of tough choices. *Nothing is of equal importance*;
- The CDS is realistic but challenging;
- The CDS has a high probability of success;
- *Achievement is measurable* and measured with lean, powerful, results-oriented indicators;
- Strategic thrusts are cross-cutting, relying on a variety of activities and agencies;
- Responsibility for implementation is clearly defined, against definitive targets and timelines;
- *Incentives are in place to drive performance*. These can take a variety of forms such as financial, awards, and community recognition;
- The strategic framework is flexible enough to adapt to changing conditions and tactics, but the Vision normally remains constant over the medium run.
- CDS priorities are reflected in budgeting and investment strategies.



# 1. Introduction

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The purpose of these guidelines is to improve the usefulness and positive impact of City Development Strategy (CDS) processes supported by the Cities Alliance. CDSs should sustainably enhance urban performance, measured in terms of: (i) economic growth, linked to improved livelihood opportunities; (ii) poverty prevention and alleviation; and (iii) improved environmental and public health, inclusive of poor and informal urban communities.

The target group for these guidelines is primarily cities in the developing world that are about to start a city or city-region strategising process involving local actors (in government, in the private sector, and in civil society), as well as their international partners (development agencies, international investors, and nongovernmental organisations [NGOs]).

These guidelines have taken into account the considerable bank of experience built up by developing-country cities carrying out CDSs funded by the Cities Alliance over the past five years. A wide range of such activities have been evaluated. These evaluations include those of CDSs for specific cities (available at [www.citiesalliance.org](http://www.citiesalliance.org)), those of experience to date, or those that have put for-

ward guidelines, such as the recently completed guidance framework for design, integration, and application of monitoring and evaluation in CDS processes (Econ Analysis 2005) and the Asian Development Bank guidelines on CDS (ADB 2004). Many cities around the world, whether industrialised, transitional, or developing, have also produced innovative CDS outside the Cities Alliance; examples are Glasgow, London, Mumbai, and Prague.

Much has changed in the external context in which cities have been operating since the 1990s, particularly rising energy prices (for a review of this literature, see Roberts 2004; Kunstler 2005), natural disasters and environmental accidents, global economic imbalances, security and terrorism threats, and declines in urban social capital. The uncertainty is putting a premium on resilience and increasing returns to cities that can handle uncertainty.

There has been new learning in urban strategising, mostly because of networking between cities. Within the academic community, research (and associated output) on the relationship between the characteristics of urban strategic processes and those of urban performance has been disap-



Increased commercial activities in a well functioning city like Singapore

pointingly limited. Our literature searches have revealed almost no academic research over the past five years on urban strategising, local economic development, and the like, especially research related to urban areas in developing regions. This is a serious loss, given the potential value of reflective, objective research on such an important topic.

The goal of these guidelines is not to prescribe but to inspire improvements in city development and strategising processes. Your use of the guidelines could be selective (as modules), depending on the developmental circumstances of your city. See the Cities Alliance homepage (<http://www.citiesalliance.org>) for further details on concepts and for examples (ranging from best practice to failures) to deepen your knowledge of diverse aspects CDS.



## 2. The Role of Cities

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### 2.1 URBAN REGIONS AS POVERTY ALLEVIATION MECHANISMS

The importance of urban regions in driving economic growth, poverty prevention and alleviation, and energy and natural-resource conservation has never been greater. In part, this reflects the fact that the majority of the world's people will be urban by 2007.

The urbanisation process will continue at high speed throughout the first half of the 21st century. The United Nations forecasts that 61 percent of the world's population will be urban by 2030. Before 1850, the urban population of the world never exceeded 7 percent. In absolute numbers, Asia is the epicentre of the current urbanisation surge. China will add at least 342 million people to its cities by 2030; India, 271 million; and Indonesia, 80 million. In Latin America, which is nearing the end of the rural–urban transition, “only” 169 million people will be added. However, in Sub-Saharan Africa, 395 million people will be added to the cities over the same period, 112 percent of its current population, a larger absolute increment than China will experience (United Nations 2004b). Transitional (Eastern) Europe will be the only world region with nega-

tive urbanisation, a result of overall population decline. Urban areas there will lose 12 million people by 2030, mostly in the Russian Federation, creating new urban challenges. In the industrialised cities of the world, population growth will be slow, with the exception of those in amenity regions in North America, such as Phoenix and Las Vegas in the southwestern United States, and cities that attract large flows of international migrants, such as Toronto, Canada. Cities in Western Europe and Japan will have more stable populations.

The policy implications are obvious. Because most African urbanisation to 2030 has yet to occur, productive migration absorption strategies are particularly important. But urban growth in Latin American cities will represent only 39 percent of current urban population, indicating that *in situ* poverty alleviation strategies should be given more emphasis there. The highest absolute national increase will be in China, but India and Indonesia are earlier in their rural–urban transition processes. Urban growth in India to 2030 will be equivalent to 86 percent of current urban population; in Indonesia, 74 percent; and in China, 64 percent.

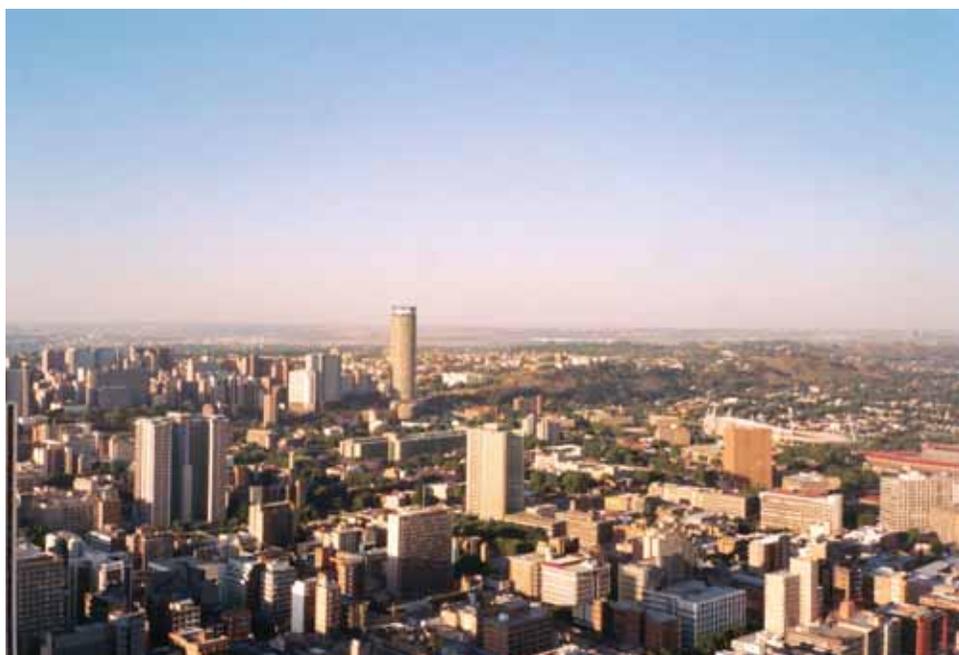
*Cities are proven poverty fighters.*

The fact that Africa is the poorest continent but also the one earliest in the urbanisation process presents enormous city-building challenges, but at the same time provides significant economic opportunity. If urbanisation is productive, that is migrants are productively absorbed, rural–urban migration is associated with immediate, large jumps in national economic performance, as the urban trajectories of China and North America clearly indicate. Although urbanisation rates and absolute increases in urban population will be highest in Africa, it is the region with the most limited resources to deal with rapid urbanisation, a process requiring high levels of capital investment and technical resources.

Cities are proven poverty fighters. For example, urban incomes are, on average, four times higher than rural ones in countries such as China and Thailand, and significant income differentials remain after controlling for higher education levels in cities. Metropolitan areas—even larger Extended Urban Regions (EURs), which often contain several metropolitan areas—account for enormous income and wealth creation, and the

capital they create can be mobilised to help alleviate poverty. In 2005, emerging economies grew by \$1.6 trillion<sup>1</sup>, more than the industrialised countries did. Most of this \$1.6 trillion increment accrued to the cities that are relevant to these guidelines. The economic underperformance of India, compared with China (until recently), may be partially a result of India's much lower urbanisation level—28 percent in India versus 39 percent in China (41 percent in 2005) (United Nations 2004b)—India has 221 million fewer urban residents than China.

São Paulo, which has 10 percent of Brazil's population, accounts for 25 percent of the gross domestic product (GDP). In China, by 2020, the three leading coastal EURs (each containing more than one metropolitan area)—the Pearl River delta, the lower Yangtze River delta, and the Bohai Bay region—will be home to more than half of China's population, but they will account for 80 percent of GDP. With metropolitan regions as the metric, the 53 metropolitan regions in China anchored by a city with more than 1 million people are currently home to 370 million people, or 29 percent of the country's population, but account for more than 62 percent of China's nonfarm GDP. Cape Town, eThek-wini (Durban), and Johannesburg account for some 50 percent of South Africa's GDP but represent only 20 percent of the national population. Lagos produces 60 percent of Nigeria's non-oil GDP. This urban dominance in economic productivity often shows up in fiscal performance as well. For example, the Bangkok metropolitan region accounts for about 53 percent of public sector revenue in Thailand but is home to less than 20 percent of the population.



Aerial view of Johannesburg, South Africa

1. All dollar amounts are in US dollars.

Of course, we should treat official data with great caution, especially in Sub-Saharan Africa, where the informal sector dominates and where researchers often undercount its contribution to livelihood and economic development. Estimates for Africa indicate that the informal economy workforce accounts for an extraordinary 78 percent of nonagricultural employment, 61 percent of urban employment, and 93 percent of all new jobs. The recent improvements in Chinese statistics (based on the economic census of 2002) illustrate the economic value of undercounted urban employment, much of it informal. As a result of more accurate counting of service activities, primarily urban, the service sector was 48 percent larger than previously indicated, accounting for 41 percent of national outcome, not 32 percent. The recount increased China's GDP by 17 percent, making it the fourth largest economy in the world by the end of 2006. Similar discrepancies likely affect data in other developing urban economies (Huang 2006).

How can policymakers maximise the benefits of the urbanisation process? How can developing countries mobilise urban capital to increase livelihood opportunities and standards of living for all citizens, not just the most successful?

China, with its pro-urbanisation policies (accelerated productive urbanisation), has removed 220 million people from poverty in less than 25 years (but 100 million remain in poverty, including 26.1 million farmers in absolute poverty). With economic growth highly correlated with poverty reduction, especially if coupled with pro-poor policy frameworks, the continued economic success of cities bodes well for poverty reduction. It also bodes well for the achievement of Millennium Development Goal 7, Target 11, established by Cities Alliance, the one most relevant to urbanisation: "By 2020, improving substantially the lives of at least 100 million slum dwellers, while providing adequate alternatives to new slum formation" (United Nations Millennium Declaration, GA/55/2 of 8 September 2000 [para. 19], United Nations 2005, p. 3). But the achievement of the goal will be the result of highly skewed global geographic outcomes, with the

bulk of progress in Asia. Africa in particular will need to devise strategies at the local level, supported by national frameworks, to make urbanisation a more effective tool of economic development and poverty prevention and alleviation.

African cities need to provide their residents and migrants with ladders to escape poverty. The ability of African cities to become powerful agents of poverty alleviation and economic development depends on two factors: (i) whether institutions and policy conditions liberate or hamstring a city's potential to create jobs; and (ii) whether city residents have access to land and housing, education, health care, and security, even if they have erratic incomes, few powerful connections, and no recognised status in the city. In Sub-Saharan Africa, with a few exceptions, cities have not been able to move beyond a limited role as trading and commercial and administrative centres, serving only the local populace. They have not developed manufacturing or high-end service economies, which would support poverty alleviation across the continent. In fact, in most Sub-Saharan African cities, formal employment is actually decreasing.

Latin America, which is nearing the end of its rural-urban transition, illustrates the dangers of hyper-urbanisation: the potential of urbanisation to alleviate poverty has been blunted because meaningful livelihood opportunities (employment creation and opportunities for households to create their own jobs) have not occurred rapidly enough. Although economic growth is virtually always beneficial in reducing and preventing poverty, some types of growth are more pro-poor than others—much of the East Asian urban growth in countries such as China, Malaysia, and Thailand has effectively reduced poverty.

*African cities need to provide their residents and migrants with ladders to escape poverty.*

## 2.2 EMERGING CHALLENGES

The fact that cities make people richer and prevent or alleviate poverty has a flip side, namely, environmental and natural resource challenges. Richer societies generally consume more energy and commodities and generate more waste, although not necessarily more pollutants (they also consume less energy and fewer commodities per unit of economic output). Translated into global dynamics, this hastens the day when many nonrenewable commodities and energy sources will become scarce. High urban consumption is not directly associated with urban lifestyles—rural people with the same levels of income as city dwellers would consume more energy for transportation, for example—but is explained by the fact that cities are highly successful in raising household incomes.

This relationship between urbanisation and resource consumption, particularly of products needed for city building, has been clear from the experience of industrialised countries for more than a century. For example, in 2004, China consumed 40 percent of the world's cement and 27 percent of its steel, primarily to build cities (China Republic 2002). Again, as the United States' urban population expanded by 124 million during its urban transition from 1900 to 1970, per capita steel consumption increased six-fold. Similarly, as Japan's urban population increased by 70 percent between 1950 and 1970, its per capita steel consumption increased eight-fold. Goldman Sachs, an investment bank, indicated that oil could reach \$105 per barrel in the next few years, an outcome essentially fuelled by the massive urbanisation processes described above (Pesek 2005).

This means that cities will need to function differently. Buildings, which are the biggest consumers of energy in most developing cities, will need to be built differently. Urban form will become even more important, given the close relationship between urban form and energy consumption for transportation. It is to be hoped that dramatic improvements in the energy efficiency

of cities will be the result of proactive policies, rather than the result of harsh feedback generated by market prices.

The world has consumed half the available petroleum (Deffeyes 2001). Energy, especially for vehicles, is likely to be in short supply before mid-century because alternative fuel systems are not expected to be widely available until later on. The result could be slower economic growth and a slowing of globalisation (which is dependent on inexpensive energy). This situation will bring urban environmental and resource consumption issues centre stage. Most of the world's largest cities are located along coasts, so the risks of natural hazards, especially those related to ocean levels and surges, are becoming real threats. Water supply is a critical issue facing urban regions from Sub-Saharan Africa, to northern China, to the southwestern United States. (Semi-arid regions are the most common climatic type on Earth.) Social disorder and security risks in cities are increasing in many parts of the world, be it from terrorism (Jakarta, London, Manila, and New York), insufficient social capital (Kinshasa, New Orleans, Paris), or disputes over urban land, especially disputes about the transformation of rural to urban land (China).

And infectious diseases, such as SARS and avian flu—often bred in peri-urban areas where humans come in contact with both domesticated and wild animals—may threaten the viability of cities. These challenges and risks will be especially strong for the African urbanisation process because the continent is so early in its rural–urban transition. Yet Africa will have to complete the transition under much more trying external conditions than experienced by the industrialised world and Latin America, which have essentially completed their rural–urban transitions. In short, the risks urban regions face are becoming more problematic, despite the enormous potential of cities to generate wealth quickly and prevent or alleviate poverty. Environment, energy, social, and security issues will have to play a central role in CDS processes. At the urban scale, resilience is now as important as competitiveness.



## 3. Guidelines Orientation

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The goal of these guidelines is to help different actors make the most of CDSs to enable cities to maximise their performance (ultimately measured by the standards of living of their residents, especially the poor), their resilience, and their competitiveness. Given the tough and increasingly uncertain environment in which cities operate, strategies need to be hard-nosed, using limited financial and human resources in the most effective ways. Financial resources going into and out of cities are highly elastic; capital responds quickly to opportunities in urban regions with positive business environments. Conversely, capital, whether generated locally or externally, rapidly flees cities where the future is too unclear. Often, tough tradeoffs are needed; talent and fiscal resources need to be focused for maximum leverage.

These guidelines recognise that CDS processes supported by the Cities Alliance vary widely in quality and effectiveness (as do urban strategies without Cities Alliance support) and that the nature and characteristics of the CDS process can very much affect the performance of cities.

Key themes to be explored include the following:

- **Mainstreaming urban poverty alleviation and prevention**—To date, urban poverty has been compartmentalised, both in analysis and in policy. Slums have been targeted as if they were a discrete form of settlement, rather than part of a broad spectrum of physical development, highly integrated into urban communities. As the recent groundbreaking book by Neuwirth (2005) points out, squatter settlements are a normal part of the urban transition: London, New York, Paris, and Toronto all had large swaths of squatter and slum neighbourhoods. Thus, poverty prevention and alleviation, not slums *per se*, should be the focus of an urban strategy. In some cities, such as Lagos, Manila, or Mumbai, slums constitute close to half the residential structure of the city, containing a wide spectrum of residents from poor to wealthy; to spotlight them as unique or separate makes no sense. However, because slums are so visible, addressing their problems can be catalytic in overall urban development. Slums can be an extremely effective entry point into the wider structural issues in a given city or country, mobilising a wide spectrum of groups. Furthermore, it is often possible to build widespread

*Slums cannot be treated separately from the overall development trajectory of the city, or from urban land markets.*

consensus in support of slum upgrading. The right of the political spectrum has historically viewed slums as eyesores and inappropriate in modernising cities (not acknowledging that they are economically critical to the functioning of cities), whereas the left often associates slums with poverty (to some extent, incorrectly). Thus, both sides of the political spectrum want to “do something” about slums. Strategies to improve opportunities for the poor need to recognise that slums cannot be treated separately from the overall development trajectory of the city or from urban land markets, and their development should be consistent with the city’s overall Vision. Such a perception is needed to mobilise capital on a large scale. Win-win outcomes can be generated by releasing the very large amounts of capital that slum dwellers control (directly or indirectly): land readjustment, for example, enables the poor to enter the urban mainstream. Such principles underlie Rio de Janeiro’s Favela-Barrio programme.

- **Preventing Potential Urban Poverty**—The current (2005) urban population of the world is 3.2 billion, of which 0.9 billion live in industrialised countries. By 2030, the developing world’s urban population will have grown by 75 percent. More than 1.8 billion people will have been added to the world’s cities, and more than 93 percent of this increment (1.7 billion

people) will be in developing urban regions. This dynamic, combined with the fact that large increases in urban population will occur in very poor countries, particularly in South Asia and Sub-Saharan Africa, means that preventing urban poverty will need to be a leading policy priority in developing countries for the next 25 years (this is separate from addressing *in situ* urban poverty). Migrants who are poor but highly economically motivated and well educated (compared with educational attainment norms in their source regions) need to be absorbed productively so that they do not add to the stock of poverty within urban areas. Otherwise, the task of urban poverty alleviation becomes overwhelming. Migrants need access to financing to purchase housing affordably close to employment (no longer necessarily in central business districts [CBDs], given the ongoing shift to a more multinodal urban form in most cities). Migrants also need access to basic services (such as water), appropriate training, and good-quality, relevant education for their children, to enable intergenerational mobility. And they need access to microfinancing, particularly for small-business creation. Enabling mobility, not only from rural to urban areas but also from regions with poor opportunities (such as northeast China) to those with greater opportunities (such as the coastal and amenity regions in China), can do much to alleviate poverty while greatly improving national economic efficiency. Such flows have also occurred across borders, as has been the case with Johor (Malaysia), Riau (Indonesia), and Singapore. Because preventing poverty is less expensive than alleviating *in situ* poverty, prevention strategies should be a key element in a CDS; very high returns on investment are possible. For example, for young migrants, training is relatively easy to effect and cost-effective; and less expensive land on the periphery of cities can be made accessible to the poor.

- **Environmental Quality, Public Health, and Energy Efficiency will increasingly matter**—Given the challenging environment in which cities will have to develop and function, environmental, energy, and public health performance will become increasingly important. Such

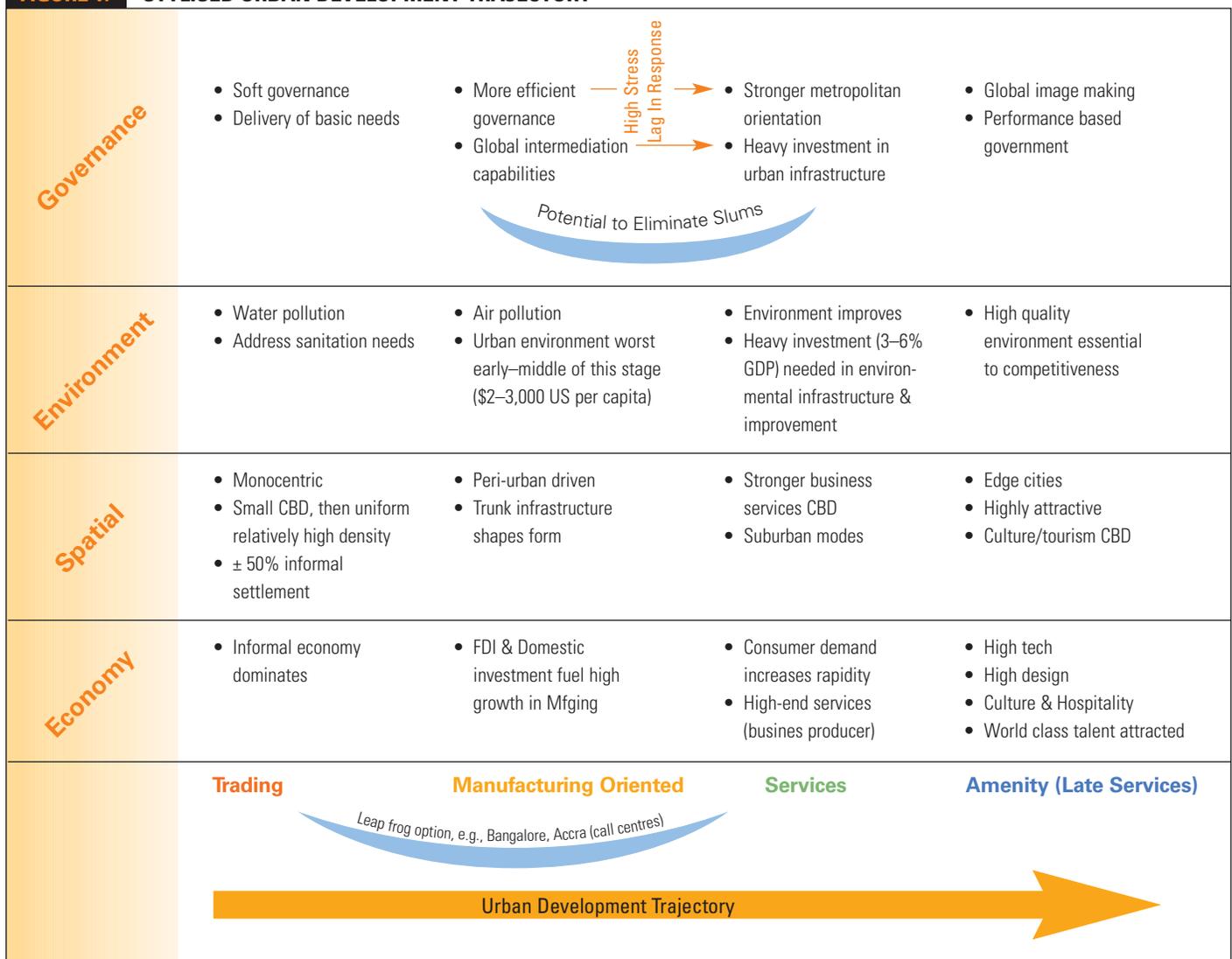


Aerial view of Lanzhou along the Yellow River, China

considerations need to be integral to the CDS process, driving strategy. For example, to date, urban form has been largely the product of market forces and, to a lesser extent, planning frameworks. That is, it is the product of urban economic function, motorisation, land markets, and access to financing for city building (particularly residential). Future planning and policy frameworks should consider and incorporate market signals to generate more efficient urban forms. Similarly, in most CDS processes, environment and energy considerations have been “add-ons,” for example, programming water supply and wastewater systems

according to conventional civil engineering standards, using conventional technologies to supply urban communities wherever they evolve, accepting the energy demands of spread settlement, or allowing the construction of buildings with scant attention paid to their energy performance. Now energy considerations need to be reflected in spatial form and building design, driven by appropriate policy frameworks, and supported by strong political will. Buildings consume more energy than transportation in cities, and this energy consumption should be an important point of focus (Fry 2005). Systems that rate green and

**FIGURE 1. STYLISED URBAN DEVELOPMENT TRAJECTORY**



Source: Webster (2005)

sustainable development include the Leadership in Energy and Environmental Design system, developed by the US Green Building Council. Environmental quality, including effective and sustainable delivery of environmental services, is important at all points along the urbanisation trajectory (see Figure 1), from the delivery of economic benefits through improved population health in poorer cities and the provision of basic services at one end of the trajectory to the attraction of talent, investment, and high-value economic activities at the other.

### **BOX 1. MISSED OPPORTUNITIES IN TUNIS, TUNISIA**

Tunis is in an enviable situation. It has the largest concentration of businesses in the country (its economic weight is 2.5 times its share of population); one out of five workers has a university education; and only 4 percent of its households are officially below the poverty line. Yet a quarter of Tunis's population live in informal settlements, and nearly a third work in the informal sector. The government was already spearheading several poverty redistribution programmes (in actuality, slum upgrading) when the city began its CDS process. The city subsequently incorporated these programmes into its vision and development strategy and outlined the latter in the *White Book*, a publication for public dissemination and validation. To some extent, the *White Book* has successfully galvanised several stakeholder groups to organise activities around central strategic concepts. For example, it gave rise to 'Re-appropriate the City,' a women's movement to make coffeehouses and other locations in the city safe for women in the evening. But the strategy formulation missed key opportunities to capitalise on the city's strengths. Most notably, the business community lost interest because it felt that the *White Book* lacked targeted strategies for economic development. The business community's disengagement severely limited the ability of the city government to catalyse and leverage private investment to orient development along new directions. The city lost an opportunity to improve the employment and housing prospects and incomes of its current and future residents, including those in the rural areas, who, lacking economic opportunities, continued to migrate to the capital and into these informal settlements.

Source: UMP/UN-Habitat (2002).

- **Address Causes, Not Symptoms of Poverty**— Making cities look good and function well is important, but that doesn't provide real opportunity for less advantaged people. The focus of policies and scarce investment needs to be on significantly reducing intergenerational poverty, primarily through changes in education, health, and livelihood (jobs, business creation). Intergenerational thinking is particularly important in very poor cities. Turning a city around takes 10–20 years, corresponding to one human generation. The Tunis CDS process (Box 1) failed to gain the support of the business community. It failed to leverage support from probably the most important agent of poverty alleviation, the business community, which is instrumental in employment creation.

The focus of these guidelines is on CDS processes in developing cities. Developing cities differ from industrialised ones, as Figure 1 indicates, and therefore they require different strategic responses, as Figure 2 indicates. Furthermore, the conditions in developing cities vary enormously, from those of very poor cities in inland Sub-Saharan Africa typified by Bamako, through those of transitional-economy cities such as Prague and Sofia, to those of soon-to-be-rich cities such as Chengdu, China.

Industrialised cities also use CDSs to enhance their competitiveness, liveability, and so forth. They may also use CDSs to correct reversals in fortune, as in the Glasgow case (Box 2). In fact, industrialised cities actually have a long history of deploying strategic planning to achieve community goals. This may partially account for the generally higher technical quality of strategic plans produced by industrialised cities than produced to date by CDS cities. Although the substantive content of CDSs will obviously vary widely between industrialised and developing cities, there is no inherent reason why the technical quality of such processes and products should vary, given the access of all world cities to funding; comparative urban experiences; and knowledge resources, such as consultants, universities, and international organisations. By the late 1980s, the methodology was highly developed, and many cities had implemented CDSs, often

**FIGURE 2. STRATEGIC FOCUS: PRO-POOR DEVELOPMENT**

<b>Trading/Informal</b>	 Urban Development Trajectory	<ul style="list-style-type: none"> <li>• Health &amp; education</li> <li>• Inter-generational mobility</li> <li>• Community infrastructure—water —sanitation</li> <li>• Enterprise enabling actions</li> </ul>
<b>Manufacturing</b>		<ul style="list-style-type: none"> <li>• Allocating accessible land for migrants</li> <li>• Land adjustment</li> <li>• Housing finance</li> <li>• Wide coverage lean social service delivery (economically feasible)</li> <li>• Access of poor to quality technical education</li> <li>• Technical education aligned with emerging clusters</li> </ul>
<b>Services</b>		<ul style="list-style-type: none"> <li>• Sustainable social programs open to all (contributions by employers &amp; employees)</li> <li>• Geographically accessible city</li> <li>• Enable creative activity</li> </ul>
<b>Amenity</b>		<ul style="list-style-type: none"> <li>• Address poverty caused by social/psychological factors &amp; slowing of middle class opportunities</li> <li>• Ensure equal access to education (student loans, etc.)</li> <li>• Affordable housing policies</li> </ul>

**BOX 2. GLASGOW, SCOTLAND, REINVENTS ITSELF AS A CULTURAL CENTRE**

When Glasgow's traditional industries, particularly shipbuilding, fell into permanent decline—a casualty of a new global division of labour that favoured other locations—this former economic powerhouse had to reinvent itself. With factories closing and unemployment levels soaring, the district council set about recasting Glasgow's image from that of a polluted, rust-belt industrial city to one of a cultural city, with a focus on the arts, media, and business services. The district council was following the lead of local community groups, which had started an arts festival and opened a new museum, the Burrell Art Collection, in 1983. When the Scottish Development Committee hired McKinsey & Co., an international consulting firm, to prepare a redevelopment plan for the city, the firm proposed building on these initiatives to promote Glasgow as a cultural centre. The plan called for attracting international companies, encouraging creativity among city residents, and reinvigorating the city centre by converting old warehouses and factories into lofts and building new luxury housing in the docklands.<sup>i</sup> These efforts resulted in an economic renaissance for Glasgow. To sustain Glasgow's success, the Glasgow Economic Forum, a public-private partnership of economic stakeholders, prepared an economic strategy for 2003–2005.<sup>ii</sup> The strategy builds on existing strengths to sus-

tain growth and improve international competitiveness. It calls for the redevelopment of Kelvingrove Art Gallery and Museum, the creation of new visitor areas (such as Merchant City), and the development of high-quality business locations along the River Clyde, Glasgow's key territorial asset, according to the OECD. Riverside development projects include the Digital Media Campus, the international financial services district, and the Glasgow Harbour Project. The development of City Science will position Glasgow as the largest science and technology centre in Scotland for business and research development. Another key objective of the city's economic strategy is to improve the link between the unemployed Glasgow residents and opportunities in job-rich and growth sectors. The strategy calls for improving and creating innovative training or retraining and employment linkage programmes and enhancing transportation connectivity between disadvantaged neighbourhoods and key centres of employment. Finally, recognising the need to compete in the place market, Glasgow continues to strengthen its brand recognition with a new city marketing plan and is working on increasing direct and indirect international air services from Glasgow Airport.

<sup>i</sup> OECD (2002), UN-Habitat (2004).

<sup>ii</sup> GEF (2003).

*Between 2000 and 2005, the Cities Alliance supported CDS processes in about 140 cities.*

with considerable success, as summarised by Bryson and Einsweiler (1988), Kemp (1992), and Bryson (1999).

The Cities Alliance is the most important resource supporting CDS processes in developing cities. However, other groups are getting more involved, particularly in middle-income and transition cities. For example, the Shui On Corporation, based in Hong Kong and Shanghai, produces complete CDSs in partnership with municipal governments and key stakeholders before undertaking property development in Chinese cities. To date, Shui On has completed CDSs for Chengdu, Chongqing, Fuzhou, Kunming, Wuhan, Xiamen, and Xi'an. Consortia in Europe, including the European Union, support CDSs in that region, especially in transitional cities, such as Prague. Last, but not least, public agencies within cities

(such as economic development agencies) and public-private consortia (such as innovation councils) often undertake CDS processes without external support or funding. Although more common in industrialised cities, this approach is becoming a trend in developing cities as well. For example, a citizens' consortium, led by the business community, initiated the *Mumbai First* development strategy, in Mumbai.

Between 2000 and 2005, the Cities Alliance supported CDS processes in about 140 cities, contributing \$22.5 million. These guidelines abstract from lessons learned from those processes and a variety of similar ones, including locally driven processes and those supported by other international bodies or private corporations. In some cases, Cities Alliance activities have inspired CDS efforts it has not officially supported.



## 4. The Role of City Development Strategies

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### CDSs DO MATTER

**I**ncreasing evidence shows that urban performance is not based on maintaining existing roles, economic structures, and institutional status quo. Rather, it is based on adaptability. Almost all cities will be shocked by 2050, especially by external forces. The success of a city is largely determined by how it responds to shocks generated by rapid changes in its external and internal environments. This quality is known as *resilience*, and it will become even more important in future.

Bangkok lost much of its comparative advantage as the factory of Southeast Asia in the 1997 financial crisis and had its economic output (in US dollars) more than halved in one month. But by turning to high-end services, such as advertising, medical services, and spas, Bangkok repositioned itself to become a higher value economy than before. During this transition, poverty rates were kept much lower than forecast because households adapted, supporting less successful family members and taking advantage of deep social capital (Webster 2004). The World Bank forecast that the Thai poverty rate would rise to 18 percent from the pre-crisis rate of 11.9 percent (1996); it peaked at 15.9 percent.

Some other cities that were shocked never recovered. And some cities, such as Manila, forecast in the early post–World War II period to become economic leaders, have been trapped in vicious cycles.

The evidence is clear: cities can and do suffer major reversals in fortune. These reversals can be positive or negative, with turnarounds and breakdowns generally taking 10–20 years. Evidence indicates that performance turnarounds are frequently the result of a city's having a clear strategy, as was the case with Curitiba, Shanghai, and Singapore.

The role of a CDS process is first to shock an urban system under controlled conditions, causing stakeholders to be truly objective in assessing their situation, and then to strategically deploy a limited number of actions to enable the city to dramatically change its performance. The *Mumbai First* case (see Box 4) is an excellent example of a bold, shock-inducing strategy. A good strategy is a prerequisite to performance change, but implementation is what ultimately counts. Successful CDS processes almost always have key stakeholders acting with intent, chasing the same vision, within a framework of effective policies.

*CDSs are civic or public processes in which the local government plays an important enabling role*

The process works best when outsiders help in assessing the city's situation and in subsequent strategising. Cities need to learn from other cities, particularly those in similar circumstances or subject to the same types of shocks. This learning needs to include not just best practices but also cases in which events did not go according to plan. In both developing and industrialised cities, perceptive outsiders without vested interests can often see the reality of a city more clearly. Strategies are generally ineffective if they are mostly internally driven and ignore outside forces and learning.

It is unanimously agreed that CDSs should not be comprehensive plans. Rather, they should identify a few strategic thrusts (usually five to seven of these). The purpose of these thrusts is to lever the system through a variety of mechanisms: (i) changes in national and subnational (such as metropolitan or municipal) policy frameworks; (ii)

public and private investment, including innovative financing mechanisms; (iii) demonstration and ripple effects from catalytic projects and programs; and (iv) public-private initiatives.

CDSs are not public sector programmes or documents like local government's physical plans or long-term budgets. Rather, CDSs are civic or public processes in which the local government plays an important enabling role. The city authority in Karu, Nigeria, found that a consortium of local informal businesses had the potential to organise itself and play a leading role in driving the city's development, given that their economic activities constituted a substantial part of the GDP of a city dominated by the informal sector (Box 3).

Local governments are important for their ability to catalyse, to represent the public interest, and to fix market gaps and failures. However, the official budget of a city anywhere in the world is minuscule compared with the total financial resources that a city's stakeholders can catalyse. For example, expenditure by the Bangkok city government, the Bangkok Metropolitan Administration (BMA) accounts for less than 1 percent of urban investment. However, the city administration and budget can be vital signals of intent and commitment, thereby acting as powerful factors in investment decisions. For example, the BMA attracted investors to develop Bangkok's 23-kilometre elevated heavy-rail transit (BTS) system on a Build-Own-Transfer (BOT) basis. The system has completely transformed the city over the past five years. Similarly, those with talent and knowledge of urban innovation are widely distributed within urban systems, with local governments employing only a small percentage of them. Key strategies identified through CDS processes may or may not be actions that local government can or should take. But almost invariably, local governments need to play a catalytic role in making the project happen, for example, by organising innovative financing and providing signals to the private sector.

Even if large segments of the community reject a CDS, a strategy like *Mumbai First* may lead to action catalysing alternative responses (Box 4).

### BOX 3.

#### IMPROVING LINKAGES BETWEEN GOVERNMENT AND INFORMAL BUSINESSES IN KARU, NIGERIA

Like the economies of most African cities, that of Karu, a fast growing satellite town on the outskirts of the capital of Nigeria, Abuja, relies predominantly on the informal sector. So when Karu wanted to formulate a local economic development strategy to reduce poverty and maximise economic growth, it focussed on establishing a participatory framework to enhance the interaction between state and local governments and informal businesses. The result was the Business and Economic Development Committee, a consortium of local Karu businesses. As the CDS moves into implementation, the consortium continues to serve as a crucial link for information exchange and feedback, priority setting, economic strategy development, resources, and joint action within the business community and between this community and the government.

Source: Cities Alliance (2003a, p. 14).

#### BOX 4. A BOLD TRANSFORMATION PLAN FOR MUMBAI, INDIA

The redevelopment plan for the city of Mumbai is bold. Its goal is to transform Mumbai into a world class city by 2013, equalling or surpassing Shanghai. A core principle of the strategy is that incremental change doesn't work—reform comes in leaps. The Government of Maharashtra's plan builds on a report by McKinsey & Co. on the future of Mumbai, originally commissioned by the citizen's group *Bombay First*, which felt frustrated with urban development in one of Asia's most dysfunctional cities. The report called for a \$40 billion 10-year redevelopment plan for Mumbai, including a \$1.2 billion plan to redevelop Dharavi, a slum community with the unenviable reputation of being among the largest in Asia. Covering an area of 220 hectares and home to about 1 million residents, Dharavi is also one of the most entrepreneurial communities in India. Hundreds of microfactories operate within the slum, generating \$500 million in annual sales of pottery, leather, jewellery, and much more. Ideally situated near the international airport and the new Bandra-Kurla business district, it also attracts white-collar workers, who choose to live here among the rural migrant manufacturing workers to be closer to their place of employment and to avoid the horrendous daily commutes endemic to this highly

congested city. The redevelopment of such a large and prime location in a city strapped for land is an important keystone in the planned transformation of Mumbai. It is intended to be an achievable "fast win" to catalyse a positive cycle of change and "transform the texture of life" in this city.<sup>i</sup> The redevelopment plan calls for private developers and investors to build new upscale business and residential areas, with land set aside as part of the land readjustment scheme to provide affordable housing for displaced low-income Dharavi residents.

To realise the transformation plan, the Government of Maharashtra formed a Citizens' Action Group, comprising citizens from academia, the private sector, and the slums, and the government approached international agencies, including United States Agency for International Development, the World Bank, and the Cities Alliance, for financial and technical assistance. But bold moves invite controversy. Already highly contested, the development became especially controversial following the decision of the Government of Maharashtra in 2005 to undertake a slum demolition programme in 2005 in which 30,000 post-1995 homes. The strong public outcry halted the evictions, but not before the demolition

programme had severely jeopardised the support of a range of local and international actors and damaged Mumbai's international reputation for flexible, pro-poor development. As the transformation initiatives go forward, some slum residents remain sceptical about the government's intentions and are calling for more incremental approaches, whereas others remain hopeful that the project will bring about a better quality of life for themselves and for Mumbaiers as a whole



<sup>i</sup> Government of Maharashtra (2004).

Source: Sharma (2002), Cities Alliance (2005, pp. 36–37), *The Economist* (2005), Stewart (2005, pp. F4–F5).

## 4.1 WHY UNDERTAKE A CITY DEVELOPMENT STRATEGY PROCESS?

Why should a city undertake a CDS? Why not allow the market and day-to-day bureaucratic forces to determine its fate?

A strategy has several advantages:

- It encourages stakeholders to invest and behave according to a vision, effectively pulling in one direction—getting priorities right is crucial to success;
- It cost-effectively allocates resources to a few key strategic areas;
- It helps a city anticipate future shocks and rapidly changing contexts (the risk environment) and raises its understanding of how stakeholders would respond under various scenarios;
- It enables a city to anticipate the rate, type, and physical direction of growth and to develop infrastructure ahead of growth.

Given the potential benefits, some countries have institutionalised CDS concepts nationwide. The best example of this is South Africa, where all cities must now produce a strategic plan based on the success of CDSs in larger cities, such as Johannesburg (see Box 8). Box 5 describes how CDS principles are being used to guide strategic planning in urban areas throughout South Africa.

Cities do have choices in their future development directions and outcomes, albeit circumscribed. Their path of development is by no means predetermined. As a general principle, a CDS is a ‘trend breaker’. It is designed to motivate key city decisionmakers and stakeholders to think and operate differently; otherwise, there will be no change. Strategies should be designed for high leverage and be deployed where the highest developmental leverage is possible.

The prime motivation for the instigation of CDSs is the stakeholders’ awareness that the current situation is unsatisfactory. Cities have often had dramatic reversals in their fortunes. For example, conditions in most Sub-Saharan cities, such as in Harare, Lagos, and Nairobi, are judged unsatisfactory and are often inferior to conditions of the past. This is equally true in many industrialised cities; for example, Glasgow was the second most important industrial city in the British Empire in the Victorian era, but it has degenerated to the point of becoming dysfunctional, and many areas of the city became derelict. But the city is massively reversing its fortunes through a strategic plan to reinvent itself as a cultural and scientific centre, as described in Box 2.

Shanghai is a similar case. Along with Tokyo, Shanghai was the leading city of East Asia in the early decades of the 20th century, but it was in a state of disrepair and economic malaise by the early 1980s. Subsequently, the national government declared it the Gateway to China. Now, locally driven strategic initiatives, such as the new Pudong CBD, started in 1992, are restoring the city to its former glory. Shanghai is re-emerging as the dominant city of East Asia. Penang, Malaysia, is another city that successfully remade itself with a well-thought-out strategy for responding quickly to a global market. In the 1970s, it turned itself into one of the most important electronics manufacturing centres in Asia, riding the incipient electronics boom at that time (Box 6).

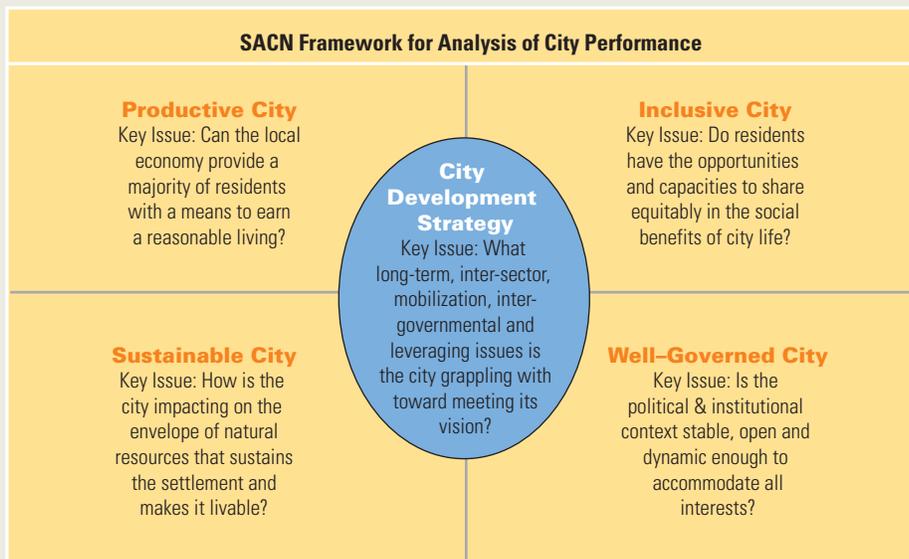
In other cases, cities are performing reasonably well but want to reposition themselves to excel. Examples would include Curitiba, Brazil, which is well known for excellence in urban management; Chengdu, China, which is becoming the dominant high-end financial services and electronics centre in western China (Motorola, Intel); and Las Vegas, United States, which constantly repositions itself to reinforce its role as the entertainment capital of the world.

**BOX 5. MAINSTREAMING CDS IN SOUTH AFRICA WITH THE HELP OF THE CITIES NETWORK**

The Department of Provincial and Local Governments (DPLG) in South Africa has recently announced that all five-year Integrated Development Plans (IDPs) must include a long-term strategy. Accordingly, by the end of 2006, all 284 South African local governments will need to develop a CDS. Several of the larger cities already have a CDS, including Johannesburg, with a model CDS; Tshwane, which is expanding the scope of its CDS in a groundbreaking way with a new citywide housing and upgrading strategy and financing plan; and eThekweni, Cape Town, Ekurhuleni, and Buffalo City, which are each in the process of finalising and tendering a CDS. But the vast majority of South Africa local governments have yet to put effective CDSs in place. Few of the IDP action plans take a long-term perspective involving collective visioning and strategic planning. At a recent national workshop to evaluate the impact of integrated development planning, mayors and city managers of South African cities identified a need for economic growth strate-

gies based on competitive advantages, plus outcomes-based planning, monitoring, and spatial development frameworks, to coordinate public sector spending and other development efforts. Despite a rapid expansion of services, the cities see a need for more effective mechanisms—strategic actions focusing on few points of leverage for maximum impacts—to tackle the major issues affecting the overall quality of life in South African cities, such as unemployment, crime, poverty, and HIV–AIDS. Many of these concerns could be addressed within a CDS.

To facilitate the process, the South African Cities Network (SACN), an organisation with a mandate to collect, analyse, and disseminate experiences of large city governments in South Africa, has developed a programmatic framework to assist cities in formulating a CDS (see inset). Using the SACN framework, cities can formulate long-term strategies that promote intergovernmental and intersectoral approaches to planning, focus on points of leverage, and mobilise city partners. The city analysis framework has received overwhelming support from public, social, and private sector stakeholders in member cities. It is regarded as an essential instrument of analysis that, in allowing all stakeholders to participate in a critical analysis process, draws on the distributed knowledge within society to develop a city strategy while enhancing networking between city stakeholders.



Source: SACN (2004, pp. 1–7).

## BOX 6. AN AGGRESSIVE STRATEGY PAYS OFF IN PENANG, MALAYSIA

The story of how Penang became one of Asia's major electronics manufacturing hubs offers many valuable lessons for urban strategists. Penang, the second smallest state in Malaysia, prospered as a free port under British rule and in the early independence period, but it suffered economically when the federal government revoked its free port status, in 1969. To reinvigorate the island's economy and respond to growing unemployment, Penang state, under the visionary leadership of Dr Lim Tun, adopted an export-oriented industrialization policy, which many considered radical at the time—import substitution was in vogue. The cornerstone of the strategy was the creation of a free trade zone (FTZ) at Banyan Lepas, outside the island's main city of Georgetown. By creating an enclave outside the customs and other federal administrative domains, the state could bypass many inefficiencies in the Malaysian system while offering investors attractive export incentives. The first major international firms to locate there, in 1972, were National Semiconductor and Hewlett-Packard, two leading American semiconductor firms; others soon followed. Within a year of these firms arriving, the electronics and electrical equipment industries accounted for one fifth of all manufacturing jobs in the state and accounted for 28 percent of Penang's manufacturing value added.<sup>1</sup>

Public investment was the main driver of Penang's economic development. The state government invested in essential supportive industrial infrastructure, ahead of demand, to guide and promote economic development and shape desirable spatial outcomes. Early public sector investment focussed on constructing the FTZ—developing the land and facilities and providing roads and utilities—well before the first investor was secured. The state government forecast future land needs and banked sufficient land next to the FTZ to expand the zone and keep the industry spatially clustered, which served to promote interaction between firms and to support a close-knit business community. It built new cargo facilities at the airport before the old ones reached capacity. As employment grew and attracted a large number of migrants from other states, the state government created a new town to relieve pressure on the main city, Georgetown. Situated next to the FTZ, the new town was able to leverage the extensive infrastructure investment the state had put in place to service the industrial base and to subsidise the costs

of production (for example, through affordable worker housing). Although Penang Island had only 778,000 people at the time, infrastructure was built to accommodate the 2020 forecast of 2.5 million.

To execute the vision, the state set up the Penang Development Corporation (PDC) as a semiautonomous entity. Staffed with top talent and given considerable autonomy, PDC became a highly respected and valued partner to the global electronics industry, responding flexibly, quickly, and effectively to the shifting needs of investors in this rapidly changing industry. By holding regular meetings with top industry leaders, PDC officials not only ensured good lines of communication and a forum for joint problem solving, but also contributed to the creation of strong industry networks to increase knowledge spillovers and innovation. In one of its many supporting roles, PDC helped to pair local suppliers with major investors. When local universities, which fell under the federal mandate, failed to respond to the severe skill shortages hindering industry expansion, a joint council of PDC and the major manufacturing firms established the Penang Skills Development Centre (PSDC), in 1989. Its unique organizational structure, with industry directly involved and holding the chair position in the centre, ensured that PSDC would have demand-driven courses to meet the evolving needs of the industry. And in a much-emulated best practice, the PSDC has helped Penang to move up the electronic industry value ladder and stay competitive by continually enhancing the pool of qualified human resources.

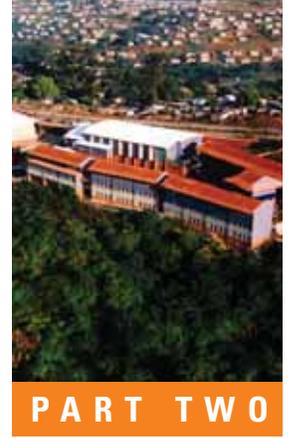
As more of the labour-intensive electronic assembly production relocates to emerging low-cost locales in the region, especially China, Penang has shifted into higher value activities, including wafer production and the design and prototyping

of products and production processes, thereby retaining its prominence as an electronics manufacturing hub of Asia.

<sup>1</sup> Haggard, Li, and Ong (1998, p. 22).

Source: Muller and Saxenian (2005).





## 5. Approach

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These guidelines are organised around themes (substance) and building blocks (methodology). The objective of the guidelines is to have worldwide applicability in the development of CDSs to enable cities to reposition themselves. This is a tall order, because, as noted, developing cities vary widely in social features (economic systems, culture) and resources (finances, knowledge, governance capacity). Therefore, what follows in sections 6 and 7 necessarily generalises across these differences.

Section 6 discusses the substantive focus of the CDS. Although each city's strategy will be unique, experience has shown that virtually all successful cities deal, albeit in different ways, with (i) livelihood enhancement (making a living [getting a job, starting a business], competitiveness, and human resource development); (ii) environmental quality, service delivery, and energy efficiency; (iii) spatial form and infrastructure (supplying land for shelter and livelihood, enabling transaction-rich environments, and optimising mobility through cost-efficient and environmentally sound transport systems); (iv) financial resources; and (v) governance.

A city's perspective on these issues and its priorities will very much depend on (i) its place on the development trajectory (some cities are primarily informal economies, such as Maputo, Mozambique; some are just entering large-scale industrialisation, such as Ho Chi Minh City, Vietnam; others are becoming high-end service-oriented economies, such as Hyderabad, India); (ii) its geographic context (some are land locked; others are coastal; some have highly attractive settings; others lack natural amenity); (iii) its culture; (iv) its governance system; and (v) its openness to globalisation.

The building blocks (methodology), described in section 7, sequentially outline the technical steps of any successful CDS process. Worldwide experience has refined the approach taken in these guidelines, which offer advice on each stage that experience has shown to underlie a successful strategic city development process.



## 6. Themes (Substance)

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The following themes are useful in structuring the CDS processes of identifying a city's issues and assessing its capacity. Appendices A to E are menus of specific elements for each of these themes. A city's place on the urban trajectory should determine which elements of these menus it should focus on. Although these thematic categories are central to the assessment, strategic thrusts (as discussed in section 7.6) normally cut across more than one theme.

### 6.1 LIVELIHOOD (Jobs, Business Start-ups, and Household Income)

The bottom line of virtually every CDS is an improvement in livelihood opportunities for the city's population. For the adult population (labour force), the measure of livelihood is normally employment (that is, working for a company or for someone else) or creation of one's own work (for example, starting a business or providing services as an individual). The formal and the informal sectors both offer employment and business creation opportunities. CARE, the Atlanta, United States-based humanitarian organisation, has developed a household livelihood security

(HLS) approach as the basis of its work (Figure 11); the HLS approach is useful in understanding livelihood issues (Sanderson 2002).

Unless the incomes of lower income households can be increased, it is difficult to sustainably reduce poverty. Widespread increases in the incomes of low-income households require economic growth; growth is good, if not essential, for the poor (Dollar and Kraay 2000). And unless the value of urban output can be increased, it is very difficult to generate the fiscal resources needed for public facilities, which, in turn, improve the health and knowledge of local people and attract private investment, creating a virtuous circle.

CDS designers need to assess and consider issues and formulate strategies in three areas to create a livelihood-enhancing environment: (i) the business climate and enabling policies for small-business creation; (ii) urban competitiveness; and (iii) human resource development.

APPENDIX A puts forward a menu of thematic issues related to livelihood enhancement. Relevant menu items and policies may vary widely, depending on a city's place on the urban trajectory. In the poorest of cities, policies would focus on estab-

lishing basic literacy; enabling informal businesses to start up with a minimum of hassles; and creating supportive, non-nuisance environments to allow existing businesses to become more efficient and grow. Businesses with potential to export, both to other parts of the country and internationally, should have access to information and support for their efforts to market these products. In middle-income cities, at the other end of the developing city trajectory, policies will be quite different. They may be designed to support research and development, to attract high-end talent, to deepen economic clusters, and so on.

### 6.1.1 Business Climate

Business climates vary widely between urban areas, but cities with more attractive business climates are much more likely to attract investment. The World Bank's (2004) recently published global assessment of business climates is of considerable value in formulating a CDS.

Enabling policies for small-business creation and growth are important in cities worldwide, but they need to vary, depending on a city's position on the urban development trajectory. In poorer cities, such as Jakarta and Nairobi, the formal sector obviously cannot create enough jobs to meet the employment needs of labour force entrants and migrants, let alone clear up employment backlogs. Therefore, in such cities, many, if not most, people will have to create their own jobs. If not, social instability is almost guaranteed, as is economic performance that falls far below potential. Local governments can do much to help organise and strengthen small businesses and especially the informal sector. In Karu, Nigeria, the local government helped to organise the informal sector into a business network (see Box 3). In the case of Santo André, Brazil, the regional development plan focused on the service sector, which was dominated by small and informal enterprises. Because there were no data on this sector, a CDS process was initiated to collect data and develop a strategy to enable the tertiary sector to drive development (Box 7). Local governments and tertiary sector organisa-

tions can assist people in creating their own small businesses by providing training, minimising nuisance taxation, supporting small-business licensing, and the like.

### 6.1.2 Competitiveness

The competitiveness of cities can be assessed rapidly. Webster and Muller (2000) prepared a manual that covers competitiveness assessment modes. A CDS should identify a city's comparative advantage (that is, its endowments, such as climate, geolocation, factor availability, and the price of land and labour). At the same time, the CDS should assess the city's competitive advantage (that is, how competitive a given industry or economic cluster, such as automotive assembly, is vis-à-vis a similar cluster in a competing city).

Unfortunately, we have few urban economic data, even for the formal sector, in most developing countries, especially in the medium-size and smaller cities whose boundaries do not coincide with provincial or municipal boundaries. Also, the data tend to be organised traditionally, by sectors, whereas economic development is best understood through cluster analysis. To the extent possible, a CDS should focus on key economic clusters in assessing a city's competitiveness.

### 6.1.3 Human Resource Development

Human resource development is key to efforts to prevent or alleviate poverty and is the prime agent of upward mobility in developing cities. It contributes to overall urban productivity and competitiveness by developing a stock of specialised, technically skilled labour. It involves short-term training, formal training leading to certification (such as university or vocational programmes), and other modalities of training (such as apprenticeships and informal adult literacy courses). Key concerns in assessing human

*Local governments can do much to help organise and strengthen small businesses and especially the informal sector.*

**BOX 7.****ECONOMIC STRENGTHENING IN SANTO ANDRÉ, BRAZIL, THROUGH SMALL BUSINESS AND INFORMAL SERVICE SECTOR DEVELOPMENT**

The Santo André CDS was an elaboration of a larger regional economic development plan. The greater ABC region, in the south-eastern part of Greater São Paulo, prepared a regional economic development plan in 1999, setting out a planning and institutional framework for the region's economic revitalization. The strategy called for a focus on the tertiary economy. However, because small-scale and informal enterprises dominated this segment of the economy, information about business and other service sectors was scant. Thus, Santo André, the second largest of seven municipalities in the ABC region, initiated a process to deepen the knowledge base of this sector through a set of interviews and, based on the results of this survey, a detailed action plan to develop the service sector.

Santo André discovered that interview-based surveying is a lengthy process, especially when the database for sampling is incomplete, as in the city's informal sector. It took 20 weeks to collect surveys from small businesses and 15 weeks to collect surveys from the informal sector in Santo André. The process was hindered by a lack of awareness about the regional plan and its importance and

by respondents' reluctance to share information about revenue and profits with the government. Better media coverage could have helped. However, the survey process itself raised awareness about the broader strategy and the government's desire for stakeholder participation. For this reason, Santo André had to ensure that the people conducting the surveys were capable of describing the regional strategy and its participatory frameworks. The process also required striking a balance between outside consultants and insider inputs. Outsiders could facilitate the process, gather sensitive information more easily than the local government, and provide helpful viewpoints, but creating databases, interpreting results, and developing feasible detailed plans required local knowledge of processes, politics, and history.

In the end, the Santo André CDS got the local community involved in the regional strategy, and it added value to the overarching strategy with better defined programmes and projects, with the local stakeholders' political support.

Source: Cities Alliance–ABC (2002).

resource development at the urban scale are: (i) access to training or education opportunities; (ii) the quality of training programmes; and (iii) the alignment of educational programming with the emerging urban economy.

Short-term training can be particularly important as an adaptation mechanism when cities are shocked. For example, immediately after the 1997 financial crisis in Thailand, the Bangkok government (the BMA) trained more than 100,000 people in occupations in demand. The trainees were then able to set up small businesses with minimal requirements for start-up capital, such as hairdressing, motorcycle repair, home renovation, or bookkeeping. The capability of a city to rapidly gear up short-term training is an important element in the assessment of an urban region.

## **6.2 IMPROVING ENVIRONMENTAL QUALITY, SERVICE DELIVERY, AND ENERGY EFFICIENCY**

CDS processes in the past have tended to view environmental initiatives as add-ons to strategies. Often, the so-called environmental strategies found in CDSs are: (i) conventional civil engineering programming, such as wastewater or landfill systems mechanically developed on the basis of demographic and economic forecasts; and (ii) proposals to minimise emissions, again on the basis of forecast conditions. What is needed is a changed paradigm to totally reframe the environmental and energy content of a CDS. For example, the question could be; which city development vectors would minimise environmental infrastructure costs, substantially improve energy efficiency, and maximise returns on public health and other social service investment? To what extent can demand management reduce the need for additional environmental or energy facilities?

Environmental assessments should also capture the important relationships between cities and their surroundings. If cities do not take into consideration the impacts of urban production and consumption outside the city's boundaries (impacts on forests, rivers, watersheds, biodiversity, coasts, climate change), they will seriously deplete the natural resources they depend on and hinder future development. The area covered by a CDS should also take into consideration natural resource boundaries, such as watersheds and coastal reef zones.

CDS designers need to assess system performance, consider issues, and formulate policies and strategies in three areas to improve environmental performance: (i) environmental quality; (ii) service delivery; and (iii) energy efficiency.

Appendix B puts forward a menu of thematic issues related to environmental performance and service delivery. Relevant menu items will vary widely, depending on a city's position on the urban trajectory. As in the case of livelihood, the environmental and public health conditions will vary according to a city's position on the urban development trajectory, as will its energy consumption. This trajectory, known as the environmental trajectory, is well understood. Environmental pollution generally worsens with industrialisation and is often at its worst during early industrialisation (lower middle-income city status). Environmental conditions then improve as initiatives are taken, often in response to citizen demands. Mass motorisation, the usual prime source of air pollution in middle-income cities, is increasingly occurring at the earlier stage of the trajectory. Because the populations of cities tend to grow fastest early on in the urbanisation trajectory, a CDS usually stresses capital and human resources needs for basic services; backlogs, even for basic services, may occur at an early stage in the trajectory. Energy consumption per capita tends to increase until cities reach a high level of development; then it levels off or drops. Energy consumption per unit of production or in relation to GDP usually drops much earlier, especially if proactive policies are in place to encourage energy efficiency.

Of course, each city is unique and will move through the trajectory at its own pace. For example, atmospheric inversions in the locales of some cities make air pollution worse; cities in countries that import oil or electricity to meet a high proportion of their energy requirements may need to introduce energy-saving interventions earlier on; and basic needs may be met more effectively under capable, transparent local government, especially if local civic groups apply pressure. The purpose of a CDS is to target cost-effective interventions that make the most difference in those areas most important to local public health and well-being, environmental quality, and energy efficiency.

### 6.2.1 Environmental Quality

Air and water quality are of prime concern early on in the trajectory. To ensure water quality, care should be taken in choosing technologies, especially for wastewater treatment. Most wastewater systems fail in developing cities because there is no provision for sustainability: financial resources for chemicals, energy, and maintenance are lacking. Simply blanketing a city with a conventional (high-cost) wastewater system is often not the strategic solution, especially in poorer cities.

### 6.2.2 Service Delivery

In service delivery, the prime concerns are coverage (geographic), accessibility and affordability (price), and the quality/cost ratio (often a trade-off). As in the case of environmental quality, service delivery systems need to be sustainable. Thus, tariff structures need to be developed both to be affordable to the poor and, in aggregate, to enable the system to function without operating subsidies. Start-up subsidies are justifiable under certain conditions. Much literature exists on service delivery, especially from the World Bank, to assist cities in assessing service delivery and in developing strategic thrusts to make it more effective.

Johannesburg, South Africa, uses modern information technology, including geographic informa-

*Environmental assessments should also capture the important relationships between cities and their surroundings.*

tion systems, to innovatively monitor service delivery in slum neighbourhoods. Through better monitoring of these neighbourhoods, the city can identify the need for planning or management and can quickly ascertain progress towards environmental and service objectives such as coverage (Box 8).

### 6.2.3 Energy Efficiency

As has been argued, energy efficiency will dramatically affect the well-being of a city's residents, particularly lower income residents. Figure 3 shows the major areas in which a city's energy efficiency may need improvement. As the figure indicates, energy efficiency can be improved by incentives to change behaviour related to indus-

trial processes, household consumption, building construction and use, and urban form. Demand management is as important as supply management, but because it is obviously much less capital intensive, it is often more cost-effective. And cities often have more control over demand (as distributors), because the supply side is often controlled by national-scale state enterprises, corporations, and so on. The environmental impacts of energy use are another area of high concern. As cities around the world have shown, curtailing the use of coal in urban areas can deliver enormous improvements in air quality, as can using vehicles that have been converted or manufactured to use alternative fuels, such as liquefied natural gas or hybrid sources of power, for example, electricity and fuel cell.

#### **BOX 8. THE SERVICE DELIVERY MONITORING SYSTEM IN JOHANNESBURG, SOUTH AFRICA**

**T**o improve decisionmaking related to service delivery to the urban poor, the City of Johannesburg established a service delivery monitoring system, integral to its CDS, with the support of the World Bank, the Netherlands, and the Cities Alliance.

The underlying idea was to give political representatives and communities access to information relevant to annual budgetary allocation decisions and empower the city's poor through better information. The monitoring system, based on up-to-date information on the status of service delivery to poor households, has enabled the city to target poor neighbourhoods for sectoral expenditures. By linking budget allocations to their impacts on poor households, the monitoring system should keep municipal officials and the citizens of Johannesburg abreast of the city's progress towards Johannesburg's goal of becoming a world-class city by 2030.

Simplicity, affordability (time and financial costs), user friendliness, and fiscal accountability were important criteria for the design of the monitoring mechanism. Using a Geographic Information System (GIS), poorly served areas where households received less than basic services were identified and mapped. Hand-held computers, programmed with consistency checks to reduce errors, were used to record information. The data were then transferred to a server every other day for immediate use. The Excel database is available

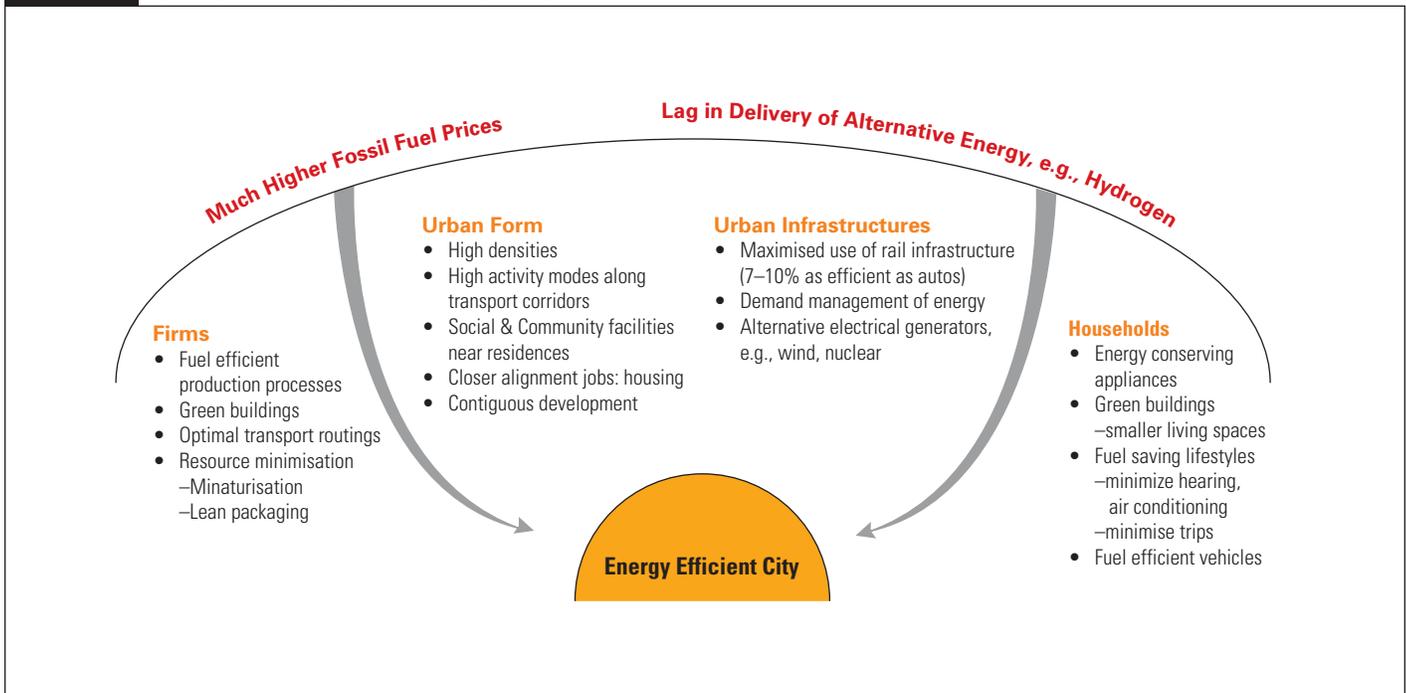
to city officials and other stakeholders in user-friendly formats, and the city is now planning to install the database on its website for public use.

This initial mapping of poorly served areas is an important step towards establishing a system to monitor the delivery of essential services, particularly to the poor. The effectiveness of the monitoring system rests on several important factors, including the kinds of information collected through surveys, how various stakeholders use the information, how monitoring builds accountability to improve the delivery of essential services to the poor, and how its impacts (that is, changes in the status of service delivery on the ground) may in the future help to improve the fiscal efficiency of the city's service delivery.

The City of Durban is now implementing systems pioneered through Cities Alliance support in Johannesburg; the Cities Learning and Support Network expects to spread these systems to the other seven large cities in South Africa. Lagos, Nigeria, Africa's largest city, with more than 12 million people, has also expressed interest in adopting the Johannesburg service delivery monitoring system.

Source: Cities Alliance (2002, p. 9).

**FIGURE 3. CITIES IN THE POST-PETROLEUM WORLD**



Source: Webster (2005)

## 6.3 SPATIAL FORM AND INFRASTRUCTURE

Spatial form and infrastructure are becoming increasingly important in city development. Appendix C outlines a menu of urban form and infrastructure issues areas to be considered in rapid assessment of cities.

### 6.3.1 Infrastructure

Recent research that the World Bank summarised in its flagship report on infrastructure in East Asia (ADB, JBIC, and World Bank 2005) stresses the importance of infrastructure in support of urban economic competitiveness and human well-being. However, assessing infrastructure effectiveness is difficult, and allocating public funds among competing infrastructure needs is even more so. Often, tradeoffs, as well as synergies, exist between equity objectives (providing basic services to all members of urban society at affordable rates) and economic objectives (which may be facilitated by expressways, ports, airports, and the like). A good CDS carefully considers infra-

structure investment. Infrastructure investment has been neglected over the past 15 years in most developing cities, as reflected in both public and private investment. There is now a consensus that more attention needs to be given to urban infrastructure to absorb rapid growth and to enable developing cities to meet their economic potential. The evidence is clear that infrastructure bottlenecks greatly reduce economic efficiency by raising the cost of goods and services, reducing public health, and robbing people of their time.

### 6.3.2 Urban Form

Cities should be concerned about their spatial structures. Congestion can impose high economic costs; sprawl is associated with energy inefficiency; and attractive environments—such as areas of high vitality intermixed with high-quality public spaces—are conducive to inward migration of talent, investment, and so forth. Affordable, accessible land is essential to absorbing migrants productively as part of large-scale poverty prevention programming.

In many developing cities, slums, including squatter settlements, constitute a large percentage of the land area; in some cities, the majority. Slums cannot be viewed in isolation, as separate from the “modern” or “permanent” city. Nor can they be viewed as being outside the land economy. Acknowledging their economic value can help in either getting new housing built elsewhere or improving the settlements *in situ*. If there is enough confidence in local institutions (unfortunately, a condition that often does not exist), land readjustment can deliver the most effective win–win outcomes, as the East Asian case indicates. Slums and squatter areas should be assessed as integral components of a city’s spatial structure, and like all land uses, as dynamic. Land uses can be significantly changed by appropriate policy, investment, and awareness initiatives.

All land uses in cities shift, even central business districts (CBDs), as the case of Manila illustrates; thus, all forms of land use should be assessed as dynamic, not static. For this reason, time-series analysis of data from remote sensing is very important in the initial assessment. Fortunately, such data sets are becoming more affordable.

The Aden, Yemen, CDS process clearly identified the need for specific infrastructure to enhance the economic competitiveness of the city and better link investment zones to the wider economy (Box 9). The process led to significant investment, which unleashed considerable economic potential and was influential in shaping the spatial form of the city.

#### BOX 9.

#### CAPITAL INVESTMENT AND ADMINISTRATIVE MODERNISATION ARE KEY TO LOCAL ECONOMIC DEVELOPMENT IN ADEN, YEMEN

The city Vision that emerged from CDS workshops in Aden, Yemen, with local participants not only informed the formulation of a local strategy to strengthen the city economy, but also sparked a wider infrastructure investment programme for the city and the region.

Aden’s CDS strategy focused on strengthening the economy through (i) improving the operational efficiency of the seaport, airport, and free trade zone; (ii) linking key economic areas to the wider city economy by investing in roads to the industrial estate; and (iii) improving the overall business environment. The latter focused on strengthening the delivery performance of institutions and on making policy improvements to increase investor confidence. Measures included streamlining business regulations and modernising the administration’s information and communication technology.

These local economic development initiatives received a major boost when the CDS process led to initiation of the regionwide Port City Development Project, a 12-year, \$96 million investment programme financed by the World Bank to improve transportation infrastructure, commercial areas, and capital investment plans and to provide resources for building local capacity and modernising local administrations.



Source: Cities Alliance (2003a, pp. 10–11, 2005, pp. 59–63).

## 6.4 FINANCIAL RESOURCES

Appendix D outlines a menu of key thematic issues pertaining to financial resources for a CDS to consider in its assessment.

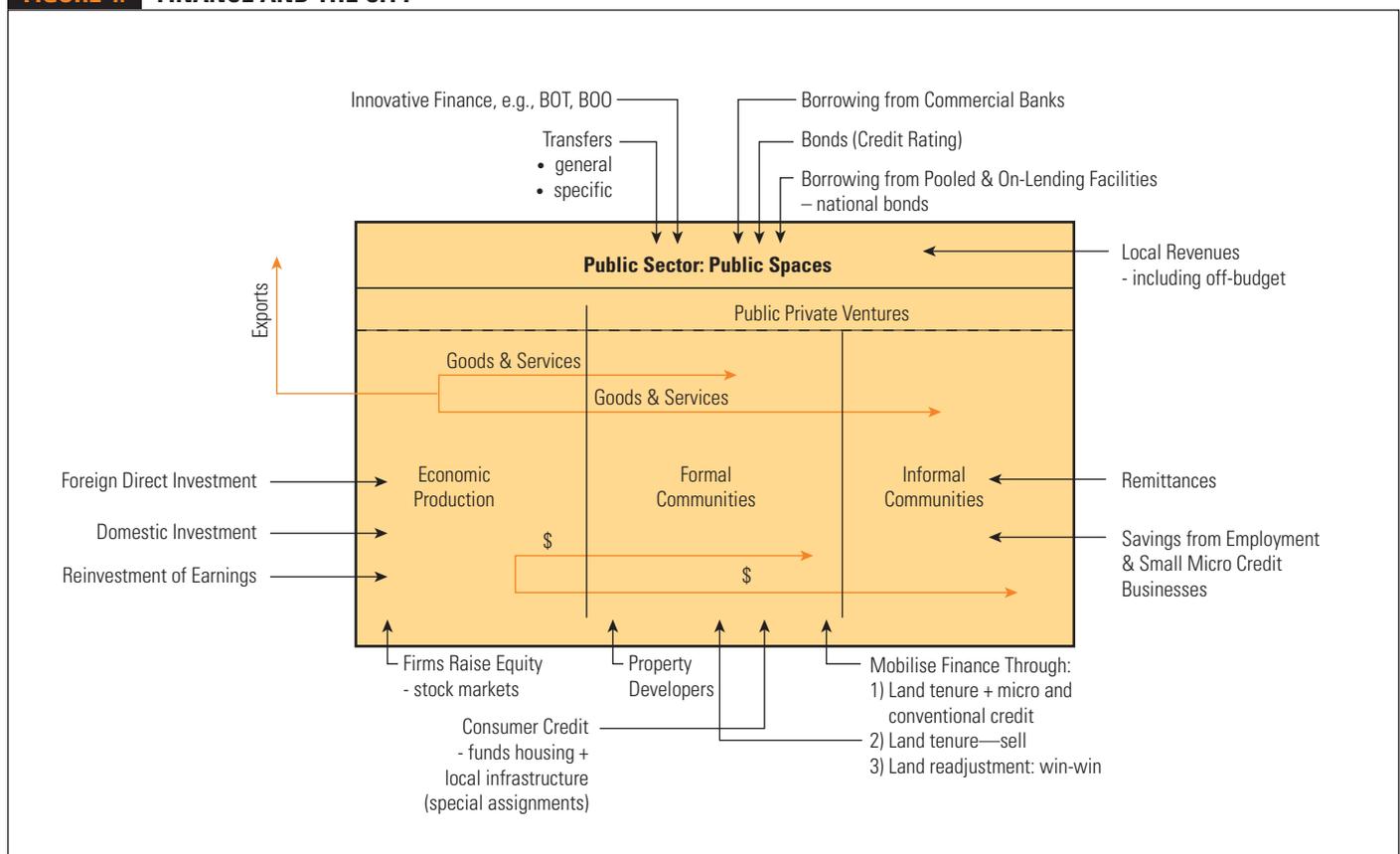
As Figure 4 indicates, local public sector budgets constitute a only small stream of financing for city development. However, this is not cause for alarm. Even the poorest of cities can use a myriad of capital sources to improve its performance and the living standards of its residents. Lack of public sector fiscal resources, although obviously making the situation more difficult, need not constrain a successful strategy.

Figure 5, derived from the Bangkok case, shows that much, if not most, public infrastructure can and should be financed by those who use it—the private sector and so on (consumers).

Assessments should accurately determine the financial status (operating and capital budgets) of a city’s government. Appendix D provides the details. In some middle-income cities, municipal ratings agencies do this, but less economically developed locales may not have such data. Once the CDS assessment has determined the current financial status of the city, analysts should forecast its future financial status on the basis of expected revenue and committed capital spending, as well as expected routine spending. Best practice includes the development of future financial scenarios, often based on low-, medium-, and high-revenue forecasts. With this information, the city can borrow and make future commitments with a better understanding of risk. An effective CDS supplies a reader-friendly financial report with stylised facts to enable stakeholders to more easily understand the city’s financial position. The main strategies of the CDS have to be directly tied to the means of financing them, including

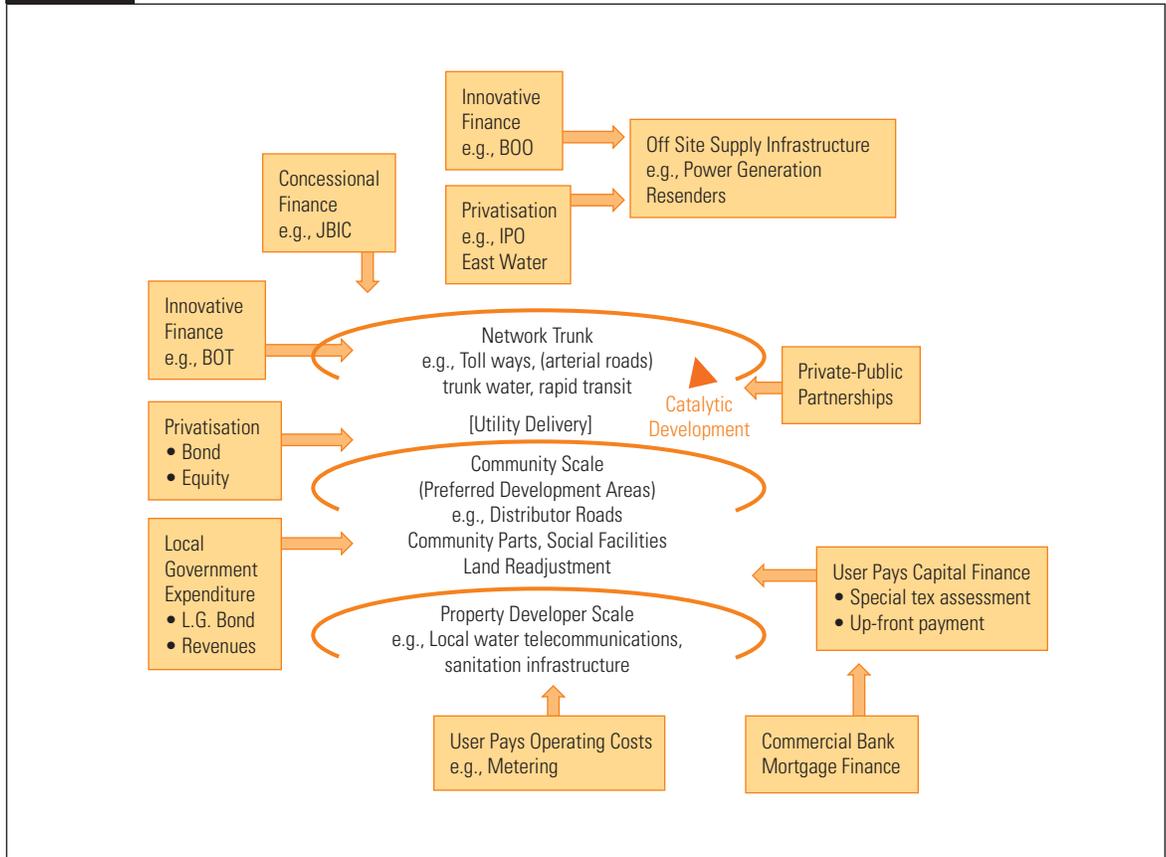
*An effective CDS supplies a reader-friendly financial report with stylised facts to enable stakeholders to more easily understand the city’s financial position.*

**FIGURE 4. FINANCE AND THE CITY**



Source: Webster (2000)

**FIGURE 5. FINANCING CITY BUILDING: THE CASE OF BANGKOK**



Source: Webster (2005)

city government financing. If the city lacks a medium-term financial planning process (incorporating capital spending), the CDS would likely recommend such a mechanism. Financial analysis of the city’s government will set the stage, of course, for determining how to finance needed infrastructure, public facilities, and the like. Clear financial statements, including forecasts, are a prerequisite for obtaining private sector funding, issuing bonds, or pursuing innovative financing, including public–private partnerships.

The ability of the city to service its current debts and borrow additional funds is critical to determining the future financial role of the local government(s). The important considerations are revenue diversity, autonomy to raise taxes, ability to change financial commitments over the economic cycle, willingness to control expenses, cash-flow management, and the level of committed capital investment.

The financial analysis examines the likely future strength of the city’s primary revenue sources, expenditure trends, operating results, and liquidity. Particularly important are scenarios for future revenue streams. Normally, financial planning and budgeting would be done over rolling five-year periods; however, analysis of past performance would span the last full economic cycle.

The CDS process should establish indicators (see section 7) to track the financial health of the city. Financial stocktaking provides a baseline for assessing the performance of future financial management and for making comparisons with other cities, including benchmark cities.

As mentioned earlier, quick gearing up of training systems is important during times of crisis. And a city’s financial systems need to be flexible enough to respond quickly to economic, natural, and other crises. At such times, increased trans-

fers from national governments are likely, but city authorities often require immediate action. The CDS process should assess the city's ability to act quickly and flexibly during times of stress.

## 6.5 GOVERNANCE

Just as in the case of finance, governance far transcends the role of local government. Government is important because it represents the public interest. Local government is especially relevant in city development: it is closer to the main stakeholders, it can become the knowledge hub for urban innovation, and it plays an important role in delivery (directly or indirectly through subcontracting, concessions, and the like) of facilities and services that are the responsibility of local government or the equivalent publicly accountable bodies. Furthermore, local government can and should undertake catalytic projects (alone or through public-private ventures) to bridge market gaps, especially when they negatively affect low-income people or seriously constrain the overall performance of the urban economy.

Appendix E presents a menu of thematic issues in governance for a CDS to consider. CDS work on governance is normally structured around the following themes: (i) national urban policy frameworks; (ii) institutional structure and processes of local government (administrative/political); (iii) role of local government in the context of decentralisation; (iv) metropolitan governance; (v) capacity; and (vi) relationship to the private sector and civil society.

### 6.5.1 National Urban Policy Frameworks

Often, the analysis of urban policy frameworks will already have been done at the national level. It is difficult work because cities are often as much affected by implicit urban policies (such as energy pricing or housing finance rates) as by explicit policies (such as establishment of metropolitan structures and specific investments in the urban area). As with all CDS assessments, the focus would be on those policy areas most pertinent to the strategy. A CDS would therefore ini-



Bangkok, Thailand

tially deploy a scan-scope approach (discussed in section 7.2.1). As strategic thrusts become clearer, more focused policy analysis targeting a particular thrust (such as affordable housing) should be undertaken.

### 6.5.2 Institutional Structure and Processes of Local Government (administrative and political)

Although it seems obvious, stakeholders may not be aware of the structure and processes of local government, such as its ways of electing or appointing councils, recruiting and hiring staff, establishing the mandates of major committees, ensuring transparency and appeal safeguards, assigning roles and mandates, and so forth. It is important that those preparing a CDS obtain this information and present it in a brief, stylised form.

### 6.5.3 Role of Local Government in the Context of Decentralisation

All local urban governments, with the possible exception of those in failed states, share powers, including fiscal powers, with other levels of government (for example, national and provincial). A worldwide trend towards decentralisation has provided greater autonomy to local governments,

which may lead them to become more efficient, responsible, responsive, and transparent. In reality, results have been mixed at best, with decentralisation contributing to poorer quality local governance in some cases and unleashing local capacity and energy in others. To date, most decentralisation has been on the expenditure side, with less on the revenue side; that is, cities have more expenditure powers, but their revenue generation mandates are increased at a slower rate, creating unfunded mandates or a dependence on transfers.

The CDS assessment should take it into consideration the highly dynamic and usually stressful governance situation that decentralisation creates. From the CDS perspective, decentralisation is an opportunity. Stakeholders should ask how this changed role for the local government can best be used to advance the strategic thrusts. Of course, if such changes have not occurred, the mandate of local government vis-à-vis senior governments still needs to be made explicit.

#### **6.5.4 Metropolitan Governance**

A major constraint to performance is the fragmentation of local governance in a metropolitan area or the even larger EUR (which may contain several metropolitan areas). CDS assessments should determine whether there are mechanisms for inter-jurisdictional cooperation within the metropolitan area. And if so, how effective are these mechanisms? A wide variety of mechanisms exist, such as metropolitan governments, regional districts, councils of local governments, and bilateral and multilateral voluntary cooperation, which may be motivated by matching grants from senior government.

#### **6.5.5 Capacity**

The capacity of local governments varies widely and generally speaking increases with the level of economic development. This capacity includes skilled employees, equipment, corporate culture, training opportunities, and so forth. The CDS assessment process needs to cover the capacity of local governments.

#### **6.5.6 Relationship to the Private Sector and Civil Society**

Urban governments also vary widely in the extent of their relationships with the private sector and civil society. Their relationship with the private sector vary from one of virtual isolation, through consultation, to private-public ventures, to privatisation of key services, and so on. There is a vast literature on the topic, documenting many successes and failures. Local government relationships with civil society vary similarly over a wide spectrum, depending on national governments and ideology, as well as local factors. Again, the vast literature on this topic indicates that civil society can play a positive leadership role in turning cities around, or they might play a negative one.

The case of Sofia (Box 10) describes urban governance and management restructuring in a transitional economy. Facing financial restrictions and the need to compete for global investment, especially with other eastern European cities, Sofia used a strategic approach to quickly effect major urban institutional change.

## BOX 10. SOFIA, BULGARIA—INSTITUTIONAL DEVELOPMENT FOR A TRANSITION ECONOMY

Sofia is facing challenges common to many cities with transition economies:

- The economy has rapidly transitioned from an industrial manufacturing economy to a predominantly service-oriented one. Public enterprises are being restructured, but they still account for 40 percent of urban employment (in 2000);
- The urban spatial structure is poorly suited to the new economy. A large amount of the inner city is industrial land, and more than 50 percent of the population lives on the periphery in high-density, poor-quality housing developments with inadequate access to infrastructure. This structure contributes to severe air pollution from energy-generating activities and vehicles;
- The city is facing a severe shortage of housing and office space;
- The urban public infrastructure is decaying and in need of renewal and expansion;
- The municipal governance structure is top down;
- Municipal finances are centrally controlled, and revenue transfers from the national government to the city are declining. The city receives back only a small portion of what it contributes in taxes and fees.

A clear priority for the City of Sofia is to improve the quality of business and residential locations and services to make the city more competitive, efficient, and livable for its residents and for investors. However, Sofia, like many other transition economies, needs to shift its public sector role in city building and social services from delivery to guidance as it moves towards a more market-driven process. This transition is being driven by severe municipal financial constraints, which necessitate the involvement and mobilisation of resources from the private sector and third-party organiza-

tions. To facilitate this process, Sofia developed a city strategy to introduce new institutional frameworks to open channels of communication and streamline business and development approval processes. First, the strategy calls for forging new partnerships with various stakeholder groups, primarily through the creation of public–private organizations to enable the government to (i) inform its citizens about municipal affairs and services; (ii) solicit regular feedback, ideas, and suggestions; and (iii) develop joint responses to issues and concerns. Second, to reduce red tape for business approvals and planning and building development, the city plans to introduce one-stop approval services and make application forms and information available online. The strategy also recommends that the city release more land for development and assist in consolidating land where ownership is highly fragmented. The third strategic measure is to develop a master plan for Sofia to guide private investment in support of a more compact urban form. The master plan encourages the creation of business and residential clusters along existing transportation corridors and of more mixed-use developments to encourage the efficient use of infrastructure and reduce future capital spending. The plan is also designed to strongly protect valuable urban green spaces from redevelopment pressures. Sofia has an unusually large amount of urban green space for a European city, which it recognises as a unique asset improving the quality of the urban environment for its citizens and attracting upscale investment and tourism. Through the implementation of these three measures (new partnerships, streamlined approval processes, and the master plan), Sofia hopes to create a more efficient and participatory governance structure capable of responding effectively to a rapidly changing economic and social environment.

Source: Cities Alliance (2003b).

Amman, Jordan, is another city that used a CDS to restructure its municipal management and governance. Box 11 describes how Amman reorganised local government departments and

upgraded and modernised their planning capacity to better cope with rapid population increases generated by refugee movements due to Amman's status in the region as a safe haven.

**BOX 11.****RESTRUCTURING MUNICIPAL MANAGEMENT AND GOVERNANCE UNDER STRESS IN GREATER AMMAN MUNICIPALITY, JORDAN**

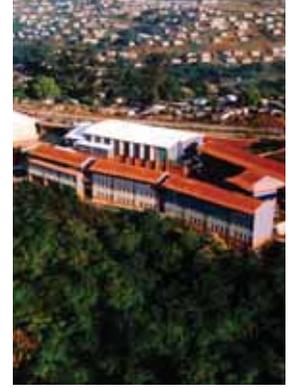
**A**mmann, the capital of Jordan and home to more than 2 million residents, has undergone rapid expansion in the past decade. This increase reflects Amman's status as a safe haven in a region of conflict—following the first Gulf War in the early 1990s, for example, there was a sudden influx of about 300,000 refugees. This influx has placed extraordinary pressures on the city to plan and deliver municipal services.

To achieve its growth potential and more efficiently deliver services to city residents, the Greater Amman Municipality focused its CDS on strengthening municipal management and governance, participation, and urban planning capacity. It used CDS funding to recruit a municipal management specialist to streamline the organizational structure, revamp management systems, and strengthen urban planning processes: (i) functional departments were reorganised and aligned with defined service delivery targets and standards; (ii) the information system, previously consisting of 15 different outdated database platforms, was overhauled and consolidated into a single integrated enterprise system. (iii) participatory planning processes were implemented; and (iv) land-use planning, zoning, and building regulations were strengthened to increase the population

in low-density areas, minimise sprawl, and better accommodate and service the recent influx of new residents. A series of workshops is planned to unveil the revamped management and urban planning approaches and to encourage participation. In addition, the CDS has led to the adoption of a citywide upgrading strategy for squatter settlements and refugee camps.

Source: Cities Alliance (2005, pp. 58–59).





## 7. Building Blocks (Process Methodology)

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This section outlines the steps involved in preparing a CDS. Although much is drawn from worldwide experience over the past 15 years, examples are presented throughout the section from the recently completed CDS for Xiamen, China, which is based on the approach described below. Figure 6 shows key steps in the process, described in more detail below.

amount of time initiating the process and considering the assessment of the city that would be produced, the whole process should be abandoned. A strategy produced in conjunction with middle-level bureaucrats who have little real power or influence is unlikely to accomplish its objectives.

### 7.1 INITIATING PROCESS AND PROCESS PRINCIPLES

Careful and effective initiation of a CDS process is essential to its success. Principles associated with successful CDS initiation include: (i) a strategy; (ii) a key stakeholders group; and (iii) guidelines for the process.

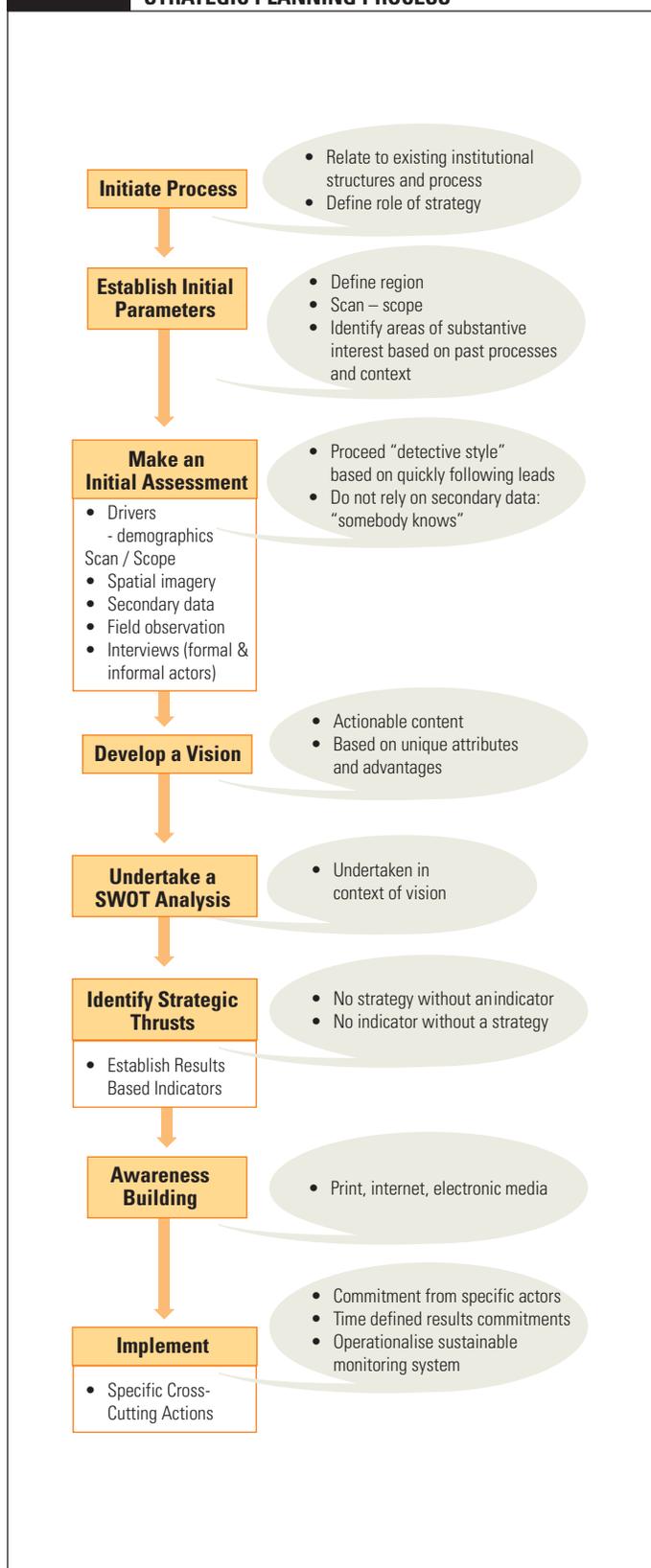
#### 7.1.1 Strategy

A strategy, by definition, implies *high-level guidance* and *coordination*. Thus, senior officials must agree to contribute time and political capital to the CDS process. If a mayor (or equivalent senior official) is not willing to spend a significant



Riga City Council, Latvia—Key Stakeholder business meeting

**FIGURE 6. STYLISED CITY DEVELOPMENT STRATEGIC PLANNING PROCESS**



## 7.1.2 Key Stakeholders Group

A successful CDS requires a key stakeholders group, chaired by the mayor and representing key developmental constituents. Although its composition may vary and needs the backing of the mayor (or an equally senior official), the committee normally includes representatives of local government (the mayor), the knowledge community (a leading academic in a related policy field), large-scale domestic business (normally the CEO or manager of a leading, fast-growing cluster anchor firm), the informal business community (such as the head of the street traders’ association or taxi cooperative), the foreign business community (the manager of one of the leading multinationals anchoring a cluster), informal communities, public health and the environment, and labour (or workers’ associations). It is expected that each member of the stakeholder committee will be truly representative of a large network of the people of the city and reflects their concerns. If the group is larger than 10, it is too large and will tend to be ineffective in deal-making, as well as being too unwieldy to convene. The CDS process is essentially based on collaborative planning; extensive literature on collaborative planning indicates the need for small-group strategic development, with carefully chosen members who truly reflect their constituencies and can speak and bargain on behalf of these constituencies.

## 7.1.3 Guidelines for the Process

An initial meeting with the Key Stakeholder Group, chaired by the mayor, should establish guidelines for the process. These would include the following.

### 7.1.3.1 Duration and Logic of the Process

Successful examples show that an initial assessment, described below (section 7.3), could be limited to three weeks in the field and one month of follow-up research and documentation. However, initial behind-the-scenes work will be required to set up interviews, think-tank sessions with the knowledge community, and so forth. Normally, the setting-up activities would commence six to eight weeks before the start of

the field assessment, depending on the city's administrative efficiency. Not all interviews and other assessment activities should be firmed up before the assessment begins. In fact, some meetings required during the second and third week of the rapid assessment will not be identifiable during the setting-up stage, given the iterative detective-like nature of the process. However, meetings with key agencies responsible for economic development, spatial planning, environment, public health, and labour do need to be firmed up.

Following the assessment process is stakeholder involvement. This would normally involve meetings with each of the stakeholder groups and the key stakeholder group to facilitate Vision formulation (see section 7.4) and identification of Strategic Thrusts (see section 7.6). Once the group and the stakeholders have identified the strategic thrusts (through an iterative process), experts in the technical areas will refine them and make them operational. Very importantly, the experts need to develop powerful indicators to monitor the progress of implementation, especially outputs and results. Normally, stakeholder involvement would last for six months. Awareness building (see section 7.7) follows, a continuous process that extends over several years, including an initial intensive campaign to ensure that every citizen of the local community and key members of the global community are aware of the strategy. Implementation (see section 7.8) extends over several years, with detailed five-year strategies in place involving about five interlocking, cross-cutting strategies. This arrangement provides space for a change in tactics in response to feedback or changing internal and external conditions.

In total, the whole process from initiation to commencement of implementation, should take no more than one year. Energy and enthusiasm may dissipate if the assessment, stakeholder involvement, and strategising phases take longer. It is important that the energy of the key stakeholders be compacted. Furthermore, the experts needed to produce a first-rate strategy will be expensive to hire, and their work should therefore be concentrated over a short period.

### **7.1.3.2 Relationships to existing institutions and processes**

Because the Cities Alliance CDS process is very limited time wise, it becomes unsustainable if it works on a separate track from that of the city's institutional framework or establishes its own CDS institutions and processes. Rather, it should work with existing city planning, economic development, environmental, public health, energy, and social planning institutions. This does not preclude the initiation of new institutional processes and structures as a result of the CDS process; however, the point of departure would be the existing processes and institutions. It is important that one of the city's institutions act as the CDS process anchor. The institution should be enthusiastic about the process and connected to political and coordinative power, including the mayor, and it should take responsibility for coordinating and catalysing the process. This institution is often the mayor's office.

### **7.1.3.3 Community Involvement**

All major interest groups in the city should have a chance to participate in the process. The predominant channel would be through the organisations represented in the key stakeholders group. That group will, in most cases, have already identified their constituents' interests. However, the CDS process should involve at least one open meeting (a town hall meeting) to provide information about the process and the opportunity for any group or person to speak up. In cities where access to the Internet is available to a significant percentage of the community, an interactive website could be set up. Such a website has been established for urban development issues in Thailand (<http://www.plannerthailand.com>). This website acknowledges visitor input (a senior official in Thailand responds to comments and queries on a weekly basis).

A good CDS will not have 100 percent buy-in. Although searching for as much buy-in as possible should be an underlying principle, expecting to achieve consensus is a sure recipe for a strategy with no content. Searching for complete consensus often leads to cosmetic participatory processes, such as town meetings where real dealing among interest groups does not occur and people

*CDS processes should work with existing city planning, economic development, environmental, public health, energy, and social planning institutions.*

in the community quickly realise that they are being manipulated, or they feel they are wasting their time and become alienated.

A good CDS is fair (just) to all groups and plots the best means to achieve the city's vision on the basis of a realistic reading of the city's internal and external environments (see assessment in section 7.3 and strengths–weaknesses–opportunities–threats [SWOT analysis] in section 7.5). This will mean commitment and compromise by all key groups, and that all hard-edged negotiations will precede the deals cut with interest groups through the Key Stakeholder Group. If the CDS is to be meaningful, it will involve considerable contestation, hard work, and stress within the Key Stakeholder Group. If the CDS process is easy and uncontested, it has no content and has no chance of leading to meaningful change.

#### 7.1.3.4

A CDS does not set development targets or goals at inception. The essence of the CDS process is to develop a Vision; only later are strategic thrusts

identified. It is essential that targets and indicators be directly linked to the strategic thrusts.

#### 7.1.3.5 *Implementation Commitment*

Although there is a need at the outset of the process to obtain a commitment to implementation, detailed implementation planning will need to await the identification of strategic thrusts.

#### 7.1.3.6 *Assessment Team Composition*

The assessment team should include the highest quality domestic and international experts and have support from the very best young enthusiastic researchers in the community (those likely to be future community leaders)—probably local university students. As argued above, outsiders bring a very valuable perspective to the process, and involving outsiders is virtually always practised in preparing CDSs for industrialised cities. The senior team will normally consist of no more than two domestic and two foreign people. The team members should not require more than six to eight weeks of time each to undertake the assessment and document it to world-class standards (using high-quality graphics, spatial imagery, and the like). The underlying principle would be to hire the best available national and international talent for limited amounts of time, rather than hiring mediocre talent for longer periods. Effective assessment requires conceptual breakthroughs, knowledge of international best practice, and keen insight. These requirements are not normally met by off-the-shelf teams provided by consulting firms, although some international firms such as McKinsey are building up world-class CDS teams, operating globally. If a high-quality assessment team cannot be put together, the CDS process should be abandoned, rather than wasting the city's time. Even worse, poor assessment, SWOT, and strategic thrust identification can mislead a city, causing significant damage, especially if a poor-quality product is taken seriously.

#### 7.1.3.7 *Strategic Thrust Technical Team*

Although one or more members of the assessment team might be involved in technical support to identify strategic thrusts and formulate indicators for the monitoring, team composition for these latter stages of the process cannot be



View of 'Ger' area in Ulaanbaatar, Mongolia

predetermined. Again, it is important that the best personnel available provide the technical inputs needed to formulate the strategic thrusts and indicators. Normally, these latter processes need people with different sets of skills.

## 7.2 ESTABLISHING INITIAL PARAMETERS

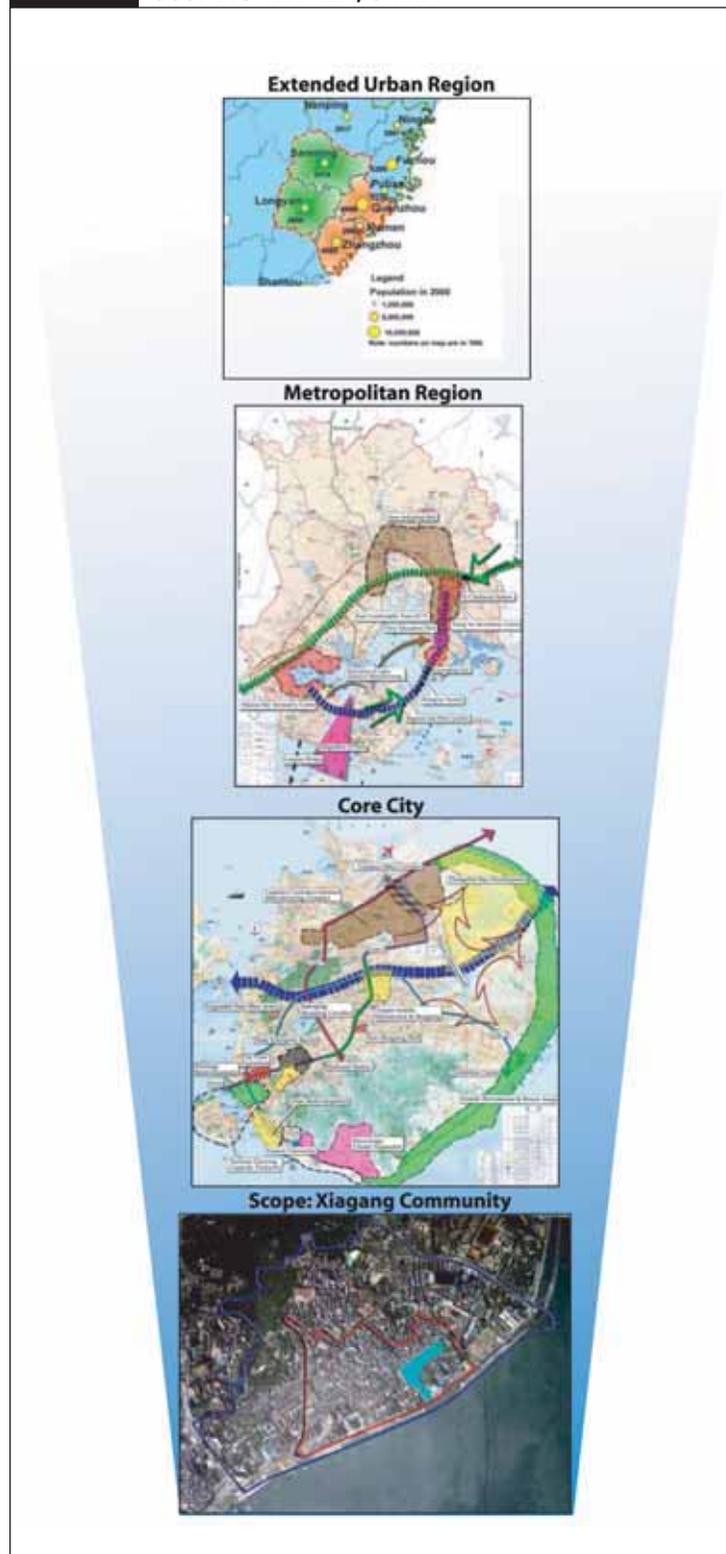
Establishing initial parameters involves two main factors: (i) spatial definition; and (ii) substantive focus.

### 7.2.1 Spatial definition

Defining the spatial domain for a CDS is a difficult task because there is a tradeoff between the amount of territory (and usually the number of local government jurisdictions) covered, and the depth of a strategy. As experience indicates, scan-scope approaches are the best way of handling this tradeoff. The context is scanned widely at the regional (EUR plus hinterland) level, but the actual strategising is applied at the metropolitan level. Then, within the metropolitan area, the team assesses specific areas in much more detail, using scoping, because they are key to the future of the city for a variety of reasons—absorption of migrants, employment nodes, high-value transaction environments, social and economic malaise, and so on.

Figure 7 shows this four-level spatial definition in the case of the urban development opportunity assessment study commissioned by Shui On Land Limited. Areas to be zoomed in on for scoping (detailed assessment, including street-by-street fieldwork) cannot be identified at the start; instead, they are identified iteratively, during the initial assessment stage. Spatial definition involves the use of remote-sensing imagery, preferably along with time-series images dating back 10–15 years. Such images are becoming inexpensive; however, if funds are not available to purchase such images, remote-sensing imagery of almost

**FIGURE 7. FOUR-LEVEL SPATIAL DEFINITION AND SCOPING: XIAMEN, CHINA**



Source: Webster et al (2005)

every city on Earth is now available on the Internet, particularly through Google Maps (by toggling on the maps at <http://maps.google.com>) and Google Earth (<http://earth.google.com>)—albeit the detail varies from city to city.

### 7.2.2 Areas of Substantive Focus

This is often referred to as the “Where do you enter?” question. Cities vary widely in the extent to which they have assessed their situation and identified strategic priorities. Thus, although in principle those involved in CDS processes should have few preconceived notions, some cities may have already identified key priorities and even formulated a vision. In such cases, the city and the key stakeholder group will need to decide to what extent the CDS process could be narrowed down by past work. For example, they may decide that the CDS should focus on productively absorbing migrants, establishing the city as an information communications technology leader, or restructuring the urban form to meet accessibility and energy efficiency targets. However, even if the substantive area of the CDS is narrowed, the assessment, within that frame, could be approached with a clean perspective. That is, assessment and conceptualisation should become attempts to reframe both the problem and the solutions (thinking outside the box) to come up with the most effective strategies. If CDS strategies are narrowed, the technical assessment team should obviously reflect the new substantive focus. *However, in no case should a narrow CDS be undertaken unless a broader one, based on high-quality assessment and strategising, has first been undertaken.*

## 7.3 INITIAL ASSESSMENT

Initial assessment techniques to provide an information basis for identifying a city’s strengths–weaknesses–opportunities–threats (SWOT analysis) have been well documented and tested in the

field and are known to work well under almost any conditions. Manuals on these techniques are readily available (ADB 2004; United Nations 2004a; Frye 2005).

### 7.3.1 Drivers

Initial assessment starts with identification of “Drivers”, that is, what is driving the city’s economy and its national and global roles. Essentially, why does the city exist? And what is driving its growth (or stagnation or decline)? Drivers are of two types: (i) internal (such as local human resource capabilities); and (ii) external (such as foreign direct investment, trading environments, national policy frameworks for urbanisation, demand for exports). Driver assessment is as much an art as a science. It is itself driven more by content analysis of media and by unconventional sources of information (such as futures studies) than by secondary data and other conventional sources of information. The driver assessment should have a futures-oriented perspective; that is, it should focus on emerging drivers (trends, potential shocks, cycles, and random events). As Kaplan and Norton (1996) indicated, the driver analysis should determine which performance drivers are directly associated with future performance, not those associated with past outcomes. Futures-oriented publications, such as *The Futurist*, can sensitise analysts to the issues and can give them ideas of where to look for relevant information about the city. Also useful are regionally oriented publications, such as the *Far Eastern Economic Review*.

A major driver of urbanisation is demographic change. Thus, the driver analysis should identify demographic dynamics, including at the intrametropolitan scale. Where are migrants settling? Which parts of the city are growing fastest? Slowest? In many cases, demographic assessments are difficult because some censuses are of poor quality or some jurisdictions count people only where they are registered (which may be a town they migrated from), rather than where they actually live. Fast-growing cities tend to undercount their populations.

### 7.3.2 Scanning

The next step in the initial assessment is to *scan* the city's in terms of its economy, public service delivery, environment, spatial and built form, and social conditions.

Economic scanning involves a review of key available time-series economic data, enhanced with simple indices, such as shift–share and location quotient. This analysis by itself often yields a limited understanding of the urban economy, given the poor quality of urban-scale data in most developing cities. Also, in fast-growing and fast-changing urban economies, knowledge of the existing situation and even of trends is less useful than it would be in slower growing ones.

More important is cluster analysis based on in-depth interviews with leaders of the local economic development agency, chambers of commerce, trade associations, informal economic associations, and so forth. The objective of the cluster analysis is to determine (i) the order-of-magnitude importance (in employment and value-added terms) of diverse economic activities; (ii) emerging activities and future potential; and (iii) key anchor firms or leaders of informal economic groups, such as vendors' associations. Cluster analysis almost always produces insights missed by traditional sectoral analysis (Porter 1988). For example, a cluster scan of the local economy of Xiamen, China, revealed the existence of a world-class aircraft refurbishing cluster, which would not have been found in the secondary data, where the activity was buried in the machinery category. Service sector data are often even more deficient. For example, cluster analysis readily identifies Bangkok's vibrant advertising industry, whereas it is buried in the traditional sectoral data.

Scanning of basic services delivery focuses on the quality, quantity (including coverage), fiscal and ecological sustainability, and affordability of the services. For example, scanning would determine accessibility to primary health centres (where and how costly they are and their wait times) and the

effectiveness of their treatments. More detail on the delivery of basic services can be found in section 6.2 and Appendix B.

Environmental scanning involves the review of existing time-series data on aspects of the environment most important to public health, such as air pollution and surface-water quality. Developing cities see environmental issues from a public health viewpoint, in contrast to the perspective of Western industrialised cities. Fortunately, electronic monitoring equipment is becoming less expensive worldwide, so monitoring of environmental conditions is improving in many cities. Another focus of environmental scanning is a city's environmental and public health infrastructure and delivery of services, such as coverage of water supply and wastewater systems.

Spatial scanning focuses on (i) elements; and (ii) dynamics, as shown in Figure 7. Time-series remote sensing imagery discloses changes in the spatial form of urban areas. However, a deep understanding of spatial elements and dynamics requires in-depth briefings by local physical planners, real estate agents (or their equivalents), property developers, and transportation planners. Key probes, as described in Appendix C, are based on international experience and are used to identify spatial elements. Spatial imagery examined in isolation reveals very little about spatial change. But combined with on-the-ground iterative fieldwork and triangulation with other data sources it can be a powerful tool for understanding the spatial dynamics of a city.

Identifying spatial dynamics depends on identifying the drivers of change. Particularly important is the transportation infrastructure, such as new expressways and rapid transit systems (completed, committed [date of completion], or planned). Also important to spatial dynamics are intraurban differentials in the dynamics of both formal and informal real estate markets, changes in the per-

ception of areas (signalled by “trendy” activities, movement of neighbourhood status up and down, and the like), and changes in spatial investment and employment creation patterns. It is important not to confuse spatial dynamics with official city plans. As indicated by the case of Chengdu, China, cities often take off in directions different from those the planners advocate.

Social scanning could focus on access to basic services and education, the prime levers of upward mobility in most cities of the world. Formal unemployment rates tell little in many cities. More useful are data on real household income, access to services, and education enrolment. Data on access to education and to its facilitating mechanisms, such as student loans, are particularly important. As is the case with economic and spatial scanning, time-series analysis is imperative. Knowing the changes in the social condition of populations is more important than having a description of static conditions.

In scanning a city, it is important to consider a diversity of views from a representative set of actors, such as multinationals, small to medium-size enterprises, NGOs, labour unions, associations and leaders representing the informal economy, trade associations, and property developers. In cities where use of the Internet is common, the CDS anchor institution could establish a site to solicit input on the dynamics of the city; in other contexts, call-in lines could be set up. Also useful are radio talk shows soliciting calls from a variety of residents.

Interviews are most effective if data needs are well-documented and lists are left with priority agencies for technical follow-up. This frees up the interview time for probing questions, such as, what are the issues? Which aspects of the system are performing poorly? Which are performing well? Good interviews probe to find the biggest problem, the identities of the important players

and the competitor cities, and emerging economic activities. Data requests should be sharp, lean, and limited. Comprehensive data lists (fishing expeditions) turn off the people at the agencies, who will correctly decide the assessors don't know what they are doing and may give them no data, or at least not the most important data.

In a city assessment, the lack of formal data, especially in many Sub-Saharan African cities, may not be as big a problem as it initially might seem. By definition, “somebody always knows”, and Bamako illustrates how data can be collected in the absence of strong statistical databases (Box 12).

### 7.3.3 Scoping

The next step in the initial assessment is to scope in on key issue areas and dynamics. In the case of the economy, scoping involves interviewing managers of anchor firms in rapidly growing clusters, obtaining their views on the future of the economy. A simple template of key information could be prepared before each interview and sent to the interviewees before the visit. Figure 8 identifies clusters that were subject to more detailed analysis in the preparation of the Xiamen city evaluation study commissioned by Shui On Land Limited.

Specific problems related to public health and the environment (such as respiratory disease or increases in traffic deaths and injuries) would be assessed in more detail for causality. In a spatial sense, scoping involves walking the streets and back alleys of targeted areas, interpreting the details of imagery, and field-checking new development corridors and areas (is construction really under way?). Scoping in on the most important social challenges may involve meetings with leaders of advocacy groups, labour agencies, educators, and others. The most important principle in scoping is to work iteratively: one key informant is likely to recommend a second, and so on. Interviews or visits can also be politely dropped when it is determined that the dynamics involved are not critical to the future of the city.

## BOX 12. COLLECTING CITY DATA IN BAMAKO, MALI

When Bamako, Mali, decided to embark on a CDS process, it was met with enthusiasm by various city stakeholder groups. The stakeholders placed great hope in the process to deliver desperately needed social programmes and infrastructure. Given the weak statistical base and lack of city indicators, the CDS team organised a public workshop to gather information on the city and to elicit public input for the CDS. The workshop brought together stakeholders from a broad cross-section of business people, community groups, and local organizations, ranging from refuse collectors and women's rights groups to commercial interests and government agencies. These individuals were able to provide information not elsewhere documented about the city's conditions, spatial dynamics, and trends, and they helped to identify important issues and objectives for the city's development.

With a substantial portion of Bamako's population poorly educated and illiterate, the standard written forms of information gathering and dissemination—such as questionnaires, reports, journals, newspapers, texts, and statistical data—could not be used. Instead, the CDS team used direct contact and public radio to raise awareness about the CDS and the workshop. The work-

shop itself was conducted in the local language and effectively used moderators to explore, discuss, and debate positions during a face-to-face forum of city stakeholders. This highly participatory process resulted in a much richer understanding of the city's situation and development needs and led to an agreed-on set of objectives for the CDS, as well as the much-needed buy-in and commitment of a broad cross-section of stakeholders to a development strategy.

Afterwards, the difficult challenge facing the CDS team was to convert the workshop results from a wish list to a truly strategic development plan. Unfortunately, consulting support and funding had run out shortly after the public workshop, before the CDS team could translate the strategy into concrete actions. This loss of momentum is disappointing in light of the interest and participation of so many stakeholders, which if effectively coordinated and directed, represented an important resource for achieving the city's development potential.

Source: Koby (2002).

Scoping is even more important if data sources are limited. Scoping should be detective-like until it has uncovered the information needed for understanding the dynamics of the city.

Assessment is not dependent on great specificity. More important is determining the overall magnitude, direction, and rate of change within key thematic areas so that SWOT analysis can be used to make a diagnosis. As Lord Keynes noted, "It is better to be roughly right, than precisely wrong."

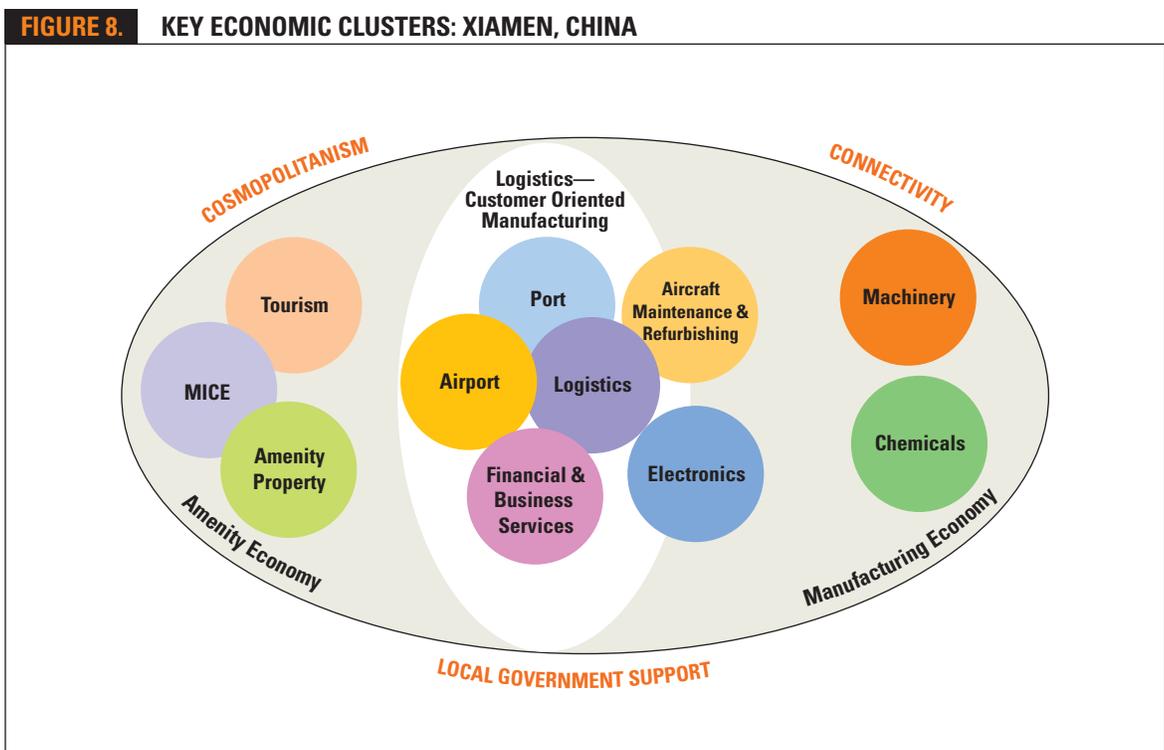
### 7.3.4 Benchmarking

Another important component of the initial assessment is benchmarking. How does the city's performance compare in key thematic areas with other similar cities, with competitor cities, and with "aspirational" cities (those performing at the level to which the analysed city aspires)? Several measures can be used for benchmarking: income, social service coverage and effectiveness, unit costs of infrastructure delivery, growth rates, or energy consumption. The key thematic areas that are the subject of the scoping could be included as well.

## 7.4 FORMULATING A VISION

A Vision is a statement of where a city wants to be, usually in 10–15 years. A city's Vision needs to be specific, internally consistent, and realistic but challenging. It has to not only inspire and challenge, but also be meaningful to all the residents. The key stakeholders group creates a city's Vision in brainstorming sessions, using information from the initial assessment (described in section 7.3). A Vision should reflect the unique attributes of the urban region: (i) its comparative and competitive advantages; (ii) its values and preferences of its residents; (iii) its relationship to the global, domestic, and subnational economies (especially its hinterland and competitor cities); (iv) its history and culture; and (v) its physical characteristics, such as location, climate, terrain, water supply, and scenic attributes.

*A Vision creates an identity for a city, enabling it to stand out in the world.*



Source: Webster (2005)

The Vision should be oriented to the outside world, as well as to the city’s own residents. It should have a positive tone, saying, for example, “making high-quality housing available to all”, rather than “eliminating slums”.

A Vision should be short (no more than 60 words) and easy to understand. It creates an identity for a city, enabling it to stand out in the world. Figure 9 presents the visions developed in the Ulanbaatar, Mongolia, and Xiamen, China, CDS processes; they are based on the unique characteristics of these cities (their economies, location, amenity endowments, and so forth).

Although short, a Vision can be a powerful unifying force in a community. Normally, it should stay the same over the 10-year period; tactics to implement the Vision may change regularly as

conditions change, but the Vision should remain constant, like a lighthouse. (Only in rare cases would the external or internal conditions change so significantly as to make a rewrite of the vision necessary.) A Vision is important because it aligns stakeholders’ energies so that the stockholders work cohesively, facing in the same direction, for the good of the city and its region. Although oriented for the long term, a Vision should motivate short-term action. As the environment facing cities worldwide becomes more uncertain, their visions become more important, providing continuity when tactics change rapidly as a result of anticipation and foresight techniques.

As noted, the key stakeholders group or an equivalent body, chaired by the mayor and representing the executive leadership of a city, should develop the Vision. It is critical that the Vision not be prepared in isolation by the local government or technocrats. Often, the Vision can and should

**FIGURE 9. VISIONS OF ULAANBAATAR, MONGOLIA, AND XIAMEN, CHINA**

#### **Ulaanbataar Vision 2020**

**Vision 1:** The City to be a well-developed capital city of international level; to have a vibrant economy; to be a world-class business center having a competitive position in the areas of education, information, science and technology.

**Vision 2:** The City to have an appropriate policy for land management and urban development, including developing the “Ger” Area with appropriate infrastructure, and for improving housing conditions of all citizens.

**Vision 3:** The City to be healthy, to have a safe environment, a well-knit social life and a progressive legal framework.

**Vision 4:** The City to have a responsive and efficient public administration having a participatory approach involving the community and the private business sector in civil services.

**Vision 5:** The City to be an attractive tourist destination in the Asian region.

#### **Vision of Xiamen**

- To become a globally connected city, based on Xiamen’s historic international role and world class logistics capabilities.
- Supporting time sensitive and customer oriented manufacturing
- A unique urban island paradise, destination for business and leisure travel, conventions, talent and amenity seekers.
- Providing residents with a friendly and relaxed way of life in a superior urban environment.

Source: Webster, et al (2005)

incorporate the existing meaningful images of a city, such as slogans and icons, to provide continuity with the past. The exception would be images associated with past failed efforts. As noted, the group should base the Vision on the initial assessment, paying special attention to the resources available for implementation based on an audit (see section 7.5). In formulating the Vision, the key stakeholders group can employ various techniques to solicit input, such as focus groups, radio call-in shows, Internet sites, contests, and letters to newspapers. International experts may be helpful in ensuring that the vision captures the larger picture, that it is realistic, and that it focuses on the leading opportunities open to a city. This international input should include the expert opinions of the senior personnel who were involved in the initial assessment.

## **7.5 IDENTIFYING STRENGTHS–WEAKNESSES–OPPORTUNITIES–THREATS (SWOT ANALYSIS)**

With the initial assessment complete and the Vision agreed on, the key stakeholders group begins the SWOT analysis. Figure 10 gives the basic structure of a SWOT analysis. “Strengths” and “weaknesses” refer to the internal characteristics of a city, especially: (i) its key public, private, and third sector (nonprofit) institutions; (ii) economic factors and endowments; and (iii) the status of its physical environment. “Opportunities” and “threats” refer to the external environment, including economic, technological, political, and social trends, cycles, shocks, and the like.

**FIGURE 10.** SWOT ANALYSIS: EXTERNAL AND INTERNAL ENVIRONMENTS



SWOT analysis is done after the Vision is complete and in only some cases, simultaneously with the development of the Vision. In other words, the analysis assesses how well the internal and external environments of a city may contribute to, or hinder, achievement of the Vision. Large amounts of technical information, particularly in the business, planning, and public policy literature, are available to assist in the undertaking of the SWOT analysis.

SWOT analysis enables a city to do the following:

- *Build on and leverage strengths and opportunities*—A city’s emerging clusters, strengths, and opportunities could be increasing world markets for its products, and this additional wealth could lower the national interest rates to finance affordable housing.
- *Avoid threats or take actions to minimise them, or even reverse their impacts*—A city could derive an advantage from rising petroleum prices, for example, if it becomes more energy efficient than its competitors.
- *Build on institutions with the most capacity, potential, leadership, and enthusiasm*—Building on existing institutions is very important in implementing strategic thrusts (see section 7.8, below). Conversely, it enables strategic champions to identify and avoid low-capacity institutions that would thwart the strategy. Or those institutions could immediately be strengthened if they are central to the strategy. Institutional contexts vary widely from city to city, and especially between nations; thus, key institutions should be selected carefully on the basis of their real relevance to the vision.
- *Identify institutions that may oppose the strategy*—When it is known which institutions may oppose the strategy, efforts can be put into convincing them of the value of the strategy, and if that doesn’t work, the strategy could be implemented by “going around” them.

## 7.6 SETTING STRATEGIC THRUSTS

The key stakeholder group identifies the strategic thrusts (Kaplan and Norton 1996). In essence, a strategic thrust is based on a hypothesis about cause and effect. The group should normally select no more than five strategic thrusts; otherwise, the strategy will lack focus and be less comprehensible, and financial and knowledge resources will be stretched too thin. Strategic

thrusts are a set of means (actions), pursued with discipline and intent to produce results within a given period, as measured with key indicators against targets. Strategic thrusts are not wish lists, lists of projects, or comprehensive sectoral plans. If CDS processes are open ended and highly participatory, it is challenging to come up with a few strategic intervention points—large meetings tend to generate wish lists; see Box 12, the case of Bamako.

A given strategic thrust is rarely the responsibility of one institution; instead, it is a set of cross-cutting, interlocking actions that will deliver the maximum impact while achieving its objective cost-effectively.

Strategic thrusts almost always involve capital investment from the public and private sectors; changes to policy frameworks, affecting firms and households; modification of regulatory frameworks; awareness and education campaigns; and community action. For example, a strategic thrust might involve implementing significant pick-up fees for garbage exceeding one bin weekly, encouraging households to recycle and better manage waste; this action might be combined with an awareness strategy and support for a private recycling service. A strategic thrust to revitalise a CBD might involve a private developer being encouraged to build a signature (icon) building, changes in floor area ratios in the area, and rapid transit service to enable high densities without congestion. A productivity enhancement programme might involve new partnerships between leading multinational corporations and local technical colleges, new curricula, greater interaction between the local government and leading firms, a new science park near the local university, and a campaign to attract talent to (or back to) the city.

In designing strategic thrusts, further technical work will be necessary. More detailed studies will be needed of issue areas, economic clusters, geographic areas, financing options, among others that are the focus of the thrust. Meetings with key actors, an examination of international best practice and probes regarding financing possibilities will need to be undertaken. If the budget permits, the technical team should provide assistance in

the fine-tuning, fielding personnel that are experts in the strategic areas identified.

In many CDSs, the strategic thrusts identified are not true strategies but themes or even objectives, such as “improve the urban environment”, “improve accessibility through balanced transportation systems”, or “eliminate slums”. Implementation of a true strategic thrust should be measurable; as such, it needs to consist of specific actions.

Indicators should be attached to every strategic thrust to measure its achievement. The focus should be on output, outcome, and results (impact) indicators, not on input indicators, although in a few cases, input indicators may be useful (for example, students per classroom). If results-based budgeting is introduced or required, for example, the monitoring system needs input indicators. Formulating operational indicators is extremely difficult and requires technical expertise. Normally, the experts would identify a composite flagship indicator for each strategic thrust, along with four to six key indicators measuring the most important elements of achievement of the strategic thrust (Flood 1999). In developing cities (this is also frequently true of industrialised cities), monitoring systems to measure strategic performance are rarely maintained, and they therefore tend to be unsustainable. So, an appropriately funded mechanism should be established to ensure the continued operation of the monitoring system; otherwise, it will surely die.



Aerial view of Maputo, Mozambique

## 7.7 AWARENESS BUILDING

If a CDS is to be successful, it needs the support of most of the community, especially the key stakeholders. To achieve this, the Vision and information on the identified strategic thrusts needs to be disseminated throughout the city. This campaign can be mounted through a mix of media, which will vary from place to place. In some cities, an interactive Internet website (that solicits feedback) would be a powerful agent for disseminating strategic concepts; in many African cities, the radio will be the dominant medium. Other media used successfully worldwide are newspaper inserts, models, exhibitions, and video shows in high-traffic areas (such as city bus terminals), on television, and at public meetings.

During the awareness building, buy-in campaign, strategic thrusts should be modified based on useful feedback. Additionally, groups or individuals are likely to step forward to offer their energies or capital to effect the strategy. Early stage of strategy dissemination processes can ask the question, “what did we miss that is important?” It is critical that the citizens understand that the strategy is important; that it means something; that the city leaders in the public, private, and third sectors are taking it seriously; and that it will lead to action.

## 7.8 IMPLEMENTATION

A CDS is of no value unless it is implemented. To do this an Action Plan for each strategic thrust needs to be formulated. The action plans will be based on cross-cutting actions, that is, sets of actions involving several agencies or enterprises. The action plans require technical input, but within each strategic thrust area, task forces (see below) of local experts should be put in place to turn the action plans into rolling operations.

Implementation Task Forces should be established to implement each strategic thrust; that is, approximately five task forces will be needed. The action plan should identify and find the means to procure the resources for implementation, backed up by financial and economic analysis justifying the proposed resource allocation. Procuring financing is a key responsibility of these task forces. They will need to identify, assess, and chase down sources of financing; and they should be entrepreneurial and enable innovative financing, such as public-private partnerships. They should persuade property developers, bankers, and investors to finance catalytic initiatives. And to be credible, the task forces need to be known for integrity (lack of corruption) and for transparent processes.

The Action Plan will clearly indicate who (which agency) is responsible for what; the timelines and milestones; and the expected inputs, outputs and results (impacts). To minimise disruption, the CDS team will create conflict resolution processes to deal with conflicts during implementation of the strategic thrusts. Public disputes and the escalation of conflict would undermine the whole CDS process. The specifics of the action plan might require refinement of the key indicators for monitoring results. Importantly, the monitoring system to track strategy implementation would be initiated at this time.

To get the CDS off to a good start, emphasis should be placed on early, rapid implementation of high-profile, low-risk initiatives. Riskier initiatives can be implemented later. For example, Penang, Malaysia, in implementing its highly successful CDS, used its own funds to set up an electronics plant to train an initial set of workers to show that local people could do well at electronic assembly (see Box 6).



Aerial view of the port city of Aden, Yemen





## APPENDICES

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The five appendices provide guidance to some important thematic issues asked by Cities Alliance partners during the city development strategy (CDS) process, particularly when doing initial assessments. The themes are clustered as in the main text, that is, around issues related to livelihood (Appendix A); environmental quality, service delivery, and energy efficiency (Appendix B); infrastructure and spatial form (Appendix C); financial resources (Appendix D); and governance (Appendix E). These appendices do not provide a comprehensive list; nor are they to be considered prescriptive. Rather, they give a sample of important questions to consider.

Figure 11 illustrates CARE's Household Livelihood Security Approach useful in understanding livelihood issues as discussed in section 6.1 of this *Guide*. The improvement in livelihood opportunities for the city's population is the bottomline of almost every CDS process.



## Appendix A. Livelihood

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### A1. BUSINESS CLIMATE

#### A1.1 Incentives Offered by the Local Jurisdiction

Some incentives are wasteful. For example, business service firms are more sensitive to personal income tax rates that help them retain and attract talent, whereas manufacturing firms are more sensitive to land costs and tariff structures (obviously a national function). The CDS assessment would critically examine incentives offered to businesses to relocate to the locale, stay there, and expand, to ensure that the most cost-effective approaches are being taken. Location incentive programmes are expensive and have to be targeted carefully to be effective; furthermore, World Trade Organization (WTO) rules may limit the types of location incentives that can be offered.

#### A1.2 Nuisance Taxation

Decentralisation, a trend in most developing countries, results in local governments having more latitude to tax, but such powers are often abused or applied counterproductively. Nuisance taxation (frequently bordering on illegal) will discourage firms from relocating to the city, will drive others away, and will discourage people from starting up new businesses. Properly designed systems of local taxation and user fees that improve the business environment will have the opposite effect.

#### A1.3 Ease of Starting a Business

The World Bank and analysts such as Hernando de Soto (2000, chap. 2) have done a considerable amount of work on business start-ups. Although much of the red tape involved in business start-ups is imposed by national governments (and is thus not under local control), a big problem lies with local governments that add their own bureaucratic hassles (for local permits, for example), local taxes with a low cost-benefit value, and so on. There appears to be a direct correlation between urban economic success and the amount of time required to start a business: it is generally more difficult to officially start businesses in poor cities (in many industrialised 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 in formalising a business: if the barriers to formally creating a business 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 does exist), the number of steps involved, and the cost (including costs of corruption). CDS analysts can work through the process with a local start-up case study to obtain accurate information.

#### **A1.4 Investment Approval Processes for Foreign Firms and Joint Ventures**

Investment approval 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 multinational corporations give up and go elsewhere.

#### **A1.5 Operating Environment of Informal Sector**

What laws and regulations affect the operations of small informal businesses (street vendors, repair services operating in residential areas, and so on)?

#### **A1.6 Government Attitudes towards the Informal Sector**

Is the local government supportive of the informal sector and livelihood expansion within it? Or does the local government view the informal sector as a problem? Wuzhou, China, for example, has encouraged informal sector activities while introducing human resource and small-business development programmes to upgrade those activities. Cities following this approach have often experienced positive results.

## **A2. COMPETITIVENESS**

#### **A2.1 Basic Economic Trends**

Are there any available time-series data on employment and output by key sectors and clusters? What are the income trends (per capita and household)?

#### **A2.2 Diversity versus Specialisation**

In general, smaller cities benefit from diversity because they are more vulnerable. Larger cities, on the other hand, strive to specialise in activities in which they are globally competitive.

#### **A2.3 National and World-class Economic Activities**

Is the urban area a national or global leader in any activities? Often cities with low profiles will be a world or national leader in a given activity. Such activities may show up as clusters, which become learning systems.

#### **A2.4 Productivity Gains**

What is the city's labour and capital productivity record (returns to labour and capital)?

#### **A2.5 Economic Mix and Change**

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

#### **A2.6 Movement up the Value Chain and Cluster Deepening**

Are local firms and clusters moving up the value change? How? Are clusters deepening—that is, are more suppliers and more sophisticated suppliers emerging? Is the local, national, or provincial (state) government attempting to recruit firms to deepen local clusters?

#### **A2.7 Rate of Start-ups and Business Deaths**

At what rate are new businesses, formal or informal, being created? How conducive is the environment to new firm creation?

#### **A2.8 Foreign Direct Investment**

What is the track record for foreign investment (FDI) over the last 10 years? To what activities is FDI flowing: manufacturing? real estate? trade?

#### **A2.9 Innovation**

What types of innovation are occurring in the city? Innovation assessment would not be limited to so-called high-tech firms. A garment industry can display innovation as easily as a software cluster; for example, high-value fashion clusters have developed in Milan and Bangkok. Without innovation, leading to productivity increases, a city cannot increase its competitiveness. Gains from additional application of labour and capital in isolation will not translate into greater competitiveness in the long run. Total factor productivity needs to improve.

## **A2.10 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 the international and national norms (shift–share)? Are any anchor firms threatened by oversupply of the product they produce? Might they soon be technologically obsolete (for example, firms producing chemical photographic films)? In such cases, are new product lines being introduced to substitute for obsolescence in other product areas?

## **A2.11 Labour Market Efficiency**

How is information concerning labour opportunities disseminated? Does the local or national government operate efficient labour information centres? Do private labour 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 labour force?

## **A2.12 Marketing and Promotion**

How does the city market and promote itself, given that about 10 percent of advertising expenditure in middle-income and industrialised jurisdictions is for place marketing? What attributes, clusters, or activities are at the centre of marketing efforts—Tourism? Manufacturing investment opportunities? Location-al incentives? To what extent is this marketing targeting, for example, cold-climate tourist markets if the city has a subtropical or tropical climate? What media are used for place marketing? Marketing to whom? How successful is this marketing?

## **A2.13 Attracting Talent**

What policies are in place to attract talent? Have many talented individuals have these policies attracted to the city? Are national immigration policies conducive to attracting international talent, or do they constrain such flows?

## **A3. HUMAN RESOURCE DEVELOPMENT**

### **A3.1 Educational quality and quantity (enrolment at various levels).**

Educational quality and quantity are measured using key indicators. Quality is as important as quantity.

### **A3.2 Education–Economic Alignment**

To what extent are local educational curricula, particularly technical, aligned with emerging economic activities and clusters?

### **A3.3 Access to Education**

Do the poor and migrants have access to education? Do financial problems, admissions procedures, lack of information, or local registration requirements create barriers that make it difficult for children of migrants to enrol in schools (a common problem in peri-urban areas in some countries)?

### **A3.4 Financial Support to Students**

Is financial support, including student loans, available to lower income children to attend school?

### **A3.5 Access to Entry-level Jobs**

Are there courses, with few entry barriers, to respond to increasing consumer demand for drivers and barbers, for example? What are the conditions of access (cost, information, location) to these courses?

### **A3.6 Geographic Accessibility to Labour Market**

What are the mean (average) time and financial costs of travelling from home to employment, particularly for lower income residents?



## Appendix B.

# Environmental Quality, Service Delivery, and Energy Efficiency

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### **B1. ENVIRONMENTAL QUALITY**

#### **B1.1 Air Pollution**

Is air pollution increasing or decreasing as measured by key indicators (for example, suspended particulates)? What are the health implications of air pollution—respiratory disease, working years lost, mortality? What set of measures would most effectively and drastically reduce air pollution—Closing firms exceeding emission standards? Changing fuel and automobile standards (normally national government functions)? Introducing polluter-pay policies? Banning certain fuels (for example, banning the burning of coal at street level, as Beijing did)?

#### **B1.2 Wastewater and Water Quality**

Is water quality improving or declining in key water bodies in the urban region? What is the wastewater system coverage, including that from non-conventional community cisterns and septic systems? At what percentage of capacity do existing wastewater 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, and so on?

#### **B1.3 Pollution Sources**

What and where are key point sources of air and water pollution? What would be the impact of closing the bottom x percent of polluters (for instance, heavy-polluting industries)?

#### **B1.4 Sustainability and Safety of Water Supply**

Is the water supply sustainable? Will abstracting the groundwater result in insufficient water to supply the forecast demographic and economic growth? How safe is the water for human use? Is it subject to toxic accidents?

#### **B1.5 Loss of Agricultural and Environmentally Sensitive Land**

What is the annual loss (and time-series trend line) of first-class agricultural land to urbanisation? What are the implications for agricultural production (by value and key crop output) in the extended urban region (EUR)? Have measures been taken to limit this loss—for example, establishing growth boundaries, setting land quotas, zoning urban expansion away from first-class agricultural land? How effective have these measures been? If there's a problem, is it a result of poor policy design or a lack of enforcement? To what extent is land being removed from environmentally sensitive uses—for example,

wetlands, steeply sloped land, land with scenic or heritage merit—through conversions to urban uses?

### **B1.6 Amenity**

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

### **B1.7 Natural Hazards**

What natural hazards threaten the city? Can land-use policies, emergency preparedness, building codes, and so forth be used to lower the risk?

## **B2. SERVICE DELIVERY AND POLICY FRAMEWORKS**

### **B2.1 Demand for Services**

What socioeconomic trends, particularly demographic, underpin the demand for public services—for example, population growth relative to the supply of basic public services?

### **B2.2 Delivery of Basic Needs**

What percentage of the population (coverage) have their basic needs—water supply, garbage pickup, basic sanitation, electricity—met? Are low-income neighbourhoods 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 customised according to neighbourhood economic status, ability to pay, and so forth?

### **B2.3 Health, Education, and Literacy Status**

What is the health, education, and literacy status of city residents as measured using key indicators? By sub-area of the city? By household economic cohorts (if data available)?

### **B2.4 Quality of Basic Services**

What is the quality of basic services—for example, primary education and health care—measured against benchmark institutions in comparable cities?

### **B2.5 Delivery of Services to Migrants**

Are services available to migrants in both city core slums and peri-urban areas? If not, what precludes migrants from getting access? Local registration requirements? Lack of local facilities and programmes? Lack of capacity at facilities?

### **B2.6 Public Health**

What are the key causes of sickness and death? How healthy are the city's residents compared with those in other cities of comparable economic development? What are the rates of infectious disease, such as HIV–AIDS? How effective are programmes to address infectious disease? How could they be improved? How prepared is the city for new health threats (for example, an influenza pandemic)? What are traffic death and injury rates? What measures are being taken to reduce traffic deaths of pedestrians, bicyclists and motorcyclists, and vehicle occupants?

### **B2.7 Efficiency in Delivery of Environmental Infrastructure**

Are appropriate technologies being used to deliver basic environmental services—solid waste disposal, provision of potable water, and so on—given the 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?

### **B2.8 Maintenance**

How well are environmental systems maintained, measured as a percentage of operating capacity?

### **B2.9 Energy and Environmental Policy Frameworks**

What policy frameworks are in place to encourage firms, households, and infrastructure providers to change behaviours affecting environmental quality and 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 realised by changes in policy frameworks (for example, user fees for garbage pickup above a certain weekly volume) than by capital expenditure (for example, building additional landfills).

## **B3. ENERGY EFFICIENCY**

### **B3.1 Energy Consumption**

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?

### **B3.2 Urban Form and Energy Consumption**

Does the existing urban form conserve energy? What financial savings would be realised through changes in urban form, particularly if it meant lower transportation costs and unit costs of infrastructure

delivery? What are the trends in and current levels of density and sprawl as measured by conventional urban density, sprawl, and form quantitative indicators (see Schneider, Seto, and others 2003)? Such indicators were used effectively in assessment work for the Chengdu CDS.

### **B3.3 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?



## Appendix C. Infrastructure and Spatial Form

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### **C1. INFRASTRUCTURE**

#### **C1.1 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, and cost-effectiveness? How are infrastructure services regulated?

#### **C1.2 Infrastructure Delivery Modes**

What changes are being considered for infrastructure delivery and maintenance?

#### **C1.3 Planned Infrastructure**

What important new civil and environmental infrastructure is coming on stream—Under construction? Committed? Planned?

#### **C1.4 Trunk Infrastructure and Urban Form**

How important is trunk infrastructure (for example, sewers, expressways) in shaping the city?

#### **C1.5 Housing Supply and Demand**

How many new housing units (formal and informal) are produced annually (time-series data)? What are the trends in property prices, building permits issued, and housing vacancies?

#### **C1.6 Affordable Land and Housing**

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

#### **C1.7 Transportation Networks**

Identify major transportation infrastructure networks (existing, planned, committed), particularly expressway and mass transit networks. Is the expressway network predominantly radial, or is it a ring road? Which came first, radial or ring links? And how did this sequence 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 intercity routes (highways, rail) affect the structure of the city? Are road systems being managed proactively (intelligent highways, road pricing, high-occupancy vehicle lanes), or are they being left to laissez-faire use?

### **C1.8 Public Transportation Facilities and Services**

What types of formal and informal public transportation exist—for example, heavy and light rail, busways, traditional bus systems, flexible van systems often operated by the private sector (the fastest growing form of public transit worldwide, in both developing and industrialised cities)? Are informal public transportation operators, such as van operators that connect employment and residential nodes, harassed or encouraged? Are they regulated for basic safety compliance? What is the route network of public transportation systems? What is their quality of service? What percentage of the population uses public transport (widely defined), especially for travel to and from work?

### **C1.9 Urban Nodes and Public Transport Demand**

Are there significant employment, commercial, and residential nodes that would justify rapid transit systems to connect them?

### **C1.10 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?

### **C1.11 Movement of Goods**

Can goods be moved to and from the nearest port and airport reliably and quickly? At what time and financial (per unit) costs? Congestion can deal a heavy blow to competitiveness, especially to manufacturing firms using just-in-time processes. For example, the CALA (Cavite–Laguna) peri-urban area south of Manila has suffered considerable loss of competitiveness (relative to that of Bangkok and Chinese coastal cities) largely because of congestion, the product of a lack of EUR- and metropolitan-scale planning and infrastructure implementation (see Webster 2002).

### **C1.12 Telecommunication Services**

How reliable are telecommunications services? Are they priced competitively? 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, such as unjustified hotel surcharges on telecommunication services), realising their importance to competitiveness. At the other end of the spectrum, some cities, especially in Sub-Saharan Africa, have high-cost telecommunications systems that virtually ensure that large-scale manufacturing will not develop, even if other factors are in place.

How reliable are broadband 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, and so forth, especially to the poor.)

## **C2. SPATIAL FORM**

### **C2.1 Formal and Informal Spaces**

Is the physical structure of the city essentially formal and modern? Or is it predominantly informal, with a small, modern downtown?

### **C2.2 Urban Density**

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

### **C2.3 Land and Property Value Gradients**

What is the slope of land and property value gradients (for residential, commercial, industrial) from the centre of the city outwards?

### **C2.4 Land and Housing Markets**

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

### **C2.5 Monocentric versus Multinodal Form**

Does the city have a strong CBD, or is it multinodal with a weak CBD?

### **C2.6 Peri-urban Spatial Form**

Is peri-urban development contiguous—that is, the built-up area is continuous? Or is it patchwork in nature? Or focused around satellite cities? What are the energy, congestion, and competitiveness implications of physical development on the fringe?

### **C2.7 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-of-city nodes, as in the United States and in some developing cities, such as Beijing?

### **C2.8 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 (for example, industrial parks, science parks, office complexes, economic clusters)? How is the spatial distribution of employment and economic output changing?

### **C2.9 Social Geography**

Where do the richest people live? Where do the poorest? What neighbourhoods are in decline? Which are in ascendancy, that is, becoming fashionable? What social issues are associated with specific areas of the city? Are certain areas of the city associated with specific ethnic, religious, or linguistic groups?

### **C2.10 Geography of Poverty**

How is the geography of poverty changing? For example, in many fast-growing middle-income cities (for example, 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 neighbourhoods densifying, as is the case in many Indian cities?

### **C2.11 Location of Slums and Squatter Areas**

Where are slum areas located? Is the pattern one of many mini-slums or a few vast slums? 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 a high proportion of the slum population? Is the leadership of slum areas contested by ethnic groups and so forth? How secure is the tenure of residents? Which slum areas are being upgraded? Which have deteriorating 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 neighbourhoods?

### **C2.12 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 centre or at the periphery? If not, why not? Is it because of a lack of trust in regulatory frameworks? Or do local governments lack the capacity to oversee such arrangements, guaranteeing the rights of all participants?

### **C2.13 Destination of Migrants**

Where do migrants tend to settle? Why?

### **C2.14 Geography of Investment**

Which areas of the city are experiencing investment? Which are experiencing disinvestment? Why?

### **C2.15 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.)

### **C2.16 The Knowledge Economy**

Where are the most important knowledge clusters in the city? Where are ideas exchanged (for example, universities, high-tech campuses, transaction-rich environments, key café and pub areas)? Have

universities spun off nearby science parks, knowledge entrepreneurs, incubation facilities, and so forth? If so, are they geographically proximate to universities and technical institutions? If not, why not (for example, lack of nearby land and facilities)?

### **C2.17 Expansion Vectors**

In which directions is the city expanding most rapidly—that is, 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?

### **C2.18 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? Are they accessible to residents of the core city, or are they concentrated on the periphery?



## Appendix D. Financial Resources

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### **D LOCAL GOVERNMENT FINANCIAL RESOURCES AND INSTITUTIONAL STRUCTURES**

#### **D1 Local Government Budgets**

Over time, how have 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, the last full economic cycle) and forecasts of expected revenues and expenditures based on various assumptions (scenarios). This analysis would distinguish between new borrowings and debt repayment, as well as between capital and current expenditure and revenue. A statement of accounting standards would be attached.

To what extent (projects, programmes, monetary value) has the local government leveraged its resources through innovative financing mechanisms such as build-own transfer (BOT), build-own-operate, public-private ventures, and so forth?

#### **D2 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 of rate-setting powers; a description of user fees collected and of tax and other revenue arrears; and a description of non-recurring revenue sources, such as asset sales and privatisations.

#### **D3 Capital Planning**

What are the capital improvement plans of the local government, and what are its investment policies? To what extent have past capital improvement plans been executed?

#### **D4 Offbudget Revenue and Expenditures**

How large are off-budget revenue (for example, revenue from concessions, sales of land, and so forth not included in the formal budget) and expenditure compared with the those of the formal budget? How is this money spent? Are off-budget revenue and expenditure transparent?

### **D1.5 Transfers**

Over time, what has been the amount of transfers from national or other senior-level governments to the local government? What has been the relative importance of these transfers? On a per capita basis, how does the amount of transfers compare with that of other cities in the country? Is the city entrepreneurial in lobbying for transfers? Or does it prefer self-sufficiency (for example, wanting to avoid conditions attached to specific grants)?

### **D1.6 Extent and Impacts of Decentralisation**

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

### **D1.7 Debt**

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

### **D1.8 Access to Credit**

Does the local government issue bonds? Does the local government have access to on-lended or pooled funds (through mechanisms such as municipal development funds)? Has the local government borrowed from these facilities? If so, how much? Over what time period?

### **D1.9 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?

### **D1.10 Autonomous Bodies**

Within the city are there fiscally autonomous or semi-autonomous enclaves (for example, special economic zones, industrial parks, science parks)?

## **D2. MOBILISING NONGOVERNMENT CAPITAL**

### **D2.1 Impact of Land Readjustment**

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

### **D2.2 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?

### **D2.3 Housing Credit**

Is credit readily available to low-income households to buy housing? Is this credit available through the commercial banking system? To what extent is government involved (for example, through special institutions such as housing banks or provision guarantees)? What is the monthly household income threshold that enables a household to purchase a basic house in the metropolitan area?

### **D2.4 Financing Local Infrastructure**

Do consumers of housing and other buildings pay for the cost of local infrastructure through special tax assessments (repayable through mortgages)? Or do buyers get a "free ride" or suffer from lack of local infrastructure (see Figure 5)?

### **D2.5 Microfinance**

What is the amount of microcredit dispersed annually in the city (most recent year for which data are available, plus time-series data)? What is the total amount of microcredit in circulation? In microfinance allocations, which groups are eligible or given preference? For example, are women given preference? For what can microcredit be used? Is microfinance organised on a community basis or through different institutional mechanisms (for example,

worker cooperatives or trade organisations)? How do levels of disbursement, repayment rates, and developmental impacts of microcredit compare with those of best-case cities? What changes in policy or public leadership would substantially enhance the flow of microcredit? (For detailed information on microfinance, see Ledgerwood 1999.)

#### **D2.6 Credit for Small and Medium-size Enterprises**

Do commercial banks readily lend to small and medium-size enterprises that are creditworthy in terms of potential but possibly not in terms of collateral? Or is the commercial banking system biased towards large businesses?

#### **D2.7 Voluntary Organisation Finance**

How successful are third-sector organisations (voluntary organisations, nongovernmental and nonprofit organisations, and so forth) in attracting funds? Are these funds used effectively? Are such organisations financially transparent?

### **D3. PRIVATE SECTOR FINANCIAL FLOWS**

#### **D3.1 Foreign Direct Investment**

How have the size and the composition of FDI flows to firms operating in the city changed over time?

#### **D3.2 Domestic Investment**

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

#### **D3.3 Commercial Banking Flows**

According to central bank data, does the city experience net inflows or outflows of capital through the commercial banking system? What can be done to improve this performance?



## Appendix E. Governance

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### E1. NATIONAL URBAN POLICY FRAMEWORKS

What are the national urban policy frameworks facing the city? Undertaking this work is difficult because most national policy frameworks affecting urban areas are explicit (for example, grants for urban mass transit systems) or implicit (for example, international trade or corporate taxation policies). Of particular concern are national or other senior government powers related to (a) financial and debt oversight; (b) service provision; (c) financial autonomy and debt issuance, including foreign currency or debt restrictions; (d) environmental regulations; (e) privatisation; and (f) pending or proposed legislation that affects revenue sources, issuance of debt, pledged security, operation of utilities, or shifts in service mandates of local governments.

#### E1.1 Local Priorities and National Policies

How do local priorities align with national policies? Do these policies 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 them (through urban political power, lobbying, and so forth)? (Urban areas virtually worldwide tend to be quantitatively underrepresented in parliament relative to the urban popula-

tion's share of the national population.) The larger and more economically and politically powerful a city is, the greater its potential to exert pressure to modify national urban policies.

### E2. INSTITUTIONAL STRUCTURE AND PROCESSES OF LOCAL GOVERNMENT

#### E2.1 Local Government Structure and Processes

What is the structure of the local government (organisational chart)? How are decisions made? To what extent is this structure determined by national laws? To what extent has it been and can it be locally customised? If the latter, are the present structure and process consistent with contemporary issues and needs? Or are they 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?

#### E2.2 Appointment of Officials and Governing Bodies

Which officials are elected locally? Which are appointed? What are the electoral procedures for the governing body and for the chief elected officers? Is the local government led by independent representatives, or are the leaders representatives of political

parties? Are these political parties nationally organised? If so, is the local leadership aligned with the ruling national party? Does this situation have implications for implementation of the strategy?

### **E2.3 Corruption.**

What is the level of corruption in the local government? What can be done to reduce corruption?

## **E3. ROLE OF LOCAL GOVERNMENT IN THE CONTEXT OF DECENTRALISATION**

### **E3.1 Decentralisation Impacts on Local Government**

Determining the effects of the decentralisation framework on city finances requires information on the following:

- The size of the transfers and their relative share of the city's operating revenues;
- The degree to which the decentralisation framework motivates or discourages local revenue generation;
- The extent to which transfers are earmarked for specific purposes or can be used to fund operations and debt service;
- Revenue sources that have been legally delegated to the city;
- Flexibility of the city to effectively adjust its tax sources and levels in response to changing economic conditions;
- Legal and political risks associated with the national revenue-sharing system;
- The direction of any changes in the decentralisation framework (towards more or less decentralisation);
- Functions (mandatory and optional) delegated to the city;
- The size and type of mandated expenditures (for example, public health, public education, public transportation);
- 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; and
- The city's ability to adjust its expenditure budget quickly under changing economic conditions.

## **E4. METROPOLITAN GOVERNANCE**

### **E4.1 Inter-jurisdictional Cooperation**

How are functional responsibilities assigned horizontally (between municipalities and constituent districts and counties) and vertically (between municipal, provincial or state, and national governments)? Are measures in place to coordinate the delivery of services on a metropolitan or EUR scale (for example, special districts, councils of local governments, voluntary agreements among local governments, voluntary agreements motivated by incentives such as matching grants from senior governments).

## **E5. CAPACITY**

### **E5.1 Capacity and Development Priorities**

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

### **E5.2 Institutional Strengthening and Building Priorities**

What specific changes in government structures and in institutional strengthening or building are needed to improve performance? Later in the CDS process, the question will be asked in relation to implementing specific strategic thrusts.

### **E5.3 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?

## **E6. RELATIONSHIP WITH THE PRIVATE SECTOR AND CIVIL SOCIETY**

### **E6.1 Relationship with the Private Sector**

What is the relationship between the local government and the private sector (for example, 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.

### **E6.2 Modes of Private Sector Cooperation**

Does the local government engage in public–private partnerships, award concessions, participate in innovative finance (such as build–own–transfer), and so forth?

### **E6.3 Relationship with Civil Society**

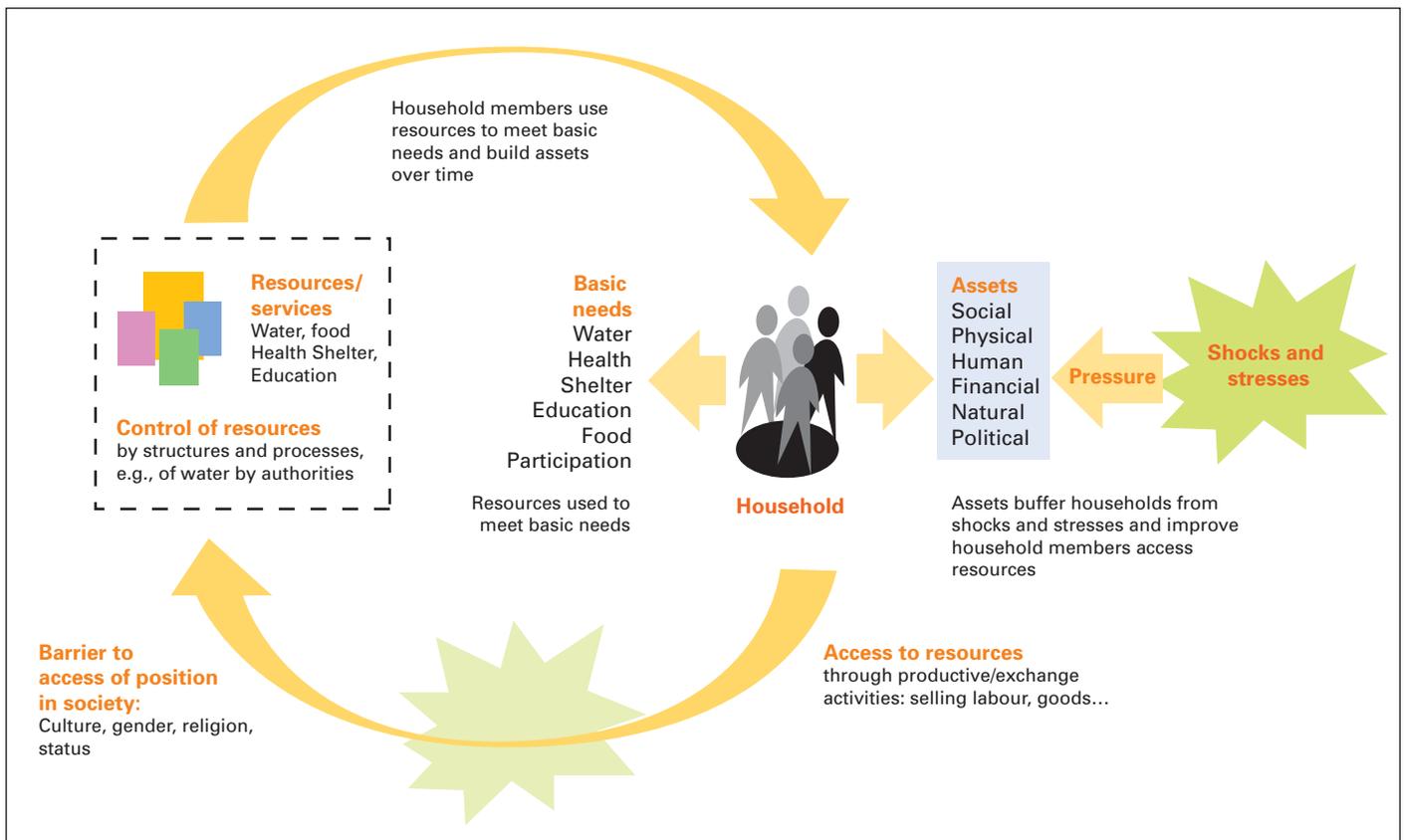
How strong are local, national, and international third-sector organisations? How does civil society cooperate and interact with local government in shaping the future of the city? How important is the role of civil society? What is the character of the relationship between the local government and the civil society? Enabling? Hostile?

### **E6.4 Local Government Capture**

Have local government jurisdictions in the EUR been captured by special interest groups? Peri-urban area jurisdictions are particularly vulnerable to capture by Mafia-type groups, business groups, and civil society organisations.



**Figure 11. CARE’s Household Livelihood Security Approach**





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